

19 May 2021

MGB (MLG MK)

Off To a Great Start; Stay BUY

- **Stay BUY, higher MYR1.07 SOP-based TP from MYR1.02, 10% upside with c.3% yield.** MGB's 1Q21 core earnings were in line with expectations. We are still expecting a total of 10,000 units worth of Rumah Selangorku Idaman (Idaman) projects, of which c.7,210 are already in motion. Additionally, the outstanding construction orderbook of MYR2.07bn and launch of Laman Bayu Phase 3 should continue to provide earnings visibility for the next three years.
- **In line with expectations.** 1Q21 core net profit increased threefold YoY (+315% YoY) to MYR10m (+72% QoQ), at 26.7% of our FY21F core earnings. MGB's construction EBIT margin widened to a high 9% (+5.4ppts QoQ, 6.7ppts YoY), which is supported by improved operations efficiency and finalisation of accounts for projects that were completed previously. For the former, we note that internal revenues recorded by its manufacturing segment's industrialised building system (IBS) plants are up 259% YoY to MYR9.2m, post the ramping up of construction progress. For the latter, we believe margins will normalise following the absence of a boost from final accounts.
- **Expanding operations.** MGB is looking to expand both of its IBS precast plants in anticipation of demand from Idaman projects. Both factories will have capacities increased to 3,000 units pa, with total capacities of 6,000 units pa. We understand that capex allocated for the expansion is c.MYR3.2m and upgrade works are targeted for completion by 3Q21. Plant utilisation is expected to peak, as ongoing and future Idaman projects are progressing concurrently.
- **No changes to our earnings estimates.** We now recognise the two turnkey projects – Idaman Perdana and Idaman BSP – in the construction segment instead of property development, as they are included as part of the outstanding construction orderbook. Our target P/E for the construction segment is lowered to 16.4x (+2SD of the KLCON's forward P/E) from 17.4x previously. We think a premium to the KLCON is still justifiable, given the multiple short-term catalysts that could bring upside to earnings. These are: i) More Idaman projects that may lead to further benefits from the economics of scale for its IBS facilities and ii) external construction contract wins, which usually fetch better margins.
- **Key downside risks** include a sharp increase in input costs (cement and steel), delayed launches, a resurgence in COVID-19 cases, and management execution of – and non-fulfilment of – conditions precedent in MGB's proposed JV agreement for Idaman.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	756	563	1,289	1,784	1,339
Recurring net profit (MYRm)	13	11	37	68	54
Recurring net profit growth (%)	(58.3)	(19.8)	247.7	81.3	(20.2)
Recurring P/E (x)	36.11	45.03	12.95	7.14	8.95
P/B (x)	1.1	1.0	1.0	0.9	0.8
P/CF (x)	4.80	14.04	8.60	90.37	3.80
Dividend Yield (%)	na	na	1.5	2.8	2.2
EV/EBITDA (x)	12.03	12.15	6.21	4.00	3.85
Return on average equity (%)	3.0	3.0	7.7	12.8	9.4
Net debt to equity (%)	27.6	22.3	12.3	13.4	net cash

Source: Company data, RHB

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Buy (Maintained)

Target Price (Return): MYR1.07 (10.3%)
Price: MYR0.97
Market Cap: USD117m
Avg Daily Turnover (MYR/USD) 0.30m/0.07m

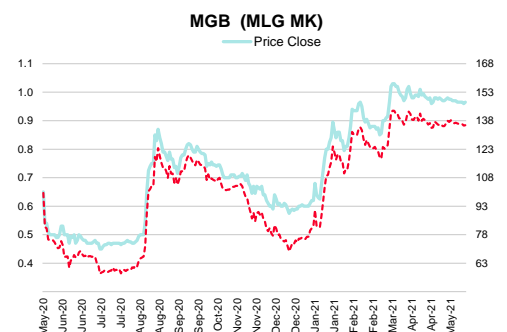
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	60.8	(1.5)	6.0	44.0	48.5
Relative	63.0	(0.4)	5.0	44.8	35.7
52-wk Price low/high (MYR)				0.45 – 1.03	



