



Malaysian Resources Corp

MRC MK / MYRS.KL

FLASH NOTE

Market Cap US\$840.3m <small>RM2,708m</small>	Avg Daily Turnover US\$1.58m <small>RM5.22m</small>	Free Float 48.6% <small>1,366 m shares</small>
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Current	RM1.64
Target	RM2.00
Prev. Target	RM1.38
Up/Downside	22.1%

STOCK RATING

ADD
HOLD
REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	3.7	19.7	1.2
Absolute	5.8	21.5	10.8
Major shareholders	% held		
EPF	38.9		
Gapurna Sdn Bhd	12.5		

The news rally is just beginning

MRCB has signed off on a RM750m asset injection exercise which kick-starts its rationalising plans under the new management. It will end up with up to a 32% associate stake in the listed Quill Capita Trust REIT, which it will use for future asset injections. The bigger picture is overall positive and investors are likely to gradually appreciate the group's transformational initiatives. We raise FY14-16 EPS forecasts by 13-25%. The deal is RNAV-accretive, largely due to asset divestment gains and exposure to REIT. Our target price is raised as we reduce our RNAV discount from 30% to 20%. Other potential catalysts include newsflow on RRI Land, the tolling of the EDL and job wins. The stock is worth the trade. We upgrade from Hold to Add.

What Happened ►

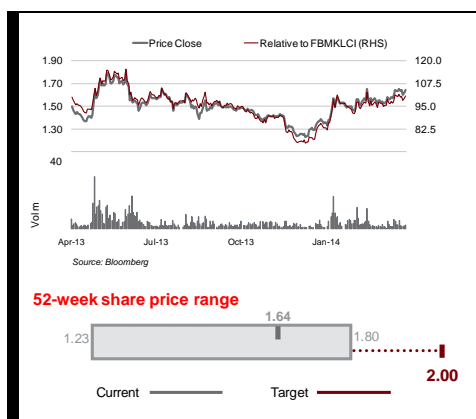
It has signed off on a REIT deal. MRCB has entered into a deal to inject Platinum Sentral, one of its property investment assets in KL Sentral, into Quill Capita Trust (QCT) Bhd, a listed REIT, for RM750m. QCT will issue new units to MRCB to partly finance the purchase, leaving RM486m cash at MRCB's disposal. It is also acquiring a 41% stake in QCT's REIT management company. The deal is targeted to be completed in 6-9 months.

What We Think ►

Transformation strategy is positive. The REIT strategy is widely known given the group's plans to monetise its property assets in KL Sentral. However, emerging with a substantial stake in the listed QCT was a plus. This deal will enable MRCB to 1) pare down its borrowings gradually through the cash proceeds and 2) gain from the recurring REIT earnings from up to a 32% stake in the enlarged QCT. The new management's turnaround initiative is taking shape as it repositions itself as a major property player-cum-contractor.

What You Should Do ►

Accumulate. YTD, the share price has rallied 27% but has not fully priced in the positives from this deal and other likely newsflow over the course of 2014, in our view. We expect other developments including the likely positive outcome for the PJ Sentral land, the government's decision on the tolling of the Eastern Dispersal Link (EDL) highway, new REIT-related deals for key assets in KL Sentral, tenders for the RRI Land development (see below the link to our report) in which the group has the advantage due to its expertise in transport oriented developments (TOD) and construction job flows including the c.RM800m domestic rail rehabilitation project in which MRCB was granted a letter of intent (LOI).



Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (RMm)	1,283	941	1,649	1,809	1,954
Operating EBITDA (RMm)	136.3	(78.3)	166.7	217.5	262.1
Net Profit (RMm)	60.1	(110.1)	49.6	87.3	119.0
Core EPS (RM)	0.044	(0.081)	0.036	0.064	0.087
Core EPS Growth	137%	(283%)	NA	76%	36%
FD Core P/E (x)	37.23	NA	45.13	25.67	18.82
DPS (RM)	0.052	0.024	0.028	0.030	0.030
Dividend Yield	3.17%	1.46%	1.71%	1.83%	1.83%
EV/EBITDA (x)	36.09	NA	30.08	22.75	18.56
P/FCFE (x)	5.97	25.15	12.57	8.09	7.95
Net Gearing	180%	168%	130%	129%	127%
P/BV (x)	1.58	1.34	1.10	1.12	1.13
ROE	4.30%	(7.12%)	2.67%	4.32%	5.99%
% Change In Core EPS Estimates			24.9%	13.3%	18.0%
CIMB/consensus EPS (x)			0.83	0.95	0.88

