

**Hoy Ken Mak**

mak-hoy-ken@ambankgroup.com

+603 2036 2294

*PJ Sentral within sight*
**BUY**

(Maintained)

*Rationale for report: Company Update*

Price RM1.65  
Fair Value RM2.20  
52-week High/Low RM1.80/RM1.23

**Key Changes**

Fair value unchanged  
EPS unchanged

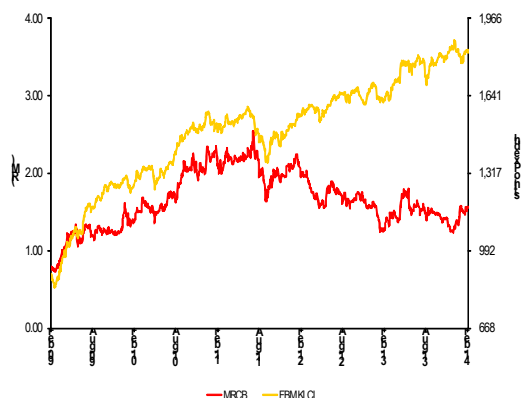
YE to Dec	FY13	FY14F	FY15F	FY16F
Revenue (RMmil)	986.7	1,433.6	2,007.9	2,246.8
Core net profit (RMmil)	(109.1)	92.9	121.5	160.2
Core FD EPS (Sen)	(4.2)	5.8	7.2	9.0
Core FD EPS growth (%)	n/m	n/m	23.9	23.8
Consensus EPS (Sen)		4.1	6.8	11.7
DPS (Sen)	1.0	2.0	2.0	2.0
Core FD PE (x)	(35.3)	28.2	22.8	18.4
EV/EBITDA (x)	129.0	17.8	14.7	12.2
Div yield (%)	0.7	1.2	1.2	1.2
ROE (%)	n/m	5.3	6.6	8.1
Net Gearing (%)	173.1	160.8	145.0	129.7

**Stock and Financial Data**

Shares Outstanding (million)	1,651.3
Market Cap (RMmil)	2,609.1
Book value (RM/share)	1.02
P/BV (x)	2.1
ROE (%)	n/m
Net Gearing (%)	173.1
Major Shareholders	Employees Provident Fund Board (38.9%) Gapurna Sdn Bhd (12.5%)

Free Float (%)	39.8
Avg Daily Value (RMmil)	4.9

Price performance	3mth	6mth	12mth
Absolute (%)	8.2	0.0	9.0
Relative (%)	10.4	1.6	0.3


**Investment Highlights**

- We maintain our BUY call on MRCB with an unchanged fair value of RM2.20/share. This pegs the stock at a 20% discount to its RNAV.
- MRCB announced that the KL High Court has dismissed with costs, PKNS' claims against Nusa Gapurna and MRCB. This is in relation to PKNS' suit against the two for alleged breach of shareholders agreement over stakes in PJ Sentral Development Sdn Bhd (PJSD).
- In addition, *The Star* reported that the courts have also allowed Nusa Gapurna's counter-claim for PKNS to sell its 30% stake in PJ Sentral to MRCB.
- This positive verdict is significant, as it may pave the way for MRCB to complete the acquisition of a 70% stake in PJSD.
- More importantly, this latest development represents a significant step forward for MRCB to finally realise the embedded value of PJ Sentral.
- PJSD is developing Phase 1 of its flagship PJ Sentral Garden City - a 40-acre integrated mixed-use project that has high development potential (plot ratio: 6x net).
- Phase 1 (GDV: ~RM3bil) comprises:- (i) five tower blocks along with a hotel collectively held in Lot 12; and (ii) the Puncak Wangi land (Lot 8). The development is strategically located at the heart of PJ city, and is surrounded by matured neighbourhoods.
- Our channel checks indicate that two towers have been pre-sold to MyIPO and MBSB for RM250mil and RM239mil respectively. This translates into record capital values of c.RM850psf within the area.
- On the other hand, we learn that Lot 8 would be occupied by Celcom-Axiata, which has pre-committed to a 21-year lease agreement reportedly worth ~RM300mil.
- Furthermore, any positive resolution to the PJ Sentral dispute could pave the way for the future injection of another 28 acres under Phase 2 into the MRCB stable with an estimated GDV of ~RM7bil.
- A favourable outcome to PJ Sentral's legal impasse would likely kick-start a fresh share price re-rating cycle for MRCB – with further upside from this NAV-accretive project.
- This should narrow the deep discount of 40% that MRCB is trading vis-a-vis its RNAV. Our current forecast does not include potential future contributions from PJ Sentral and the upcoming Kwasa Damansara project.

