

# MRCB (BUY ↔; EPS ↔)

**INDUSTRY: OVERWEIGHT**  
**COMPANY INSIGHT**
**13 November 2015**
**Price Target: RM1.70 (↑)**
**Share price: RM1.48**

## Planting seeds for long term growth

**News**

- **Hosts investor's briefing.** MRCB held an investor's briefing yesterday which was hosted by its Executive Director, Mohd Imran Salim and CFO, Ann Wan Tee. The discussion was centred around: (i) the Cyberjaya City Centre (CCC) development; (ii) National Sports Complex redevelopment; (iii) management contract with Kwasa Utama; and (iv) PDP role for the LRT3.
- **Landbanking heavily.** MRCB's landbanking will require total funding of RM1.8bn which consists of: (i) RM817m for parcel MX-1 in Kwasa Damansara; (ii) RM499m for the redevelopment of the National Sports Complex Phase 1; (iii) RM270m for CCC; and (iv) RM259m for the German Embassy land.
- **No cash call needed.** Management shared that it will not be embarking on a cash call to fund these land acquisitions. Part of the funding requirements will be fulfilled via the injection of its current buildings into MRCB-Quill REIT. We gather that Shell Tower and Ascott Residence could be the next to be injected, potentially raising RM900m. Another option that MRCB is exploring is to set up a property development fund. Under this structure, external investors will be invited to take a stake in the fund which will then undertake the developments. Apart from having a stake in the fund, MRCB will also receive a fee for managing the fund's property developments.
- **Unable to book construction profits.** As part of the National Sports Complex privatisation agreement, MRCB will be required to: (i) refurbish the existing complex for RM499m; (ii) construct new facilities for RM1.1bn; and (ii) pay RM32m to the Government in return for 92.5 acres of land in Bukit Jalil. Management clarified that the refurbishment works will be carried out from now until Aug 2017 in time for the SEA Games while construction of the new facilities would only commence after that. Contrary to our earlier believe, MRCB will not be able to book in construction profits for the job as it is done in exchange for land.

**Risks**

- Execution is a key risk as these projects have a long gestation period before significantly contributing to earnings.

**Forecasts**

- Unchanged given minimal impact to near term earnings.

**Rating**
**BUY (↔) TP: RM1.70**

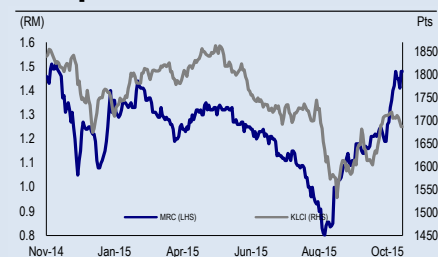
- Whilst still in its early days, we reckon that MRCB's new management is on the right path (albeit at a slow pace) to turn the company around. Expect more positive news flow in the coming months.

**Valuation**

- With risk of a cash call reduced, we remove our 20% discount to SOP which raises our TP from RM1.36 to RM1.70. This implies an expensive FY15 P/E of 39.1x but reduces to 25.7x and 20.4x for FY16-17 once its earnings recovery sets in.

**Jeremy Goh, CFA**
[pwgoh@hib.hongleong.com.my](mailto:pwgoh@hib.hongleong.com.my)
**(603) 2168 1138**

KLCI	1663.2
Expected share price return	14.9%
Expected dividend return	0.7%
Expected total return	15.6%

**Share price**

**Information**

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	1,787
Market cap (RM m)	2,644
3-mth avg. volume ('000)	6,153
SC Shariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	22.3	48.0	1.4
Relative	25.8	44.3	10.7

