Corporate Highlights

RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

Results/Briefing Note

18 November 2009

M'sian Resources Corp

Strong 9MFY12/09 Performance, Confirms Eyeing Federal Land In KL

Share Price	:	RM1.36
Fair Value	:	RM1.71
Recom	:	**Trading Buy** (Maintained)

Table 1 : Investment Statistics (MRCB; Code: 1651) — **Bloomberg: MRC MK**

FYE Dec	Turnover (RMm)	Net Profit# (RMm)	EPS# (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/CF (x)	P/NTA (x)	ROE (%)	Net Gearing (%)	GDY (%)
2008	788.6	(56.6)	(6.2)	nm	19.7	-	(5.9)	1.6	(8.9)	0.6	0.0
2009f	1,003.8	32.8	3.6	nm	37.7	3.0	21.9	1.5	4.9	0.6	0.9
2010f	1,276.5	73.0	8.0	>100	16.9	5.0	13.2	1.4	9.9	0.4	0.9
2011f	1,325.6	79.7	8.8	9.1	15.5	6.0	12.9	1.3	9.7	0.3	0.9

Main Market Listing /Non-Trustee Stock/Syariah-Approved Stock By The SC *#Excluding EI* ** Consensus Based On IBES*

- **Strong 9M.** 9MFY12/09 net profit came in above expectations at 81-96% of our full-year forecast and the full-year market consensus. We believe the variance against our forecast came largely from a net tax writeback of RM0.9m for 9MFY12/09 (vis-à-vis our forecast of RM9.2m tax for the full year).
- **Eyeing Federal land parcels.** MRCB confirmed that it is eyeing Federal land parcels in KL. In fact, MRCB's scope of Federal land parcels in KL is not confined to those in Jalan Cochrane near the KLCC and Jalan Ampang Hilir near the Jalan U-Thant area. MRCB hinted that it is also keen on certain strategic smaller pockets of federal land in the KLCC area. We maintain our view that MRCB's recently proposed rights issue to raise up to RM566m gross proceeds is a prelude to these land deals.
- **Internal construction jobs to pick up the slack.** In the absence of major contract wins over the last 6-12 months, MRCB's outstanding construction orderbook dwindled to only RM1.5bn as at 30 Sep 09. However, with four KL Sentral projects now confirmed going ahead, internal building work worth a total of RM2bn will help to sustain MRCB's construction profits.
- **Forecasts.** We are raising FY12/09 net profit forecast by 19% largely to reflect a lower tax.
- **Risks.** The risks include: (1) New construction contracts secured in FY12/09-10 coming in below our target of RM500m p.a.; and (2) Rising input costs.
- **Market has high expection.** On the big picture, the market expectation has been a more sustained flow of large-scale projects going forward that will help to replenish or even grow orderbooks of key construction players, putting their earnings back on the growth path again. We believe while this expectation has been priced in, it is still far from being a reality, especially so after the 2010 Budget that does not appear to be as positive to the construction sector. We believe the market has under-appreciated two real key risks, namely: (1) Delays in implementation; and (2) Sub-par margins due to stiff competition.
- **Maintain Trading Buy.** However, MRCB has a new irresistible angle on its property business, i.e. the possibility of bagging two prime federal land parcels in KL, namely: (1) 150 acres in Jalan Cochrane near the KLCC; and (2) 20-30 acres in Jalan Ampang Hilir near the Jalan U-Thant area. We estimate that the land parcels could enhance MRCB's valuation by RM624m or 69sen per share. Indicative fair value is RM1.71 based on "sum of parts".

RHBRI	Vs.	Consensus
✓	Above	✓
	In Line	
	Below	

Issued Capital (m shares)	907.6
Market Cap(RMm)	1,234.3
Daily Trading Vol (m shs)	13.1
52wk Price Range (RM)	0.655-1.45
Major Shareholders:	**(%)**
EPF	30.6

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	+19	-	-
Var to Cons (%)	+20	+61	+46

Share Price Chart

Relative Performance To FBM KLCI

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Please read important disclosures at the end of this report.