TABLE 1: DERIVATION OF FAIR VALUE

Divisions/Operations	Size (acres)	psf	Value (RM)		Method	% of NAV	Effective stake (%)
			mil	/share			
<b>Landbank</b>							
Taman Kajang Utama, Selangor	8	25	9.1	0.00	MV		100
Kota Kinabalu, Sabah	3	30	3.6	0.00	MV		100
Bandar Seri Iskandar	4,000	8	987.9	0.44	MV		70
<b>Sub-total</b>			<b>1,000.5</b>	<b>0.45</b>		<b>12.8</b>	
<b>Development properties</b>							
Senawang Sentral			6.5	0.00	NPV @ 7%		100.0
St.Regis Service Residences (Lot C)			17.0	0.01	NPV @ 7%		30.0
Q Sentral (Lot B)			43.0	0.02	NPV @ 7%		60.0
Sentral Residences (Lot D)			64.1	0.03	NPV @ 7%		65.7
Lot F - Office Towers			256.6	0.11	NPV @ 7%		74.0
Gapurna Land - Old Klang Road			316.6	0.14	NPV @ 7%		100.0
Gapurna Builders - Subang Jaya			44.0	0.02	NPV @ 7%		100.0
Selborn 2, Shah Alam			15.6	0.01	NPV @ 7%		100.0
Lot 349, privatization agreement (Brickfields)			126.0	0.06	NPV @ 7%		70.0
Jln Kia Peng High End Residential Development			37.6	0.02	NPV @ 7%		100.0
Setepak mixed development			325.1	0.14	NPV @ 7%		100.0
Batu Ferringghi land			69.2	0.03	NPV @ 7%		100.0
Penang Sentral			118.8	0.05	NPV @ 7%		100.0
<b>Sub-total</b>			<b>1,440.2</b>	<b>0.64</b>		<b>18.5</b>	
<b>Investment properties</b>							
	NLA/room bays		Value (RM) mil	/share	Method		Effective stake (%)
Sooka Sentral, KL Sentral	77,126		68.7	0.03	NOI@6.5%		100.0
Platinum Sentral, KL Sentral (Lot E)	533,082		648.2	0.29	NOI@6%		100.0
Menera Shell (Lot 348)	542,358		624.8	0.28	NOI@6%		100.0
Nu Sentral Retail Mall (Log G)	650,000		244.6	0.11	NOI@6%		51.0
Celcom-Axiata (Lot 8)	450,908		402.6	0.18	NOI@6.25%		100.0
Plaza Alam Sentral, Shah Alam	433,349		105.7	0.05	NOI@6.5%		100.0
Kompleks Sentral, Segambut Industrial Park	484,689		45.0	0.02	NOI@6.75%		100.0
Ascott Residences (ILot 348)	143 rooms		114.4	0.05	RM0.8mil/room		100.0
St. Regis Hotel (Lot C)	208 rooms		62.4	0.03	RM1mil/room		30.0
<b>Sub-total</b>			<b>2,316.4</b>	<b>1.03</b>		<b>29.7</b>	
<b>Cark parks</b>							
Sooka Sentral, KL Sentral	97 bays		4.9	0.00	RM50k/bay		100.0
Platinum Sentral, KL Sentral (Lot E)	635 bays		31.8	0.01	RM50k/bay		100.0
Menera Shell (Lot 348)	969 bays		48.5	0.02	RM50k/bay		100.0
Nu Sentral Retail Mall (Log G)	1,990 bays		50.7	0.02	RM50k/bay		51.0
Plaza Alam Sentral, Shah Alam	1,400 bays		70.0	0.03	RM50k/bay		100.0
St. Regis Hotel (Lot C)	797 bays		12.0	0.01	RM50k/bay		30.0
<b>Sub-total</b>			<b>217.8</b>	<b>0.10</b>		<b>2.8</b>	
<b>Expressways</b>							
DUKE			228.0	0.10	Take-over value		30.0
Eastern Dispersal Link (EDL)			1,913.0	0.85	DCF @ 7%		100.0
<b>Sub-total</b>			<b>2,141.0</b>	<b>0.95</b>		<b>27.5</b>	
<b>Construction &amp; Infrastructure</b>							
Construction			87.4	0.04	9x ave.FY14F net profit		
Infra & Environmental			112.5	0.05	11x ave.FY14F net profit		
Building Services			23.9	0.01	6x FY14F net profit		
<b>Sub-total</b>			<b>223.7</b>	<b>0.10</b>		<b>2.9</b>	
Others			450.0	0.20	Book value		5.8
<b>Gross RNAV</b>			<b>7,789.6</b>	<b>3.47</b>			<b>100.0</b>
Net debt			(2,900.8)	(1.29)	As at 31 December 2013		
Proceeds from ESOS/warrant conversions			1,275.2	0.57	Warrants exercise price: RM2.30		
<b>Total RNAV</b>			<b>6,164.0</b>	<b>2.75</b>			
FD no of shares			2,242.4				
<b>RNAV/share</b>			<b>2.75</b>				
<b>Fair Value (less: 20% discount)</b>			<b>2.20</b>				
Capital gain (%)			33.3				
Yield (%)			0.7				
<b>Total Return (%)</b>			<b>36.2</b>				
<b>Discount to RNAV (%)</b>			<b>(40.0)</b>				

