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Company Update

MRCB

Shopping For Choice Land

TRADING BUY ↻

Target RM1.54
Previous (ex) RM1.54
Price RM1.31

CONGLOMERATE

MRCB is primarily involved in construction, property development, power transmission and toll concessionaires.

Stock Statistics

Bloomberg Ticker	MRC MK
Share Capital (m)	1366.01
Market Cap (RMm)	1789.48
52 week H L Price (RM)	1.67 0.72
3mth Avg Vol ('000)	6,654.0
YTD Returns	3.3
Beta (x)	1.90

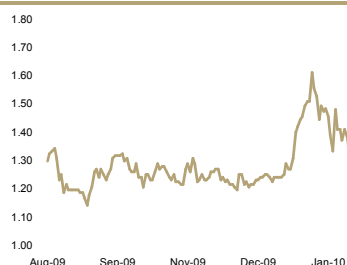
Major Shareholders (%)

EPF	30.6
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Share Performance (%)

Month	Absolute	Relative
1m	-4.9	-5.7
3m	3.3	9.4
6m	2.6	-2.4
12m	84.2	27.6

6-month Share Price Performance



With its KL Sentral project due for completion in a few years, it is crucial for MRCB to formulate a new strategy in order to continue its legacy in the property sector. It is widely known that MRCB is eyeing several land parcels belonging to the Federal Government as part of its landbank replenishment strategy and the company's recent rights issue could be an indication that MRCB is close to sealing the deal. Although there is no firm timeframe on the deal, we believe the potential land acquisition could be a positive catalyst for the stock price, and hence maintain our **TRADING BUY** recommendation with a TP of RM1.54 (ex-rights), based on SOP valuation.

Prized land. Although MRCB has openly expressed interest in acquiring several parcels of federal land in the Klang Valley, it has yet to disclose which specific land it is interested in. This has given rise to market speculation on the possible candidates for acquisitions in different locations, with Jalan Cochrane, Jalan Ampang Hilir and RRIM in Sungai Buloh being the frequently mentioned potential targets. MRCB has also hinted that there could even be acquisitions of small parcels of federal land in KL city centre, including the Brickfields area.

No firm timeline yet. Based on the announcement in relation to the rights issue, MRCB is expected to fully utilize the RM380m allocated from the proceeds of the rights issue for future expansion within 3 years. However, we gather that MRCB has set up an internal target to fully utilize the amount within two years and aims to conclude the land acquisitions by end-2010, with the first announcement anticipated to be as early as mid-2010 to coincide with the tabling of the 10th Malaysia Plan (10MP).

Property segment to drive future earnings. MRCB expects its property turnover to increase from 30-40% of group turnover currently, to more than 50% by next year onwards as the construction work on several components of KL Sentral gain momentum. Based on our observations, the on-going projects in KL Sentral are progressing well and according to the management, all on-going projects are progressing as planned while some of the projects are ahead of schedule

Maintain TRADING BUY. We maintain our forecast and **TRADING BUY** recommendation with a TP of RM1.54 (ex-rights) based on SOP valuation, which is equivalent to our previous TP of RM1.69 cum-rights issue. Although there is no firm timeframe for the land acquisition, we believe the potential purchases could provide a positive catalyst for the stock price as well as boost its RNAV.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Revenue	527.9	903.7	788.6	916.3	1,075.8
Net Profit	33.8	40.7	-56.64	35.4	71.7
% chg y-o-y	145.5	20.6	n.m.	n.m.	102.7
Consensus	-	-	-	18.8	38.6
EPS (sen)	4.4	4.5	-6.24	3.9	5.2
DPS (sen)	-	1.2	-	-	-
Dividend yield (%)	-	1.5	-	-	-
ROE (%)	7.7	5.8	-8.92	5.4	6.2
ROA (%)	2.0	1.9	-1.94	1.5	2.5
PER (x)	29.3	28.7	-20.67	33.1	24.6
BV/share (RM)	0.57	0.78	0.70	0.72	0.85
P/BV (x)	2.3	1.7	1.8	1.8	1.5
EV/ EBITDA (x)	25.1	11.8	51.4	26.9	21.1

