

1 February 2019

Malaysia

EQUITIES

MRCB MK Outperform
Price (at 10:05, 31 Jan 2019 GMT) RM0.68

Valuation	RM	0.90
- DCF (WACC 8.4%, beta 1.2, ERP 6.5%, RFR 4.5%)		
12-month target	RM	0.90
Upside/Downside	%	+32.4
12-month TSR	%	+34.6
Volatility Index		High
GICS sector	Capital Goods	
Market cap	RMm	2,992
Market cap	US\$m	734
Free float	%	44
30-day avg turnover	US\$m	2.3
Number shares on issue	m	4,400

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	2,823.7	1,692.1	1,840.8	2,309.2
EBIT	m	246.5	206.9	218.4	265.5
EBIT growth	%	-23.7	-16.1	5.6	21.6
Reported profit	m	167.6	139.2	177.3	198.8
Adjusted profit	m	101.2	111.2	177.3	198.8
EPS rep	sen	5.9	3.2	4.0	4.5
EPS rep growth	%	-50.7	-45.8	27.4	12.1
EPS adj	sen	3.6	2.5	4.0	4.5
EPS adj growth	%	4.5	-30.0	59.4	12.1
PER rep	x	11.6	21.4	16.8	15.0
PER adj	x	18.8	26.8	16.8	15.0
Total DPS	sen	1.8	1.3	1.5	1.8
Total DPS growth	%	-27.1	-28.6	20.0	16.7
Total div yield	%	2.6	1.8	2.2	2.6
ROA	%	2.8	2.3	2.6	3.0
ROE	%	2.6	2.3	3.6	3.9
EV/EBITDA	x	13.9	16.7	15.1	12.2
Net debt/equity	%	52.8	21.5	23.6	30.2
P/BV	x	0.6	0.6	0.6	0.6

MRCB MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2019
(all figures in MYR unless noted)

MRCB (MRC MK)

Charting a new course

Key points

- ▶ Roll forward estimates, reduce TP to RM0.90 from RM1.00; move FY18-21E EPS by -15%/+18%/+14%; OP maintained.
- ▶ Ample room to expand the business capacity given strong balance sheet.
- ▶ Strong order book balance could expedite MRCB Construction listing.

Event

- We roll forward MRCB's valuation to FY19E with a revised TP of RM0.90 from RM1.00 previously, maintaining our Outperform rating on the company. MRCB went through 2018 completing two substantial milestones – i) it sold the EDL highway to the government; and ii) it divested its stake in Bukit Jalil Sentral development to EPF. We estimate these two transactions have reduced MRCB's net gearing from 54% (FY17) to 22% in FY18. Given that the 5-year overhaul of the company is complete, we believe in FY19E management should focus on growing its earnings and expanding its business capacities, supported by its strong balance sheet.

Impact

- **Orderbook balance of RM22bn, already secured RM323mn of new orders in FY19E.** MRCB has an estimated orderbook balance of RM22bn, with the majority of the jobs circling around the project management scope. While the project management earnings recognition could stretch up to 15 years from now, we expect MRCB's infra projects will drive its earnings in the short term. Having already secured the Package CA2 from the DASH project, we assume an order win target of RM500mn/FY in FY19-21E.
- **MRCB Construction listing seems feasible with strong orderbook balance.** Management began talks of listing MRCB Construction since FY16, but it has been waiting for its earnings to grow significantly in hopes to list the division with a >RM1bn market cap. Given that the division is now sitting on a hefty orderbook, management could [reignite its plans](#) to list the construction division as stronger earnings could anchor better valuations for the company.
- **WTE is lucrative, but MRCB needs a solid waste operator to optimise operations.** Management indicated that in FY19E it will focus on waste-to-energy (WTE) related projects. We believe MRCB's venture into WTE could be lucrative, given that MRCB could profit from the construction of the plant, tipping fees and supplying power to the national grid. However, we believe that MRCB would need a partner to optimise the operations of its future WTE.