Source: MRCB, AmResearch

CHART 1 : PB BAND CHART

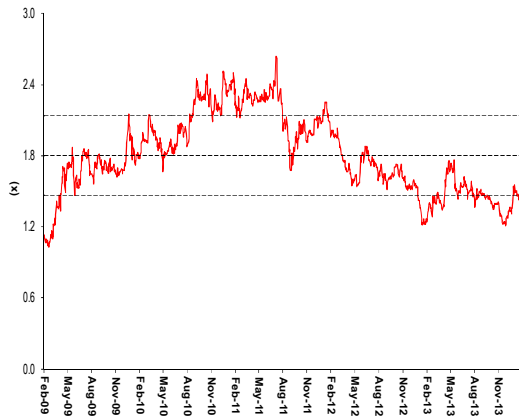


CHART 2 : PE BAND CHART

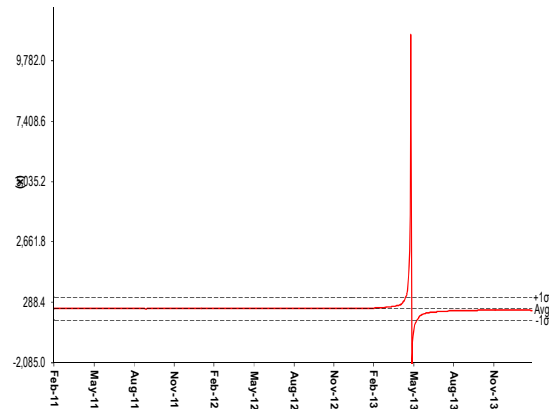
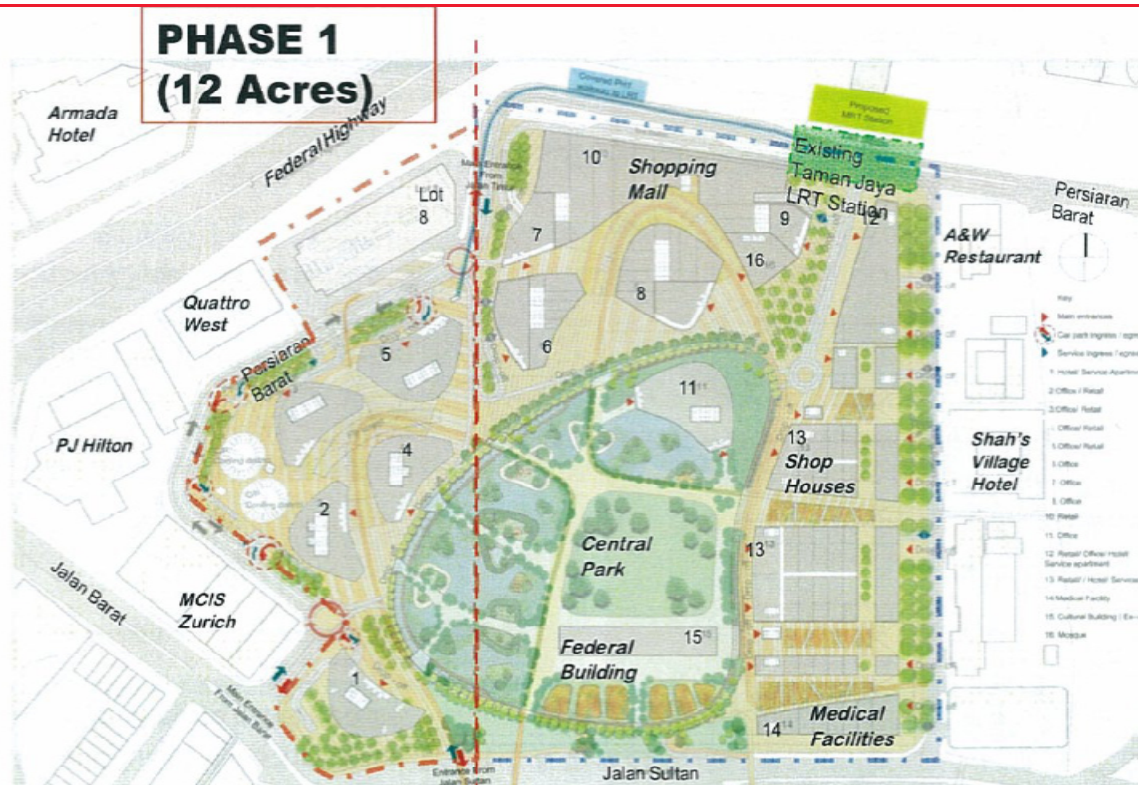


CHART 3: LAYOUT PLAN FOR PJ SENTRAL (PHASE 1)