**Major shareholders**

Employees Provident Fund	38.4%
Gapurna	16.7%
Lembaga Tabung Haji	10.1%

**Summary Earnings Table**

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	1,515	1,602	1,746	2,013
EBITDA	305	304	321	375
EBIT	279	275	290	342
Profit Before Tax	122	156	205	262
Core PATAMI	54	78	118	149
vs Consensus (%)		107	101	115
Core EPS (sen)	3.0	4.4	6.6	8.3
P/E (x)	39.4	27.3	17.9	14.3
Net DPS (sen)	2.5	1.1	1.7	2.1
Net DY (%)	2.1	0.9	1.4	1.8
BV per share	1.11	1.14	1.19	1.26
P/B (x)	1.1	1.0	1.0	0.9
ROE (%)	2.9	3.9	5.7	6.8
Net Gearing (%)	153	144	146	148

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**Figure #1 SOP valuation for MRCB**

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY16 earnings	51	15	769	0.33
Property development - NPV of profits		10%	1,708	0.72
Property investment - Book value	683	1.2	820	0.35
Eastern Dispersal Link - FCFE		10%	581	0.25
Stake in MRCB-Quill REIT at RM1.34 TP	886	31%	276	0.12
<b>Firm value</b>			<b>4,154</b>	<b>1.76</b>
Add: Cash proceeds from warrants			1,326	0.56
Less: Net debt (ex Sukuk)			(1,452)	(0.61)
<b>Equity value</b>			<b>4,028</b>	<b>1.70</b>

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**Figure #2 Peer comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E		P/B		ROE (T1)	Yield (T1)
						CY15	CY16	T1	T2		
Gamuda	10,778	4.48	5.01	BUY	July	15.4	15.3	1.7	1.6	10.7%	2.6%
IJM	11,576	3.24	3.92	BUY	Mar	20.7	17.5	1.3	1.3	6.8%	2.0%
WCT	1,576	1.32	1.41	HOLD	Dec	21.4	11.8	0.7	0.7	3.3%	1.9%
MRCB	2,644	1.48	1.36	BUY	Dec	33.9	22.3	1.3	1.2	3.9%	0.7%
Edgenta	2,652	3.26	4.14	BUY	Dec	14.8	12.0	2.1	2.0	14.9%	3.4%
SunCon	1,655	1.28	1.35	HOLD	Dec	14.4	13.3	4.3	3.5	30.8%	2.4%
Mudajaya	608	1.13	0.99	HOLD	Dec	403.2	12.8	0.6	0.5	0.1%	0.0%
Eversendai	635	0.82	1.10	BUY	Dec	12.2	7.8	0.7	0.6	5.5%	1.6%
Kimlun	397	1.32	1.40	HOLD	Dec	7.8	7.6	0.9	0.8	12.1%	2.6%
Hock Seng Lee	1,039	1.89	1.75	HOLD	Dec	13.5	12.9	1.6	1.4	12.3%	1.5%
Mitrajaya	770	1.20	1.95	BUY	Dec	9.6	8.0	1.7	1.5	19.1%	3.6%
SCable	542	1.71	2.57	BUY	Dec	12.4	9.9	1.6	1.5	14.0%	2.4%
<b>Average</b>						<b>48.3</b>	<b>12.6</b>	<b>1.5</b>	<b>1.4</b>		

HLIB estimates

Note: T1 refers to most immediate forecast year, T2 refers to the year after T1

## Financial Projections for MRCB

### Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	603	661	749	551	339
Receivables	1,182	1,326	1,328	1,446	1,666
Inventories	8	43	22	24	28
PPE	38	229	222	215	207
Investment properties	857	813	854	895	936
Others	3,914	3,971	3,987	4,209	4,452
<b>Assets</b>	<b>6,603</b>	<b>7,042</b>	<b>7,163</b>	<b>7,341</b>	<b>7,629</b>
	-	-	-	-	-
Debts	3,510	3,691	3,700	3,674	3,654
Payables	1,021	1,115	1,145	1,256	1,446
Others	335	172	172	172	172
<b>Liabilities</b>	<b>4,866</b>	<b>4,977</b>	<b>5,017</b>	<b>5,102</b>	<b>5,272</b>
	-	-	-	-	-
Shareholder's equity	1,675	1,985	2,044	2,133	2,244
Minority interest	61	79	102	107	112
<b>Equity</b>	<b>1,737</b>	<b>2,065</b>	<b>2,146</b>	<b>2,239</b>	<b>2,356</b>

