Company Focus

Malaysia Resources Corporation

Bloomberg: MRC MK | Reuters: MYRS.KL

Malaysia Equity Research PP 11272/04/2010(023521) 4 Mar 2010

BUY RM1.47 KLCI : 1,286.10

Price Target : 12-Month RM 1.80 (Prev RM 1.80)
Reason for Report : Condtitional take-over offer
Potential Catalyst: Government land sale, construction contracts

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Reject RM1.50 Offer

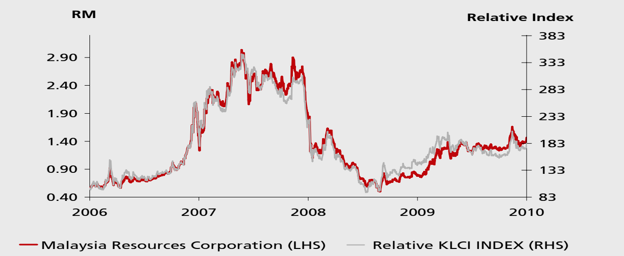
- **EPF makes take-over offer at RM1.50/share**
- **MRCB to remain listed**
- **Ignore Offer, MRCB is worth at least RM1.80/share**

Conditional take-over offer at RM1.50. EPF has announced that it is making a conditional take-over offer for MRCB at RM1.50/share cash.This is just a 1.5% higher than the last closing price of RM1.47/share.This conditional take over offer arose from MRCB's recent 1-for-2 rights issue where as a result of EPF's entitlement to subscribe and application for excess rights shares saw its shareholding in MRCB increase to 33.78%. This triggered a conditional take-over offer under the Malaysia Code on Take-over and mergers.

Intention is to keep MRCB listed. EPF highlighted in the announcement to Bursa that it intends to keep the listing status of MRCB. The offer is conditional upon EPF holding more than 50% of MRCB's share capital upon closing of the offer, which is 21 days after the posting of the offer according to the code.

What should minorities do? In our view, minority shareholders should not accept the conditional offer given the unattractive price of RM1.50. But at the very least, RM1.50 will set the floor price for MRCB until the expiry of the offer. Our SOP-derived TP for MRCB is RM1.80/share which is 20% above the offer price and excludes any potential NAV accretion from potential government land sale. This will rise to RM2.30 assuming MRCB just clinches an additional 25 acres of government land in KL Sentral/Brickfields based on a plot ratio of 7x and ASP of RM700 psf. This may be conservative as it does not include the other government land bank - Jalan Conlay, Jalan Ampang Hilir and RRIM land, which is also up for grabs. With 3 consecutive quarters of above average earnings deliverance, we think MRCB has also transformed from just being a high beta leveraged asset play to a competitive developer/contractor which has proven itself with the successful KL Sentral franchise. We believe MRCB is on a cusp of an earnings upswing where we are forecasting a 3-year EPS CAGR of 65%. Reiterate BUY with SOP-derived TP of RM1.80.

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2009A	2010F	2011F	2012F
Turnover	922	1,522	1,823	1,622
EBITDA	104	147	182	190
Pre-tax Profit	46	95	121	126
Net Profit	35	69	89	93
Net Pft (Pre Ex.)	35	69	89	93
EPS (sen)	3.5	5.1	6.5	6.8
EPS Pre Ex. (sen)	3.5	5.1	6.5	6.8
EPS Gth Pre Ex (%)	(187)	43	28	5
Diluted EPS (sen)	3.5	5.1	6.5	6.8
Net DPS (sen)	0.9	1.3	1.6	1.7
BV Per Share (sen)	68.9	86.5	91.4	96.5
PE (X)	41.4	28.9	22.6	21.6
PE Pre Ex. (X)	41.4	28.9	22.6	21.6
P/Cash Flow (X)	20.5	19.0	16.0	15.4
EV/EBITDA (X)	21.9	19.8	17.0	16.0
Net Div Yield (%)	0.6	0.9	1.1	1.2
P/Book Value (X)	2.1	1.7	1.6	1.5
Net Debt/Equity (X)	1.2	0.7	0.8	0.7
ROAE (%)	5.3	7.5	7.3	7.3
Earnings Rev (%):		0.0	0.0	N/A
Consensus EPS (sen):		5.7	7.5	N/A