Source: MRCB, AmResearch

TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Revenue	1,283.2	986.7	1,433.6	2,007.9	2,246.8
EBITDA	240.9	41.3	312.2	367.4	431.6
Depreciation	(20.0)	(29.0)	(31.2)	(36.5)	(41.8)
Operating income (EBIT)	220.9	12.2	281.0	331	389.8
Other income & associates	1.9	5.0	21.2	31.9	31.1
Net interest	(88.8)	(127.6)	(172.7)	(168.6)	(164.3)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>134.0</b>	<b>(110.4)</b>	<b>129.5</b>	<b>194.2</b>	<b>256.6</b>
Taxation	(42.8)	(7.6)	(29.8)	(53.6)	(71.1)
Minorities/pref dividends	(31.0)	8.8	(6.7)	(19.1)	(25.4)
<b>Net profit</b>	<b>60.1</b>	<b>(109.1)</b>	<b>92.9</b>	<b>121.5</b>	<b>160.2</b>
Core net profit	60.1	(109.1)	92.9	121.5	160.2
Balance Sheet (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	38.8	37.9	38.5	38.4	37.4
Intangible assets	74.9	291.1	291.1	291.1	291.1
Other long-term assets	1,938.0	2,428.4	2,627.8	2,883.3	3,083.6
<b>Total non-current assets</b>	<b>2,051.6</b>	<b>2,757.4</b>	<b>2,957.4</b>	<b>3,212.8</b>	<b>3,412.1</b>
Cash & equivalent	644.2	595.1	528.8	578.7	595.7
Stock	9.7	8.4	13.5	19.8	21.9
Trade debtors	1,429.4	649.7	707.0	825.1	861.8
Other current assets	1,819.8	2,583.8	2,164.8	2,183.8	2,129.9
<b>Total current assets</b>	<b>3,903.2</b>	<b>3,837.0</b>	<b>3,414.1</b>	<b>3,607.4</b>	<b>3,609.2</b>
Trade creditors	893.4	1,108.7	952.4	1,393.3	1,541.6
Short-term borrowings	2,419.7	2,593.9	634.9	615.0	595.0
Other current liabilities	185.4	124.6	124.6	124.6	124.6
<b>Total current liabilities</b>	<b>3,498.5</b>	<b>3,827.2</b>	<b>1,712.0</b>	<b>2,132.9</b>	<b>2,261.3</b>
Long-term borrowings	905.0	909.0	2,718.2	2,638.4	2,558.6
Other long-term liabilities	63.9	121.4	121.4	121.4	121.4
<b>Total long-term liabilities</b>	<b>968.9</b>	<b>1,030.4</b>	<b>2,839.6</b>	<b>2,759.8</b>	<b>2,680.0</b>
<b>Shareholders' funds</b>	<b>1,418.2</b>	<b>1,675.4</b>	<b>1,751.8</b>	<b>1,840.3</b>	<b>1,967.5</b>
Minority interests	69.1	61.3	68.0	87.1	112.4
BV/share (RM)	1.02	1.01	1.06	1.11	1.19
Cash Flow (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	134.0	(110.4)	129.5	194.2	256.6
Depreciation	(184.3)	(652.0)	137.3	274.0	195.4
Net change in working capital	(525.1)	761.6	200.4	297.4	163.5
Others	115.0	(616.9)	(51.0)	(85.4)	(102.2)