Notes:

KEY HIGHLIGHTS

Where the land parcels are. Although MRCB has openly expressed interest to acquire several parcels of federal land in the Klang Valley, it is yet to identify the specific parcels it is keen on. This has given rise to speculation on the possible acquisition candidates, with three parcels in different location in the Klang Valley being named potential targets. Among these are: (1) 50-60 acres in Jalan Cochrane; (2) 20-30 acres in Jalan Ampang Hilir near the Jalan U-Thant area, and (3) 3400 acres at Rubber Research Institute Malaysia (RRIM) in Sungai Buloh. MRCB has also hinted that it may even buy some small parcels of federal land in the city centre, including Brickfields, where its KL Sentral development is located. Assuming MRCB secures the federal land parcels, it would as it had earlier indicated, most likely adopt an “integrated” concept with a combination of commercial and residential products.

Figure 1: The potential land in Jalan Cochrane



Source: OSK, Wikimapia

It's been in the news for a while. News on MRCB's potential acquisition of federal land is not entirely new as word first broke out a few years ago of a potential JV between MRCB and EPF to develop federal land in Klang Valley, which was neither admitted to nor denied by either party. To recap, MRCB has always indicated that it is open to opportunities or proposals for future developments involving federal land. The Government, on the other hand, said during the tabling of the 2010 Budget in Oct 2009 that it has identified assets including land and buildings which can be jointly developed or sold to GLCs. MRCB has confirmed that it is keen on the federal land parcels but acknowledged that “it is up to the Government to decide on which entity it will award the land to”, and at this point, “the Government remains very tight-lipped.

No deadline set but possibly soon. In November last year, when MRCB announced its rights issue, the market thought it was a prelude to the much awaited acquisition of federal land. We also gather that MRCB has submitted its proposals to the Government and is still waiting for government feedback before resubmitting the amended proposals for final approval by the cabinet. The first announcement could be as early as mid-2010, which also coincides with the tabling of the 10MP. Although the Government is said to be very tight-lipped on the land deals, we believe nonetheless that it is very likely for the Government to announce the deals during the tabling of the 10MP in June this year. Despite there being several parties interested in developing those parcels of federal land, we believe MRCB would be the frontrunner given that the development of KL Sentral was undertaken under a similar mechanism. Although some parties may believe that the land deals might have be attributed to its largest shareholder EPF, regardless of EPF's involvement, we believe MRCB deserves the deal as the group has succeeded in turning sleepy Brickfields into a prime and highly regarded development via its KL Sentral project.

Naza's land deal. Apart from the rights exercise, we see the recent building-for-land swap deal between the Government and Naza Group as an indication that there will be more similar deals between the Government and the private sector in the near future. In November last year, it was announced that Naza Group, via its property arm Naza TTDI SB, was going to build a RM628m expo centre for the Government in exchange for 65 acres of federal land in Jalan Duta, KL near the Malaysia External Trade Development Corp (Matrade). The total GDV of all the projects on that piece of land is RM15bn, and the project will include residential and commercial development expected to be fully completed within 15 years. While the deal has raised some eyebrows, it is understandable if the Government takes a longer time to decide on the next land deal in order to ensure that it does not create controversy.

Figure 2: The location of the proposed development by Naza Group



Source: OSK, Wikipedia

Property segment to drive future earnings. MRCB expects its property turnover to increase from 30%-40% of group turnover currently to more than 50% from next year onwards as construction works on several components of KL Sentral gain momentum. Based on our observation, the on-going projects in KL Sentral are progressing well, with management indicating that all the on-going projects are progressing as planned while some are ahead of schedule. Other than the on-going projects and an improving outlook for the property sector, MRCB is expected to launch its luxury condominium project in Lot D later this year with an estimated GDV of more than RM800m. The group has also indicated that CMY Capital has reaffirmed its commitment in kick-starting soon its St. Regis Hotel & Residences project in Lot C, which has an estimated GDV of RM1.5bn.

