MALAYSIA

MRC MK **Outperform**

Price (at 05:50, 18 Oct 2017 GMT) RM0.93

Valuation - Sum of Parts	**RM**	**0.92-1.33**
12-month target	**RM**	**1.15**
Upside/Downside	**%**	**+23.7**
12-month TSR	**%**	**+25.4**
Volatility Index		**Medium**
GICS sector		**Capital Goods**
Market cap	**RMm**	**4,078**
Market cap	**US$m**	**967**
30-day avg turnover	**US$m**	**2.1**
Number shares on issue	**m**	**4,385**

Investment fundamentals

Year end 31 Dec		2016A	2017E	2018E	2019E
Revenue	m	2,408.1	2,222.2	2,378.5	2,296.2
EBITDA	m	571.3	384.6	395.6	421.0
EBITDA growth	%	135.7	-32.7	2.9	6.4
EBIT	m	512.4	307.6	307.2	318.4
EBIT growth	%	187.6	-40.0	-0.1	3.7
Reported profit	m	349.9	118.7	167.8	214.9
Adjusted profit	m	267.4	119.5	167.8	214.9
EPS adj	sen	11.9	4.0	3.8	4.9
EPS adj growth	%	30,998.4	-66.2	-4.5	28.0
PER adj	x	7.8	23.2	24.3	19.0
Total DPS	sen	2.4	1.5	1.8	2.0
Total DPS growth	%	10.0	-37.5	16.7	14.3
Total div yield	%	2.6	1.6	1.9	2.2
ROA	%	7.0	3.7	3.3	3.2
ROE	%	10.3	2.9	3.2	4.0
EV/EBITDA	x	5.7	13.3	11.8	9.5
Net debt/equity	%	73.2	2.6	26.7	37.2
P/BV	x	0.8	0.8	0.8	0.7

Source: FactSet, Macquarie Research, September 2017
(all figures in MYR unless noted)

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18 October 2017
Macquarie Capital Securities (Malaysia) Sdn. Bhd.

MRCB

Yesterday once more, only better

Post-rights issue TP revised to RM1.15 with an OP rating

We maintain our Outperform rating on MRCB and revise our TP from RM2.00 to RM1.15 after adjusting for our earnings estimates (-39%/-53%/-48% for FY17-19E) and enlarged share base, post announcement of a proposed rights issue. While the rights issue is dilutive to MRCB's EPS, we believe paring down the debt is imperative given MRCB's net gearing level of 138% (FY13-1H17). With a less stretched balance sheet and a manageable debt level in FY18E, we believe MRCB could comfortably embark on the maiden launches of its key transit-oriented-development (TOD) projects – Kwasa Sentral and Bukit Jalil Sentral, both with a combined GDV of RM22.6bn. MRCB currently sits on an orderbook of RM5.5bn and, combined with the PDP fees from the LRT3 and Kwasa Sentral projects, we envisage an expansion of margins from the construction division. Our TP of RM1.15 reflects an implied PE of 24x FY19E EPS.

Four major landbanks will be debt free post rights issue

In December 2017, MRCB is due to pay RM738mn to EPF for a 70% stake in Kwasa Damnsara township land, which we believe will be funded by fresh debt. Consequently in 1H18, we expect EPF to complete the purchase of an 80% stake in Bukit Jall Sentral for RM1.14bn – which MRCB could utilise to pay off the debt raised for Kwasa Sentral. As such, within six to eight months post rights issue, MRCB's key development projects, including Kwasa Sentral, Cyberjaya Sentral, German Embassy Land and Bukit Jalil Sentral, will be debt free. We estimate MRCB's long-term net gearing level to settle at c.40% from FY19E onward. As a result of lower debt, MRCB's interest costs will be reduced from RM176mn (FY16) to RM144mn (FY19E). A reduction of RM30mn in interest payments could be rechannelled to an increase of 0.7sen in dividends.

Construction margins to improve from FY18E onward

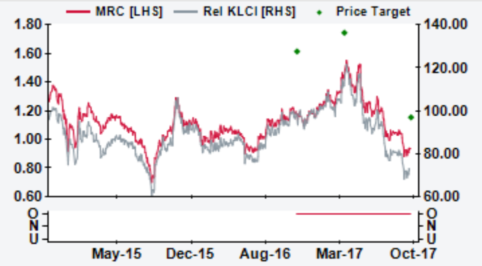
Since late-FY15, MRCB's construction division's margins were hampered by zero margin contribution from the Bukit Jalil Sports Complex refurbishment project, for which the government had paid MRCB via a land swap deal in lieu of cash. With the completion of the project in September 2017, we expect the division's margins to expand given its RM5.5bn outstanding orderbook. The start of the LRT3 and Kwasa Damansara township projects in FY18E should provide stable streams of project-delivery-partner (PDP) income to the division going forward. We estimate the division's EBIT margins to expand from 1.4% (FY16) to 4.2% (FY19E). In FY17E, MRCB has won RM468mn of new orders and we forecast MRCB to replenish its orderbook by RM2.5bn in FY17-20E. In our previous estimates we imputed a total order win of RM3bn in FY17-19E.

Downside priced, but look for opportunities

Our bear case valuation for MRCB is RM0.92, 2% below its current price. However, we acknowledge that the listing of 2.19bn rights shares (priced at RM0.79), on 3 November could create a short-term overhang, which we would use as an entry point. Our bear case assumes a 60% discount to RNAV (base case 40%) and a RM1.5bn orderbook replenishment over FY17-20E. On the flip side, we believe the divestment of Eastern Dispersal Link (EDL) will be an upside risk to our call. The tollroad is facing a downward trend in traffic count and the asset is tied to high-interest rates sukuk issuances. Divesting the assets could reduce MRCB's net gearing, interest payments and amortisation.

Inside

MRC MK rel KLCI performance, & rec history

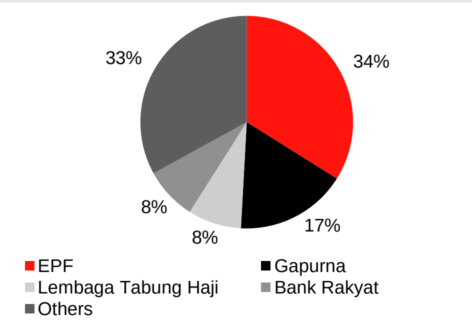


Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, October 2017

(all figures in MYR unless noted)

MRCB key shareholders 1H17



Source: Company data, October 2017

MRCB

Short-term catalysts

- We believe MRCB will reduce its net gearing levels significantly from 99% in 1H17 to 3% by end of FY17E. Once the raised funds are utilised and the land sale transaction to EPF is completed, Bukit Jalil Sentral, Cyberjaya Sentral, German Embassy Land and Kwasa Sentral will be debt free. This exercise will reduce MRCB's interest payments by c.RM30mn.
- Most of the LRT3 awards have been concluded and construction should begin in the coming months. The progress of the LRT3 means MRCB could start to recognise the PDP fees of the project. We believe the LRT3 will be valued at between RM10bn-11.5bn, higher than the initially budgeted amount of RM9bn. MRCB, along with its partner George Kent (GKEN MK), are entitled to a 6% PDP fee from the LRT3 project. Every RM1bn increase in LRT3 project costs earns MRCB an increase in PDP fees by RM30mn.
- Apart from LRT3, we also expect MRCB to receive PDP fees from the Kwasa Sentral township project to administer the infrastructure construction in the township. We believe the project will be launched in FY18 and MRCB could start recognising PDP fees of RM112mn throughout the construction of the project infrastructure.

