

Malaysian Resources Corp Bhd

A fair cash buyout

MRC MK / MYRS.KL

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Conditional GO by EPF

Yesterday, EPF extended a conditional general offer (GO) of RM1.50 cash per share for the 66.2% of MRCB that it does not own post rights. The offer price is 10% lower than our target price of RM1.66 but would look reasonable to investors looking to take profit as the share price has been hovering around RM1.40 for the past few weeks. We retain our forecasts, NEUTRAL call and RNAV-based target price of RM1.66, which is pegged to an unchanged 30% RNAV discount. The key developments we expect for 2010 are the potential land acquisitions and contract awards.

The news

MRCB announced yesterday that the Employees Provident Fund's (EPF) shareholding in MRCB has risen from 30% to 33.8% following the allotment of 171.8m new shares arising from its 1-for-2 rights issue at RM1.12 apiece. EPF is obligated to extend a conditional takeover offer for all the shares not already owned including ESOS. It will be a cash offer at RM1.50/share, the basis for which was not stated in the announcement.

The offer is conditional upon EPF achieving more than 50% stake in MRCB by the 60th day from the day of the offer. EPF intends to maintain MRCB's listing status and will not opt for compulsory acquisition of shares if total acceptance reaches the 90% threshold.

Figure 1: EPF's conditional GO

No of allotted shares from 1:2 rights issue (m)	171.8
Total number of shares owned after 1-2 rights issue (m)	461.5
Resultant stake in MRCB	33.8%
No. of shares not already owned (m)	904.7
Conditional GO price (RM)	1.50
Value of deal (RM m)	1,357.1

Source: Company, CIMB Research

Comments

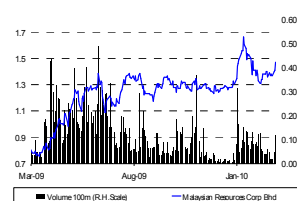
A mild surprise. We are not entirely surprised by this news as the announcement of the 1-for-2 rights issue in Nov 09 had highlighted the possibility of EPF triggering a general offer. However, we had expected EPF to apply for a waiver. Based on the RM1.50 offer price and the 904.7m shares that EPF does not already own, EPF's cash outlay may be as much as RM1.4bn. Given that EPF intends to maintain MRCB's listing status, it looks like it will comply with the 25% public shareholding spread to remain listed.

A fair offer. Although the RM1.50 offer price represents a 10% discount to our target price of RM1.66, we view it as a fair price as it represents a slight premium over the share price. The stock has been trading at around RM1.40 for the past few weeks. Although EPF is not offering a hefty share price premium, we think that some shareholders will take up the offer.

Valuation and recommendation

Maintain NEUTRAL. We retain our FY10-12 forecasts and RNAV-based target price of RM1.66, pegged to an unchanged 30% discount to RNAV. We also remain NEUTRAL on MRCB. Key developments we expect for 2010 are potential land acquisitions and contract awards. The group is also one of the main contenders for the RM7bn LRT extension/upgrade project.

Price chart



Source: Bloomberg

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	38.6	46.8	34.3	27.7
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	38.6	46.8	34.3	27.7
Gross DPS (sen)	0.0	1.0	1.0	1.0	1.0
Dividend yield (%)	0.0%	0.7%	0.6%	0.7%	0.7%
P/BV (x)	2.0	1.9	2.7	2.5	2.3
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)	10.9	145.9	13.9	11.8	10.3
EV/EBITDA (x)	376.2	31.5	16.7	13.9	11.8
% change in EPS estimates			N/A	N/A	N/A
CIMB/Consensus (x)			0.68	0.65	0.84

Source: Company, CIMB Research, Bloomberg

Figure 2: 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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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 5% 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 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

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 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.

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 industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

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