Company Focus

Malaysia Resources Corporation

Bloomberg: MRC MK | Reuters: MYRS.KL

Malaysia Equity Research PP 11272/04/2010(023521) 25 Jan 2010

BUY RM1.60 KLCI : 1,300.45

Price Target : 12-Month RM 1.80 (ex-rights) (RM2.20 cum-rights)
Reason for Report : Post conference update
Potential Catalyst: Government land deals, new contract wins

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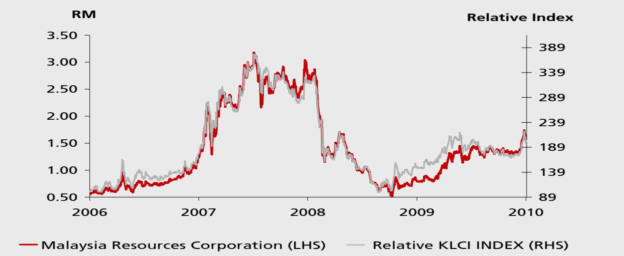
Price Relative



Forecasts and Valuation

FY Dec (RM m)	2008A	2009F	2010F	2011F
Turnover	789	1,100	1,522	1,823
EBITDA	65	80	150	181
Pre-tax Profit	(42)	36	95	120
Net Profit	(57)	29	69	88
Net Pft (Pre Ex.)	(40)	29	69	88
EPS (sen)	(6.2)	3.2	5.1	6.5
EPS Pre Ex. (sen)	(4.4)	3.2	5.1	6.5
EPS Gth Pre Ex (%)	(179)	(174)	57	28
Diluted EPS (sen)	(6.2)	3.2	5.1	6.5
Net DPS (sen)	0.9	0.8	1.3	1.6
BV Per Share (sen)	70.0	72.4	85.4	90.3
PE (X)	nm	49.7	31.6	24.7
PE Pre Ex. (X)	nm	49.7	31.6	24.7
P/Cash Flow (X)	nm	25.0	22.1	18.4
EV/EBITDA (X)	30.6	27.1	18.2	16.8
Net Div Yield (%)	0.6	0.5	0.8	1.0
P/Book Value (X)	2.3	2.2	1.9	1.8
Net Debt/Equity (X)	0.8	1.0	0.4	0.7
ROAE (%)	(8.4)	4.5	7.6	7.4
Earnings Rev (%):		0.0	0.0	0.0
Consensus EPS (sen):		3.4	5.7	7.5

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

Source of all data: Company, DBS Vickers, Bloomberg

Fresh catalysts are abound

- **Key catalyst is sizeable government land deal**
- **More high margin environmental projects in the pipeline**
- **BUY, TP RM1.80 (ex-rights), RM2.20 (cum-rights)**

We hosted MRCB at our recent Pulse of Asia conference in Singapore. Below are 3 key highlights.

Government land kicker. We think the completion of its rights issue by 1Q10 is a precursor to strategic land acquisitions. Besides the 3 sought after pieces of land (50-60 acres at Jalan Cochrane, 25 acres at Ampang Hilir and 3,400 acres at RRIM), we understand there is another 20-30 acres of land within the KL Sentral/Brickfields vicinity. In our view, MRCB is the strongest contender with monopoly of the maturing KL Sentral franchise with 12 acres remaining. A reasonable time line for award for these landbank is in June-2010 during the tabling of the 10MP. Assuming MRCB clinches just the 20-30 acres of additional KL Sentral land, our SOP value will rise by 28% to RM2.30 (ex-rights). Our assumptions impute a conservative plot ratio of 8x and ASP of RM700 psf. We also like MRCB's chances for the chunky Jalan Cochrane and RRIM Land with its strong shareholder backing from EPF giving it an edge in terms of accessibility to funding.

Environmental projects. Besides the mega projects (LRT extension and Bakun cables), more emphasis on environmental projects such as urban flooding is expected when the 10MP is tabled. MRCB is familiar with projects of such nature with on-going projects such as the Sungei Pahang river mouth rehabilitation project, Sungei Kuantan river projects and Penang river project worth a combined c. RM300m. While contract amount may not be very substantial, this is compensated by lucrative margins of c.15%. We have only assumed RM400m worth of new wins in FY10 with every incremental RM100m raising earnings by 3%.

Leveraged proxy to sector. We think consensus earnings for FY10-FY11 which is 19-22% below ours has room for upgrades. FY10-FY11 profits will be anchored by higher construction profits for KL Sentral as work is being ramped up for Lot A, 348, E and G and development profits from the impending sale of Lot E by end 1Q10 at a new benchmark price of RM1,200 psf or cap rate of 6%. BUY MRCB for a leveraged proxy to the construction and property sector.