Earnings and target price revision

- Roll forward estimates, FY18-21E EPS moved by -15%/+18%/+14%. TP reduced by 10% from RM1.00 to RM0.90 implying a 20x PE to FY20E EPS.

Price catalyst

- 12-month price target: RM0.90 based on a Sum of Parts methodology.
- Catalyst: WTE contract awards in Malaysia

Action and recommendation

- Outperform rating reiterated.

Analysts

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Analysis

We rolled forward MRCB's estimates to FY19E to arrive at our new TP of RM0.90 from RM1.00. The following adjustments were made to arrive at our new valuation.

- We adjusted the discount to RNAV of the property division from 40% to 50% to reflect the weakness in the Malaysian property market. Further, with limited rail infra spending, MRCB's transit oriented developments (TODs) will not be developed anytime soon.
- We adjusted MRCB's orderbook to its recent order wins in FY18 and FY19E. We reduced the order win target for FY19-20E from RM1bn/FY to RM500mn/FY. We assumed another RM500mn order win in FY21E.
- We added Bukit Jalil Sentral into the PDP fees valuation; the contract sum from this project is RM11bn.
- We reduced the cash received from the divestments by netting off the debt repayment to reflect an actual cash increase from the divestments.

Fig 1 MRCB valuation

Business Division	Valuation Method	Stake	Value (RM 'mil)	Old Value (RM 'mil)	Change (%)
Property Development	RNAV at 50% discount to RNAV	Mixed	693	926	-25%
Investment Properties	12m forward NOI @ cap rate	Mixed	684	681	0%
Construction	10x PER on FY20E PAT	100%	517	424	22%
Construction PDP fees	DCF @ 6.8% WACC	Mixed	309	165	87%
Parking Services	12m forward NOI @ cap rate	100%	205	205	0%
Security Services	8x PER on FY20E PAT	100%	12	11	9%
Concession	DCF @ 6.8% WACC	100%	0	0	nmf
MRCB-Quill REIT	Market Value	33%	390	397	-2%
REIT Manager	12x PER multiple of FY19E PAT	41%	31	30	3%
Gross SOTP			2,839	2,839	0%
Cash proceeds from Bukit Jalil land	Sold 61 acres of land at RM430psf		1,141	1,141	0%
Cash proceeds from Kia Peng land	Sold 1.9 acres of land at		323	323	nmf
Cash proceeds from Semarak City land	Sold 70% stake of the Semarak		100	100	0%
Sale of EDL	Assume at par value of Sukuks + FY18 interest costs		1,326	1,139	16%
Cash proceeds utilised for LT debt repayment	Assume the debt tied to the		-1,500	0	nmf
(-) Estd. net Debt as at end of FY18	Net debt excluding investment properties & property development		-298	-1,172	-75%
SOTP			3,931	4,371	-10%
Number of shares (mil)			4,387	4,387	0%
Fair value (RM)			0.90	1.00	-10%
Implied PE			20x	29x	

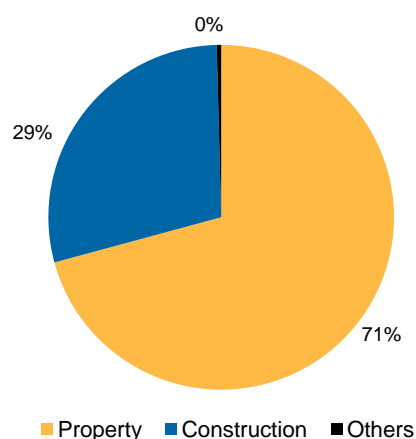
Source: Company data, Macquarie Research, February 2019

Fig 2 MRCB scenario analysis

Item	Bear Case	Base Case	Bull Case
Fair Value (RM)	0.82	0.90	0.98
Upside/(Downside)	18.2%	29.8%	41.7%
Dividend	2.2%	2.2%	2.2%
TSR	20.4%	32.0%	43.9%
Implied PE	18x	20x	22x
Assumptions			
Property discount to RNAV	60%	50%	40%
Cumulative orderbook replenishment in FY19-21E	RM0.5bn	RM1.5bn	RM2.5bn
Construction PER	6x	10x	14x

