

4QFY09 Result Update

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Malaysian Resources Corporation Berhad		Price:	RM1.37
		Market Capitalisation:	RM1.2bn
		Board:	Main Market
		Sector:	Construction
		Index Component:	KLCI/FBM100/FBM70/FBMEMAS
Stock Code:	1651	Recommendation:	BUY

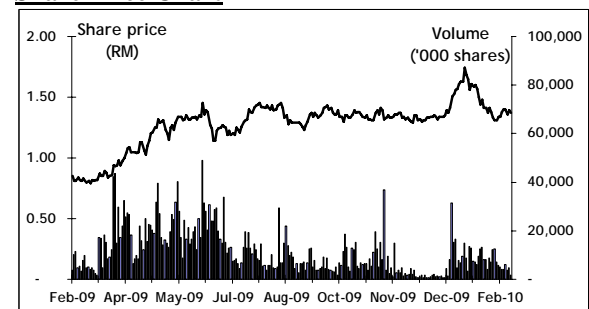
Key Stock Statistics	FY09	FY10F	FY11F
EPS (sen)	2.5	4.3	6.0
P/E on EPS (x)	50.7	30.1	21.3
Dividend/Share (sen)	1.0	1.0	1.0
NTA/Share (RM)	0.74	0.86	0.92
Book Value/Share (RM)	0.74	0.86	0.92
Issued Capital (m shares)	907.6	1361.4	1361.4
52-weeks Share Price Range (RM)	0.78-1.80		

Major Shareholders:	%
EPF	30.60
Lembaga Tabung Haji	1.78
Fidelity Southeast Asia Fund	1.51
Prudential Fund Management	1.36

Per Share Data	FY08	FY09	FY10F	FY11F
Year-end 31 Dec				
Book Value (RM)	0.70	0.74	0.86	0.92
Cash Flow (sen)	17.3	(13.2)	(1.9)	8.8
Earnings (sen)	(4.2)	2.5	4.3	6.0
Dividend (sen)	0.0	1.0	1.0	1.0
Payout Ratio (%)	0.0	28.7	17.1	12.1
PER (x)	nm	50.7	30.1	21.3
P/Cash Flow (x)	0.8	(1.1)	(5.0)	1.1
P/Book Value (x)	1.8	1.7	1.5	1.4
Dividend Yield (%)	0.0	0.8	0.8	0.8
ROE (%)	(8.9)	5.1	5.0	6.6
Net Gearing (%)	83.9	124.2	66.5	80.5

P&L Analysis (RMm) FY08	FY09	FY10F	FY11F	
Year-end 31 Dec				
Revenue	788.6	921.6	1034.3	1117.4
Operating Profit	18.9	93.0	114.4	141.8
Depreciation	(8.7)	(9.8)	(11.4)	(13.0)
Net Interest	(60.1)	(99.6)	(47.3)	(43.2)
Pre-tax profit	(42.2)	46.5	90.0	131.6
Effective Tax Rate (%)	(46.2)	19.6	25.0	25.0
Net Profit	(56.6)	34.6	58.2	82.2
Operating Margin (%)	2.4	10.1	11.1	12.7
Pre-tax margin (%)	(5.4)	5.0	8.7	11.8
Net margin (%)	(7.2)	3.8	5.6	7.4

Share Price Chart



1. 4QFY09 Results Highlights:

Year-end 31 Dec	4Q09 RMm	4Q08 RMm	Chg %
Revenue	281.7	203.6	38.4
Operating Profit	47.8	(10.4)	nm
Finance costs	(13.4)	(5.9)	>100
Associate	(11.1)	(9.2)	20.6
Pre-tax Profit	23.4	(25.5)	nm
Net Profit	12.4	(39.3)	nm
Operating Margin (%)	17.0	(5.1)	
Pre-tax Margin (%)	8.3	(12.5)	
Net-Margin (%)	4.4	(19.3)	

- MRCB's 4Q09 results were within our expectations. The stronger yoy performance was largely driven by a turnaround at the engineering & construction (E&C) and property divisions, as well as higher investment holding income. The property division recognised the sale of Lot G to joint venture companies, and the completion of MIDA and SSM office towers during the year.
- Looking ahead, we expect the property division to drive further growth in the group's revenue and profit, with the development of Lot 348 and Lot G at KL Sentral. Projects at the E&C division include the Permai hospital and EDL highway in Johor, and some road works in KL.
- Net gearing stood at 1.2x as at end-Dec 2009 but gearing is expected to fall after completion of the proposed 1-for-2 rights issue in 1Q10, which would increase shareholders funds.
- Our **BUY** recommendation is maintained with a SOP-derived price target of RM1.60/share.