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: Construction and property

Source of all data: Company, DBS Vickers, Bloomberg

At A Glance

Issued Capital (m shrs)	1,366
Mkt. Cap (RMm/US$m)	2,008 / 593
Major Shareholders	
Employees Provident Fund (%)	33.8
JF ASEAN Funds (%)	4.4
Fidelity Funds (%)	2.6
Free Float (%)	67.5
Avg. Daily Vol.('000)	5,104

SOP Value for MRCB assuming another 25 acres of KL Sentral land

	RM
Current SOP Value (ex-rights)	1.80
SOP Value assuming MRCB clinches additional 25 acres of KL Sentral land	2.30
Assumptions	
Acres	25
Plot ratio (x)	8
GFA (sq ft)	8,712,000
NLA (sq ft)	6,969,600
ASP (RM psf)	700
GDV (RMbn)	4,879
Margins (%)	15
Development duration (years)	8

Source: DBS Vickers

SOP Value for MRCB

	Stake	Area (acres)	Avg Price RMpsf	Mkt value (RMm)	Value/shr (RM)	Notes
KL Sentral	64%	12.0	1000	946.5	0.70	DCF based on ASP of RM1,000 psf
Bandar Sri Iskandar	70%	4,000.0	4	487.9	0.36	4,000 acres in Perak at RM4 psf
Taman Kajang Utama		8.3	20	7.2	0.01	Based on book value
Investment properties						
Plaza Alam Sentral		16.9	280	89.8	0.07	Based on book value
Kompleks Sentral - Segambut		17.8	200	38.2	0.03	Based on book value
					-	
Eastern Dispersal Link concession				97.7	0.07	Assuming IRR of 10%
Duta Ulu-Klang Expressway	30%			30.0	0.02	Assuming IRR of 10%
Construction				1,118.4	0.82	12x 1-year forward earnings
Property				406.7	0.30	10x 1-year forward earnings
Net debt				(768.0)	(0.56)	
Total				2,454.5	1.80	
Outstanding shares (m)				1,361.4		
SOP/share (RM)				**1.80**		

Source: DBS Vickers

Income Statement (RM m)

FY Dec	2009A	2010F	2011F	2012F
Turnover	922	1,522	1,823	1,622
Cost of Goods Sold	(885)	(1,264)	(1,499)	(1,320)
Gross Profit	36	258	324	302
Other Opng (Exp)/Inc	65	(115)	(146)	(117)
Operating Profit	102	144	178	185
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(16)	(16)	(16)	(16)
Net Interest (Exp)/Inc	(39)	(32)	(41)	(42)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	46	95	121	126
Tax	(9)	(19)	(24)	(25)
Minority Interest	(3)	(7)	(8)	(8)
Preference Dividend	0	0	0	0
Net Profit	35	69	89	93
Net Profit before Except.	35	69	89	93
EBITDA	104	147	182	190
Sales Gth (%)	16.9	65.1	19.8	(11.0)
EBITDA Gth (%)	59.6	41.0	23.9	4.4
Opg Profit Gth (%)	63.9	41.4	24.0	4.1
Net Profit Gth (%)	(161.1)	100.1	27.9	4.8
Effective Tax Rate (%)	19.4	20.0	20.0	20.0

Cash Flow Statement (RM m)

FY Dec	2009A	2010F	2011F	2012F
Pre-Tax Profit	46	95	121	126
Dep. & Amort.	19	20	20	21
Tax Paid	(4)	(8)	(19)	(24)
Assoc. & JV Inc/(loss)	16	16	16	16
Chg in Wkg.Cap.	(118)	(354)	(144)	86
Other Operating CF	(203)	0	0	0
Net Operating CF	(243)	(231)	(5)	226
Capital Exp.(net)	(8)	(250)	(150)	(150)
Other Invts.(net)	(49)	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(57)	(250)	(150)	(150)
Div Paid	(9)	(17)	(22)	(23)
Chg in Gross Debt	336	200	200	200
Capital Issues	0	454	0	0
Other Financing CF	(304)	0	0	0
Net Financing CF	24	636	178	177
Net Cashflow	(276)	156	22	252

Quarterly / Interim Income Statement (RM m)