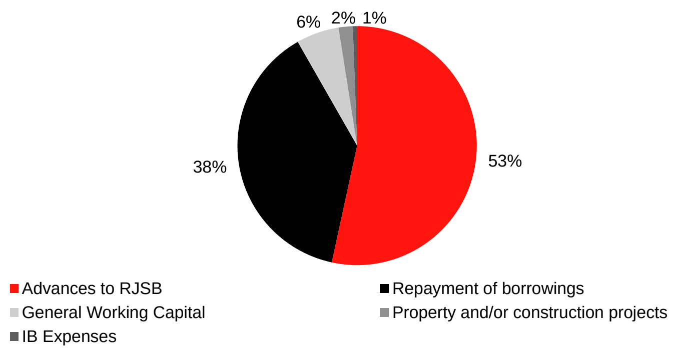
Near-term catalysts

- Nusa Gapurna Development Sdn. Bhd. (NGD), an entity that is 40% owned by EPF and 60% owned by Gapurna (MRCB's major shareholder), is currently in talks with the government to secure a second land parcel in PJ Sentral. MRCB and NGD have signed a right of first refusal (ROFR) agreement on NGD's land assets. This land could potentially be sold to MRCB if NGD manages to buy it at an attractive value. Based on our estimates, the land could be valued between RM600-700mn. If the purchase of this land parcel is concluded between MRCB and NGD, this could elevate the value of MRCB's landbank portfolio. With net gearing levels expected to be at ~40%, there is ample room for MRCB to gear-up in securing this land parcel.

Utilisation of rights issue proceeds

- We estimate MRCB will raise over RM1.7bn from this corporate exercise. In total, 91% are likely to be spent on repayment of borrowings.
- MRCB had allocated c.RM40mn on IB fees. The fees, which are mostly coming from underwriting fees, could be significantly less at c.RM10mn as we believe MRCB's cornerstone investors are likely to subscribe to the rights issue, reducing the amount of underwritten securities.

Fig 1 MQ's estimates of rights issue proceeds utilisation



Source: Company data, Macquarie Research, October 2017

Valuation, recommendation, risks

Revised TP of RM1.15 reflects an implied PE of 24x to FY19E EPS

- Adjusting for the enlarged share base post rights issue, we revise our TP from RM2.00 to RM1.15. We lower our FY17-19E estimates 39%-53% and roll forward our numbers to arrive at our current TP of RM1.15, a 43% reduction from our prior TP.
- Previously, our property development division was valued at RM2,274mn. We have adjusted our earnings for the division and carved out the Bukit Jalil land, which will be sold to EPF in 1H18. Cumulatively, the property division and the land sale proceeds take the property division's valuation to RM2,569mn, +13% from our previous estimates. We maintained the 40% discount to RNAV of the property division.
- The construction division is now valued at RM1,212mn, +40% from our previous estimates after the following adjustments:
  - ⇒ Adjusted the orderbook to account for the order wins of RM468mn recorded in FY17E.
  - ⇒ Rolled forward the earnings to FY19E and increased the multiple from 8x to 10x as a result of the expected margin expansion.
  - ⇒ For orderbook replenishment targets, we previously forecast an orderbook replenishment of RM1bn in FY17-19E, respectively. We believe the upcoming infra projects bring limited opportunities to MRCB and therefore we reduced the order replenishment targets to RM600mn/RM600mn/RM650mn for FY17-19E, respectively. For FY20E, we forecast an order replenishment target of RM650mn.
- MRCB's sole concession asset – EDL was valued lower by -57% from RM175mn to RM75mn, as we revised lower its projected traffic count.
- The value of MRCB's investment properties portfolio was revalued to RM615mn, -22% from the previous estimates after adjusting the value of The Ascott Sentral (from RM120mn to RM58mn) and revised lower the occupancy rates and the cap rates of the other investment properties.

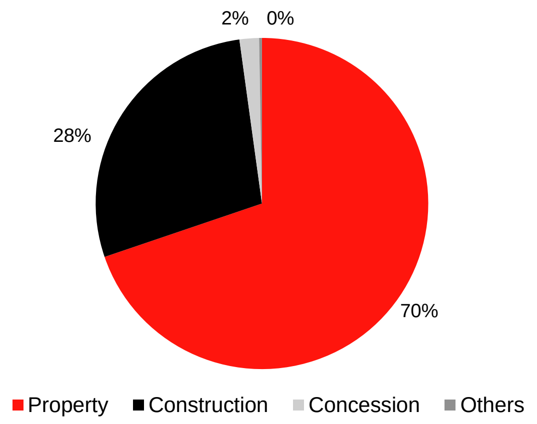
Fig 2 MRCB's SOTP

Business Division	Valuation Method	Stake	Value after earnings adjustments and rolling forward of estimates (RM 'mil)	Change (%)	Value after rights issue adjustments (RM 'mil)	Change (%)	Old Value (RM 'mil)
Property Development	RNAV at 40% discount to RNAV	Mixed	1,428	-37%	2,274	0%	2,274
Investment Properties	12m forward NOI @ cap rate	Mixed	615	-22%	794	0%	794
Construction	10x PER on FY19E PAT	100%	1,212	40%	866	0%	866
Parking Services	12m forward NOI @ cap rate	100%	205	-10%	227	0%	227
Security Services	8x PER on FY18E PAT	100%	11	8%	10	0%	10
Concession	DCF @ 6.8% WACC	100%	75	-57%	175	0%	175
MRCB-Quill REIT	Bloomberg Consensus TP @ RM1.39	33%	488	3%	474	0%	474
REIT Manager	12x PER multiple of FY19E PAT	41%	30	3%	29	0%	29
Gross SOTP			**4,064**	**-16%**	**4,850**	**0%**	**4,850**
(+) Cash proceeds from Bukit Jalil land	Sold 61 acres of land at RM430psf		1,141	nmf	0	nmf	0
(-) Net Debt as at end of FY17*	Net debt excluding the concession, investment properties & property development debts		-140	nmf	1,176	nmf	-556
SOTP			5,064	-16%	6,026	40%	4,294
Number of shares (mil)			4,385	0%	4,385	105%	2,144
Fair value (RM)			**1.15**	**-16%**	**1.37**	**-31%**	**2.00**

* Net debt for "Old Value" and "Value after rights issue adjustments" are for FY16

Source: Bloomberg, Macquarie Research, October 2017

Fig 3 Gross SOTP by business division



Source: Bloomberg, Macquarie Research, October 2017

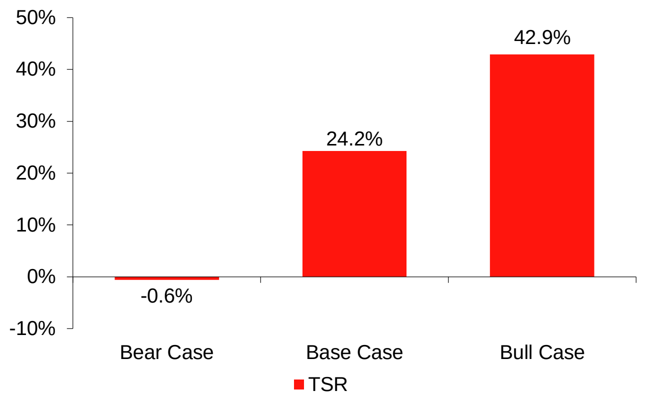
Fig 4 Scenario analysis on MRCB's fair value

	Bear Case	Base Case	Bull Case
Fair Value (RM)	0.92	1.15	1.33
Upside/(Downside)	-2.4%	22.4%	41.0%
Dividend	1.9%	1.9%	1.9%
TSR	**-0.6%**	**24.2%**	**42.9%**
Assumptions			
Property discount to RNAV	60%	40%	30%
Cumulative orderbook replenishment in FY17-20E	RM1.5bn	RM2.5bn	RM3.5bn
Construction PER	6x	10x	14x
EDL long-term traffic growth	1.0%	2.0%	3.0%

Based on price on 16 October 2017 close at RM0.94

Source: Bloomberg, Macquarie Research, October 2017

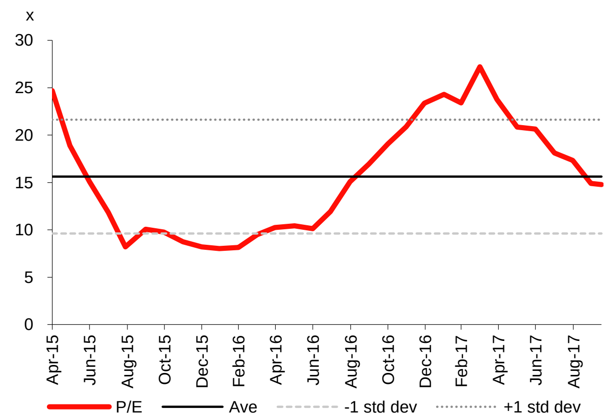
Fig 5 MRCB's scenario analysis TSR



Based on price on 16 October 2017 close at RM0.94

Source: Bloomberg, Macquarie Research, October 2017

Fig 6 MRCB's rolling fwd-PER



Source: Bloomberg, Macquarie Research, October 2017

Fig 7 Change in estimates

RM 'mil	New Estimates			Old Estimates			Difference		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Revenue	2,222	2,378	2,296	2,282	2,025	2,263	-2.6%	17.4%	1.5%
EBIT	308	307	318	310	331	353	-0.9%	-7.3%	-9.9%
PBT	191	259	321	223	267	313	-14.5%	-2.8%	2.4%
PAT	119	168	215	151	186	200	-21.1%	-9.8%	7.4%
EPS (sen)	4.0	3.8	4.9	6.5	8.1	9.3	-38.8%	-53.2%	-47.5%