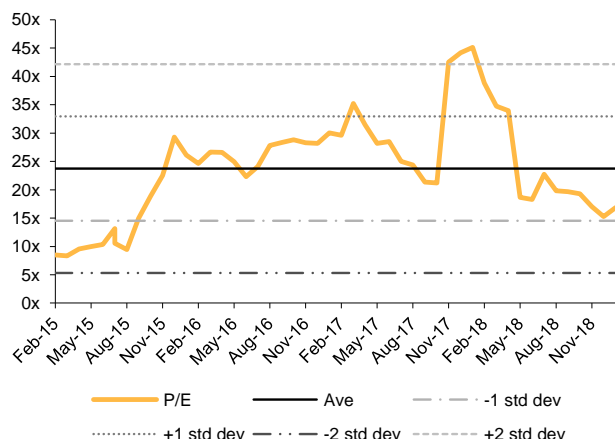
Source: Bloomberg, Macquarie Research, February 2019

Fig 3 MRCB's SOTP valuation breakdown



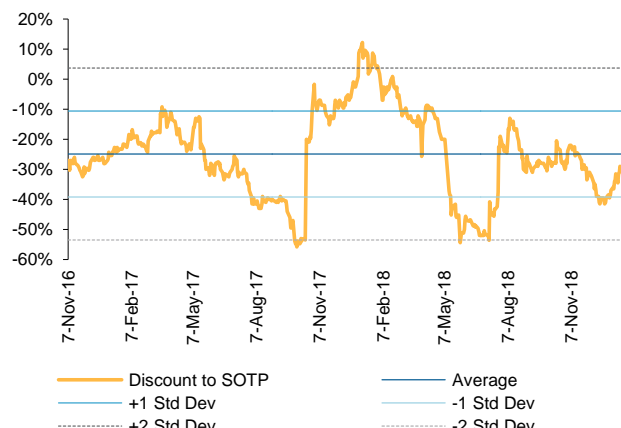
Source: Company data, Macquarie Research, February 2019

Fig 4 MRCB's rolling fwd-PE



Source: Bloomberg, Macquarie Research, February 2019

Fig 5 MRCB discount-to-SOTP band



Source: Bloomberg, Macquarie Research, February 2019

Fig 6 MRCB valuation

RM 'mil	New Estimates			Old Estimates			Difference		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	1,692	1,841	2,309	1,676	1,719	2,188	1%	7%	6%
EBIT	207	218	266	206	212	261	0%	3%	2%
PBT	233	241	296	197	209	263	18%	16%	13%
Adj. PAT	111	177	199	131	151	174	-15%	18%	14%
EPS (sen)	2.5	4.0	4.5	3.0	3.4	4.0	-15%	18%	14%

Source: Company data, Macquarie Research, February 2019

Fig 7 MQ vs. consensus

RM 'mil	Macquarie			Consensus			Difference		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	1,692	1,841	2,309	1,943	2,047	2,389	-13%	-10%	-3%
EBIT	207	218	266	168	185	212	23%	18%	25%
PBT	233	241	296	156	183	228	50%	32%	30%
PAT	111	177	199	94	126	160	19%	41%	24%
EPS (sen)	2.5	4.0	4.5	2.2	3.0	3.7	15%	35%	22%

Source: Bloomberg, Macquarie Research, February 2019

MRCB orderbook

After selling the 80% Bukit Jalil Sentral stake to EPF and handing over the control of the development company to EPF, MRCB is able to recognise the RM11bn construction works related to the project as its external orderbook. By doing so, MRCB will reduce its exposure on the take-up rate of the project and its revenue recognition will no longer be tied to the take-up rate.

Earlier this week, MRCB managed to secure a package from the re-tendering process of the SUKE project. The package – CA2, was previously awarded to HCM – Hatimuda JV in a contract worth RM316mn. MRCB managed to secure the re-tendering of this package at RM323mn.