<b>Cash flow from operations</b>	<b>(256.1)</b>	<b>63.4</b>	<b>310.0</b>	<b>442.6</b>	<b>359.7</b>
Capital expenditure	(211.4)	(15.9)	(210.0)	(260.0)	(210.0)
Net investments & sale of fixed assets	5.5	165.0	0.0	0.0	0.0
Others	(70.1)	(247.9)	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(276.0)</b>	<b>(98.7)</b>	<b>(210.0)</b>	<b>(260.0)</b>	<b>(210.0)</b>
Debt raised/(repaid)	581.0	204.8	(149.8)	(99.8)	(99.8)
Equity raised/(repaid)	1.9	0.0	0.0	0.0	0.0
Dividends paid	(20.8)	(26.4)	(16.5)	(33.0)	(33.0)
Others	(3.2)	(232.4)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>558.9</b>	<b>(54.0)</b>	<b>(166.3)</b>	<b>(132.8)</b>	<b>(132.8)</b>
<b>Net cash flow</b>	<b>26.7</b>	<b>(89.3)</b>	<b>(66.2)</b>	<b>49.9</b>	<b>17.0</b>
<b>Net cash/(debt) b/f</b>	<b>371.1</b>	<b>397.8</b>	<b>308.5</b>	<b>242.3</b>	<b>292.1</b>
Exchange rate effects	0.0	0.0	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>397.8</b>	<b>308.5</b>	<b>242.3</b>	<b>292.1</b>	<b>309.1</b>
Key Ratios (YE 31 Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	4.6	n/a	45.3	40.1	11.9
EBITDA growth (%)	76.7	n/a	656.1	17.7	17.5
Pretax margins (%)	10.4	(11.2)	9.0	9.7	11.4
Net profit margins (%)	4.7	(11.1)	6.5	6.1	7.1
Interest cover (x)	1.9	0.1	1.5	1.8	2.2
Effective tax rate (%)	32.0	n/a	23.0	27.6	27.7
Net dividend payout (%)	43.9	n/a	35.5	27.2	20.6
Debtors turnover (days)	363	385	173	139	137
Stock turnover (days)	4	3	3	3	3
Creditors turnover (days)	276	370	262	213	238

Source: MRCB, AmResearch

## Published by

**AmResearch Sdn Bhd (335015-P)**  
(A member of the AmInvestment Bank Group)  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

## Printed by

**AmResearch Sdn Bhd (335015-P)**  
(A member of the AmInvestment Bank Group)  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

The information and opinions in this report were prepared by AmResearch Sdn Bhd. The investments discussed or recommended in this report may not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of AmResearch Sdn Bhd may from time to time have a position in or with the securities mentioned herein. Members of the AmInvestment Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgement as of this date and are subject to change without notice.

For AmResearch Sdn Bhd



**Benny Chew**  
Managing Director