Source: Macquarie Research, October 2017

Fig 8 Macquarie vs. consensus

RM 'mil	Macquarie			Consensus			Difference		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Revenue	2,222	2,378	2,296	2,191	2,322	2,473	1.4%	2.4%	-7.1%
EBIT	308	307	318	296	296	366	3.8%	3.9%	-13.0%
PBT	191	259	321	169	246	317	12.5%	5.3%	1.1%
PAT	119	168	215	116	155	203	3.1%	8.6%	6.1%
EPS (sen)	4.0	3.8	4.9	4.0	4.4	5.8	0.0%	-13.6%	-15.5%

Source: Bloomberg, Macquarie Research, October 2017

Fig 9 MRCB vs. property peers

Company	Ticker	Rec.	CP	TP	Upside	YTD perf.	RNAV/ share	Disc to RNAV	Mkt Cap	3M Avg Daily Vol	FY18E Yield	FY18E Net gearing	FY18E Net Debt-to-EBITDA	FY18E ROE	FY19E ROE	FY18E PER	FY19E PER	FY18E P/Bv	FY19E P/Bv
			RM	RM	%	%	RM	%	US$m	US$m	%	%	x	%	%	x	x	x	x
Malaysia																			
MRCB	MRC MK	OP	0.94	1.15	22%	-19%	1.15	-18%	489	1.9	1.8	27.1	3.7	3.2	4.0	24.4	19.1	0.8	0.8
E&O	EAST MK	OP	1.56	2.10	35%	8%	4.20	-63%	488	0.2	2.4	53.7	4.2	8.1	9.8	14.5	10.9	1.2	1.0
SP Setia	SPSB MK	OP	3.43	3.85	12%	10%	5.50	-38%	2,458	1.2	4.4	26.5	2.8	6.7	7.9	15.4	12.7	1.0	1.0
Mah Sing	MSGB MK	N	1.56	1.60	3%	9%	2.29	-32%	894	0.4	3.8	-5.2	-0.5	7.7	7.2	12.0	12.5	0.9	0.9
UEM Sunrise	UEMS MK	N	1.10	1.25	14%	5%	3.00	-63%	1,184	0.6	1.8	37.6	7.5	3.3	4.3	20.9	15.9	0.7	0.7
		Market Cap Weighted Average								**0.9**	**3.3**	**26.2**	**3.5**	**6.0**	**6.9**	**16.8**	**13.8**	**0.9**	**0.9**

Source: Bloomberg, Macquarie Research, October 2017; share price as at 16 October 2017 close

Fig 10 MRCB vs. construction peers

Company	Ticker	Rec.	CP (RM)	TP (RM)	Upside (%)	YTD perf. (%)	Mkt Cap (USDm)	FY17E Yield (%)	Net gearing (%)	FY17E PER (x)	FY18E PER (x)	FY17E ROE (%)	FY18E ROE (%)	FY17E P/Bv (x)	FY18E P/Bv (x)
Malaysia															
MRCB	MRC MK	OP	0.93	1.15	24%	-19%	488.7	1.8	27.1	24.4	19.1	3.2	4.0	0.8	0.8
Econpile Holdings	ECON MK	OP	2.99	3.50	17%	65%	385.2	2.2	-6.8	12.5	12.0	30.1	25.8	3.4	2.8
Sunway Construction Group	SCGB MK	OP	2.27	2.80	23%	37%	703.9	3.6	-67.6	13.9	13.1	33.8	30.5	4.3	3.7
Gamuda	GAM MK	OP	5.18	5.90	14%	11%	3,011.2	2.3	44.1	13.2	13.0	11.6	11.0	1.5	1.4
IJM Corporation	IJM MK	N	3.28	3.55	8%	4%	2,835.4	2.3	32.1	15.0	15.6	7.8	7.1	1.1	1.1
AQRS	AQRS MK	OP	1.81	2.20	22%	100%	182.7	1.9	44.0	14.5	9.9	18.0	22.5	2.4	2.0
	Mkt. Cap. Weighted Average							**2.4**	**25.6**	**14.7**	**14.3**	**12.8**	**11.9**	**1.7**	**1.5**

Source: Bloomberg, Macquarie Research, October 2017; share price as at 17 October 2017 close

Risks

Upside risks

- **EDL divestment**: the divestment of its concession division could bring an upside surprise and improved profitability due to cost savings from interest payments and amortisation
- **Order wins:** We estimate a cumulative order win of RM2.5bn in FY17-20E. Any order wins above our estimates would bring upside risk to our estimates.

Downside risks

- **Poor cash management**: the rights issue will bring in fresh cash of RM1.7bn to its balance sheet. Poor management of the proceeds may result in another round of cash calls, which we believe would be a key factor to downgrade our rating.

MRCB financial highlights

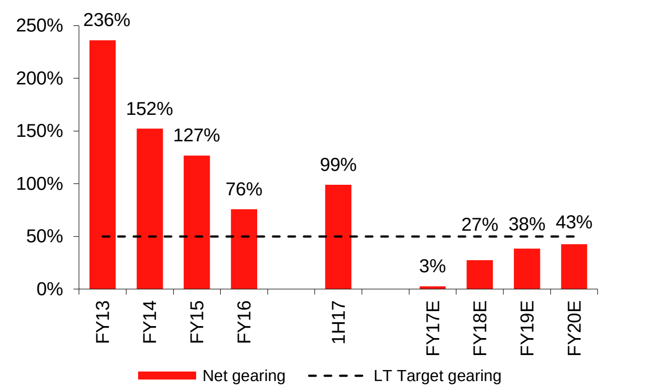
Less-stretched balance sheet, though could be lightened if EDL is divested

As at 1H17, MRCB's net gearing stood at 99% (76% in FY16) with a gross debt level of RM4.12bn. MRCB had to gear up to finance the construction of the Bukit Jalil Sports Complex refurbishment project worth RM1.3bn. The government paid for the project to MRCB via a land swap deal agreement, in lieu of cash. MRCB had to take up a loan of RM950mn to finance the construction of the project. Among others, the proceeds from the proposed rights issue would be utilised to pay off the construction debt.

MRCB has a long-term net gearing target of 50%, and we believe the net gearing level will settle at c.40% starting in FY19E. Over the next six months, we believe MRCB will finance the RM738mn payment to EPF for the purchase of a 70% stake in Kwasa Sentral land via fresh debt. In return, by end of 1H18, EPF will settle the payment of RM1.14bn to MRCB for its purchase of the Bukit Jalil Sentral land. We opine that the proceeds from EPF will be used to repay the debt raised for Kwasa Sentral. By 1H18, MRCB's key development landbank – Bukit Jalil Sentral, Cyberjaya Sentral, German Embassy Land and Kwasa Sentral Township land could potentially be debt free.

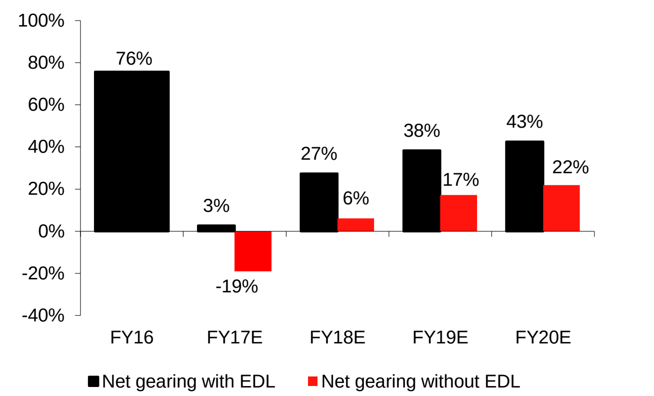
We note that MRCB should hasten the process of divesting EDL. Without EDL, MRCB could lighten its balance sheet and have bigger headroom to gear up for other working capital needs. Post rights issue, we believe MRCB will have a savings of c.RM30mn in interest costs and the interest cost savings could leave room for a hike of 0.7sen in dividends.