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 operation focus from IBS steel and aluminium formworks to IBS precast concrete. This leads to increased efficiency in using sustainable or eco-friendly materials, 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 retain its zero Lost Time Injuries, Lost Time Accidents & 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 the majority of the best practices in the Malaysian Code on Corporate Governance. Nevertheless, only one out of eight of its directors is female and MGB does not provide full disclosures on its directors' remunerations.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.03	0.02	0.07	0.14	0.11
Construction & Engineering	DPS	-	-	0.01	0.03	0.02
MGB	BVPS	0.91	0.94	1.00	1.11	1.19
MLG MK	Return on average equity (%)	3.0	3.0	7.7	12.8	9.4
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	36.11	45.03	12.95	7.14	8.95
	P/B (x)	1.1	1.0	1.0	0.9	0.8
	FCF Yield (%)	18.8	5.3	10.6	0.1	25.3
	Dividend Yield (%)	-	-	1.5	2.8	2.2
	EV/EBITDA (x)	12.03	12.15	6.21	4.00	3.85
	EV/EBIT (x)	18.23	18.73	7.54	4.51	4.50
Valuation basis						
SOP						
Key drivers						
i. Orderbook replenishment;						
ii. Proliferation of IBS.						
Key risks						
i. A sharp increase in input costs (cement and steel),						
ii. Delayed launches;						
iii. A resurgence in COVID-19 cases;						
iv. Management execution of – and non-fulfilment of – conditions precedent in the proposed JV agreement for Idaman.						
Company Profile						
MGB, through its subsidiaries, provides construction management, design-build, and pre-construction planning services.						
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	756	563	1,289	1,784	1,339
	Gross profit	80	76	160	244	187
	EBITDA	46	45	81	130	106
	Depreciation and amortisation	(16)	(16)	(14)	(15)	(15)
	Operating profit	30	29	67	115	91
	Net interest	(10)	(7)	(8)	(7)	(7)
	Pre-tax profit	21	23	59	108	83
	Taxation	(8)	(9)	(22)	(40)	(29)
	Reported net profit	13	14	37	68	54
	Recurring net profit	13	11	37	68	54
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	75	8	5	(77)	58
	Cash flow from operations	101	34	56	5	127
	Capex	(10)	(9)	(5)	(5)	(5)
	Cash flow from investing activities	(9)	(8)	(5)	(5)	(5)
	Dividends paid	0	0	(7)	(14)	(11)
	Cash flow from financing activities	(78)	(23)	(23)	(14)	(11)
	Cash at beginning of period	15	28	32	60	47
	Net change in cash	13	4	28	(13)	112
	Ending balance cash	28	32	60	47	159
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	33	70	98	85	197
	Tangible fixed assets	112	112	103	93	83
	Total investments	57	40	40	40	40
	Total assets	969	958	1,378	1,692	1,490
	Short-term debt	100	135	100	100	100
	Total long-term debt	59	41	60	60	60
	Total liabilities	511	486	877	1,137	892
	Total equity	458	471	501	555	599
	Total liabilities & equity	969	958	1,378	1,692	1,490
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	0.6	(25.5)	128.8	38.4	(24.9)
	Recurrent EPS growth (%)	(55.3)	(19.8)	247.7	81.3	(20.2)
	Gross margin (%)	10.6	13.5	12.4	13.7	14.0
	Operating EBITDA margin (%)	6.1	8.0	6.3	7.3	7.9
	Net profit margin (%)	1.8	2.5	2.9	3.8	4.0
	Dividend payout ratio (%)	0.0	0.0	20.0	20.0	20.0
	Capex/sales (%)	1.3	1.6	0.4	0.3	0.4
	Interest cover (x)	3.13	4.00	8.59	15.42	12.15

