

21 November 2024

MGB (MLG MK)

Property Arm Firing On All Cylinders; Maintain BUY

- **Keep BUY and SOP-derived MYR1.20 TP (56% upside), c.3% yield.** MGB's 9M24 core profit of MYR41.5m (+15% YoY) met expectations at 74% of our full-year estimates but broadly met Street's at 71%. We expect MGB to chart a solid 16% earnings growth in FY24, backed by higher progress billings for its property sales projects, especially the Rumah Selangorku Idaman (Idaman) projects, spread over a total GDV of c.MYR1.3bn and c.3.8k units.
- **9M24 core profit was underpinned by the property development arm,** which recorded >100% YoY PBT growth due to higher unit sales progress and progress development for Idaman Melur (99.1% sold), Idaman Cahaya (93.3% sold), Idaman Sari (98.8% sold) and Saujana Indah Phase 1 and 2 (>40% sold). As such, PBT margins for the segment remained strong at 15.7% in 9M24 (9M23: 16%). Meanwhile, the construction arm's PBT saw an 80% YoY drop in 9M24 due to completed projects such as Kita Mekar and Alam Perdana Phase 4 and 5. The group also continued to incur some start-up costs at its precast arm in Saudi Arabia.
- **Its outstanding orderbook of MYR1.2bn** as of end 3Q24 (end 2Q24: MYR1.3bn) includes three jobs (cumulative contract value: c.MYR442m) related to LBS Bina's (LBS MK, NEUTRAL, TP: MYR0.72) key township development, KITA@Cybersouth. We do not discount the possibility of MGB scoring further wins from the township, which has MYR3.5bn worth of unlaunched GDV (of the total MYR6.6bn) as of August. Other launches to look out for include LBS Alam Perdana, which has MYR1.3bn worth of unlaunched GDV from a total of MYR4.6bn.
- **No changes to our earnings estimates,** as earnings were within expectations. Our SOP-derived TP remains at MYR1.20, with the construction arm pegged to an unchanged target P/E of 12x (which we deem justified amidst upcoming expected launches by LBS, ie Alam Perdana and KITA@Cybersouth) and growth in Saudi Arabia's housing sector. Our TP includes a 0% ESG premium/discount, as MGB's ESG score is at the country median.
- **Prospects.** With MGB's precast venture in Saudi Arabia gradually taking off, and the possibility of the group scoring more affordable housing jobs in Selangor beyond 10k units, we think valuations are undemanding as its FY25F P/E of 7x is -1SD below its 5-year mean. Catalysts include developing new property projects in Johor, as the group already has two projects in the state – Laman Bayu (Batu Pahat) and Pangsapuri Saujana Indah (15km from Johor Bahru's custom, immigration and quarantine complex). A faster-than-expected development of the Kertih Terengganu Industrial Park (estimated GDV: MYR747m) may serve further earnings upside.
- **Key risks** include an unexpected slowdown in the property market and slower-than-expected precast orders in Saudi Arabia.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	613	972	1,313	1,472	1,630
Recurring net profit (MYRm)	15	48	56	64	73
Recurring net profit growth (%)	(44.6)	221.8	16.0	14.6	14.0
Recurring P/E (x)	30.40	9.45	8.15	7.11	6.24
P/B (x)	0.9	0.8	0.8	0.7	0.6
P/CF (x)	na	8.11	4.59	5.44	4.67
Dividend Yield (%)	0.7	1.1	2.5	2.8	3.2
EV/EBITDA (x)	10.03	4.81	3.08	2.19	1.46
Return on average equity (%)	3.0	9.2	9.6	10.2	10.7
Net debt to equity (%)	9.4	5.2	net cash	net cash	net cash

Source: Company data, RHB

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return):	MYR1.20 (56%)
Price (Market Cap):	MYR0.77 (USD101m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	0.17m/0.04m

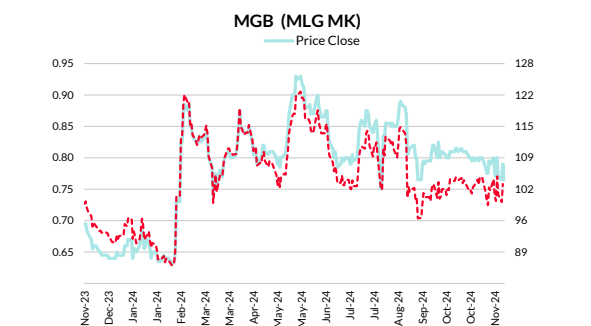
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.2	(5.6)	(11.6)	(15.0)	14.2
Relative	4.0	(2.9)	(9.1)	(13.4)	4.2
52-wk Price low/high (MYR)				0.63	0.93



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

MGB has demonstrated efforts to minimise the consumption of natural resources through expanding its operational focus from IBS steel and aluminium formworks to IBS precast concrete. This leads to increased efficiency in using sustainable or eco-friendly materials, the reduction of waste, increased site safety, and a decrease in noise levels at sites.