Fig 11 Net gearing to settle at c.40%



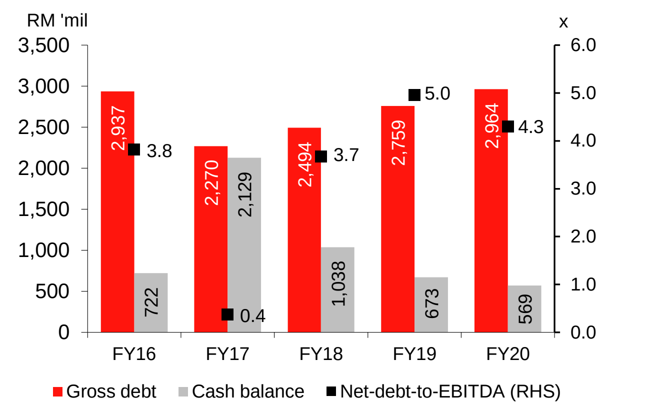
Source: Company data, Macquarie Research, October 2017

Fig 12 Healthier balance sheet if EDL is divested



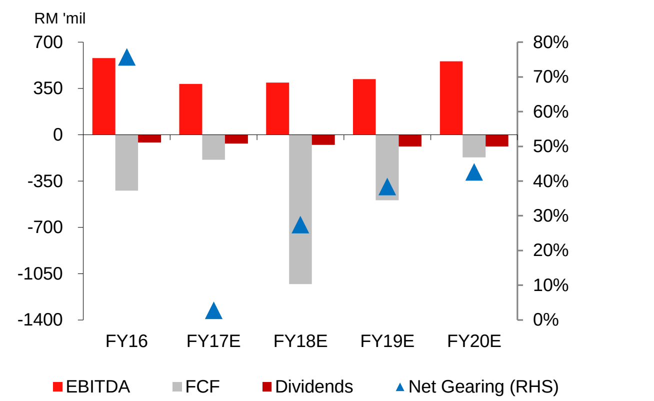
Source: Company data, Macquarie Research, October 2017

Fig 13 Cash and debt



Source: Company data, Macquarie Research, October 2017

Fig 14 FCF and dividends

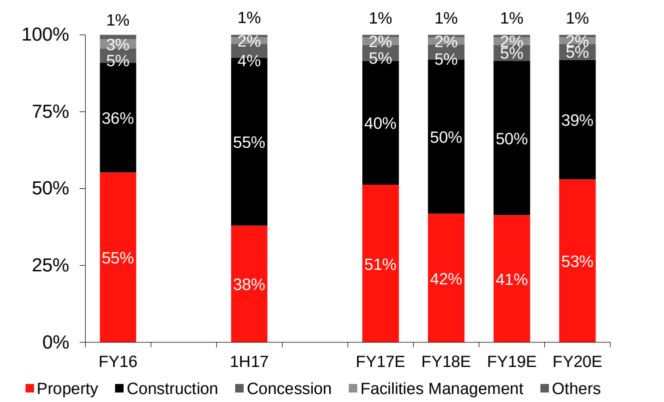


Source: Company data, Macquarie Research, October 2017

Profitability will be driven by the PDP fees and launches of key projects

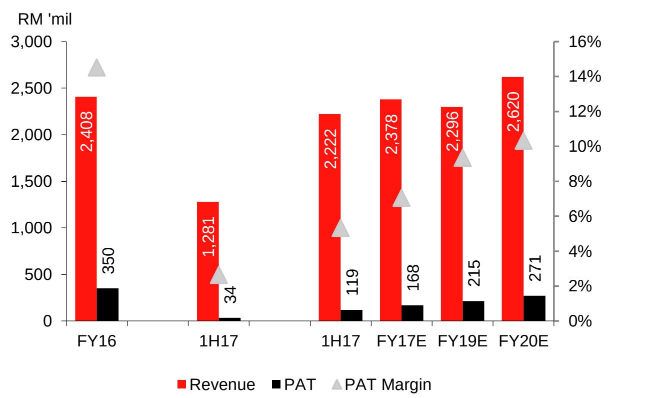
We estimate MRCB's margins to improve going forward as a result of **(i)** less interest costs; **(ii)** margin expansion from the construction division derived from the RM5.5bn orderbook and PDP fees of the LRT3 and Kwasa Damansara projects; and **(iii)** the launch of key development projects such as Kwasa Sentral, Bukit Jalil Sentral and Cyberjaya Sentral.

Fig 15 Property and construction key revenue drivers



Source: Company data, Macquarie Research, October 2017

Fig 16 MRCB PAT margin in expansion mode



Source: Company data, Macquarie Research, October 2017

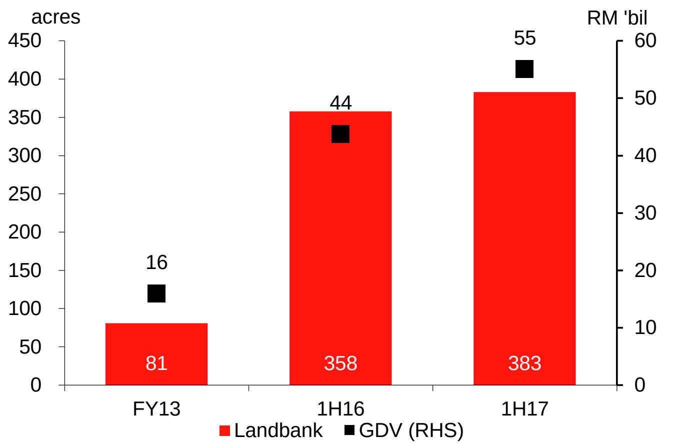
Yesterday once more, only better

Rights issue – why it needs to happen?

In the past MRCB was known for defaulting on its loans and making bad investment decisions. Under the new management, MRCB had undergone a "kitchen-sinking" exercise in FY13 and ended the year with a loss. Since FY14, the new management has been turning the business around at the same time improving its assets in order to bring more visibility to its long-term earnings. As such, MRCB has embarked on a few asset divestments and share placements between FY13-16 to reduce its balance sheet strain.

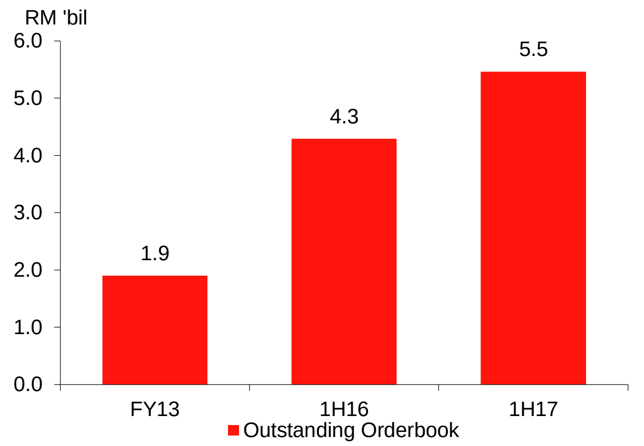
In the process of growing the Group, the management has acquired a few parcels of landbank and has obtained a number of notable construction projects. By the end of FY16 the company owns a portfolio of prime landbank and a healthy orderbook balance of above RM5bn, however it could not move forward unless it gears up further. With an annual interest cost of between RM150mn-185mn in FY13-16 and net gearing level of >75%, management decided to bite the bullet and raised cash to pare down its debt and to fund its future working capital needs. We believe, while the corporate exercise is dilutive to the Group's EPS, the proposed right issue was imperative to ensure the Group's survival in the long term. While MRCB may continue to gear up within its internal gearing target of 50%, at this juncture we do not see any possibilities of another cash call in the near-term horizon.

