

Corporate Highlights

Results Note

M'sian Resources Corp

Back In The Black In FY12/09



**RHB Research
Institute Sdn Bhd**
A member of the
RHB Banking Group
Company No: 233327 -M

24 February 2010

Share Price : RM1.37
Fair Value : RM1.66
Recom : **Trading Buy**
(Maintained)

Table 1 : Investment Statistics (MRCB; Code: 1651)

Bloomberg: MRC MK

FYE	Turnover	Net			PER	C.EPS*	P/CF	P/NTA	ROE	Net	
		Profit#	EPS#	Growth						Gearing	GDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)	(%)
2009	921.6	34.6	3.8	nm	37.9	-	(4.1)	1.6	5.2	1.2	0.7
2010f	1,276.5	96.4	7.1	85.4	19.3	6.0	21.8	1.4	12.6	Cash	0.9
2011f	1,325.6	104.1	7.6	8.0	17.9	6.0	21.4	1.3	11.9	Cash	0.9
2012f	1,301.4	113.0	8.3	8.5	16.5	-	20.8	1.2	11.5	Cash	0.9

Main Market Listing /Non-Trustee Stock/Syariah-Approved Stock By The SC

#Excluding EI

* Consensus Based On IBES

- ◆ **No issue.** FY12/09 net profit came in within our forecast and the market consensus.
- ◆ **Forecasts.** Maintained.
- ◆ **Risks.** The risks include: (1) New construction contracts secured in FY12/10 coming in below our target of RM500m p.a.; and (2) Rising input costs.
- ◆ **Sector's best case priced in.** On the big picture, while a rosy picture for the construction sector has been priced in based on the current rich valuations, it is still far from being a reality, especially so after a slew of negative developments including reduced gross development expenditure in 2010, Dong's devaluation, the Dubai credit crisis and the seemingly declining dominance of the big boys in large-scale projects. We believe the market has under-appreciated two other key risks as well, namely: (1) Possible delays in project implementation; and (2) Sub-par margins due to stiff competition.
- ◆ **Maintain Trading Buy.** However, MRCB has a new irresistible angle on its property business, i.e. the possibility of bagging two prime Federal land parcels in KL, namely: (1) 150 acres in Jalan Cochrane; and (2) 20-30 acres in Jalan Ampang Hilir near the Jalan U-Thant area. We estimate that the land parcels could enhance MRCB's valuation by RM624m or 46sen per share. Indicative fair value is RM1.66 based on "sum of parts" (see Table 6).

RHBRI	Vs.	Consensus
✓	Above In Line Below	✓

Issued Capital (m shares)	1,366.0
Market Cap(RMm)	1,871.4
Daily Trading Vol (m shs)	12.3
52wk Price Range (RM)	0.73-1.61
Major Shareholders:	(%)
EPF	30.6

FYE Dec	FY10	FY11	FY12
EPS Revision (%)	-	-	-
Var to Cons (%)	+18	+27	-

Share Price Chart



Relative Performance To FBM KLCI



Please read important disclosures at the end of this report.

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Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2008 12M	2009 12M	YoY Chg	Observations/Comments
Turnover	788.6	921.6	17%	Driven largely by growth at the construction division.
Construction	485.2	804.5	66%	Construction work at key projects gathered momentum.
Property	200.1	115.4	(42%)	High base in FY08 due to a lumpy item, i.e. land sale at KL Sentral. Also, in FY09, key on-going property projects, i.e. the RM147.5m Companies Commission of Malaysia (SSM) tower and RM147.5m Malaysian Industrial Development Authority (MIDA) tower, both located on "Lot J" of KL Sentral, were at the tail-ends.
Others	172.5	216.7	26%	
Elimination	(69.3)	(215.1)	>100%	
EBIT	45.1	101.6	>100%	Stronger construction profits were offset by weaker property profits.
Construction	(31.0)	50.7	nm	Thanks largely to profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08).
Property	34.1	27.3	(20%)	High base in FY08 due to a lumpy item, i.e. land sale at KL Sentral. Also, in FY09, key on-going property projects, i.e. the RM147.5m Companies Commission of Malaysia (SSM) tower and RM147.5m Malaysian Industrial Development Authority (MIDA) tower, both located on "Lot J" of KL Sentral, were at the tail-ends.
Others	60.6	62.7	3%	
Elimination	(18.6)	(39.2)	>100%	
Net inc/(exp)	(72.1)	(38.6)	(47%)	High base in FY08 due to one-off premium on early bond redemption.
Associates	(15.1)	(16.5)	9%	
Pretax profit	(42.2)	46.5	nm	
Taxation	(19.6)	(9.0)	(54%)	
Minority interest	5.1	(2.9)	nm	
Net profit	(56.6)	34.6	nm	Also helped by lower interest expense and tax writeback.
EPS (sen)	(6.2)	3.8	nm	
Construction EBIT margin	(6%)	6%	13%	Thanks largely to profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08).
EBIT margin	6%	11%	5% pts	
Pretax margin	(5%)	5%	10% pts	
Effective tax rate	(46%)	19%	66% pts	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2009 1Q	2009 2Q	2009 3Q	2009 4Q	QoQ Chg	Observations/Comments
Turnover	152.6	230.2	257.1	281.7	10%	
Construction	119.3	199.4	229.9	256.0	11%	Construction work at key projects gathered momentum.
Property	15.2	23.7	15.2	61.3	>100%	Normal quarterly fluctuation.
Others	36.0	44.3	49.8	86.6	74%	
Elimination	(17.9)	(37.1)	(37.8)	(122.2)	>100%	
EBIT	14.2	19.3	20.2	47.8	>100%	Driven by better showing across the board.
Construction	7.9	16.2	12.6	14.0	12%	Growth consistent with billings.
Property	1.3	3.3	1.0	21.7	>100%	Normal quarterly fluctuation.
Others	8.1	1.8	9.0	43.8	>100%	Normal quarterly fluctuation.
Elimination	(3.1)	(2.0)	(2.3)	(31.8)	>100%	
Net inc/(exp)	(11.1)	(5.9)	(8.3)	(13.4)	62%	
Associates	(1.1)	(4.3)	0.0	(11.1)	nm	
Pretax profit	2.0	9.1	12.0	23.4	95%	
Taxation	(1.5)	2.9	(0.5)	(9.9)	>100%	
Minority interest	(0.3)	(0.0)	(1.5)	(1.0)	(30%)	Driven by better showing across the board.
Net profit	0.2	12.0	10.0	12.4	24%	
EPS (sen)	0.0	1.3	1.1	1.4	25%	
Construction EBIT margin	7%	8%	5%	5%	0% pt	
EBIT margin	9%	8%	8%	17%	9% pts	
Pretax margin	1%	4%	5%	8%	4% pts	
Effective tax rate	77%	(32%)	4%	42%	39% pts	