S: GOOD

Through its up-to-standard health & safety policies, MGB managed to maintain its zero lost time injuries, lost time accidents and fatalities track record, as well as zero injuries (minor & major) reported and recorded at both headquarters and project sites.

G: GOOD

MGB has an in-house investor relations team that is highly accessible. It has applied and adopted majority of the best practices in the Malaysian Code on Corporate Governance. Nevertheless, only one out of eight of its directors is female. MGB does not provide full disclosure on its directors' remunerations.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.03	0.08	0.09	0.11	0.12
Construction & Engineering	DPS	0.01	0.01	0.02	0.02	0.02
MGB	BVPS	0.86	0.94	1.01	1.10	1.19
MLG MK	Return on average equity (%)	3.0	9.2	9.6	10.2	10.7
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
SOP	Recurring P/E (x)	30.40	9.45	8.15	7.11	6.24
	P/B (x)	0.9	0.8	0.8	0.7	0.6
	FCF Yield (%)	(1.6)	9.1	19.6	16.2	19.4
	Dividend Yield (%)	0.7	1.1	2.5	2.8	3.2
Key drivers	EV/EBITDA (x)	10.03	4.81	3.08	2.19	1.46
i. Orderbook replenishment;	EV/EBIT (x)	15.20	6.00	3.59	2.56	1.71
ii. Proliferation of industrialised building system usage.						
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Slower property launches;	Total turnover	613	972	1,313	1,472	1,630
ii. Sluggish precast purchase orders.	Gross profit	89	149	151	165	175
	EBITDA	46	93	111	129	144
	Depreciation and amortisation	(16)	(18)	(16)	(19)	(22)
	Operating profit	30	74	95	110	123
	Net interest	(5)	(5)	(6)	(8)	(8)
	Pre-tax profit	26	69	90	103	115
	Taxation	(12)	(18)	(34)	(39)	(41)
	Reported net profit	15	49	56	64	73
	Recurring net profit	15	48	56	64	73
Company Profile	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
MGB through its subsidiaries provides construction management, design-build and pre-construction planning services.	Change in working capital	(29.7)	(17.4)	27.2	0.8	1.8
	Cash flow from operations	(3.3)	55.8	98.6	83.2	97.0
	Capex	(4.1)	(14.8)	(10.0)	(10.0)	(9.0)
	Cash flow from investing activities	(3.9)	(14.2)	(10.0)	(10.0)	(9.0)
	Dividends paid	(5.4)	(3.0)	(11.1)	(12.7)	(14.5)
	Cash flow from financing activities	8.0	(40.4)	77.8	(12.7)	(13.5)
	Cash at beginning of period	13.7	25.1	27.8	192.8	253.2
	Net change in cash	0.7	1.3	166.4	60.4	74.5
	Ending balance cash	14.3	26.4	194.2	253.2	327.7
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	53	53	218	278	353
	Tangible fixed assets	105	128	110	97	79
	Total investments	39	38	45	45	45
	Total assets	917	1,124	1,476	1,618	1,770
	Short-term debt	48	30	100	100	101
	Total long-term debt	53	51	51	51	51
	Total liabilities	410	569	876	967	1,061
	Total equity	506	555	600	651	710
	Total liabilities & equity	917	1,124	1,476	1,618	1,770
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	3.2	58.6	35.1	12.1	10.7
	Recurrent EPS growth (%)	(44.6)	221.8	16.0	14.6	14.0
	Gross margin (%)	14.5	15.3	11.5	11.2	10.8
	Operating EBITDA margin (%)	7.5	9.5	8.5	8.8	8.8
	Net profit margin (%)	2.4	5.0	4.2	4.3	4.5
	Dividend payout ratio (%)	19.9	9.9	20.0	20.0	20.0
	Capex/sales (%)	0.7	1.5	0.8	0.7	0.6
	Interest cover (x)	5.51	12.20	16.38	14.56	16.13

Source: Company data, RHB

Results At a Glance

Figure 1: MGB's results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	256.1	268.0	289.2	7.9	12.9	666.5	775.1	16.3	Higher sales for its property development arm
Gross profit	38.2	45.6	45.5	(0.3)	19.1	105.4	132.9	26.1	
Gross Margin (%)	14.9	17.0	15.7			15.8	17.1		
EBIT	19.5	24.0	24.1	0.3	23.9	54.9	70.0	27.5	
EBIT Margin (%)	7.6	9.0	8.3			8.2	9.0		
Finance costs	(1.7)	(2.3)	(1.9)	(18.3)	12.5	(4.4)	(5.7)	31.4	
El/Others	0.1	(1.1)	(3.0)	-	-	(0.4)	(4.2)	-	
Pretax profit	17.9	22.0	22.2	1.1	24.3	50.8	64.8	27.6	
Pretax Margin (%)	7.0	8.2	7.7			7.6	8.4		
Tax Expense	(5.2)	(6.2)	(5.7)	(8.5)	10.2	(13.4)	(17.4)	29.6	
Effective tax rate (%)	28.8	28.3	25.6	(2.7)	(3.3)	26.4	26.8	0.4	
Net Profit	12.3	15.2	16.3	7.2	32.4	36.3	45.7	25.8	
Core Net Profit	12.4	14.1	13.3	(6.0)	7.0	36.0	41.5	15.4	
Net Margin (%)	4.8	5.3	4.6			5.4	5.4		