SOURCE: CIMB, COMPANY REPORTS

Going for a REIT deal with Quill Capita Trust ►

Injecting Platinum Sentral into a REIT. MRCB has entered into a deal to inject Platinum Sentral, one of its property investment assets in KL Sentral, into Quill Capita Trust (QCT) Bhd, a listed REIT, for RM750m. Quill Capita Trust owns commercial properties primarily in Malaysia. Its key assets include the Tesco building in Penang and the various Quill buildings in the Klang Valley and Cyberjaya. The details of the deal are:

- 1) **RM486m of the total purchase price will be in cash.** *Comments: Quill Capita Trust (QCT) will undertake a placement of between 55m-85m units.*
- 2) **The balance of RM264m of the total purchase price will be satisfied via the issuance of new units (shares) by Quill Capita Trust at RM1.28/unit.** *Comments: MRCB will own up to a 32% stake based on the enlarged number of units. The injection of Platinum Sentral is likely to result in Quill Capita Trust's asset value increasing to approximately RM1.6bn (from the current estimated RM820m).*
- 3) **The disposal/asset injection also involves MRCB acquiring a 41% stake in Quill Capita Management (QCM) Sdn Bhd, the management company of Quill Capita Trust (QCT).** *Comments: MRCB will purchase a 41% stake from two of QCM's existing shareholders for RM5.9m (collectively from Capitaland RECM Pte Ltd and Coast Capital Sdn Bhd).*
- 4) **MRCB will realise a net gain on the disposal of between RM239m to RM244m.** The cash proceeds would enable the group to benefit from interest savings of c.RM19m p.a. Its net gearing is expected to fall from 2.1x to 1.6x.

Figure 1: Details of Quill Capita Trust (QUILL MK)

Listing status	: Main board
Market capitalisation	: RM429m
Management company	: Quill Capita Management Sdn Bhd
Yield	: 7.10%
Shareholders of management company	: Quill Resources Holding, Capitaland RECM Pte Ltd, Coast Capital Sdn Bhd
Potential enlarged NAV from MRCB's injection	: RM820m + RM750m = RM1.6bn
Properties	: Tesco in Penang, Various Quill buildings in Klang Valley and Cyberjaya
FY13 net profit	: RM36.6m
Date listed	: 8-Jan-07
No. of shares/units (m)	: 390.1
No. of new units to be issued for the deal	: RM206.4m @RM1.28/unit = 161.3m units (RM1.28/unit is a 16.4% premium to the VWAM)
Current NAV	: RM1.32/unit (issue price is at 3% discount to NAV)

SOURCES: CIMB, PRESS REPORTS

Figure 2: Utilisation of proceeds

	RM m
Debt repayment	380
Working capital	94
Others	12
Total	486

SOURCES: CIMB, COMPANY REPORTS

Figure 3: Benefits to MRCB

- 1) Gain on disposal of RM239-244m to P&L
- 2) 30-32% stake in listed QCT (MGO exemption)
- 3) RM486m cash from QCT
- 4) 41% stake in QCM (REIT manager)
- 5) QCT's dividend distributions
- 6) Interest savings of RM18.7m p.a. @4.9%
- 7) Potentially lower net gearing of 1.6x from 2.1x

SOURCES: CIMB, COMPANY REPORTS

Overall positive, kicking off its restructuring plans ►

A 27% uplift to RNAV, 13-25% increase in FY14-16 EPS. We are overall positive on the REIT strategy as it will enable MRCB to 1) pare down its borrowings gradually through the cash proceeds. The RM486m cash proceeds will largely be used to repay the debt associated with Platinum Sentral. 2) It will gain from the recurring REIT earnings from the 30-32% stake in the enlarged QCT at RM15m-20m p.a. based on our estimate. The 13-25% EPS upgrades only reflect the group's core earnings i.e. the impact of the interest savings and new recurring income from the REIT, but do not include the impact of the net gain on the asset sale of over RM300m from Platinum Sentral and DUKE.

In our revised RNAV we have 1) assumed a base case of a 12% reduction in the group's borrowings, 2) introduced the estimated RM1.6bn enlarged asset value of QCT at a 32% stake, 3) imputed the RM228m cash proceeds and RM99.2m gain from the disposal of Duke which was announced earlier, 4) factored in the RM239m gain from disposing Platinum Sentral and 5) adjusted balance sheet items. This raises its RNAV/share by 27% (53 sen) from RM1.97 to RM2.50.