Strong 9MFY12/09 Performance, Confirms Eyeing Federal Land In KL

- **Strong 9M.** 9MFY12/09 net profit came in above expectations at 81-96% of our full-year forecast and the full-year market consensus. We believe the variance against our forecast came largely from a net tax writeback of RM0.9m for 9MFY12/09 (vis-à-vis our forecast of RM9.2m tax for the full year).

- MRCB returned to profitability with net profit of RM22.2m in 9MFY12/09 vis-à-vis RM17.3m net loss a year ago: (1) Thanks largely to construction profits recognised during 2Q from approved variation orders on certain projects (of which costs already accounted for in FY08); and (2) As two key construction jobs, i.e the Eastern Dispersal Link (EDL) project (RM638m) and the Permai Psychiatric Hospital project (RM556m), both in Johor, hit key billing milestones.

- Also, MRCB announced that Mohamed Razeek bin Md Hussain Mericar (Razeek) will take the helm of MRCB from 1 Dec 09 as CEO, replacing current group MD Shahril Ridza Ridzuan. Razeek is currently MRCB's COO. Prior to joining MRCB, Razeek had been with several property companies, namely, L&G, E&O Property and Damac Properties.

- **Eyeing Federal land parcels.** MRCB confirmed that it is eyeing Federal land parcels in KL. In fact, MRCB's scope of Federal land parcels in KL is not confined to what were already reported by the press, namely: (1) 150 acres in Jalan Cochrane near the KLCC; and (2) 20-30 acres in Jalan Ampang Hilir near the Jalan U-Thant area. MRCB hinted that it is also keen on certain strategic smaller pockets of federal land in the KLCC area. We maintain our view that MRCB's recently proposed rights issue to raise up to RM566m gross proceeds is a prelude to these land deals.

- **Internal construction jobs to pick up the slack.** In the absence of major contract wins over the last 6-12 months (only two small ones with a total value of RM239m comprising the RM136m upgrading work for KL Sentral's road network and RM103m contract for the rehabilitation of UDA's *Gaya Bangsar* condominum project), MRCB's outstanding construction orderbook dwindled to only RM1.5bn as at 30 Sep 09 (see Table 4). However, with four KL Sentral projects now confirmed going ahead (see Table 5), internal building work worth a total of RM2bn (also see Table 4) will help to sustain MRCB's construction profits. In our earnings forecasts, we assume MRCB to secure RM500m worth of new external jobs this year, and to book in about RM500m worth of internal building work per annum from FY12/10.

- **Forecasts.** We are raising FY12/09 net profit forecast by 19% largely to reflect a lower tax.

- **Risks.** The risks include: (1) New construction contracts secured in FY12/09-10 coming in below our target of RM500m p.a.; and (2) Rising input costs.

- **Market has high expection.** On the big picture, the market expectation has been a more sustained flow of large-scale projects going forward that will help to replenish or even grow orderbooks of key construction players, putting their earnings back on the growth path again. We believe while this expectation has been priced in, it is still far from being a reality, especially so after the 2010 Budget that does not appear to be as positive to the construction sector with a surprise 4.4% cut in gross development expenditure coupled with the "omission" of the RM7bn Ampang and Kelana Jaya LRT line extension project in the Budget Speech that may be a subtle way for the Government of saying that project will not happen in 2010. We believe the market has under-appreciated (or chosen to conveniently ignore) two real key risks, namely: (1) Delays in implementation; and (2) Sub-par margins due to stiff competition.

- **Valuation and recommendation.** However, MRCB has a new irresistible angle on its property business, i.e. the possibility of bagging two prime federal land parcels in KL, namely: (1) 150 acres in Jalan Cochrane near the KLCC; and (2) 20-30 acres in Jalan Ampang Hilir near the Jalan U-Thant area. We estimate that the land parcels could enhance MRCB's valuation by RM624m or 69sen per share. Indicative fair value is RM1.71 based on "sum of parts" (see Table 6). Maintain **Trading Buy**.