Source: Company data, RHB

Figure 2: MGB's segmental breakdown

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Segmental Revenue									
Construction and trading	226.9	118.5	157.1	32.6	(30.8)	614.8	405.8	(34.0)	Kita Mekar and Alam Perdana Phase 4 and 5 projects reached completion Higher progress development for Idaman Melur, Idaman Cahaya, Idaman Sari and Saujana Indah Phase 1 and 2
Property development	29.2	149.5	132.2	(11.6)	>100	51.7	369.3	->100	
Segmental PBT									
Construction and trading	14.1	(1.6)	4.7	>100	(66.5)	43.8	8.7	(80.2)	Startup costs for precast business in Saudi Arabia and more jobs reaching completion
Property development	4.3	24.4	18.2	(25.6)	>100	8.3	58.0	>100	
Segmental PBT Margin									
Construction and trading	6.2%	-1.3%	3.0%			7.1%	2.1%		
Property development	14.6%	16.3%	13.7%			16.0%	15.7%		

Source: Company Data, RHB

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Figure 3: MGB's SOP valuation

Construction:		FY25F PAT (MYRm)	Target P/E (x)	Total (MYRm)
Value of construction		42.1	12	505.7
Precast:				
Value of precast		7.0	7.0	49.0
Property:	Land area (acres)	GDV (MYRm)	Effective Stake (%)	Total (MYRm)
Rumah Selangorku Idaman projects	n.a.	1,057	100%	23.1
Pangsapuri Saujana Indah, Molek	2.6	545	100%	11.6
Cameron Highlands	n.a.	107	100%	4.0
Rumah Selangorku 3.0 Puchong	>10	399	100%	13.8
Taman Putra Prima, Puchong Land	>10	271	100%	11.3
Subtotal		2,379		63.7
NAV for property development				173.4
Total RNAV				237.2
Discount to RNAV				60%
Value for property				94.9
		NTA	Target P/NTA (x)	Total (MYRm)
Others		-8.3	1.0	(8.3)
Net cash				66.1
Total SOP				707.5
Share base (m)				591.7
Intrinsic value (MYR)				1.20
0% ESG discount / premium				0.0
TP (MYR)				1.20

Source: Company data, RHB

Emissions And ESG

Trend analysis

Total emissions in FY23 rose to 7,652 tonnes of CO2 equivalent (FY22: 7,525 tonnes of CO2 equivalent) while carbon intensity by revenue (kg CO2 equivalent/MYR'000) declined to 9.93 in FY23 from 12.28 in FY22.

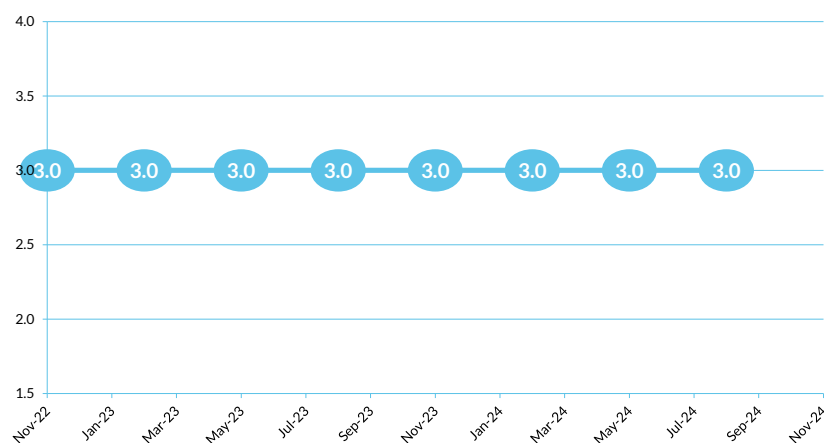
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	5,113	4,714	6,587
Scope 2	271	348	446
Scope 3	796	2,463	2,619
Total emissions	6,180	7,525	9,652

Source: Company data, RHB

Latest ESG-Related Developments

- **Efforts to minimise emissions:** The group will continue emission control and climate change initiatives, including reducing fossil fuel consumption in daily operations and increasing IBS utilisation by 40% to reduce emissions from construction activities.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-20	Buy	1.20	0.87
2024-08-19	Buy	1.16	0.85
2024-05-17	Buy	1.16	0.87
2024-05-13	Buy	1.16	0.81
2024-02-20	Buy	1.13	0.89
2024-02-09	Buy	1.13	0.73
2023-11-21	Buy	1.13	0.70
2023-08-20	Buy	1.10	0.75
2023-07-31	Buy	1.00	0.70
2023-06-20	Buy	0.93	0.70
2023-05-18	Buy	0.93	0.73
2023-05-15	Buy	0.89	0.73
2023-03-30	Buy	0.89	0.68
2023-02-20	Buy	0.64	0.54
2023-02-09	Buy	0.64	0.52

Source: RHB, Bloomberg

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