FY Dec	1Q2009	2Q2009	3Q2009	4Q2009
Turnover	153	230	257	282
Cost of Goods Sold	(153)	(226)	(253)	(253)
Gross Profit	0	4	4	29
Other Oper. (Exp)/Inc	14	16	16	19
Operating Profit	14	19	20	48
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(1)	(4)	0	(11)
Net Interest (Exp)/Inc	(11)	(6)	(8)	(13)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	2	9	12	23
Tax	(2)	3	0	(10)
Minority Interest	0	0	(1)	(1)
Net Profit	0	12	10	12
Net profit bef Except.	0	12	10	12
Sales Gth (%)	(25.0)	50.9	11.7	9.6
Opg Profit Gth (%)	(236.6)	36.4	4.5	136.5
Net Profit Gth (%)	(100.4)	7,770.6	(16.8)	21.3
Gross Margins (%)	(0.1)	1.6	1.5	10.3
Opg Profit Margins (%)	9.3	8.4	7.9	17.0
Net Profit Margins (%)	0.1	5.2	3.9	4.3

Balance Sheet (RM m)

FY Dec	2009A	2010F	2011F	2012F
Net Fixed Assets	1,047	1,278	1,407	1,536
Invts in Associates & JVs	200	183	167	150
Other LT Assets	30	30	30	30
Cash & ST Invts	809	964	987	1,239
Inventory	19	27	33	29
Debtors	761	1,257	1,506	1,340
Other Current Assets	241	269	269	269
Total Assets	3,107	4,009	4,398	4,593
ST Debt	58	58	58	58
Other Current Liab	627	816	931	848
LT Debt	1,575	1,775	1,975	2,175
Other LT Liabilities	156	156	156	156
Shareholder's Equity	672	1,178	1,244	1,314
Minority Interests	18	25	33	42
Total Cap. & Liab.	3,107	4,009	4,398	4,593
Non-Cash Wkg. Capital	394	738	876	789
Net Cash/(Debt)	(825)	(869)	(1,047)	(994)

Rates & Ratio

FY Dec	2009A	2010F	2011F	2012F
Gross Margins (%)	4.0	17.0	17.8	18.6
Opg Profit Margin (%)	11.0	9.4	9.8	11.4
Net Profit Margin (%)	3.8	4.6	4.9	5.7
ROAE (%)	5.3	7.5	7.3	7.3
ROA (%)	1.1	1.9	2.1	2.1
ROCE (%)	3.3	4.0	4.3	4.1
Div Payout Ratio (%)	25.0	25.0	25.0	25.0
Net Interest Cover (x)	2.6	4.5	4.4	4.4
Asset Turnover (x)	0.3	0.4	0.4	0.4
Debtors Turn (avg days)	172.0	242.1	276.6	320.3
Creditors Turn (avg days)	134.3	145.5	158.0	183.4
Inventory Turn (avg days)	8.5	6.8	7.4	8.6
Current Ratio (x)	2.7	2.9	2.8	3.2
Quick Ratio (x)	2.3	2.5	2.5	2.8
Net Debt/Equity (X)	1.2	0.7	0.8	0.7
Net Debt/Equity ex MI (X)	1.2	0.7	0.8	0.8
Capex to Debt (%)	0.5	13.6	7.4	6.7
Z-Score (X)	0.6	0.9	1.2	1.2
N. Cash/(Debt)PS (sen)	(84.5)	(63.8)	(76.9)	(73.0)
Opg CFPS (sen)	(12.8)	9.1	10.2	10.3
Free CFPS (sen)	(25.7)	(35.3)	(11.4)	5.6

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010F	2011F	2012F
Revenues (RM m)				
Property & Development	115	252	335	468
Engineering & Construction	805	1,215	1,432	1,096
Infrastructure	116	0	0	0
Building Services	100	55	56	58
Others	(215)	N/A	N/A	N/A
Total	922	1,522	1,823	1,622
Pretax profit (RM m)				
Property & Development	27	40	52	70
Engineering & Construction	51	103	121	97
Infrastructure	11	(12)	(8)	5
Building Services	52	13	13	13
Others	(39)	N/A	N/A	N/A
Total	102	144	178	185
Pretax Margins (%)				
Property & Development	23.7	15.7	15.6	15.0
Engineering & Construction	6.3	8.5	8.5	8.9
Infrastructure	9.5	N/A	N/A	N/A
Building Services	51.5	22.7	22.7	22.6
Total	11.0	9.4	9.8	11.4
Key Assumptions				
New order win	50.0	400.0	400.0	600.0

Source: Company, DBS Vickers

Wong Ming Tek, Head of Research

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