CIMB Research Report

4QFY09 RESULTS

24 February 2010

Syariah-compliant stock

MALAYSIA

Malaysian Resources Corp Bhd

Turnaround year

NEUTRAL	Maintained
RM1.37	Target: RM1.66
	Mkt.Cap: RM1,871m/US$552m
	Construction

MRC MK / MYRS.KL

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- **Above; staying NEUTRAL.** MRCB's FY09 core net profit was 7% above our forecast and 19% above consensus. The deviation from our numbers came largely from a lower-than-expected tax rate. MRCB declared a 1 sen first and final dividend which was lower than our 1.1 sen forecast. We raise our FY10-11 forecasts by 4% as we factor in lower tax rates and better margins from engineering & construction (E&C). Although we continue to apply a 30% discount to its RNAV, our target price drops from RM1.75 to RM1.66 as we have tweaked our RNAV for a higher net debt. The stock remains a NEUTRAL.
- **Overall improvement in margins.** From a core net loss in FY08, MRCB turned around to RM35m core net profit as topline notched up 17% growth. The better showing was attributable to an overall improvement in margins. EBIT margin for the E&C division reversed from a loss in FY08 to 6.3% in FY09 while property development EBIT margin expanded from 17% to 24%. Property development and E&C constituted 77% of total EBIT.
- **RM2.7bn contracts in hand.** MRCB's outstanding order book stands at RM2.7bn, of which RM1.5bn comes from external jobs and RM1.2bn from construction works for Lot A, Lot 348 and Lot G Retail at KL Sentral. In terms of order book replenishment, MRCB is still one of the main contenders for the RM7bn LRT extension/upgrade and could bag 1-3 environmental jobs worth RM200m-300m. We are raising our FY10-11 EPS forecasts by c.4% to reflect the lower tax rates and better margins from E&C. We also introduce our FY12 numbers.
- **Urban land deals still on the cards.** MRCB is in talks to acquire 1-3 parcels of federal government land in the surrounding area of KL. They include 20-30 acres in the KL Sentral/Brickfields area. The deals are targeted to materialise in 2010 and will largely be funded by the RM508m proceeds from the rights issue. The group has earmarked c.RM300m for capex and potential land deals. MRCB is likely to concentrate on commercial development/office space, a niche it has developed through its KL Sentral project. While information on the valuation on these land parcels is scanty at this point, indications are that the acquisitions would be RNAV accretive.

Results comparison

FYE Dec (RM m)	4QFY09	4QFY08	yoy % chg	qoq % chg	4QFY09 Cum	4QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	281.7	203.6	*38.4*	*9.6*	922	789	*16.9*	993.5	Stronger construction & environmental jobs
Operating costs	(252.3)	(225.2)	*12.0*	*(0.4)*	(885)	(791.9)	*12*	(889.5)	Softer building material prices
EBIT	29.4	(21.6)	*236*	*675.1*	36.4	(3.4)	*1,184.0*	104.0	E&C reversed its losses
EBIT margin (%)	*10.4*	*(10.6)*			*4.0*	*(0.4)*	*1,027.5*	*10.5*	Margin recovery for construction division
Interest expense	(13.7)	(5.9)	*130.9*	*65.8*	(38.6)	(72.1)	*(46.5)*	(98.3)	Debt relatively unchanged at RM1.6bn
Interest & invt inc	18.8	11.3	*66.7*	*14.3*	65.1	74.4	*(12.5)*	18.4	Cash down 8% to RM806m
Associates' contrib	(11.1)	(9.2)	-	-	(16.5)	(15.1)	-	19.9	Below expectations
Exceptionals			-		-	(26.0)	-	-	
Pretax profit	**23.4**	**(25.5)**	*191.6*	*95.0*	**46.5**	**(42.2)**	*210.3*	**44.6**	Above expectations
Tax	(9.9)	(14.5)	*(32)*	*2,005*	(9.0)	(19.6)	*(53.9)*	(11.6)	Deferred tax and non-deductible expenses
Tax rate (%)	42.4	(57.0)			19.4	(46.4)	*141.8*	26.0	
Minority interests	(1.0)	0.7	-	-	(2.9)	5.1	-	(0.7)	Lower than expected
Net profit	**12.4**	**(39.3)**	*131.6*	*23.9*	**34.6**	**-56.6**	*161.1*	**32.4**	Core net profit 7% above our estimate
Core net profit	**12.4**	**(39.3)**	*131.6*	*n.m.*	**34.6**	**-30.6**	*212.9*	**32.4**	and 19% above consensus
EPS (sen)	1.4	(4.3)	*131.6*	*24.5*	3.8	(6.2)	*161.2*	3.6	
Core EPS (sen)	1.4	(4.3)	*131.6*	*24.5*	3.8	(3.4)	*213.2*	3.6	