At A Glance

Issued Capital (m shrs)	908
Mkt. Cap (RMm/US$m)	1,453 / 428
Major Shareholders	
Employees Provident Fund (%)	30.6
JF ASEAN Funds (%)	4.4
Free Float (%)	67.5
Avg. Daily Vol.('000)	6,019

SOP Value for MRCB (ex-rights) 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 (ex-rights)

	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	3.5	426.9	0.31	4,000 acres in Perak at RM3.5 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				1,010.3	0.74	12x average 2-year forward earnings
Property				343.9	0.25	10x average 2-year forward earnings
Net debt				(529.9)	(0.39)	
Total				2,460.7	1.81	
Outstanding shares (m)				1,361.3		Assuming rights issue on 1 for 2 basis
SOP/share (RM)				**1.81**		

Source: DBS Vickers

Construction orderbook

MRCB's construction orderbook	Total (RMm)	Outstanding (RMm)
Environmental projects		
Pulau Tioman Beach project	132.1	3.6
Kuala Sg. Pahang river mouth project	258	160
Kuala Sg Kuantan rover project	19.5	14
Sg Perai, Penang River Rehabilitation	18.1	4.8
	427.7	182.4
Engineering & construction		
Duta Ulu Kelang Expressway (DUKE)	257	30
Permai Psychiatric Hospital, Johor	556	531
Eastern Dispersal Link, Johor	638	618
Melaka River Marina	24.3	7.6
Penang Sentral Station	200	200
Jln Tun Sambanthan Road Diversion	26	26
Road upgrading works around KL Sentral	110	110
Condominium construction, Gaya Bangsar	103	103
	1,914	1,626
Power transmission network		
Lenggeng (n.Sembilan)- Nuni (Bangi) Trans. Line	63.5	0.6
275kV 50km line Gelang Patah to Bkt Batu	31.7	1.6
Pantai-Salak South GIS Transmission Lines	282	111
132kSwitchgears, sub-station Kluang	25.5	7
Switchyard Bakun, Sarawak	108	85
	511	205
Total	2,853	2,013

Source: Company

Important dates for rights issue

Commencement of trading	3-Feb
Date of despatch of prospectus and allotment letter	4-Feb
Last day of acceptance, renunciation and payment	19-Feb
Rights cease quotation	10-Feb
Date of announcement of final subscription result and basis of allotment of excess rights	24-Feb
Listing date of rights securities	5-Mar

Source: Bursa Malaysia

Income Statement (RM m)

FY Dec	2008A	2009F	2010F	2011F
Turnover	789	1,100	1,522	1,823
Cost of Goods Sold	(684)	(941)	(1,267)	(1,506)
Gross Profit	104	159	255	317
Other Opng (Exp)/Inc	(42)	(88)	(115)	(146)
Operating Profit	62	71	141	171
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(15)	(10)	(10)	(10)
Net Interest (Exp)/Inc	(72)	(25)	(36)	(41)
Exceptional Gain/(Loss)	(17)	0	0	0
Pre-tax Profit	(42)	36	95	120
Tax	(20)	(2)	(19)	(24)
Minority Interest	5	(5)	(7)	(8)
Preference Dividend	0	0	0	0
Net Profit	(57)	29	69	88
Net Profit before Except.	(23)	29	69	88
EBITDA	65	80	150	181
Sales Gth (%)	(12.7)	39.5	38.4	19.8
EBITDA Gth (%)	(65.1)	22.0	88.8	20.7
Opg Profit Gth (%)	(59.8)	13.9	99.1	21.6
Net Profit Gth (%)	(239.0)	(151.6)	135.6	28.1
Effective Tax Rate (%)	N/A	5.0	20.0	20.0

Balance Sheet (RM m)

FY Dec	2008A	2009F	2010F	2011F
Net Fixed Assets	873	954	1,285	1,615
Invts in Associates & JVs	162	302	392	482
Other LT Assets	25	25	25	25
Cash & ST Invts	1,084	1,126	1,480	1,373
Inventory	21	30	40	48
Debtors	107	149	207	248
Other Current Assets	642	642	642	642
Total Assets	2,916	3,229	4,071	4,433
ST Debt	546	546	546	546
Other Current Liab	494	580	710	797
LT Debt	1,062	1,262	1,462	1,662
Other LT Liabilities	162	162	162	162
Shareholder's Equity	635	657	1,163	1,229
Minority Interests	17	22	29	37
Total Cap. & Liab.	2,916	3,229	4,071	4,433
Non-Cash Wkg. Capital	277	241	179	140
Net Cash/(Debt)	(523)	(682)	(528)	(835)

Cash Flow Statement (RM m)