2. FY09 Results Review:

Year-end 31 Dec	2009 RMm	2008 RMm	Chg %
Revenue	921.6	788.6	16.9
Operating Profit	101.6	45.1	>100
Finance costs	(38.6)	(72.1)	(46.5)
Associate	(16.5)	(15.1)	9.2
Pre-tax Profit	46.5	(42.2)	nm
Net Profit	34.6	(56.6)	nm
Operating Margin (%)	11.0	5.7	
Pre-tax Margin (%)	5.0	(5.3)	
Net-Margin (%)	3.8	(7.2)	

Revenue & Earnings

- 2009 revenues increased by 17% yoy largely driven by stronger E&C contributions and higher investment holding income. The E&C division booked in revenue from the completion of projects such as the DUKE highway, Pulau Tioman beach project and near completion of some power transmission projects.
- At the profit level, the group registered a turnaround largely reflecting a turnaround at the E&C division. In addition to the completion of projects mentioned above, the E&C division also enjoyed higher margins on the back of lower raw materials costs.

Balance Sheet

- At as the end of Dec 2009, the group's net gearing stood at an estimated 1.2x. Out of total borrowings of RM1.6bn as at the end of Dec 2009, 96% comprised long-term secured borrowings whilst the remaining were short-term secured borrowings.
- The group's net gearing level is expected to fall upon completion of the 1-for-2 rights issue in Mar 2010, against a larger shareholders' funds base. Based on our estimates, the group's net gearing is expected to fall from the current 1.2x to between 0.6-0.8x for FY10 and FY11.
- The rights issue has raised RM510m, to fund working capital and future business expansion (over 80%), as well as equity investment in Nu Sentral Sdn Bhd (15%).

Dividends

- The Board of Directors has recommended the payment of a first and final dividend of 1.0 sen per share less 25% tax for 2009, based on the enlarged share capital after the completion of the rights issue, subject to approval of shareholders at the 39th Annual General Meeting.

Earnings Outlook

- We have upgraded our forecasts to factor in stronger E&C contributions, on account of higher recognition of sales from its outstanding projects.
- As at the end of Dec 2009, the E&C division had an outstanding orderbook of RM2.7bn with major projects being the Permai hospital (RM350m outstanding) and EDL highway (RM453m outstanding) in Johor, Penang Sentral station (RM300m), and property construction works at KL Sentral (totalling RM1.2bn), which should keep the division busy until 2012.
- The property development division is also expected to perform stronger in 2010, with contributions from the development of Lot G and Lot 348.
- The government's fiscal stimulus packages should benefit MRCB in the form of potential new project wins whilst the easing of construction material prices have lowered input costs at both the E&C and property divisions.
- Investment risks for the stock include volatile and uncertain market conditions, and a slower-than-expected economic recovery, which would affect consumer sentiment, property take-up rates and further delay new project launches.
- Corporate governance – the Board and management applies the Principles of the Malaysian Code of Corporate Governance (the Code), in addition to the prescriptions of the Listing Requirements of Bursa

Malaysia. The Board has also been progressively adapting some components of the international best practices of corporate governance, even if they are not yet in the Code.

- Corporate social responsibility (CSR) – the group’s involvement in CSR activities include environmental conservation, community services and education initiatives for the underprivileged.

3. Recommendation

- The group’s longer-term fundamentals remain intact whilst improving consumer sentiment and lower input costs are expected underpin further earnings growth in 2010. **BUY** maintained with a SOP-derived price target of RM1.60/share, based on the enlarged share capital after the rights issue.

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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