Turnaround in prospects this year ►

The stock is worth a trade. Overall, this deal kicks off the group's planned restructuring strategy following the kitchen-sinking exercise late last year. Our conversation with management suggests that there are likely to be more asset injections on top of Platinum Sentral, particularly involving MRCB's assets in KL Sentral. There could be slightly over RM1bn worth of property assets that can be spun off to further repay its borrowings and invest in new ventures including new landbanks. Also, having an associate stake in a REIT (QCT) secures stable recurring income, which partially offsets the volatility in its construction earnings. We also expect other positive developments over the course of 2014, including a likely favourable decision following PKNS's appeal against the High Court's decision on the PJ Sentral M&A, the decision on the tolling of the 100%-owned Eastern Dispersal Link (EDL) highway, possible new REIT-related deals, tenders for the RRI Land development and construction job flows. *Please refer to our report on RRI Land which was released on 5 Mar 2014 ([RRI Land looks too big to ignore](#))*

We upgrade to an Add rating, with a higher target price of RM2.00. Since our downgrade of the stock to Neutral in August last year, the share price has fallen 13% from RM1.50 to RM1.31 as at end-2013. It further de-rated in late 2013 following the RM167m provision made in its 3Q13 results. Though the stock has already rallied 27% YTD, somewhat ahead of the announcement of the deals, we still see value in the stock. In view of the likely positive newsflow in the medium term and the positive expectations of the new management's transformation move, we narrow the RNAV discount from 30% to 20%, in line with Sunway. Based on our revised RNAV of RM2.50, our target price rises from RM1.38 to RM2.00 (see Figure 4). We upgrade from Hold to Add.

Figure 4: RNAV

Assets	Area (sf)	Market value RM psf	RM m
KL Sentral (64.4% owned)	0.5m	1650.0	810.0
Other undeveloped land @ book value	2.9m		302.5
Seri Iskandar Township (70% JV stake)	174.2m	10	1,742.0
*PJ Land (Puncak Wangi Lot 8, PJ Sentral Lot 12)	0.52m	341.9	177.4
*Subang Jaya Land (Gapuma builders)	0.14m	290.6	40.5
*KL Land (Gapuma Land)	0.77m	134.6	103.4
Eastern Dispersal Link (EDL), 14.5% IRR, 12% WACC			1,550.3
Duta Ulu Kelang Expressway (DUKE) - Divestment value			228.0
Construction Net profit (FY15) at 15.9x P/E			396.7
Investment properties (minus Platinum Sentral at cost)			476.0
Associated companies and investments			185.9
Net current asset less development properties			0.0
12% reduction of debt from 1st REIT injection			(2,866.3)
Cash (4QFY13)			603.4
Quill Capita Trust's enlarged asset value @ 32% stake (RM m)		1,570.0	502.4
Gains from disposal of DUKE			99.2
Gains from disposal of Platinum Sentral			239.0
RNAV			4,590.5
No. of shares (m)			1,387.8
New shares from Nusa Gapuma deal@RM1.55/share (m)			398.7
New consideration warrants (m) - 2-for-7			113.9
Proceeds from new consideration warrants @RM2.30 (RM m)			262.0
Bonus issue of free warrants @RM2.30 - 1-for-3 (m)			473.5
Proceeds from free warrants (RM m)			1,089.2
Enlarged no. of shares (m)			2,374.0
Enlarged RNAV (RM m)			5,941.7
RNAV/share (RM)			2.50
Discount to RNAV			20%
Target price (RM)			2.00

*Based on surplus value

SOURCES: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Net Revenues	941	1,649	1,809	1,954
Gross Profit	941	1,649	1,809	1,954
Operating EBITDA	(78)	167	217	262
Depreciation And Amortisation	(41)	(54)	(59)	(64)
Operating EBIT	(119)	113	159	198
Financial Income/(Expense)	4	(44)	(41)	(38)
Pretax Income/(Loss) from Assoc.	5	5	15	16
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	(110)	74	133	176
Exceptional Items	0	0	0	0
Pre-tax Profit	(110)	74	133	176
Taxation	(12)	(21)	(31)	(40)
Exceptional Income - post-tax				
Profit After Tax	(123)	53	102	137
Minority Interests	9	(3)	(15)	(18)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	4			
Net Profit	(110)	50	87	119
Recurring Net Profit	(110)	50	87	119
Fully Diluted Recurring Net Profit	(110)	50	87	119