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2008 9M	2008 9M	YoY Chg	Observations/Comments
Turnover	585.0	639.9	9%	Driven largely by growth at the construction division.
Construction	367.2	548.5	49%	Construction work at key projects gathered momentum.
Property	167.9	54.2	(68%)	High base in FY08 due to a lumpy item, i.e. land sale at KL Sentral. Also, in FY09, key on-going property projects, i.e. the RM147.5m Companies Commission of Malaysia (SSM) tower and RM147.5m Malaysian Industrial Development Authority (MIDA) tower, both located on "Lot J" of KL Sentral, were at the tail-ends.
Others	80.6	130.1	61%	
Elimination	(30.7)	(92.8)	>100%	
EBIT	55.4	53.7	(3%)	Stronger construction profits were offset by weaker property profits.
Construction	(16.4)	36.6	nm	Thanks largely to profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08).
Property	59.4	5.6	(91%)	High base in FY08 due to a lumpy item, i.e. land sale at KL Sentral. Also, in FY09, key on-going property projects, i.e. the RM147.5m Companies Commission of Malaysia (SSM) tower and RM147.5m Malaysian Industrial Development Authority (MIDA) tower, both located on "Lot J" of KL Sentral, were at the tail-ends.
Others	20.1	18.9	(6%)	
Elimination	(7.8)	(7.4)	(5%)	
Net inc/(exp)	(66.2)	(25.2)	(62%)	High base in FY08 due to one-off premium on early bond redemption.
Associates	(5.9)	(5.4)	(9%)	
Pretax profit	(16.7)	23.1	nm	
Taxation	(5.0)	0.9	nm	
Minority interest	4.3	(1.8)	nm	
Net profit	(17.3)	22.2	nm	Helped by lower interest expense and tax writeback.
EPS (sen)	(1.9)	2.5	nm	
Construction EBIT margin	(4%)	7%	11% pts	Thanks largely to profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08).
EBIT margin	9%	8%	(1% pt)	
Pretax margin	(3%)	4%	6% pts	
Effective tax rate	nm	nm	nm	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2009 1Q	2009 2Q	2009 3Q	QoQ Chg	Observations/Comments
Turnover	152.6	230.2	257.1	12%	
Construction	119.3	199.4	229.9	15%	Construction work at key projects gathered momentum.
Property	15.2	23.7	15.2	(36%)	Normal quarterly fluctuation.
Others	36.0	44.3	49.8	12%	
Elimination	(17.9)	(37.1)	(37.8)	2%	
EBIT	14.2	19.3	20.2	5%	Driven largely by improved construction profits.
Construction	7.9	16.2	12.6	(23%)	High base in 2Q due to profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08).
Property	1.3	3.3	1.0	(70%)	Normal quarterly fluctuation.
Others	8.1	1.8	9.0	>100%	Normal quarterly fluctuation.
Elimination	(3.1)	(2.0)	(2.3)	17%	
Net inc/(exp)	(11.1)	(5.9)	(8.3)	41%	
Associates	(1.1)	(4.3)	0.0	nm	
Pretax profit	2.0	9.1	12.0	31%	
Taxation	(1.5)	2.9	(0.5)	nm	
Minority interest	(0.3)	(0.0)	(1.5)	nm	
Net profit	0.2	12.0	10.0	(17%)	High base in 2Q due to construction profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08), as well as a net tax writeback.
EPS (sen)	0.0	1.3	1.1	(17%)	
Construction EBIT margin	7%	8%	5%	(3% pts)	High base in 2Q due to profits recognised from approved variation orders on certain projects (of which costs already accounted for in FY08).
EBIT margin	9%	8%	8%	(1% pt)	
Pretax margin	1%	4%	5%	1% pt	
Effective tax rate	77%	nm	nm	nm	

