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Equity Beat

midf RESEARCH

28 January 2010

Company Visit

MRCB

Positive news flow ahead

Maintain **Buy**
Target Price (TP): RM1.74

- **In line with MRCB's plan to be an integrated property developer, the rights issue will pave way for the Group to acquire Federal landbank in KL and the Klang Valley.**
- **Management hinted to acquire between 50 – 160 acres of land in downtown KL and a parcel of land along Jalan Travers. Positive corporate news flow on MRCB's buying spree should help to sustain its share price outperformance.**
- **Since the rights issue was announced in Nov 2009, the share price had increased more than 10% indicating positive response by the market on MRCB's plan to acquire more strategic landbank.**
- **Maintain a BUY call on the stock and 12-month target price of RM1.74 based on sum-of-parts valuation.**

STOCK INFO

Price (27 January 2010)	RM1.44	KLCI	1,265.77
Issued shares (mil)	907.6	Bursa / Bloomberg	1651 / MRC MK
Par Value (RM)	1.00	Board / Sector	Main / Construction
Market cap. (RM'm)	RM1,306.9	Syariah Compliant	Yes
Price over NTA	1.98		
52-wk price Range	RM0.775–RM1.8	Major Shareholders	
Beta (against KLCI)	1.91	EPF	30.6%
3-mth Avg Daily Vol	6.37 m	JP Morgan Chase & Co	5.1%
3-mth Avg Daily Value	RM8.98m	Merrill Lynch & Co	4.9%

Rights issue for long-term growth. The issuance of rights issue as the company would: (1) reduce its gearing levels to 1.4x from 2.5x; (2) cash to be generated from proceeds of rights issue to expand its landbank for future development; and (3) MRCB set to become a major urban property player.

Proceeds of rights issue for land acquisition. The rights issue of 1-for-2 at RM1.12 per share announced in Nov 2009 is expected to raise gross proceeds of between RM508.3m and RM540.7m, mostly to be utilised for the company's business expansion plan, e.g land acquisition in prime location. More than 50% of the proceeds raised will be utilised to increase its existing landbank, particularly in the Klang Valley, mainly focusing on commercial development. MRCB is believed to have been contending to secure government land deals, with full announcement expected in 2HFY10 during the tabling of the 10th Malaysia Plan.

Total order book of RM2.8b. With a total orderbook of RM2.8b, MRCB is going to remain busy over the next 4-5 years in particular for its KL Sentral property construction. This should assure exponential earnings growth over the

FYE 31 Dec	FY08	FY09E	FY10F	FY11F
Revenue (RM'm)	788.5	1,028.60	1,129.40	1,235.5
EBIT (RM'm)	45.0	88.3	111.1	123.55
Pretax Profit (RM'm)	-42.2	45	66.9	93.7
Net Profit (RM'm)	-61.7	32.6	41.1	65.6
EPS (sen)	n.a.	3.6	4.5	7.2
EPS growth (%)	n.m.	>100.0	25	60.6
PER(x)	n.a.	40	32	20.6
Net Dividend (sen)	n.m.	1	1	1
Net Dividend Yield (%)	n.m.	0.7	0.7	0.7

Source: Company, Forecasts by MIDFR

next 4-5 years. On a more positive note, the Group has consistently delivered the numbers on time. Management indicated to add for at least RM2bn orderbook from the new land acquisitions to replenish its existing RM2.8bn. On the Iskandar Malaysia project, management indicated that it would not participate in the near future as main focus would be "urban development" in the Klang Valley and Kuala Lumpur.

Ongoing external orderbook

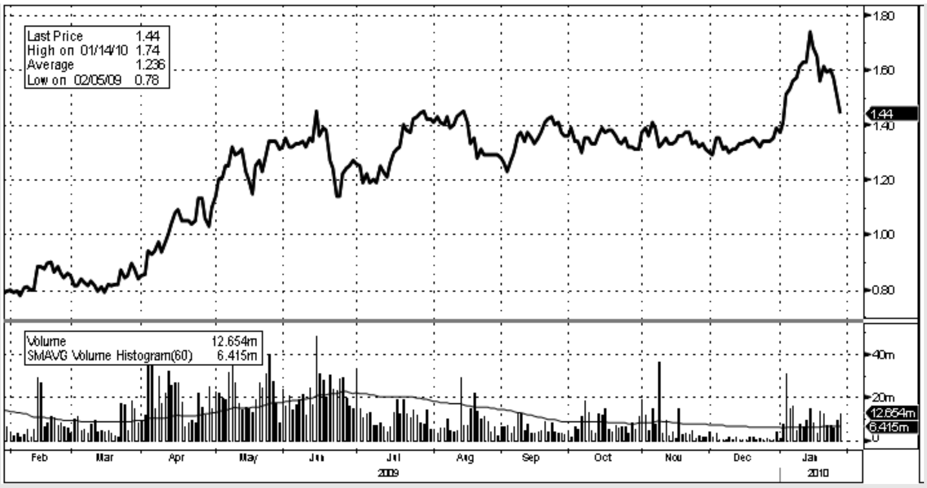
KEY PROJECTS	COMPLETION DATE	OUTSTANDING ORDERBOOK (RM' m)
Environment Projects		
Kuala Sungai Pahang river mouth project	2011	103
Kuala Sungai Kuantan river project	2010	8
Engineering & Construction		
Permai Psychiatric Hospital, Johor	1Q11	295
Eastern Dispersal Link, Johor	3Q11	542
Penang Sentral Station	2012	300
Jalan Tun Sambathan Road Diversion	2011	9
Road upgrading works around KL Sentral	2011	110
Condominium construction, Gaya Bangsar	2011	90
Power Transmission Network		
Pantai-Salak South	3Q10	87
Bakun Sarawak	2010	68
KL Sentral Property Construction		
Lot A	2012	214
Lot 348	2012	351
Lot G Retail	2012	664
Total		2,841

Source: MRCB

FY09 results preview. MRCB recorded a net profit of RM24m on a turnover of RM639.9m during the cumulative 3QFY09 results. As for the full year, we are forecasting FY09 net profit of RM32.6mil as compared to a net loss of RM61.7m in FY08, translating to FY09 EPS of 3.6 sen (excluding rights issue). The turnaround is anticipated on the back of strong revenue growth of more than 30% as contribution from engineering and construction and property development pick-up pace in 2H09. Pre-tax profit margin is estimated at 4.4% supported by a more reasonable cost of construction materials which include cement, steel and fuel.

Maintain BUY call. The share price has retraced by 17.2% from the recent high of RM1.74, which coincidentally is our target price. This is sharper than the decline in the broader market. We believe that the current price level presents a good opportunity for investors to accumulate. Therefore, we are reaffirming our **BUY** call subsequent to our recent company visit. We are buoyed by the positive views related to the proposed acquisition of prime landbank KL. More important, the prospect of its orderbook being replenished is positive with the company expecting to land a targeted RM2b in new jobs, especially under the 10MP in 2H10. We are maintaining our **BUY** call on the stock with a 12-month target price of RM1.74 based on sum-of-parts valuation.

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
OVERWEIGHT	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.