Source: Company data, RHB

Results At a Glance

Figure 1: MGB's results review

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
Revenue	152.0	181.6	167.6	(7.7)	10.3	Higher profits supported by Kita Harmoni, Kita Impian, and Alam Perdana Ritma, which is targeted for completion by 2Q21.
Gross profit	18.9	24.2	26.8	10.7	41.6	
Gross margin (%)	12.4	13.3	16.0%			
EBIT	7.0	10.0	15.1	51.4	115.3	EBIT margins doubled YoY, mainly due to improving operating efficiencies and the finalisation of accounts.
EBIT margin (%)	4.6	5.5	9.0			
Finance costs	(2.1)	(1.6)	(1.6)	0.8	(21.4)	
El/others	0.0	0.2	(0.1)	-	-	
Pre-tax profit	4.9	8.3	13.7	63.8	176.9	
Pre-tax margin (%)	3.2	4.6	8.2			
Tax expense	(2.8)	(2.6)	(3.6)	38.4	25.2	
Effective tax rate (%)	57.4	30.7	26.0	(4.8)	(31.4)	
Net profit	2.4	5.6	10.1	79.3	322.0	
Core net profit	2.4	5.8	10.0	72.0	315.0	In line with expectations.
Net margin (%)	1.6	3.2	6.0			

Source: Company data, RHB

Figure 2: MGB's segmental breakdown

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
Segmental revenue						
Construction and trading	120.3	160.0	155.6	(2.7)	29.4	Ramping up of construction activities.
Property development	31.2	21.6	12.0	(44.6)	(61.7)	Laman Bayu Phases 1 and 2 are the sole contributor.
Segmental EBIT						
Construction and trading	2.8	5.8	14.0	143.2	400.2	
Property development	4.8	4.8	1.5	(68.7)	(68.7)	
Segmental EBIT margin						
Construction and trading	2.3%	3.6%	9.0%			
Property development	15.5%	22.4%	12.6%			

Source: Company data, RHB

Figure 3: MGB's SOP valuation

Construction:		FY22F PAT (MYRm)	Target P/E (x)	Total (MYRm)
Value of construction		32.2	16.4	528.5
Property:	Land area (acres)	GDV (MYRm)	Effective Stake (%)	NPV @ 10%
Zenopy Residences	4.69	314	88%	0.0
Laman Bayu	23.1	179	100%	2.2
Idaman projects		2,357	100%	89.3
Subtotal		2,851		91.5
NAV for property development (as at 3Q20)				
Total RNAV				162.6
Discount to RNAV				30%
Value for property				113.85
		NTA	Target P/NTA (x)	Total (MYRm)
Others (as at 3Q20)		-10.4	1.0	-10.36
Total SOP				631.97
Share base (m)				501.7
Effect of conversion of ICPS				90.0
TP (MYR)				1.07

Source: Company data, RHB

Key changes to our valuation:

- Our target construction P/E is lowered to 16.4x from 17.4x. This is at +2SD from the KLCON's 5-year average forward P/E. This is justified in our view, given multiple short-term catalysts that could bring upside to earnings: a) More Idaman projects that could lead to further benefits from economics of scale for its IBS facilities and b) external construction contract wins, which usually carry better margins;
- Idaman Perdana and Idaman Kita have been classified as construction projects;
- Our assumption for the Idaman projects still take into account a total of 10,000 units, of which c.2,790 units are not known to us.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-09	Buy	1.02	0.94
2020-09-14	Buy	0.82	0.77
2020-08-25	Take Profit	0.58	0.87
2020-07-16	Buy	0.58	0.47
2020-06-29	Buy	0.56	0.47
2020-02-24	Neutral	0.56	0.60
2019-11-22	Neutral	0.63	0.68
2019-05-28	Neutral	0.69	0.73
2019-02-25	Neutral	0.64	0.71
2018-11-23	Neutral	0.89	0.77
2018-08-24	Neutral	1.03	0.92

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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