FY Dec	2008A	2009F	2010F	2011F
Pre-Tax Profit	(42)	36	95	120
Dep. & Amort.	18	19	20	20
Tax Paid	0	(4)	(2)	(19)
Assoc. & JV Inc/(loss)	15	10	10	10
Chg in Wkg.Cap.	104	38	45	34
Other Operating CF	(774)	0	0	0
Net Operating CF	(679)	99	167	165
Capital Exp.(net)	(147)	(100)	(350)	(350)
Other Invts.(net)	1	0	0	0
Invts in Assoc. & JV	(120)	(150)	(100)	(100)
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(266)	(250)	(450)	(450)
Div Paid	(8)	(7)	(17)	(22)
Chg in Gross Debt	878	200	200	200
Capital Issues	0	0	454	0
Other Financing CF	735	0	0	0
Net Financing CF	1,605	193	637	178
Net Cashflow	659	42	354	(107)

Rates & Ratio

FY Dec	2008A	2009F	2010F	2011F
Gross Margins (%)	13.2	14.4	16.8	17.4
Opg Profit Margin (%)	7.9	6.4	9.2	9.4
Net Profit Margin (%)	(7.2)	2.7	4.5	4.8
ROAE (%)	(8.4)	4.5	7.6	7.4
ROA (%)	(2.3)	1.0	1.9	2.1
ROCE (%)	3.0	2.6	3.7	3.9
Div Payout Ratio (%)	N/A	25.0	25.0	25.0
Net Interest Cover (x)	0.9	2.8	3.9	4.2
Asset Turnover (x)	0.3	0.4	0.4	0.4
Debtors Turn (avg days)	76.0	42.6	42.7	45.5
Creditors Turn (avg days)	109.4	108.8	109.9	116.2
Inventory Turn (avg days)	14.7	10.1	10.2	10.8
Current Ratio (x)	1.8	1.7	1.9	1.7
Quick Ratio (x)	1.1	1.1	1.3	1.2
Net Debt/Equity (X)	0.8	1.0	0.4	0.7
Net Debt/Equity ex MI (X)	0.8	1.0	0.5	0.7
Capex to Debt (%)	9.1	5.5	17.4	15.9
Z-Score (X)	0.6	0.6	0.9	1.2
N. Cash/(Debt)PS (sen)	(57.7)	(75.1)	(38.8)	(61.3)
Opg CFPS (sen)	(86.2)	6.7	9.0	9.6
Free CFPS (sen)	(91.0)	(0.1)	(13.4)	(13.6)

Quarterly / Interim Income Statement (RM m)

FY Dec	4Q2008	1Q2009	2Q2009	3Q2009
Turnover	204	153	230	257
Cost of Goods Sold	(226)	(153)	(226)	(253)
Gross Profit	(23)	0	4	4
Other Oper. (Exp)/Inc	12	14	16	16
Operating Profit	(10)	14	19	20
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(9)	(1)	(4)	0
Net Interest (Exp)/Inc	(6)	(11)	(6)	(8)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	(25)	2	9	12
Tax	(15)	(2)	3	0
Minority Interest	1	0	0	(1)
Net Profit	(39)	0	12	10
Net profit bef Except.	(39)	0	12	10
Sales Gth (%)	13.5	(25.0)	50.9	11.7
Opg Profit Gth (%)	(38.6)	(236.6)	36.4	4.5
Net Profit Gth (%)	46.6	(100.4)	7,770.6	(16.8)
Gross Margins (%)	(11.1)	(0.1)	1.6	1.5
Opg Profit Margins (%)	(5.1)	9.3	8.4	7.9
Net Profit Margins (%)	(19.3)	0.1	5.2	3.9

Segmental Breakdown / Key Assumptions

FY Dec	2008A	2009F	2010F	2011F
Revenues (RM m)				
Property & Development	200	184	252	335
Engineering & Construction	501	892	1,215	1,432
Infrastructure	97	0	0	0
Building Services	60	24	55	56
Others	(69)	N/A	N/A	N/A
Total	789	1,100	1,522	1,823
Pretax profit (RM m)				
Property & Development	32	27	40	52
Engineering & Construction	(34)	67	103	121
Infrastructure	11	(28)	(15)	(15)
Building Services	54	5	13	13
Total	62	71	141	171
Pretax Margins (%)				
Property & Development	16.1	14.6	15.7	15.6
Engineering & Construction	(6.9)	7.5	8.5	8.5
Infrastructure	10.9	N/A	N/A	N/A
Building Services	90.0	20.0	22.7	22.7
Total	7.9	6.4	9.2	9.4
Key Assumptions				
New order win assumptions	N/A	50.0	400.0	400.0

Source: Company, DBS Vickers

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