Fig 8 MRCB's outstanding orderbook now stands at RM21.8bn

Project	Contract Value (RM 'mil)	Progress (%)	Outstanding Orderbook (RM 'mil)
Desaru Convention Centre	60	85%	9
Desa Desaru	220	90%	22
Westin Desaru	196	90%	20
Giant Hypermarket - Setapak	55	97%	2
PR1MA Kajang	173	5%	164
PR1MA Brickfields	335	0%	335
Indoor stadium - Johor	59	20%	47
TNB HQ Campus	44	25%	33
Jabi Serting Hilir	126	90%	13
MRT2 V210 Package	604	30%	423
NPE Bridge	127	95%	6
Kwasa Utama C8	2,958	1%	2,928
DASH Package CB2	369	10%	332
LRT3	5,928	0%	5,928
Kwasa Utama C8	187	0%	187
Kwasa Land PDP Infra	112	0%	112
Bukit Jalil Sentral	11,007	0%	11,007
SUKE CA2	323	0%	323
Total	22,883	4%	21,891

Source: Company data, Macquarie Research, February 2019

Waste-to-energy – multiple bites of the cherry

In the most recent statistics released by the Housing Ministry in December 2018, Malaysia currently generates 38,000 tonnes of waste daily – of which from the total, it is estimated that 7,000 tonnes come from Selangor alone. The Housing Ministry is planning to commence the WTE project in Malaysia by building a 1,000-tonne capacity incinerator in Selangor, which would process solid waste into energy.

Management indicated that in FY19E it will focus its resources in securing the available WTE contracts and at the same time find the right partner to operate the waste management company. Currently the notable solid waste management company includes SWM Environment (southern region), Cenviro (northern region) and Alam Flora (central region). We believe MRCB also needs to partner up with companies that are experienced in managing and operating an incinerator.

How can MRCB derive income from WTE?

Construction

MRCB is already shortlisted to be one of the contractors for build-operate-transfer (BOT) of the incinerator in Selangor. A 1,000-tonne capacity incinerator could cost between RM700mn and RM900mn. Securing the project, MRCB could book the income from the construction works of the WTE.

Tipping fee

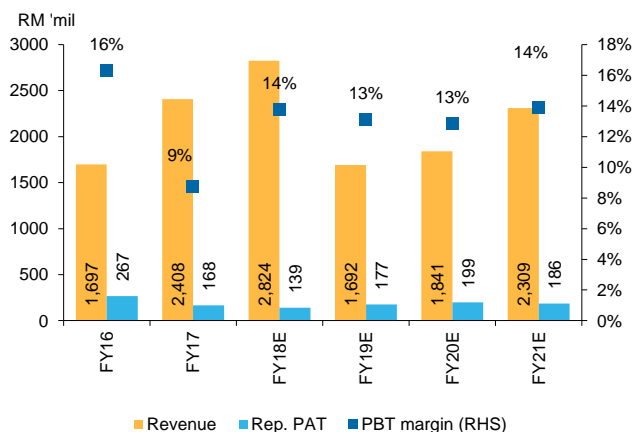
For every waste management truck that dumps the waste in MRCB's incinerator, MRCB could charge the waste management truck a tipping fee. The practice is the same for dumping waste in the traditional landfills, whereby the tipping fee is charged based on the weight of the waste. The tipping fees could later cover the incinerator's operating costs.

Power generation

The Minister of Energy – Yeo Bee Yin – has indicated that the government is planning to increase the nation's reliance on renewable energy from 3% currently to 20% by year 2025. Depending on the size of the incinerator, we gathered from experts that an incinerator could supply between 20-25 MW, enough to power up to 25,000 residences. MRCB could make the third bite of the cherry when it sells the power to the national grid.