Balance Sheet

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	608	708	722	758
Total Debtors	650	923	830	747
Inventories	8	8	8	8
Total Other Current Assets	727	741	756	771
Total Current Assets	1,993	2,380	2,316	2,284
Fixed Assets	38	39	39	40
Total Investments	1,043	1,000	958	918
Intangible Assets	291	291	291	291
Total Other Non-Current Assets	3,237	3,224	3,210	3,197
Total Non-current Assets	4,610	4,553	4,499	4,447
Short-term Debt	1,536	1,536	1,536	1,536
Current Portion of Long-Term Debt	1,058	1,006	955	907
Total Creditors	1,101	1,082	1,064	1,046
Other Current Liabilities	132	132	132	132
Total Current Liabilities	3,828	3,756	3,688	3,622
Total Long-term Debt	909	909	909	909
Hybrid Debt - Debt Component	0			
Total Other Non-Current Liabilities	129	129	129	129
Total Non-current Liabilities	1,038	1,038	1,038	1,038
Total Provisions	0	0	0	0
Total Liabilities	4,866	4,794	4,726	4,660
Shareholders' Equity	1,675	2,045	1,996	1,977
Minority Interests	61	94	94	94
Total Equity	1,737	2,139	2,089	2,071

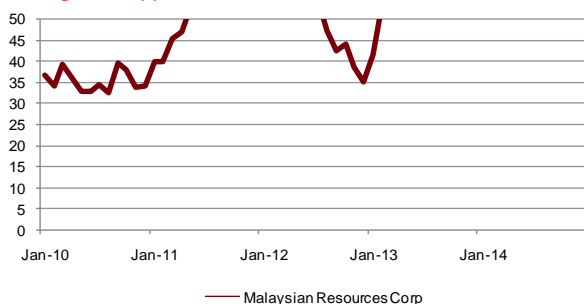
Cash Flow

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
EBITDA	(78.3)	166.7	217.5	262.1
Cash Flow from Inv. & Assoc.				
Change In Working Capital	10.7	22.3	64.2	27.9
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	6.6	(3.3)	(1.5)	(8.9)
Cashflow From Operations	(61.0)	185.7	280.2	281.1
Capex	(10.0)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries	160.0	2.5	6.5	10.7
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	150.0	(7.5)	(3.5)	0.7
Debt Raised/(repaid)	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(162.1)	(192.6)	(192.6)	(192.6)
Preferred Dividends				
Other Financing Cashflow	32.3	114.0	(78.1)	(53.4)
Cash Flow From Financing	(129.8)	(78.6)	(270.7)	(245.9)
Total Cash Generated	(40.8)	99.7	6.1	35.9
Free Cashflow To Equity	89.0	178.2	276.7	281.8
Free Cashflow To Firm	89.0	178.2	276.7	281.8

Key Ratios

	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	(26.7%)	75.3%	9.7%	8.0%
Operating EBITDA Growth	(157%)	NA	30%	21%
Operating EBITDA Margin	(8.3%)	10.1%	12.0%	13.4%
Net Cash Per Share (RM)	(2.14)	(2.03)	(1.98)	(1.92)
BVPS (RM)	1.23	1.50	1.46	1.45
Gross Interest Cover	(0.81)	1.15	1.62	2.02
Effective Tax Rate	0.0%	28.6%	23.1%	22.4%
Net Dividend Payout Ratio	NA	82.4%	46.9%	34.4%
Accounts Receivables Days	403.0	173.9	176.7	147.7
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	(3.93%)	3.04%	3.96%	5.04%
ROCE (%)	0.65%	3.08%	3.88%	4.73%

Rolling FD P/E (x)



Key Drivers

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Outstanding Orderbook	1,800	1,900	1,900	1,900
Order Book Depletion	N/A	N/A	N/A	N/A
Orderbook Replenishment	500	500	500	500
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
Description:		Excellent	Very Good	Good	N/A

