20 Mar 2018

Buy

Price
RM1.01

Target Price
RM1.26

Bloomberg code
MRC MK

Equity | Malaysia | Property

Flashnote

MRCB

Divests Kia Peng land for RM323m

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	2,408.1	2,823.7	2,566.4	2,692.4	2,756.9
Core net profit (RMm)	75.0	101.3	150.3	181.8	232.3
Core EPS (Sen)	4.2	2.9	3.8	4.1	5.1
EPS growth (%)	>100	(30.4)	30.4	7.3	25.0
DPS (Sen)	2.8	1.8	1.5	1.8	2.5
Core PE (x)	24.9	39.7	26.3	24.6	19.6
Div yield (%)	2.6	1.5	1.5	1.7	2.5
ROE (%)	10.3	4.3	3.1	3.7	4.6
Net Gearing (%)	75.7	55.1	30.6	30.6	28.9
PBV(x)	0.8	1.1	0.9	0.9	0.9

Source: Company, KAF

- We maintain our Buy recommendation on MRCB with an unchanged TP of RM1.26. This pegs the stock at a 15% discount to its NAV.
- MRCB announced that the group's wholly-owned subsidiary, Legasi Azam, had on 19 March 2018, entered into a sale and purchase agreement (SPA) with Pertubuhan Keselamatan Social (Perkeso).
- The SPA will see MRCB disposing a 1.9-acre tract of freehold land along Jln. Kia Peng to Perkeso for RM323m.
- MRCB's original cost of investment in the land is RM267m, which the group purchased back in 7 April 2015. Based on its audited accounts for the FY ending 31 December 2016, the net book value of the land is ~RM269m.
- For perspective, the market value of the land, as ascribed by IM Global Property Consultants on 19 February 2018, is RM323m. This is similar to MRCB's disposal price.
- The purchase consideration for the land will be paid in cash. We expect MRCB to have already received RM32m or ~10% of the purchase consideration, which is due on the date of the signing. The balance 90% will be paid on the completion date of the SPA.
- We believe the land forms part of the former German Embassy site along Jln. Kia Peng, which MRCB won under the tender exercise nearly three years ago.
- Based on its disposal price of RM323m, MRCB is expected to net a gain of RM30m from the disposal of this land. This translates into a disposal value of RM3,974psf vs its acquisition cost of RM3,285psf.
- At the same time, Perkeso has agreed to reimburse MRCB, development charges amounting to RM28m, once the entire exercise is completed by the third quarter of this year.
- At RM3,974psf, we believe the transaction will set a new benchmark for land prices within the KL city center. Assuming a plot ratio of 10x, construction cost of RM600psf and efficiency factor of 25%, we estimate the break-even land cost to be ~RM1,3333psf. Based on a targeted development margin of 25%, our back-of-the-envelope calculations point towards an indicative selling price of RM1600psf-RM1700psf.
- More importantly, such a move will enable MRCB to encash upfront, a piece of prime development land at a premium. Besides, it allows MRCB to improve its cash flow position, and re-deploy its resources towards other larger pieces of transit-oriented landbank (e.g. KL Sports City, Cyberjaya City Centre, PJ Sentral and Kwasa Sentral).
- We currently value the Kia Peng land at RM114m (based on DCF at 9%). We maintain our earnings forecast and NAV for MRCB pending the completion of this deal.

Analyst

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Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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