Table 4: Outstanding Construction Orderbook

Project	Value (RMm)
External	
EDL	453
Permai Psychiatric Hospital, Johor	350
Bus terminal in Penang Sentral	300
Various transmission jobs	144
Upgrading of KL Sentral's road network	115
Various environmental projects	85
Rehabilitation of <i>Gaya Bangsar</i>	83
Total	1,530
Internal	
Building work: Lot A	205
Building work: Lot 348	340
Building work: Lot G	657
Total	1,202

Source: Company, RHBRI

Table 5: Outstanding KL Sentral Projects

Project	Location	GDV (RMm)	Project Period
1. CIMB tower	Lot A	404	2009-2011 (Under construction)
2. MRCB-KFH-Quill office suites	Lot B	1,015	2010-2013
3. MRCB-CMY's St Regis Hotel & Residences	Lot C	1,500	2011-2014
4. MRCB-CapitaLand-Quill condos	Lot D	1,200	2010-2013
5. Low-rise Business Park Sentral	Lot E	602	2009-2011 (Under construction)
6. MRCB-Pelaburan Hartanah Bumiputera retail mall & office tower	Parcels A&B, Lot G	1,434	2009-2012 (Under construction)
7. MRCB-Aseana hotel & office towers	Parcels C&D, Lot G	859	2009-2012 (Under construction)
8. MRCB-Gapura office & service apartments (348 Sentral)	Lot 348	900	2009-2012 (Under construction)
9. Six office towers	Lot F	2,300	2012-2016
Total		10,214	

Source: Company, RHBRI

Table 6: Valuation Based On "Sum Of Parts"

Project/Business	RMm	RM/share	Methodology	Key Assumptions
Construction/Property ex-KL Sentral	635.7	0.47	PER	10x FY12/10 net profit, in line with our benchmark 1-year forward target PER for the construction sector of 10-14x.
KL Sentral	799.2	0.59	DCF	Remaining GDV of RM10.2bn, project life of seven years, PBT margin of 15% (lower than 30% for similar developments to reflect JV partners' shares of profits on certain projects), tax rate of 25% and the benchmark discount rate of 10% for property projects.
Potential prime Federal land in KL (assume 70%)	624.4	0.46	DCF	Estimated GDV of RM5.7bn, project life of seven years, PBT margin of 30%, tax rate of 25% and the benchmark discount rate of 10% for property projects.
DUKE (30%)	74.8	0.05	DCF	Project IRR of 15%, equity IRR of 38.8% (debt-equity ratio of 70:30 and average before-tax funding cost of 6.5%), and discount rate that is equivalent to MRCB's cost of equity of 22.4%. DUKE in its entirety carries an NPV of RM249.4m. MRCB's 30% share is therefore RM74.8m.
EDL (100%)	120.5	0.09	DCF	Project IRR of 13%, equity IRR of 32.1% (debt-equity ratio of 70:30 and average before-tax funding cost of 6.5%), and discount rate that is equivalent to MRCB's cost of equity of 22.4%.
Total	2254.6	1.66		

Table 7: Earnings Forecasts

FYE Dec	FY09a	FY10F	FY11F	FY12F
Turnover	921.6	1,276.5	1,325.6	1,301.4
Turnover growth (%)	16.9	38.5	3.9	-1.8
EBITDA	110.1	125.9	130.1	135.4
EBITDA margin (%)	11.9	9.9	9.8	10.4
Depreciation	-8.5	-8.5	-8.5	-8.5
Net Interest	-38.6	11.2	17.3	23.8
Associates	-16.5	0.0	0.0	0.0
El	0.0	0.0	0.0	0.0
Pretax Profit	46.5	128.6	138.9	150.7
Tax	-9.0	-32.1	-34.7	-37.7
PAT	37.5	96.4	104.1	113.0
Minorities	-2.9	0.0	0.0	0.0
Net Profit	34.6	96.4	104.1	113.0

Source: Company data, RHBRI estimates

Table 8: Forecast Assumptions

FYE Dec	FY10F	FY11F	FY12F
Construction EBIT margin (%)	7.5	7.6	7.0
New orderbook secured (RMm)	500	1,000	1,000

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Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

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Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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