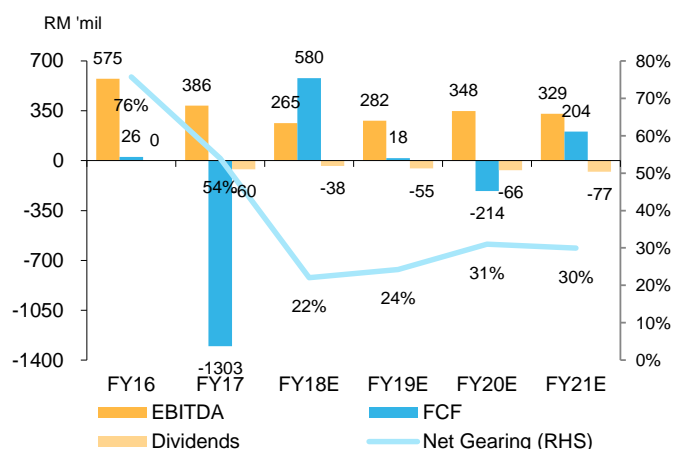
MRCB financials

Fig 9 MRCB's profitability



Source: Company data, Macquarie Research, February 2019

Fig 10 Balance sheet has a steady outlook



Source: Company data, Macquarie Research, February 2019

Fig 11 MRCB Land valuation

Project	Stake	RNAV (RM 'mil)	Remaining Landbank (acres)	Remaining GDV (RM 'mil)	% of RNAV	Type
Sentral Residences	51%	0	0	0	0%	Residential
Lot F	100%	152	6	2,993	11%	Commercial
MBSB Tower - PJ Sentral	100%	0	0	0	0%	Commercial
MyIPO Tower - PJ Sentral	100%	0	0	0	0%	Commercial
Tower 1 - PJ Sentral	100%	61	2	819	4%	Commercial
Tower 5 - PJ Sentral	100%	0	1	507	0%	Commercial
PKNS Tower - PJ Sentral	100%	12	2	183	1%	Commercial
Cyberjaya City Centre	70%	159	45	5,350	11%	20% Retail; 20% Residential; 60% commercial
Kwasa Sentral	70%	326	64	8,000	23%	50% residential; 30% commercial; 20% retail
Suria Subang	100%	34	3	402	2%	Residential
Selbourne 2	100%	16	2	198	1%	Residential
Bukit Jalil Sentral	20%	174	93	14,610	13%	50% residential; 30% commercial; 20% retail
9 Seputeh	100%	20	10	1,540	1%	Residential
Sentral Suites	100%	61	5	881	4%	Residential
Semarak City	30%	63	27	3,163	5%	Residential
German Embassy Land	0%	0	2	0	0%	Residential
Canergie	100%	0	0	0	0%	Residential
Total Central		1,077	262	38,646		
Penang Sentral Ph 1 to 3A	100%	103	0	0	7%	Retail
Penang Sentral Ph 4 to 7	100%	108	10	1,800	8%	40% commercial; 60% residential
Batu Feringgi	100%	15	3	322	1%	Residential
Bandar Seri Iskandar	70%	35	11	723	3%	Residential
Total Northern		262	24	2,845		
Pulai Land	100%	48	68	770	3%	Residential
Total Southern		48	68	770		
Burwood	100%	0	0	0	0%	Residential
Canergie	100%	0	0	0	0%	
Total International		0	0	0		
Total Property		1,386	354	42,261		
Discount to RNAV		50%				
Total Property RNAV		693				

Source: Company data, Macquarie Research, February 2019

Macquarie Quant View

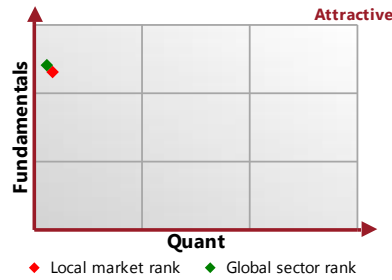
The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a strong negative view on MRCB. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Quality, indicating this stock is likely to have a weaker and less stable underlying earnings stream.