Fig 17 Growth in landbank portfolio since the new management takeover



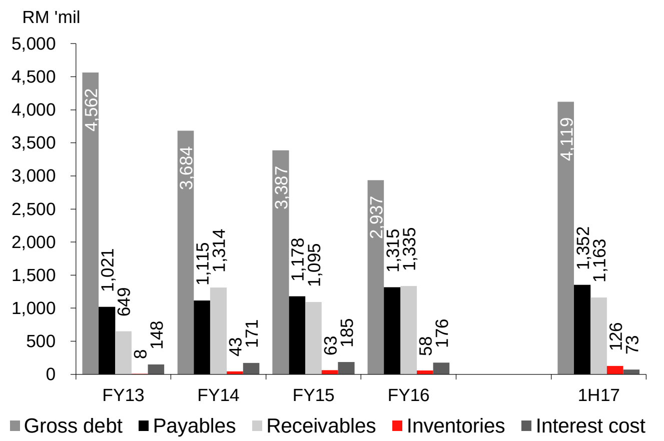
Source: Company data, Macquarie Research, October 2017

Fig 18 Outstanding orderbook balance since the new management takeover



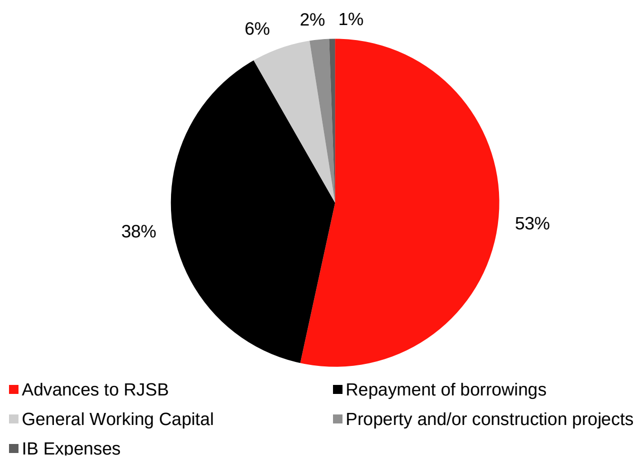
Source: Company data, Macquarie Research, October 2017

Fig 19 Debt levels climbed significantly in 1H17



Source: Company data, Macquarie Research, October 2017

Fig 20 Utilisation of rights issue proceeds



Source: Company data, October 2017

Kwasa Sentral, Bukit Jalil Sentral, Cyberjaya Sentral and German Embassy Land will be debt-free post rights issue

Property – the ultimate beneficiary

Debt-free prime landbanks – more nimble at timing the launches

MRCB will utilise c.RM1.6bn from the RM1.73bn rights issue to pay off its debts that are related to previous land purchases. As discussed earlier, we expect key prime projects such as Kwasa Sentral, Bukit Jalil Sentral, Cyberjaya Sentral and German Embassy Land will be debt-free, at least six months after MRCB has received the proceeds of the rights issue. These landbanks carry a combined GDV of RM29bn. In FY18E we expect MRCB to launch the Bukit Jalil Sentral and Kwasa Sentral projects. Both projects will be developed by the JV companies formed between MRCB and EPF.

MRCB could time its launches according to the market conditions

Being debt-free, MRCB could time the launches of its property projects depending on the market conditions. Other developers who are sitting on a pile of landbank debts are more pressured to launch the projects regardless of the market conditions to monetise the land purchases in order to manage their cash flows.

Bukit Jalil Sental construction works can be recognised as an external orderbook once sale to EPF is complete

Once EPF completes the purchase of an 80% stake in Bukit Jalil Sentral for RM1.14bn, MRCB would hold 20% of the project. Being a minority in the JV company, MRCB could recognise all the construction works of the Bukit Jalil Sentral as an external order. The project carries a GDV of RM14.6bn and we estimate the construction cost to range between RM3.5bn-4.0bn over the 20 year span of the project. Not only MRCB is able to realise upfront the value of the land, MRCB could also unlock the value of the project much faster by being the builder of the project.

Fig 21 MRCB's property development RNAV

Project	Stake	RNAV (RM 'mil)	Remaining Landbank (acres)	Remaining GDV (RM 'mil)	% of RNAV	Type
Sentral Residences	51%	0	0	0	0%	Residential
Lot F	100%	202	6	2,993	8%	Commercial
MBSB Tower - PJ Sentral	100%	11	0	0	0%	Commercial
MyIPO Tower - PJ Sentral	100%	14	0	0	1%	Commercial
Tower 1 - PJ Sentral	100%	66	2	819	3%	Commercial
Tower 5 - PJ Sentral	100%	11	1	507	0%	Commercial
PKNS Tower - PJ Sentral	100%	22	2	183	1%	Commercial
Cyberjaya City Centre	70%	159	45	5,350	7%	20% Retail; 20% Residential; 60% commercial
Kwasa Sentral	70%	451	64	8,000	19%	50% residential; 30% commercial; 20% retail
Suria Subang	100%	48	3	402	2%	Residential
Selbourne 2	100%	18	2	198	1%	Residential
Bukit Jalil Sentral	20%	217	93	14,610	9%	50% residential; 30% commercial; 20% retail
9 Seputeh	100%	51	10	1,540	2%	Residential
Sentral Suites	100%	196	5	881	8%	Residential
Semarak City	100%	254	27	3,163	11%	Residential
German Embassy Land	100%	157	2	1,012	7%	Residential
Canergie	100%	41	0	0	2%	Residential
Total Central		**1,917**	**262**	**39,658**		
Penang Sentral Ph 1 to 3A	100%	105	0	0	4%	Retail
Penang Sentral Ph 4 to 7	100%	198	10	1,800	8%	40% commercial; 60% residential
Batu Feringgi	100%	35	3	322	1%	Residential
Bandar Seri Iskandar	70%	35	11	723	1%	Residential
Total Northern		**373**	**24**	**2,845**		
Pulai Land	100%	49	68	770	2%	Residential
Total Southern		**49**	**68**	**770**		
Burwood	100%	0	0	0	0%	Residential
Canergie	100%	41	0	0	2%	
Total International		**41**	**0**	**0**		
Total Property		**2,380**	**354**	**43,273**		
Discount to RNAV		40%				
Total Property RNAV		**1,428**				

Source: Company data, Macquarie Research, October 2017

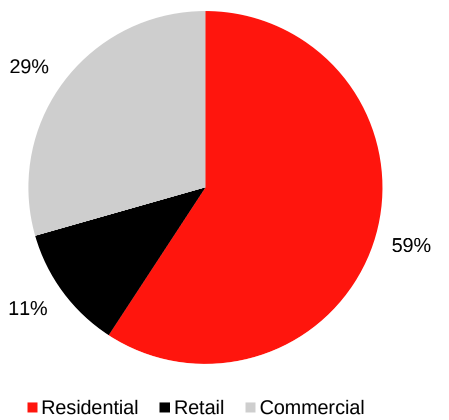
Fig 22 MRCB's investment property portfolios

Property	Property Type	Net Lettable Area (sqft) / # of rooms	Occupancy (%)	MRCB's Stake	Rental Rate (RM psf) / RevPAR (RM)	Valuation Method	Property Value (RM 'mil)
Menara Celcom, PJ Sentral	Office	450,000	100%	100%	5.30	1-yr fwd NOI @ 8.0%	268
Plaza Alam Sentral, Shah Alam	Retail	424,817	85%	100%	3.46	1-yr fwd NOI @ 9.0%	188
Kompleks Sentral, Segambut Industrial P	Industrial	562,493	70%	100%	1.36	1-yr fwd NOI @ 10.0%	58
St. Regis Hotel, KL Sentral	Hotel	208	35%	30%	400	1-yr fwd NOI @ 7.0%	43
Ascott Sentral, KL Sentral	Serviced Suites	157	40%	100%	276	1-yr fwd NOI @ 7.0%	58
						Total	**615**

Source: Company data, Macquarie Research, October 2017

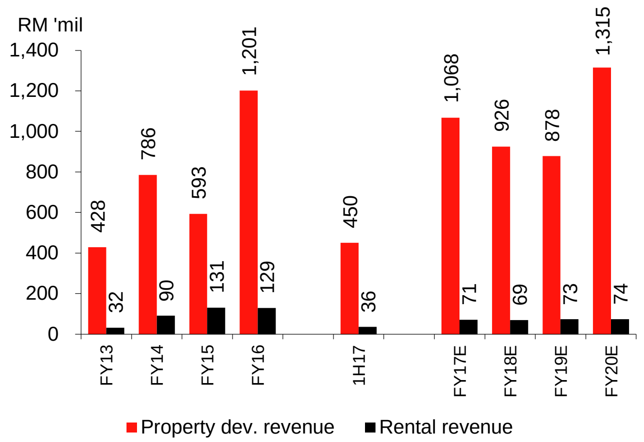
MRCB will usually guide the quantum of its future launches when it announces the 4Q results. Based on our early estimates, we think the property sales will dip in FY18E as we expect MRCB to do the maiden launches of the Bukit Jalil Sentral and Kwasa Sentral projects. We believe sales will pick up from FY19E onwards as the TOD projects begin to gain traction in the market.