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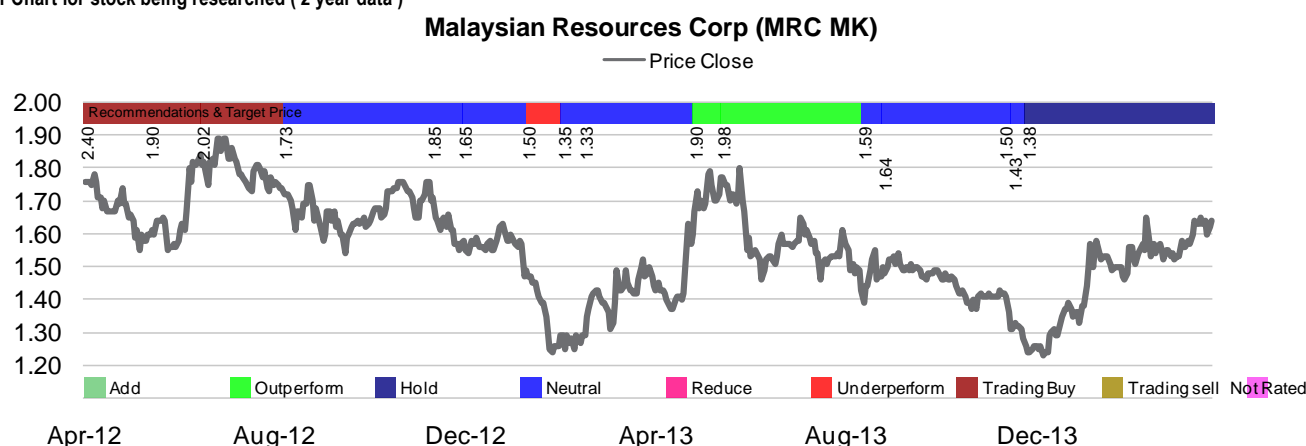
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2014		
1358 companies under coverage for quarter ended on 31 March 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	52.6%	5.9%
Neutral/Hold	31.7%	5.4%
Underperform/Sell/Trading Sell/Reduce	15.7%	5.2%

Spitzer Chart for stock being researched (2 year data)



As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

CIMB Recommendation Framework #1

Stock Ratings	Definition
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.

Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

CIMB Stock Recommendation Framework #2 *

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.
Neutral	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
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.

Trading Buy	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
Trading Sell	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*
CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

CIMB Stock Recommendation Framework #3 **

Outperform	Expected positive total returns of 10% or more over the next 12 months.
Neutral	Expected total returns of between -10% and +10% over the next 12 months.
Underperform	Expected negative total returns of 10% or more over the next 12 months.
Trading Buy	Expected positive total returns of 10% or more over the next 3 months.
Trading Sell	Expected negative total returns of 10% or more over the next 3 months.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.

AAV – Good, ADVANC – Excellent, AMATA – Very Good, ANAN – Good, AOT – Excellent, AP – Very Good, BANPU – Excellent, BAY – Excellent, BBL – Excellent, BCH – Good, BCP – Excellent, BEC – Very Good, BGH – not available, BJC – Very Good, BH – Very Good, BIGC – Very Good, BTS – Excellent, CCET – Very Good, CENTEL – Very Good, CK – Excellent, CPALL – Very Good, CPF – Excellent, CPN – Excellent, DELTA – Very Good, DTAC – Excellent, EGCO – Excellent, GLOBAL – Good, GLOW – Very Good, GRAMMY – Excellent, HANA – Excellent, HEMRAJ – Excellent, HMPRO – Very Good, INTUCH – Excellent, ITD – Very Good, IVL – Excellent, JAS – Very Good, KAMART – not available, KBANK – Excellent, KKP – Excellent, KTB – Excellent, LH – Very Good, LPN – Excellent, MAJOR – Very Good, MAKRO – Very Good, MCOT – Excellent, MINT – Excellent, PS – Excellent, PSL – Excellent, PTT – Excellent, PTTGC – Excellent, PTTEP – Excellent, QH – Excellent, RATCH – Excellent, ROBINS – Excellent, RS – Excellent, SAMART – Excellent, SC – Excellent, SCB – Excellent, SCC – Excellent, SCCC – Very Good, SIRI – Very Good, SPALI – Excellent, STA – Good, STEC – Very Good, TCAP – Excellent, THAI – Excellent, THCOM – Excellent, TICON – Very Good, TISCO – Excellent, TMB – Excellent, TOP – Excellent, TRUE – Excellent, TTW – Excellent, TUF – Very Good, VGI – Excellent, WORK – Good.