



23 February 2010

Malaysian Resources Corp

OUTPERFORM

RM1.37

NO SURPRISES

MRCB showed improved financial performance in 2009, swinging back into the black, thanks to the normalisation in building material prices. We expect this positive momentum to carry on over the next few quarters driven by the run down of the group's construction order book and potentially new contract wins, coupled with greater earnings recognition from property development. We maintain an Outperform rating on the stock.

Financial Highlights	(RMm)				
Year to December	FY07	FY08	FY09E	FY10F	FY11F
Revenue	903.7	788.6	921.6	1,020.9	1,244.4
Norm. net profit	40.7	-47.3	34.6	30.0	58.7
EPS (sen)	4.5	-5.2	3.8	2.2	4.3
EPS Growth (%)	2.1	-239.0	-161.1	-42.3	95.8
P/E (x)	30.5	-22.0	35.9	62.2	31.8
ROE (%)	7.1	-7.1	5.3	3.2	4.8
Gross yield (%)	0.0	-1.2	0.7	0.4	0.8
Dividend payout (%)	0.0	20.0	20.0	20.0	20.0
P/BV (x)	1.8	2.0	1.9	1.5	1.5

Source: Company, KAF estimates

PERFORMANCE

- For the full year, bottom-line swung from a net loss of RM43.7m in FY09 to a net profit of 34.6m, which was inline with our expectations, thanks to the recovery in margins at the construction division, benefitting from lower raw material prices.
- MRCB's on-going construction projects showed improved profitability in 2009, swinging from an operating loss of RM31m in 2008 to a profit of RM41m (excluding the RM9.6m VO claim that was recognized in 2Q09) owing largely to lower building material prices, in particular steel, which had severely impeded earnings delivery in the previous year. Revenue recognition from its outstanding order book has also accelerated, with top-line growing by 66% during the year, as work progress at its EDL and Permai Hospital projects have picked up pace.
- Revenue and operating profits from its property division fell 42% and 20% respectively due to slower progress billings for its current contributing developments, in particular Lot G – Parcel's C & D and Lot A, which are still at preliminary stages of construction. Also, the group recognized contributions from the sale of 2 parcels of land in 2008 which had lifted revenues and profits.

REVISIONS

- Our earnings forecasts are under review.

RECOMMENDATION

- We currently have an Outperform rating on the stock with a target price of RM1.45.

Market Data

Bloomberg code	MRC MK
Shares o/s (m)	1,366
Mkt Cap (RMm)	1,871
52 week high/low (RM)	1.67/0.72
Avg daily trading value (RMm)	14.6
KLCI	1,266

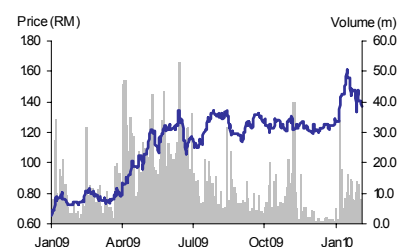
Target Price Methodology

Target (RM)	: 1.45 (+6%)
Methodology	: Sum-of-parts
Assumptions	: ASP=1,400psf, P/E=12x
FY10 PER (x)	: 65.8
FY10 P/B (x)	: 1.6
FY10 Yield (%)	: 0.4

Share Price Performance

	1m	3m	12m
Absolute	(8)	12	72
Relative to KLCI	(5)	13	22

Share Price Movement



Analyst

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MRCB'S QUARTERLY TRENDS

(RM m)	Quarter												Change		Cumulative			KAF	
FYE 31 Dec	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	% qoq	% yoy	FY08	FY09	% chg	2009F	FY09/F	
Turnover	96.6	228.8	301.5	177.1	228.5	179.4	203.6	152.6	230.2	257.1	281.7	10	38	788.6	921.6	17	833.5	111	
Operating profit	45.6	23.5	42.9	40.7	1.2	1.5	14.6	14.2	19.3	20.2	47.8	136	227	58.0	101.6	75	123.0	83	
Operating profit margin (%)	47%	10%	14%	23%	1%	1%	7%	9%	8%	8%	17%			7%	11%		15%		
Finance costs	(17.8)	(12.6)	(36.4)	(38.2)	(21.1)	(6.8)	(5.9)	(11.1)	(5.9)	(8.3)	(13.4)	62	125	(72.1)	(38.6)	(47)	(71.4)	54	
Assoc. & JVs	1.1	4.6	6.3	(0.7)	(3.0)	(2.3)	(9.2)	(1.1)	(4.3)	0.0	(11.1)	nm	21	(15.1)	(16.5)	9	0.9	nm	
Exceptionals	-	-	-	16.7	13.8	(18.4)	(25.0)	-	-	-	-	nm	(100)	(12.9)	-		-	nm	
Pretax profit	28.9	15.5	12.9	18.5	(9.2)	(26.0)	(25.5)	2.0	9.1	12.0	23.4	95	192	(42.2)	46.5	210	52.5	89	
Tax	(6.2)	(0.3)	(18.9)	(4.2)	(0.4)	(0.4)	(14.5)	(1.5)	2.9	(0.5)	(9.9)	> 100	(32)	(19.6)	(9.0)	(54)	(13.1)	69	
Minority interests	(3.4)	(1.0)	0.6	0.4	4.3	(0.4)	0.7	(0.3)	(0.0)	(1.5)	(1.0)	(30)	(239)	5.1	(2.9)	(156)	(5.2)	55	
Net profit	19.3	14.1	(5.5)	14.7	(5.2)	(26.8)	(39.3)	0.2	12.0	10.0	12.4	24	132	(56.6)	34.6	161	34.2	101	
Normalised net profit	19.3	14.1	(5.5)	(2.0)	(19.0)	(8.4)	(14.3)	0.2	12.0	10.0	12.4	24	187	(43.7)	34.6	179	34.2	101	
No. of shares (m)	890.9	907.5	907.5	907.5	907.5	907.5	907.5	907.5	907.5	907.5	907.5								
Basic EPS (sen)	2.2	1.6	(0.6)	(0.2)	(2.1)	(0.9)	(1.6)	0.0	1.3	1.1	1.4	24	187	(4.8)	3.8	179	3.8	101	

nm - not meaningful

Source: Company, KAF estimates

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Dato' Ahmad Bin Kadis
Managing Director

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Buy	High conviction stock with an expected price appreciation in excess of 20% in the next 12 months
Outperform	The stock is expected to perform ahead of the sector and market in the next 12 months
Neutral	The stock is expected to perform in line with the sector and market in the next 12 months
Underperform	The stock is expected to perform below the sector and market in the next 12 months
Sell	High conviction stock with an expected price depreciation in excess of 20% in the next 12 months

Applicability of Ratings:

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