Fig 23 Breakdown of property development RNAV



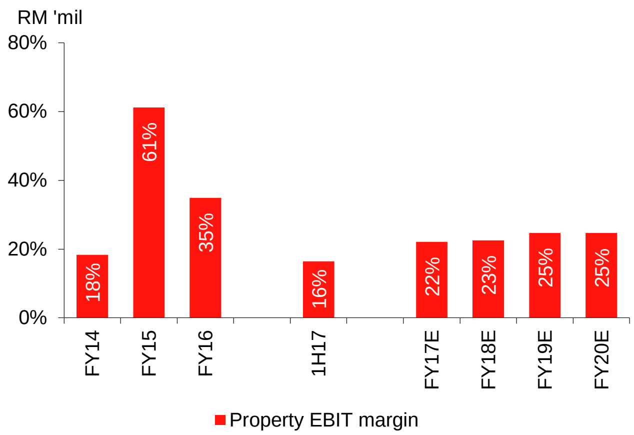
Source: Company data, Macquarie Research, October 2017

Fig 24 MRCB property division revenue



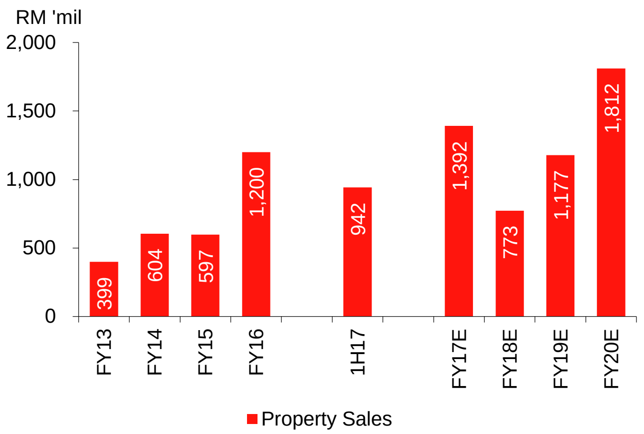
Source: Company data, Macquarie Research, October 2017

Fig 25 Property division blended EBIT margin



Source: Company data, Macquarie Research, October 2017

Fig 26 Projected property sales



Source: Company data, Macquarie Research, October 2017

Construction – margins improvement

PDP fees and recognition of the RM5.5bn orderbook to support

Construction PDP margins to expand from FY18E onward

In FY18E, the LRT3 and Kwasa Sentral projects will kick off and start bringing PDP fees to MRCB. MRCB is currently sitting on an outstanding orderbook of RM5.5bn with a cumulative RM470mn YTD order wins. We expect with the completion of the Bukit Jalil Sports Complex refurbishment project, margins for this division should begin to expand.

FY17E construction margins were hampered by the zero margins coming from Bukit Jalil Sports Complex refurbishment project

The management guided that the division's PBT margin should settle at between 5-8% from FY18E onwards. Currently, MRCB is developing its construction division with ongoing hiring of engineers and project managers. As such, many aspects of the construction works are now being done in-house. As a result, this could be positive to MRCB's margins going forward.

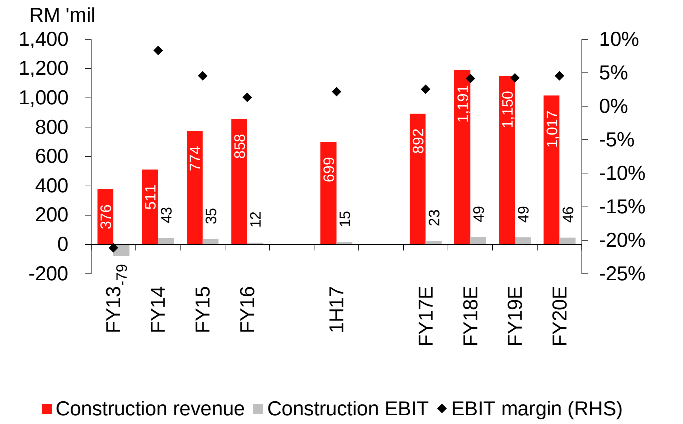
For the division we revised our FY17-19E orderbook replenishment targets of RM1bn/FY to RM600mn/RM600mn/RM650mn, respectively. The numbers were revised lower as we believe MRCB the upcoming projects like East Coast Railway Link, Pan Borneo Highway Sabah and Southern EDTP bring limited scope of opportunities to MRCB.

Fig 27 RM5.5bn orderbook significant support to earnings until FY20E

Project	Value (RM 'mil)	Progres (%)	Outstanding Orderbook (RM 'mil)
NPE bridge	127	60%	51
Johor land tower	188	61%	73
Aman Desaru	110	90%	11
Desaru Convention Centre	57	34%	37
Desa Desaru	217	37%	137
Westin Desaru	203	39%	125
Giant Hypermarket - Setapak	53	90%	6
132kv UGC Damansara City	34	93%	2
Bukit Tarek - Project BTCB	37	88%	5
Project LGNG - Lenggeng extension	51	77%	12
OHTL Kg. Cempaka Lilo - KJ	16	91%	1
Giant Hypermarket - Kajang	58	33%	39
PR1MA Kajang	173	11%	154
Double CCT 500kv Transmission Line (Jabi to Serting	126	16%	106
MRT2 V210 Package	648	7%	604
Sungai Pahang Rehabilitation Phase 3	178	33%	119
PR1MA Brickfields	335	0%	335
Kwasa Utama - TCC	2,648	0%	2,648
Kwasa Utama - C8 Development	187	0%	187
LRT3 PDP	270	0%	270
Kwasa Land - PDP Infra	112	0%	112
DASH Package CB2	369	0%	369
Indoor stadium - Johor	59	0%	59
TNB HQ Campus	40	0%	40
Total	**6,296**	**13%**	**5,500**

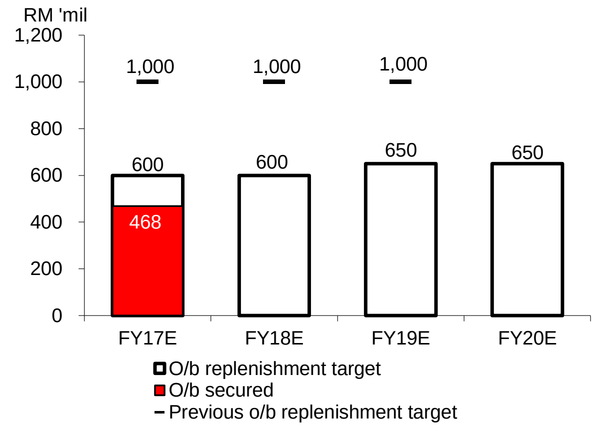
Source: Company data, Macquarie Research, October 2017