1938/2012

Global rank in Capital Goods

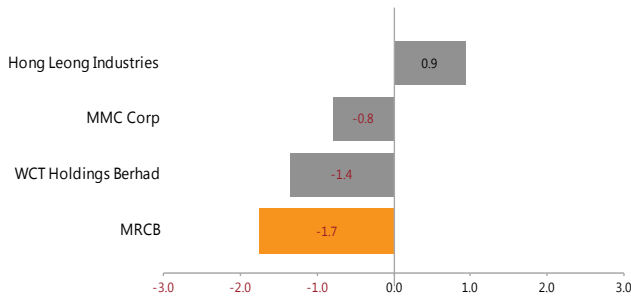
% of BUY recommendations	70% (7/10)
Number of Price Target downgrades	5
Number of Price Target upgrades	1



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. Two rankings: Local market (Malaysia) and Global sector (Capital Goods)

Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



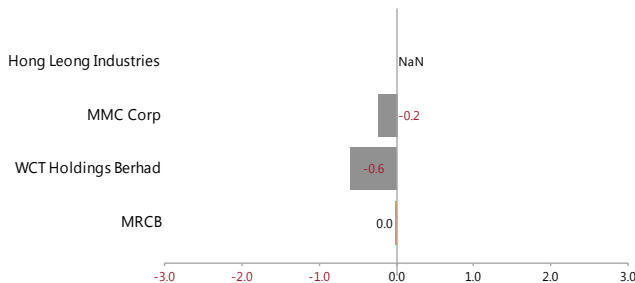
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



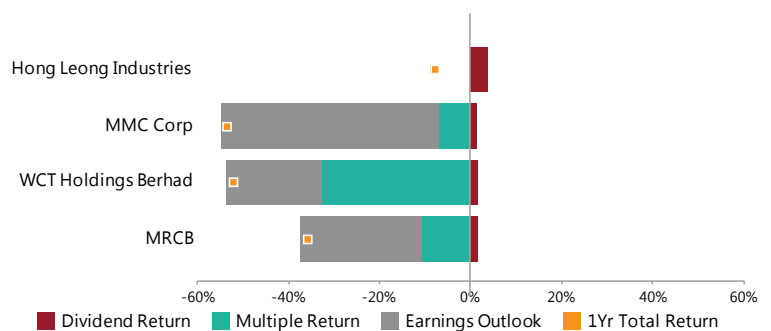
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



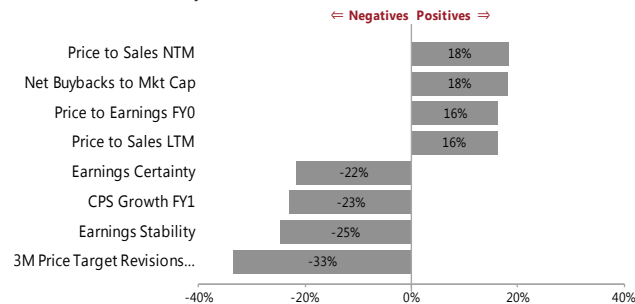
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



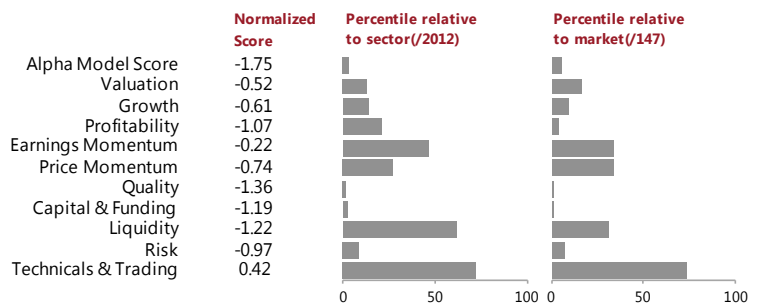
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

MRCB (MRC MK, Outperform, Target Price: RM0.90)