More balanced business portfolio. Although MRCB has not announced any major construction contracts over the last one year, we believe this should not be of concern given that the group has been busy indeed in undertaking its internal orderbook and the on-going construction works at KL Sentral. This reduced reliance on external construction contracts is also in line with its business transformation plan, in which MRCB aims to have a more balanced business portfolio between its construction, property and concession segments over the next few years.

Maintain TRADING BUY. We maintain our forecast and **TRADING BUY** recommendation with a TP of RM1.54 (ex-rights) based on SOP valuation. Our TP of RM1.54 on "ex-basis" is equivalent to our previous TP of RM1.69 cum-rights issue. Although there is no firm timeframe for land acquisition, we believe the potential land purchases may provide a positive catalyst to the stock price as well as boost its RNAV.

Figure 3: MRCB's SOP valuation

	Stake	Area (sq ft)	Value (RM per sq ft)	Value (RM m)
KL Sentral				
Lot F	64.4%	248,292	1280	204.7
Lot E	100.0%	530,125	1280	678.6
Lot B	40.7%	80,762	1280	42.1
Lot C	30.0%	94,765	1280	36.4
Lot D	51.0%	102,300	1280	66.8
Lot 348	40.0%	91,224	1280	46.7
Lot G (Parcel C&D)	60.0%	95,131	1280	73.1
Sale of Lot A to CIMB-Mapletree	64.4%			64.4
Land in Shah Alam	100.0%	130,243	2x BV	22.5
Bandar Seri Iskandar, Perak	70.0%	174,240,000	1.0	122.0
Alam Sentral Plaza, Shah Alam		734,346	2x BV	171.8
Kompleks Sentral, Segambut		776,056	2x BV	73.6
Sooka Sentral			BV	57.4
Concessions				
DUKE	30.0%			119.5
EDL	100.0%			349.7
		Net profit FY09 (RM m)	PER (X)	
Construction (FY09)		15	12	180.0
Proceeds from rights issue				501.0
Net debt (2QFY09)				(714.2)
Total value				<u>2,095.8</u>
No of share				<u>1,361.4</u>
Per share				1.54
Discount on SOP				0%
Target Price				1.54
Current Price				1.31
			upside	17.5%

EARNINGS FORECAST

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	527.9	903.7	788.6	916.3	1,075.8
EBITDA	74.1	152.7	54.1	94.4	148.6
PBT	30.3	69.8	-42.2	39.8	98.9
Net Profit	33.8	40.7	-56.6	35.4	71.7
EPS (sen)	4.4	4.5	-6.2	3.9	5.2
DPS (sen)	-	1.2	-	-	-
Margin					
EBITDA (%)	14.04	16.89	6.85	10.31	13.81
PBT (%)	5.74	7.73	-5.35	4.35	9.19
Net Profit (%)	6.40	4.51	-7.18	3.86	6.66
ROE (%)	7.68	5.78	-8.92	5.38	6.19
ROA (%)	1.96	1.93	-1.94	1.49	2.53
Balance Sheet					
Fixed Assets	1,026.1	823.1	1,060.8	1,189.8	1,181.0
Current Assets	702.6	1,283.2	1,858.3	1,177.9	1,648.7
Total Assets	1,728.7	2,106.3	2,919.1	2,367.7	2,829.8
Current Liabilities	654.7	576.3	1,041.4	526.8	549.5
Net Current Assets	47.9	706.8	816.8	651.1	1,099.3
LT Liabilities	832.1	755.6	1,225.3	1,042.5	1,013.4
Shareholders Funds	440.1	705.5	635.2	657.4	1,158.1
Net Gearing (%)	157.2	29.4	82.7	79.4	45.1

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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