Fig 28 EBIT margins to stabilize at 4-5%



Source: Company data, Macquarie Research, October 2017

Fig 29 Order wins revision FY17-19E



Source: Company data, Macquarie Research, October 2017

Concession – more pressing need to divest

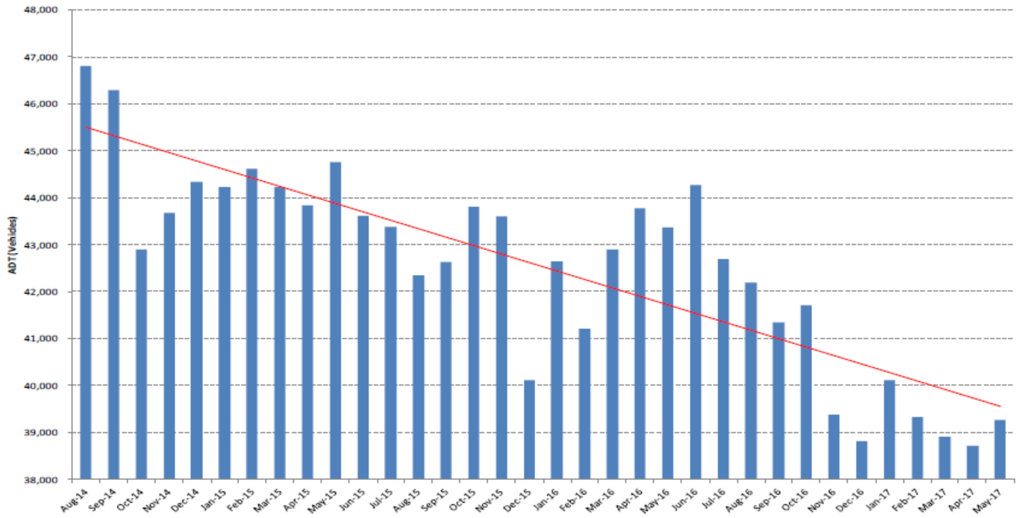
EDL is no longer a viable business case, in our view

EDL was given a total RM125mn of cash injections from MRCB between FY15-17E

EDL was previously partially subsidized by the Government of Malaysia (GoM) as the highway did not collect toll from its users. After the prior agreement with the GoM was rescinded in July 2014, EDL began to collect tolls from August 2014. Since the commencement of tolling, average daily traffic (ADT) counts have been rapidly decreasing, from 46,808 in August 2014 down to 39,264 in May 2017. Among the main causes of traffic decline is higher cost of Malaysian and Singaporean commuters due to the introduction of Malaysia Road Charge and the increase in vehicle entry permit (VEP) at the Malaysia and Singapore CIQs, respectively.

ADT count is on a constant decline, high financing cost are push factors for MRCB to divest the EDL

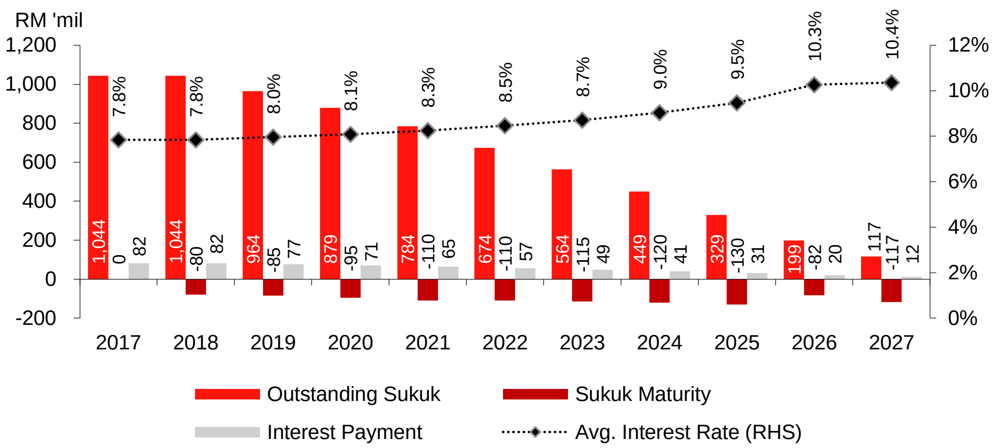
Fig 30 Monthly Average Daily Traffic (ADT) on EDL on a declining trend



Source: MRCB Lingkaran Selatan, RAM Ratings, October 2017

Given the low ADT, MRCB has injected cash to EDL for a cumulative amount of RM125mn between December 2015 and June 2017. The cash injections were crucial as EDL's weak toll revenue has created a mismatch between its financing obligations and cashflow-generating ability. As such, we believe EDL is no longer a viable business case for MRCB and should be divested at the earliest opportunity. By divesting EDL, MRCB would reduce its gross debt level by RM1.06bn, cost savings from amortisation of RM30mn-35mn per annum and cumulative interest cost of RM505mn between FY18E and FY27E.

Fig 31 EDL's sukuk programme via MRCB Southern Link Berhad



Source: Bloomberg, Macquarie Research, October 2017

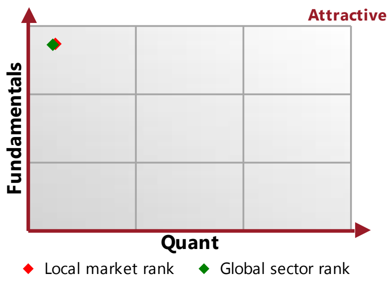
Macquarie Quant View

The quant model currently holds a strong negative view on MRCB. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

1781/1923

Global rank in Capital Goods

% of BUY recommendations	44% (4/9)
Number of Price Target downgrades	10
Number of Price Target upgrades	0

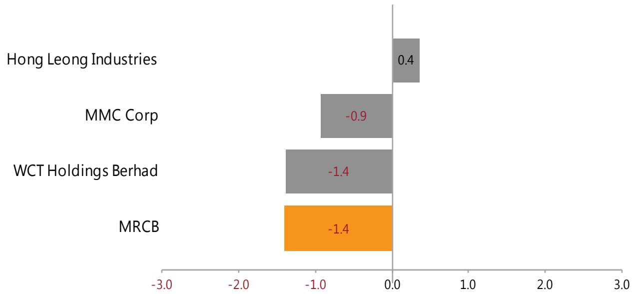


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Malaysia) and Global sector (Capital Goods)

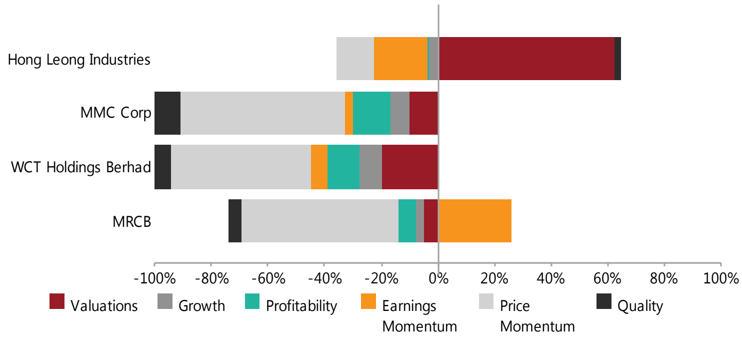
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



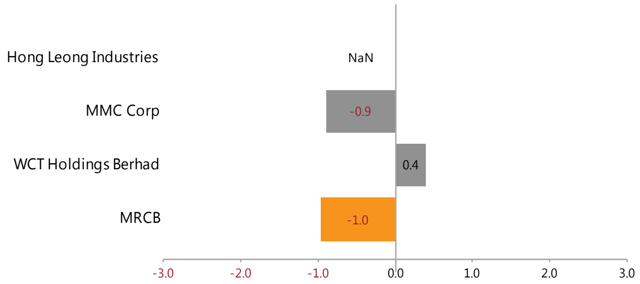
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



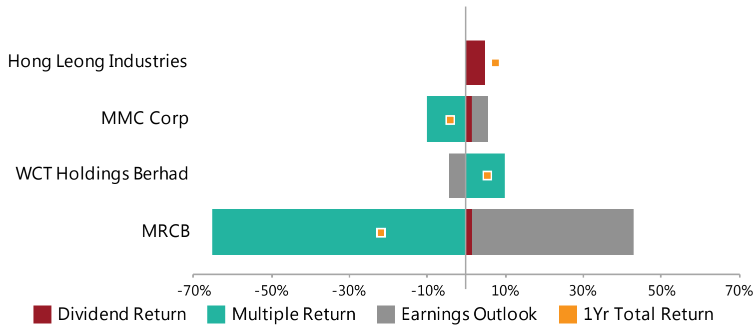
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



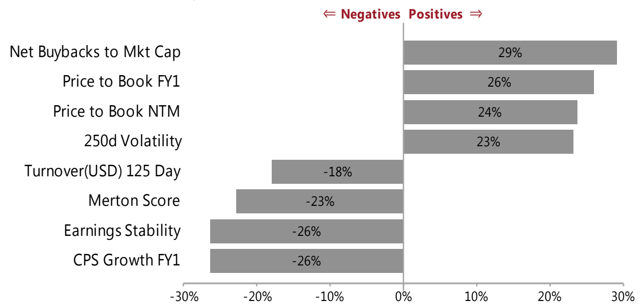
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



