

MRCB (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

28 February 2014

Price Target: RM2.02 (↔)

Share price: RM1.65

Wins verdict for PJ Sentral

News

- The High Court has dismissed PKNS' claim against Nusa-Gapurna and MRCB for the 70% stake in PJ Sentral. The High Court has also declined to consider a temporary injunction to prevent the sale.

Highlights

- POSITIVE outcome...** Following the court verdict, MRCB may now proceed to acquire Nusa-Gapurna's 70% stake in PJ Sentral. The **9.85 acres** land refers to **Lot 12** and is part of the overall PJ Sentral Garden City development. It is strategically located at the heart of Petaling Jaya with a potential GDV of **RM2.55bn**.
- We are **POSITIVE** at the judiciary outcome as it will provide continuity of development launches for MRCB instead of relying on KL Sentral for development profits.
- Earnings outweigh dilution...** The acquisition of PJ Sentral Lot 12 will see the issuance of an additional **108.8m** new MRCB shares and 31.1m new MRCB warrants. Hence, diluting the existing 1.65bn share base by 6.6% to 1.76bn shares.
- However, we believe that the dilution impact will be mitigated by the potential earnings growth from the new development profits which has already seen two tower blocks being leased out to MBSB and MyIPO.
- Appeal by PKNS?...** We do not discount the possibilities of an appeal filed by PKNS against the latest judgement. Hence, we believe that MRCB will be seeking a win-win situation with the State Government.

Risks

- Execution risk; Regulatory and political risk; Rising raw material prices; and Unexpected downturn in the construction and property cycle.

Forecasts

- Unchanged, pending conclusion of the deal.

Rating

BUY (↔)

We remain optimistic that the new management will be able to turnaround MRCB's operations and positive on the degearing exercise. Hence, we maintain our long term **BUY** call.

- Positives:** (1) Success in acquiring PJ Sentral land; (2) New construction contract wins; (3) Acquiring strategic land banks
- Negatives:** (1) Concerns over projects execution and property take-up rates; (3) Delays by the Government on EDL; (4) High net gearing levels; (5) Short-term earnings dilution arising from share swap with Nusa Gapurna.

Valuation

- Target Price maintained at **RM2.02** based on Sum-of-Parts valuation (see Figure #1).

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KLCI	1,831.7
Expected share price return	22.4%
Expected dividend return	1.0%
Expected total return	23.4%

Share price



Information

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	1,651
Market cap (RM m)	2,725
3-mth avg. volume ('000)	3,286

Price Performance	1M	3M	12M
Absolute	4.4	16.2	27.9
Relative	1.4	14.1	13.4

Major shareholders

EPF	38.9%
Gapurna	12.5%
Lembaga Tabung Haji	8.9%
Free Float	39.7%

Summary Earnings Table

FYE Dec (RM m)	2012A	2013E	2014E	2015E
Revenue	1,283	952	1,358	1,876
EBITDA	241	100	343	440
EBIT	221	76	315	408
Profit Before Tax	134	(81)	159	243
PATAMI	60	(80)	83	142
Core PATAMI	60	(47)	83	142
EPS (sen)	4.3	(2.9)	5.0	8.6
FD EPS (sen)	4.3	(2.2)	3.8	6.5
Net DPS (sen)	1.9	1.6	1.6	1.6
Net DY (%)	1.2	1.0	1.0	1.0
P/E (x)	38.1	(57.8)	32.8	19.2
FD P/E (x)	38.1	(76.6)	43.4	25.5
P/B (x)	1.6	1.6	1.5	1.4
Net Gearing (%)	190.8	193.3	180.0	171.8
ROE (%)	4.3	(3.0)	4.8	7.7
ROA (%)	1.1	(0.8)	1.3	2.0

HLIB

Figure #1 MRCB SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	14X Average of FY14-15 Earnings	100%	438	0.27	13
Property	NPV of profits + Property BV	100%	2,235	1.35	67
DUKE	Ekovest Offer	30%	228	0.14	7
EDL	DCF	100%	581	0.35	17
Sub-Total (RM m)			3,481	2.11	104
Holding Company Net Debt			(140)	(0.08)	(4)
SOP (RM m)			3,341	2.02	100
Nos. of shares (m)			1,651		
RM per share (RM)			2.02		

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*Our valuation does not include the dilution of 537.9m warrants as our TP is below its exercise price of RM2.30

Financial Projections for MRCB (BUY; TP: RM2.02)

Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Revenue	1,226.7	1,283.2	952.4	1,358.4	1,876.3
EBITDA	141.6	240.9	99.9	343.0	440.4
D&A	(11.2)	(20.0)	(23.8)	(28.4)	(32.4)
EBIT	130.4	220.9	76.1	314.6	408.0
Interest Income	32.5	29.7	14.6	16.8	26.6
Finance Costs	(35.2)	(118.5)	(185.2)	(191.8)	(202.4)
Associates/JCE	(4.3)	1.9	13.2	19.1	10.8
Profit Before Tax	123.3	134.0	(81.2)	158.7	243.0
Tax	(15.3)	(42.8)	(9.9)	(34.9)	(55.7)
Net Profit	108.0	91.2	(91.1)	123.8	187.2
Minority Interests	(14.5)	(31.0)	10.7	(40.6)	(45.4)
PATAMI	93.5	60.1	(80.4)	83.2	141.8
Exceptionals	5.3	-	(33.3)	-	-
Core Earnings	88.2	60.1	(47.2)	83.2	141.8
Basic Shares (m)	1,386.2	1,387.8	1,651.3	1,651.3	1,651.3
Core EPS (sen)	6.4	4.3	(2.9)	5.0	8.6
FD Core EPS (sen)	6.4	4.3	(2.2)	3.8	6.5

Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Cash	616.2	644.2	417.8	479.4	759.8
Trade Receivables	1,198.3	1,511.4	1,305.4	1,861.6	2,056.9
Inventories	16.8	9.7	13.0	18.6	25.7
Development Costs	408.5	481.8	462.8	481.0	769.4
Associates/JCE	155.5	154.7	168.0	187.1	197.9
PPE	1,626.1	1,700.3	2,195.6	2,217.2	2,234.9
Intangibles	76.9	74.9	74.9	74.9	74.9
Others	1,310.3	1,377.7	1,377.7	1,377.7	1,377.7
Total Assets	5,408.5	5,954.8	6,015.2	6,697.5	7,497.3
Trade Payables	1,046.7	893.7	521.9	930.4	1,285.1
Total Debt	2,728.4	3,309.5	3,450.8	3,627.1	3,911.3
Others	219.0	264.3	264.3	264.3	264.3
Total Liabilities	3,994.2	4,467.5	4,237.0	4,821.8	5,460.7
Shareholders' Funds	1,376.2	1,418.2	1,719.8	1,776.7	1,892.1
Minority Interests	38.1	69.1	58.4	99.1	144.5
Total Capital	1,414.3	1,487.3	1,778.3	1,875.7	2,036.6

Cashflow Analysis

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
EBITDA	141.6	240.9	99.9	343.0	440.4
Working Capital	(77.3)	(478.5)	(120.3)	(139.3)	(100.5)
Net Interest	(120.0)	(144.7)	(200.5)	(207.1)	(211.5)
Others	88.5	95.7	(9.9)	(34.9)	(55.7)
CFO	32.9	(286.6)	(230.7)	(38.3)	72.7
Capex	(347.4)	(205.9)	(110.7)	(50.0)	(50.0)
Purchase/Disposal	(152.9)	(4.6)	-	-	-
Others	0.4	-	-	-	-
CFI	(499.9)	(210.6)	(110.7)	(50.0)	(50.0)
Financing	734.0	577.7	141.3	176.3	284.2
Shares Issued	5.2	1.9	-	-	-
Dividends	(15.6)	(20.8)	(26.4)	(26.4)	(26.4)
Others	(3.0)	0.0	-	-	-
CFF	720.6	558.9	115.0	149.9	257.8
Net Cashflow	253.6	61.7	(226.4)	61.6	280.5

Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Revenue	303.1	262.0	185.7	159.7	379.2
Expenses	(284.1)	(251.2)	(167.0)	(302.8)	(355.5)
Other Income	28.8	29.4	27.5	40.9	30.5
EBIT	47.8	40.3	46.2	(102.1)	54.2
Net Interest Expense	(20.7)	(35.3)	(35.5)	(40.4)	(32.4)
Associates & JCE	5.3	0.1	2.4	2.8	(0.3)
Profit Before Tax	32.4	5.1	13.1	(139.7)	21.5
Tax	(23.3)	(1.5)	(5.0)	(0.9)	(10.5)
Net Profit	9.1	3.6	8.1	(140.7)	11.0
Minority Interests	(12.0)	1.6	(2.3)	18.3	(8.8)
PATAMI	(3.0)	5.3	5.8	(122.4)	2.2
Exceptionals	-	-	-	33.3	-
Core Earnings	(3.0)	5.3	5.8	(89.2)	2.2
Core EPS (sen)	(0.21)	0.38	0.42	(5.99)	0.13
FD Core EPS (sen)	(0.21)	0.38	0.42	(5.99)	0.13
DPS (sen)	1.90	-	-	-	1.00
W. Ave. Shares (m)	1,387.6	1,387.8	1,387.8	1,488.1	1,651.3

Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Core PER (x)	25.9	38.1	(57.8)	32.8	19.2
FD Core PER (x)	25.9	38.1	(76.6)	43.4	25.5
Net DPS (sen)	1.5	1.9	1.6	1.6	1.6
Net DY (%)	0.9	1.2	1.0	1.0	1.0
BVPS (RM)	1.0	1.0	1.0	1.1	1.1
P/B (x)	1.7	1.6	1.6	1.5	1.4
NTA/Share (RM)	0.9	1.0	1.0	1.0	1.1
EBITDA Margin (%)	11.5	18.8	10.5	25.2	23.5
EBIT Margin (%)	10.6	17.2	8.0	23.2	21.7
PBT Margin (%)	10.1	10.4	(8.5)	11.7	12.9
PATAMI Margin (%)	7.2	4.7	(5.0)	6.1	7.6
ROE (%)	6.6	4.3	(3.0)	4.8	7.7
ROA (%)	1.8	1.1	(0.8)	1.3	2.0
Net Gearing (%)	158.7	190.8	193.3	180.0	171.8

Assumption Metrics and Growth Ratio

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Revenue	1,226.7	1,283.2	952.4	1,358.4	1,876.3
Construction	651.0	449.6	454.8	459.8	552.7
Property	487.3	689.9	424.3	821.7	1,242.8
EBIT Margins (%)	10.6	17.2	8.0	23.2	21.7
Revenue Growth (%)	14.9	4.6	(25.8)	42.6	38.1
PATAMI Growth (%)	31.2	(31.9)	(178.4)	(276.4)	70.5
EPS Growth (%)	30.8	(31.9)	(165.9)	(276.4)	70.5

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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