Table 4: Outstanding Construction Orderbook	
Project	**Value (RMm)**
External	
EDL	555.1
Permai Psychiatric Hospital, Johor	318.6
Bus terminal in Penang Sentral	200.0
Various environmental projects	102.6
Upgrading of KL Sentral's road network	119.9
Rehabilitation of *Gaya Bangsar*	100.0
Pantai to Salak South substations and lines, Kuala Lumpur	64.9
275kV switchyard, Bakun, Sarawak	55.1
Others	7.0
Total	**1,523.2**
Internal	
Building work: Lot A	224.0
Building work: Lot 348	346.3
Building work: Lot G	1,455.1
Total	**2,025.4**

Source: Company, RHBRI

Table 5: Outstanding KL Sentral Projects

Project	Location	GDV (RMm)	Project Period
1. CIMB tower	Lot A	404	2009-2011 (Confirmed going ahead)
2. MRCB-KFH-Quill office suites	Lot B	1,200	2009-2012
3. MRCB-CMY's St Regis Hotel & Residences	Lot C	1,500	2010-2013
4. MRCB-CapitaLand-Quill condos	Lot D	1,015	2010-2013
5. Low-rise business suites	Lot E	666	2009-2011
6. MRCB-Pelaburan Hartanah Bumiputera retail mall & office tower	Parcels A&B, Lot G	1,434	2009-2011 (Confirmed going ahead)
7. MRCB-Aseana hotel & office towers	Parcels C&D, Lot G	859	2009-2011 (Confirmed going ahead)
8. MRCB-Gapurna office & service apartments (*348 Sentral*)	Lot 348	650	2009-2012 (Confirmed going ahead)
9. Six office towers	Lot F	2,300	2012-2016
Total		**10,028**	

Source: Company

Table 6: Valuation Based On "Sum Of Parts"

Project/Business	RMm	RM/share	Methodology	Key Assumptions
Construction/Property	728.0	0.80	PER	10x FY12/10 net profit, in line with our benchmark 1-year forward target PER for the construction sector of 10-14x.
DUKE (30%)	74.8	0.08	DCF	Project IRR of 15%, equity IRR of 38.8% (debt-equity ratio of 70:30 and average before-tax funding cost of 6.5%), and discount rate that is equivalent to MRCB's cost of equity of 22.4%. DUKE in its entirety carries an NPV of RM249.4m. MRCB's 30% share is therefore RM74.8m.
EDL (100%)	120.51	0.13	DCF	Project IRR of 13%, equity IRR of 32.1% (debt-equity ratio of 70:30 and average before-tax funding cost of 6.5%), and discount rate that is equivalent to MRCB's cost of equity of 22.4%.
Potential prime Federal land in KL (assume 70%)	624.4	0.69	DCF	A total GDV of RM5.7bn, project life of seven years, PBT margin of 30%, tax rate of 25% and the benchmark discount rate of 10% for property projects.
Total	**923.3**	**1.71**		

Table 7: Earnings Forecasts

FYE Dec	FY08a	FY09F	FY10F	FY11F
Turnover	788.6	1,003.8	1,276.5	1,325.6
Turnover growth (%)	-12.7	27.3	27.2	3.9
EBITDA	53.6	68.5	125.9	130.1
EBITDA margin (%)	6.8	6.8	9.9	9.8
Depreciation	-8.5	-8.5	-8.5	-8.5
Net Interest	-72.1	-23.2	-20.0	-15.4
Associates	-15.1	0.0	0.0	0.0
EI	0.0	0.0	0.0	0.0
Pretax Profit	-42.2	36.8	97.4	106.2
Tax	-19.6	-4.0	-24.3	-26.6
PAT	-61.7	32.8	73.0	79.7
Minorities	5.1	0.0	0.0	0.0
Net Profit	-56.6	32.8	73.0	79.7

Source: Company data, RHBRI estimates

Table 8: Forecast Assumptions

FYE Dec	FY09F	FY10F	FY11F
Construction EBIT margin (%)	4.9	7.5	7.6
New orderbook secured (RMm)	500	500	1,000

IMPORTANT DISCLOSURES

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.