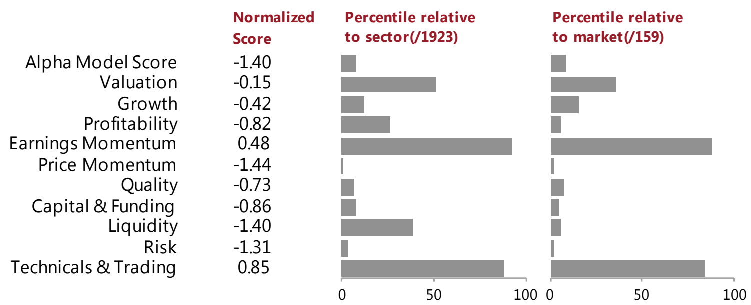
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

MRCB (MRC MK, Outperform, Target Price: RM1.15)

Interim Results		1H/17A	2H/17E	1H/18E	2H/18E
Net Property Income	m	1,281	941	1,070	1,308
Development Income	m	0	0	0	0
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**1,281**	**941**	**1,070**	**1,308**
Management Fees	m	0	0	0	0
Other Expenses	m	-1,162	-752	-932	-1,139
EBITDA	**m**	**154**	**231**	**178**	**218**
Dep & Amortisation	m	35	42	40	49
EBIT	**m**	**119**	**189**	**138**	**169**
Net Interest Income	m	-60	-62	-44	-54
Associates	m	6	1	23	28
Exceptionals	m	-1	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**63**	**127**	**117**	**143**
Tax Expense	m	-17	-29	-33	-40
Net Profit	**m**	**46**	**98**	**84**	**103**
Minority Interests	m	-13	-13	-9	-10
Reported Earnings	**m**	**34**	**85**	**76**	**92**
Adjusted Earnings	**m**	**35**	**85**	**76**	**92**
EPS (rep)	sen	1.4	2.6	1.7	2.1
EPS (adj)	sen	1.4	2.6	1.7	2.1
EPS Growth yoy (adj)	%	-73.6	-60.2	22.3	-19.1
EBITDA Margins	%	12.0	24.5	16.6	16.6
EBIT Margins	%	9.3	20.0	12.9	12.9
Earnings Split	%	29.0	71.0	45.0	55.0
Revenue Growth	%	18.2	-29.0	-16.5	39.0
EBIT Growth	%	-48.4	-33.1	16.1	-10.4

Profit & Loss Ratios		2016A	2017E	2018E	2019E
Revenue Growth	%	41.9	-7.7	7.0	-3.5
EBITDA Growth	%	135.7	-32.7	2.9	6.4
EBIT Growth	%	187.6	-40.0	-0.1	3.7
EBITDA Margins	%	23.7	17.3	16.6	18.3
EBIT Margins	%	21.3	13.8	12.9	13.9
Net Profit Margins	%	11.1	5.4	7.1	9.4
Payout Ratio	%	20.2	37.4	45.7	40.8
EV/EBITDA	x	5.7	13.3	11.8	9.5
EV/EBIT	x	6.4	16.6	14.7	11.7
Balance Sheet Ratios					
ROE	%	10.3	2.9	3.2	4.0
ROA	%	7.0	3.7	3.3	3.2
ROIC	%	8.4	4.5	4.0	3.4
Net Debt/Equity	%	73.2	2.6	26.7	37.2
Interest Cover	x	3.4	2.5	3.1	2.5
Price/Book	x	0.8	0.8	0.8	0.7
Book Value per Share		1.2	1.2	1.2	1.2

Profit & Loss		2016A	2017E	2018E	2019E
Net Property Income	m	2,408	2,222	2,378	2,296
Development Income	m	0	0	0	0
Other Revenue	m	0	0	0	0
Total Revenue	**m**	**2,408**	**2,222**	**2,378**	**2,296**
Management Fees	m	0	0	0	0
Other Expenses	m	-2,172	-1,915	-2,071	-1,978
EBITDA	**m**	**571**	**385**	**396**	**421**
Dep & Amortisation	m	59	77	88	103
EBIT	**m**	**512**	**308**	**307**	**318**
Net Interest Income	m	-152	-123	-99	-127
Associates	m	33	6	51	130
Exceptionals	m	83	-1	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**475**	**191**	**259**	**321**
Tax Expense	m	-74	-46	-73	-83
Net Profit	**m**	**402**	**145**	**187**	**237**
Minority Interests	m	-52	-26	-19	-22
Reported Earnings	**m**	**350**	**119**	**168**	**215**
Adjusted Earnings	**m**	**267**	**119**	**168**	**215**
EPS (rep)	sen	15.5	4.2	3.8	4.9
EPS (adj)	sen	11.9	4.0	3.8	4.9
EPS Growth (adj)	%	30,998.4	-66.2	-4.5	28.0
PE (rep)	x	6.0	22.4	24.3	19.0
PE (adj)	x	7.8	23.2	24.3	19.0
Total DPS	sen	2.4	1.5	1.8	2.0
Total Div Yield	%	2.6	1.6	1.9	2.2
Basic Shares Outstanding	m	2,457	4,385	4,385	4,385
Diluted Shares Outstanding	m	2,252	2,861	4,385	4,385

Cashflow Analysis		2016A	2017E	2018E	2019E
EBITDA	**m**	**571**	**385**	**396**	**421**
Tax Paid	m	-74	-46	-73	-83
Chg in Working Capital	m	-349	-260	-1,164	-459
Net Interest Paid	m	-172	-123	-99	-127
Other	m	-314	0	0	0
Operating Cashflow	**m**	**-336**	**-44**	**-940**	**-249**
Acquisitions	m	0	0	0	0
Capex	m	-87	-145	-189	-246
Asset Sales	m	727	0	0	0
Other	m	3	0	0	0
Investing Cashflow	**m**	**643**	**-145**	**-189**	**-246**
Dividend (Ordinary)	m	-77	-59	-66	-77
Equity Raised	m	402	1,732	0	0
Debt Movements	m	-461	-667	223	265
Other	m	83	29	30	31
Financing Cashflow	**m**	**-53**	**1,035**	**188**	**219**
Net Chg in Cash/Debt	**m**	**201**	**1,436**	**-1,060**	**-335**
Free Cashflow	**m**	**-423**	**-189**	**-1,129**	**-494**

Balance Sheet		2016A	2017E	2018E	2019E
Cash	m	722	2,129	1,038	673
Receivables	m	1,335	1,583	1,564	1,510
Inventories	m	58	88	145	137
Investments	m	520	439	452	464
Fixed Assets	m	438	500	640	823
Intangibles	m	253	253	313	313
Other Assets	m	4,181	4,180	5,475	6,133
Total Assets	**m**	**7,507**	**9,172**	**9,627**	**10,054**
Payables	m	1,476	1,488	1,610	1,622
Short Term Debt	m	806	706	906	1,056
Long Term Debt	m	2,131	1,564	1,587	1,702
Provisions	m	69	69	69	69
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**4,482**	**3,827**	**4,172**	**4,449**
Shareholders' Funds	m	2,926	5,220	5,311	5,438
Minority Interests	m	99	125	144	167
Total S/H Equity	**m**	**3,025**	**5,345**	**5,455**	**5,605**
Total Liab & S/H Funds	**m**	**7,507**	**9,172**	**9,627**	**10,054**

All figures in MYR unless noted.
Source: Company data, Macquarie Research, October 2017

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

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

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 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.38%	56.22%	40.70%	46.21%	63.85%	41.61%	(for global coverage by Macquarie, 4.18% of stocks followed are investment banking clients)
Neutral	37.50%	28.16%	43.02%	47.52%	30.00%	39.51%	(for global coverage by Macquarie, 2.68% of stocks followed are investment banking clients)
Underperform	12.12%	15.62%	16.28%	6.27%	6.15%	18.88%	(for global coverage by Macquarie, 1.08% of stocks followed are investment banking clients)

Company-specific disclosures:

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
30-Mar-2017	MRC MK	Outperform	RM2.00
07-Nov-2016	MRC MK	Outperform	RM1.85

Analyst certification:
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