Interim Results					Profit & Loss						
		1H/18A	2H/18E	1H/19E	2H/19E		2017A	2018E	2019E	2020E	
Net Property Income	m	761	931	828	1,012	Net Property Income	m	2,824	1,692	1,841	2,309
Development Income	m	0	0	0	0	Development Income	m	0	0	0	0
Other Revenue	m	0	0	0	0	Other Revenue	m	0	0	0	0
Total Revenue	m	761	931	828	1,012	Total Revenue	m	2,824	1,692	1,841	2,309
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	-668	-817	-730	-892	Other Expenses	m	-2,615	-1,485	-1,622	-2,044
EBITDA	m	119	146	127	155	EBITDA	m	320	265	282	348
Dep & Amortisation	m	26	32	28	35	Dep & Amortisation	m	73	58	63	82
EBIT	m	93	114	98	120	EBIT	m	247	207	218	266
Net Interest Income	m	-12	-14	-7	-8	Net Interest Income	m	-91	-26	-14	-19
Associates	m	11	13	17	21	Associates	m	25	24	38	50
Exceptionals	m	13	15	0	0	Exceptionals	m	66	28	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	105	128	109	133	Pre-Tax Profit	m	247	233	241	296
Tax Expense	m	-36	-44	-27	-33	Tax Expense	m	-66	-79	-60	-80
Net Profit	m	69	85	81	100	Net Profit	m	182	154	181	216
Minority Interests	m	-7	-8	-2	-2	Minority Interests	m	-14	-14	-4	-18
Reported Earnings	m	63	77	80	97	Reported Earnings	m	168	139	177	199
Adjusted Earnings	m	50	61	80	97	Adjusted Earnings	m	101	111	177	199
EPS (rep)	sen	1.4	1.7	1.8	2.2	EPS (rep)	sen	5.9	3.2	4.0	4.5
EPS (adj)	sen	1.1	1.4	1.8	2.2	EPS (adj)	sen	3.6	2.5	4.0	4.5
EPS Growth yoy (adj)	%	-45.6	-8.4	59.4	59.4	EPS Growth (adj)	%	4.5	-30.0	59.4	12.1
						PE (rep)	x	11.8	21.7	17.1	15.2
						PE (adj)	x	19.1	27.2	17.1	15.2
EBITDA Margins	%	15.6	15.6	15.3	15.3	Total DPS	sen	1.8	1.3	1.5	1.8
EBIT Margins	%	12.2	12.2	11.9	11.9	Total Div Yield	%	2.5	1.8	2.2	2.5
Earnings Split	%	45.0	55.0	45.0	55.0	Basic Shares Outstanding	m	4,387	4,387	4,387	4,387
Revenue Growth	%	-40.6	-39.7	8.8	8.8	Diluted Shares Outstanding	m	2,861	4,387	4,387	4,387
EBIT Growth	%	-31.5	2.9	5.6	5.6						
Profit & Loss Ratios					Cashflow Analysis						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
Revenue Growth	%	17.3	-40.1	8.8	25.5	EBITDA	m	320	265	282	348
EBITDA Growth	%	-17.1	-17.2	6.4	23.5	Tax Paid	m	-86	-79	-60	-80
EBIT Growth	%	-23.7	-16.1	5.6	21.6	Chg in Working Capital	m	-1,594	598	-56	-310
EBITDA Margins	%	11.3	15.6	15.3	15.1	Net Interest Paid	m	-165	-26	-14	-19
EBIT Margins	%	8.7	12.2	11.9	11.5	Other	m	399	0	0	0
Net Profit Margins	%	3.6	6.6	9.6	8.6	Operating Cashflow	m	-1,127	758	151	-61
Payout Ratio	%	48.3	49.3	37.1	38.6	Acquisitions	m	-583	0	0	0
EV/EBITDA	x	14.0	16.9	15.3	12.3	Capex	m	-176	-177	-133	-153
EV/EBIT	x	17.8	21.1	19.0	15.5	Asset Sales	m	1	2,441	0	0
						Other	m	-284	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-1,042	2,264	-133	-153
ROE	%	2.6	2.3	3.6	3.9	Dividend (Ordinary)	m	-60	-38	-55	-66
ROA	%	2.8	2.3	2.6	3.0	Equity Raised	m	1,732	0	0	0
ROIC	%	3.5	1.8	2.7	3.0	Debt Movements	m	452	-1,791	350	300
Net Debt/Equity	%	52.8	21.5	23.6	30.2	Other	m	-83	30	31	32
Interest Cover	x	2.7	8.0	15.1	14.1	Financing Cashflow	m	2,041	-1,798	326	266
Price/Book	x	0.6	0.6	0.6	0.6						
Book Value per Share		1.1	1.1	1.2	1.2	Net Chg in Cash/Debt	m	56	-241	243	-51
						Free Cashflow	m	-1,303	580	18	-214
					Balance Sheet						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
Cash	m	778	507	719	635	Cash	m	778	507	719	635
Receivables	m	3,045	881	807	949	Receivables	m	3,045	881	807	949
Inventories	m	154	95	88	94	Inventories	m	154	95	88	94
Investments	m	1,211	1,245	1,278	1,311	Investments	m	1,211	1,245	1,278	1,311
Fixed Assets	m	614	772	881	992	Fixed Assets	m	614	772	881	992
Intangibles	m	226	313	313	313	Intangibles	m	226	313	313	313
Other Assets	m	4,272	4,129	4,539	4,939	Other Assets	m	4,272	4,129	4,539	4,939
Total Assets	m	10,301	7,942	8,625	9,234	Total Assets	m	10,301	7,942	8,625	9,234
Payables	m	1,748	1,064	1,271	1,429	Payables	m	1,748	1,064	1,271	1,429
Short Term Debt	m	2,491	582	732	832	Short Term Debt	m	2,491	582	732	832
Long Term Debt	m	891	1,009	1,209	1,409	Long Term Debt	m	891	1,009	1,209	1,409
Provisions	m	242	242	242	242	Provisions	m	242	242	242	242
Other Liabilities	m	0	0	0	0	Other Liabilities	m	0	0	0	0
Total Liabilities	m	5,372	2,897	3,454	3,913	Total Liabilities	m	5,372	2,897	3,454	3,913
Shareholders' Funds	m	4,824	4,926	5,048	5,181	Shareholders' Funds	m	4,824	4,926	5,048	5,181
Minority Interests	m	104	119	123	140	Minority Interests	m	104	119	123	140
Total S/H Equity	m	4,929	5,045	5,171	5,321	Total S/H Equity	m	4,929	5,045	5,171	5,321
Total Liab & S/H Funds	m	10,301	7,942	8,625	9,234	Total Liab & S/H Funds	m	10,301	7,942	8,625	9,234

