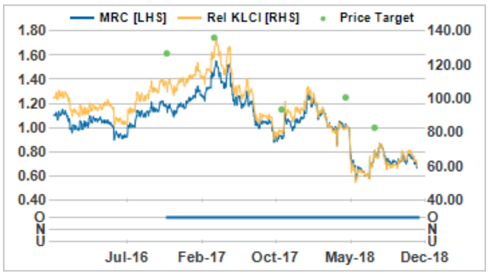
EQUITIES

MRC MK		Outperform
Price (at 14:02, 30 Nov 2018 GMT)		RM0.67
Valuation	RM	1.00
- DCF (WACC 8.4%, beta 1.2, ERP 6.5%, RFR 4.5%)		
12-month target	RM	1.00
Upside/Downside	%	+50.4
12-month TSR	%	+52.6
Volatility Index		High
GICS sector		Capital Goods
Market cap	RMm	2,923
Market cap	US$m	698
Free float	%	44
30-day avg turnover	US$m	2.6
Number shares on issue	m	4,395

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	2,823.7	1,676.3	1,718.9	2,188.3
EBITDA	m	319.6	264.1	275.4	342.9
EBIT	m	246.5	206.4	212.3	260.8
Reported profit	m	167.6	131.1	150.7	174.5
Adjusted profit	m	101.2	131.1	150.7	174.5
EPS rep	sen	5.9	3.0	3.4	4.0
EPS rep growth	%	-50.7	-49.0	14.9	15.7
EPS adj	sen	3.6	3.0	3.4	4.0
EPS adj growth	%	4.5	-17.4	14.9	15.7
PER rep	x	11.4	22.2	19.4	16.7
PER adj	x	18.4	22.2	19.4	16.7
Total DPS	sen	1.8	1.3	1.5	1.8
Total DPS growth	%	-27.1	-28.6	20.0	16.7
Total div yield	%	2.6	1.9	2.3	2.6
ROA	%	2.8	2.2	2.4	2.7
ROE	%	2.6	2.7	3.0	3.4
EV/EBITDA	x	14.9	17.9	16.5	13.2
Net debt/equity	%	52.8	37.5	40.2	47.0
P/BV	x	0.6	0.6	0.6	0.6

MRC MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, December 2018
(all figures in MYR unless noted)

MRCB (MRC MK)
Bukit Jalil land sale to EPF enters the final dash – five-year overhaul completed!

Event

- On 30 November 2018, MRCB has announced that all of the conditions precedent (CP) for the Bukit Jalil land sale to EPF, have been fulfilled accordingly to the subscription shareholders' agreement (SSA). As such, the SSA has become unconditional on 30 November 2018 in accordance with the terms and conditions contained therein.
- Recall that in March 2018, MRCB announced that EPF, via its wholly-subsidiary – Tanjung Wibawa Sdn. Bhd (TWSB), will acquire an 80% stake in the development company of the Bukit Jalil Sentral called Bukit Jalil Sentral Property (BJSP). The proposed transaction will cost EPF RM1.43bn.

Impact

- **Net gearing will be reduced to c.20%**. Following this announcement, MRCB has fulfilled its promises to the shareholders to conclude two major deals in 2018 – i) EDL disposal and; ii) Bukit Jalil land sale to EPF. These two transactions will bring a total additional cash of c.RM2.75bn to MRCB. According to management, the cash will be utilised to pare down all its landbanking-related debt and the concession's debt. Management guided that following the conclusion of the Bukit Jalil land sale to EPF, its net gearing will be significantly reduced to c.20% (72% in 3Q18).
- **More things to be done with stronger balance sheet**. With this deal, MRCB's landbank will all effectively be debt-free; what is left in the balance sheet are the working capital debt, which are mostly bridging debts. Given its strong balance sheet, MRCB could enter into more government projects which are driven private finance initiate (PFI) namely new airports, waste management incinerators and water related works.
- **Additional RM11bn of additional orderbook.** Recall that in May 2018, MRCB has already secured the contract as the management contractor of the Bukit Jalil Sentral development in a provisional contract sum of RM11bn. Given that MRCB only has 20% control of the development, the works involved for this project will be recognised as an external order. This would immediately bump up MRCB's orderbook from RM10.5bn to RM21.5bn.

Action and recommendation

- Following this deal, MRCB has completed the five-year overhaul of the company since the new management arrived in 2013. Back in 2013, MRCB's net gearing was at 236%, with zero actual cash in its balance sheet (available cash then were overdrafts). In 2013, MRCB's orderbook balance was only at RM1.9bn (including Gapurna's orderbook injection in 2013) vs. now at RM21.5bn. Financially, the company is now in its best state since the Asian Financial Crisis back in 1997. Maintain Outperform.

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Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Mazi Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

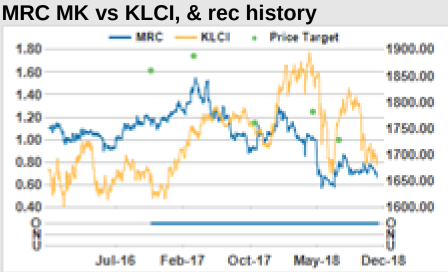
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.56%	59.51%	45.05%	46.88%	67.86%	46.70%	(for global coverage by Macquarie, 3.70% of stocks followed are investment banking clients)
Neutral	33.20%	28.92%	37.36%	47.70%	25.00%	42.73%	(for global coverage by Macquarie, 2.04% of stocks followed are investment banking clients)
Underperform	15.23%	11.57%	17.58%	5.42%	7.14%	10.57%	(for global coverage by Macquarie, 0.47% of stocks followed are investment banking clients)

MRC MK vs KLCI, & rec history



(all figures in MYR currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, December 2018

12-month target price methodology

MRC MK: RM1.00 based on a Sum of Parts methodology

Company-specific disclosures:
MRC MK: Macquarie may be an Issuer of Structured Warrants on securities mentioned in this report
Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
26-Jul-2018	MRC MK	Outperform	RM1.00
30-Apr-2018	MRC MK	Outperform	RM1.25
19-Oct-2017	MRC MK	Outperform	RM1.15
30-Mar-2017	MRC MK	Outperform	RM1.75
07-Nov-2016	MRC MK	Outperform	RM1.61

Target price risk disclosures:
MRC MK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:
We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The Analysts responsible for preparing this report receive compensation from Macquarie that is based upon various factors including Macquarie Group Ltd total revenues, a portion of which are generated by Macquarie Group's Investment Banking activities.

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