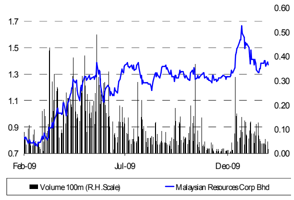
Source: *Company, CIMB Research*

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	788.6	921.6	1,065.6	1,182.2	1,313.0
EBITDA (RM m)	3.8	45.3	121.8	140.5	156.3
EBITDA margins (%)	0.5%	4.9%	11.4%	11.9%	11.9%
Pretax profit (RM m)	(42.1)	46.5	57.3	78.0	96.4
Net profit (RM m)	(56.6)	34.6	42.8	58.5	72.4
EPS (sen)	(6.2)	3.8	3.1	4.3	5.3
EPS growth (%)	(191.6%)	161.1%	(17.6%)	36.6%	23.6%
P/E (x)	nm	35.9	43.6	31.9	25.8
Core EPS (sen)	(3.4)	3.8	3.1	4.3	5.3
Core EPS growth (%)	(149.5%)	213.0%	(17.6%)	36.6%	23.6%
Core P/E (x)	nm	35.9	43.6	31.9	25.8
Gross DPS (sen)	0.0	1.0	1.0	1.0	1.0
Dividend yield (%)	0.0%	0.7%	0.7%	0.7%	0.7%
P/BV (x)	1.8	1.7	2.5	2.3	2.1
ROE (%)	(8.2%)	5.0%	5.8%	7.5%	8.5%
Net gearing (%)	39.3%	37.0%	27.9%	16.9%	4.9%
P/FCFE (x)	10.1	136.0	13.0	11.0	9.6
EV/EBITDA (x)	352.3	29.5	15.6	12.9	10.9
% change in EPS estimates			4.5%	4.4%	-
CIMB/Consensus (x)			0.63	0.65	-

Source: Company, CIMB Research, Bloomberg

Price chart



Source: Bloomberg

Figure 1: RNAV

Asset	Area (sf)	Market value RM psf	RM m
KL Sentral (64.4% owned)	1.53m	1600.0	1,580.2
Alam Sentral Plaza	0.73m	260.0	190.9
Menara MRCB	0.28m	250.0	69.0
Seri Iskandar Township (70% JV stake)	174.2m	3.0	365.9
UDA (25% stake)@ RM3.00 VGO price			264.0
Eastern Dispersal Link (EDL), 13% IRR, 9% discount rate			635.2
Duta Ulu Kelang Expressway (DUKE), 14.5% IRR, 9% discount rate			277.6
Market value			**3,382.8**
Construction Net profit (FY10) at 15x P/E			166.5
Net debt (4QFY09)			(827.4)
RNAV			**2,721.9**
Proceeds from rights issue (RM m)			508.3
Enlarged no. of shares (m)			1,361.4
RNAV/share (RM)			**2.37**
Discount to RNAV			30%
Target price (RM)			**1.66**

Source: Company, CIMB/CIMB-GK Research

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STOCK RECOMMENDATIONS	SECTOR RECOMMENDATIONS
OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.
TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.
TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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Recommendation Framework #2 **

Stock Recommendations	Sector Recommendations
OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.
NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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