All figures in MYR unless noted.

Source: Company data, Macquarie Research, January 2019

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Recommendation definitions

Macquarie – Asia, USA, Canada, Europe and Mazi Macquarie (SA):

Outperform – expected return >10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Australia/New Zealand

Outperform – expected return >10%
Neutral – expected return from 0% to 10%
Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to select stocks in Asia/Australia/NZ/Canada

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	53.56%	57.51%	47.06%	48.65%	69.08%	51.23%	(for global coverage by Macquarie, 4.12% of stocks followed are investment banking clients)
Neutral	31.09%	30.24%	34.12%	46.22%	26.32%	39.41%	(for global coverage by Macquarie, 1.92% of stocks followed are investment banking clients)
Underperform	15.36%	12.25%	18.82%	5.14%	4.61%	9.36%	(for global coverage by Macquarie, 0.47% of stocks followed are investment banking clients)

MRC MK vs KLCI, & rec history



(all figures in MYR currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, February 2019

12-month target price methodology

MRC MK: RM0.90 based on a Sum of Parts methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
26-Jul-2018	MRC MK	Outperform	RM1.00
30-Apr-2018	MRC MK	Outperform	RM1.25
19-Oct-2017	MRC MK	Outperform	RM1.15
30-Mar-2017	MRC MK	Outperform	RM1.75
07-Nov-2016	MRC MK	Outperform	RM1.61

Target price risk disclosures:

MRC MK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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