### Cash Flow Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Profit before taxation	(108)	122	156	205	262
Depreciation & amortisation	17	26	30	31	33
Changes in working capital	908	(605)	48	(9)	(33)
Taxation	(12)	(53)	(32)	(36)	(49)
Others	(762)	332	-	-	-
<b>CFO</b>	<b>43</b>	<b>(178)</b>	<b>202</b>	<b>191</b>	<b>212</b>
	-	-	-	-	-
Net capex	167	(66)	(65)	(65)	(65)
Others	(464)	82	(13)	(278)	(310)
<b>CFI</b>	<b>(297)</b>	<b>15</b>	<b>(78)</b>	<b>(343)</b>	<b>(375)</b>
	-	-	-	-	-
Changes in borrowings	186	180	9	(26)	(19)
Issuance of shares	377	185	-	-	-
Dividends paid	(17)	(17)	(45)	(19)	(30)
Others	(381)	(187)	-	-	-
<b>CFF</b>	<b>165</b>	<b>162</b>	<b>(35)</b>	<b>(46)</b>	<b>(49)</b>
	-	-	-	-	-
<b>Net cash flow</b>	<b>(89)</b>	<b>(0)</b>	<b>88</b>	<b>(198)</b>	<b>(211)</b>
Forex	-	-	-	-	-
Others	49	58	-	-	-
Beginning cash	644	603	661	749	551
Ending cash	603	661	749	551	339

### Income Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
<b>Revenue</b>	<b>941</b>	<b>1,515</b>	<b>1,602</b>	<b>1,746</b>	<b>2,013</b>
EBITDA	28	305	304	321	375
EBIT	11	279	275	290	342
Net finance cost	(124)	(133)	(146)	(146)	(145)
Associates & JV	5	(24)	28	61	65
<b>Profit before tax</b>	<b>(108)</b>	<b>122</b>	<b>156</b>	<b>205</b>	<b>262</b>
Tax	(12)	(53)	(32)	(36)	(49)
<b>Net profit</b>	<b>(121)</b>	<b>69</b>	<b>124</b>	<b>169</b>	<b>213</b>
Discontinued ops	5	16	-	-	-
Minority interest	9	(31)	(46)	(51)	(64)
<b>PATMI (core)</b>	<b>(107)</b>	<b>54</b>	<b>78</b>	<b>118</b>	<b>149</b>
Exceptionals	(2)	99	-	-	-
<b>PATMI (reported)</b>	<b>(109)</b>	<b>153</b>	<b>78</b>	<b>118</b>	<b>149</b>

### Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	(6.0)	3.0	4.4	6.6	8.3
P/E (x)	n.m.	39.4	27.3	17.9	14.3
EV/EBITDA (x)	166.4	15.5	15.5	14.7	12.6
DPS (sen)	0.9	2.5	1.1	1.7	2.1
Dividend yield	0.8%	2.1%	0.9%	1.4%	1.8%
BVPS (RM)	0.94	1.11	1.14	1.19	1.26
P/B (x)	1.3	1.1	1.0	1.0	0.9
EBITDA margin	3.0%	20.2%	19.0%	18.4%	18.6%
EBIT margin	1.2%	18.4%	17.1%	16.6%	17.0%
PBT margin	-11.5%	8.0%	9.7%	11.8%	13.0%
Net margin	-11.4%	3.6%	4.9%	6.8%	7.4%
ROE	-6.9%	2.9%	3.9%	5.7%	6.8%
ROA	-1.7%	0.8%	1.1%	1.6%	2.0%
Net gearing	173.5%	152.6%	144.4%	146.4%	147.7%

### Assumptions

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Contracts secured	n.a.	n.a.	500	800	800
Property sales	n.a.	n.a.	700	800	800

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**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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