

Malaysian Resources Corp (MRC MK)

Construction & Engineering - Construction

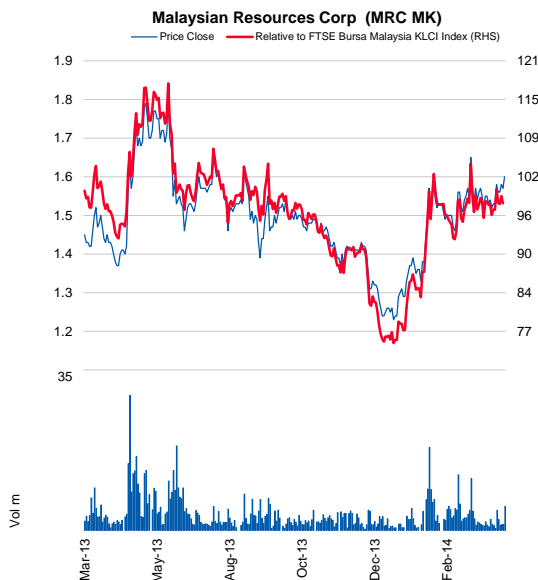
Market Cap: USD803m

Buy (from Neutral)

Target Price: MYR1.82

Price: MYR1.60

Getting Down To Business

Macro
Risks
Growth
Value


Source: Bloomberg

Avg Turnover (MYR/USD)	5.04m/1.51m
Cons. Upside (%)	23.8
Upside (%)	13.7
52-wk Price low/high (MYR)	1.23 - 1.80
Free float (%)	39

Shareholders (%)	
Employees Provident Fund	38.9
Gapurna Sdn Bhd	12.5
Lembaga Tabung Haji	8.8

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We upgrade MRCB to BUY (from Neutral), and raise our FY14F numbers by 10% and FV by 38%. We are impressed by the tremendous pace it has gathered recently in its restructuring drive. While a lot remains to be done, management has won our vote of confidence. We like MRCB for its prime landbank and its strength in transit-oriented development, making it a strong contender for "Project MX-1" of Kwasa Damansara.

- ◆ **Three major disposals in three months.** Malaysian Resources Corp (MRCB) will raise a total of MYR759m cash proceeds from three key disposals, cutting its net debt and gearing to MYR2.1bn and 1.3x respectively. Previously, net debt and gearing stood at MYR2.9bn and 1.7x respectively. More importantly, the speed and decisiveness of MRCB's new management in effecting these transactions gives us the comfort that it has a strong sense of urgency to lift the company out of its doldrums.
- ◆ **A strong contender for "Project MX-1" of Kwasa Damansara.** Given that two MRT stations will form an integral part to the first parcel known as "Project MX-1" to be rolled out from Kwasa Damansara, we believe MRCB's track record in KL Sentral, a world-class transit-oriented development (TRO), will put it ahead of its competitors.
- ◆ **Investors warming up to new management.** We believe the investing fraternity is warming up to MRCB's new management, on the back of the relentless efforts by its key members to accommodate meetings with analysts and fund managers to exchange ideas.
- ◆ **Forecasts.** We raise FY14 core net profit forecasts by 10%, largely to factor in interest savings arising from disposal proceeds.
- ◆ **Upgrade to BUY (from Neutral).** We like MRCB for: i) its prime landbank in the Klang Valley and Penang, ii) its strength in TRO that makes it a strong contender for "Project MX-1" of Kwasa Damansara, and iii) declining risk premium (and hence potentially higher valuations) as investors warm up to its new entrepreneurial management. We raise our FV by 38% to MYR1.82 (from MYR1.32) based on RNAV after ascribing mid-cycle valuations to MRCB's property assets from low-cycle valuations previously. This is in line with the recent upgrade in our weighting for the property sector to OVERWEIGHT (from Neutral).

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	1,227	1,283	941	1,153	1,477
Reported net profit (MYRm)	94	60	(109)	172	97
Recurring net profit (MYRm)	94	60	(109)	43	97
Recurring net profit growth (%)	39.0	(35.7)	(281.5)	na	127.3
Recurring EPS (MYR)	0.07	0.04	(0.08)	0.03	0.06
DPS (MYR)	0.02	0.02	0.00	0.02	0.02
Recurring P/E (x)	23.7	36.9	na	58.9	27.2
P/B (x)	1.61	1.57	1.43	1.46	1.41
P/CF (x)	na	na	50.5	na	18.5
Dividend Yield (%)	0.9	1.2	0.0	1.3	1.3
EV/EBITDA (x)	5.7	13.1	72.0	14.4	11.9
Return on average equity (%)	7.0	4.3	(7.1)	9.9	5.3
Net debt to equity (%)	150.4	180.7	167.4	139.0	132.1
Our vs consensus EPS (%)				173.1	(10.7)

Source: Company data, RHB estimates

Getting Down To Business

The ball is set rolling. We have turned positive on MRCB due to three factors. Firstly, we are pleasantly surprised by the speed and decisiveness of its new management in effecting the restructuring within the company following the announcement of three key disposals in a short span of three months between Nov 2013 and Jan 2014. These disposals will bring in MYR759m cash. Secondly, the long-awaited Kwasa Damansara township project has finally gotten off the ground with the issuance of notice for request for proposal (RFP) in March by master developer Kwasa Land SB to 20 pre-qualified developers – including MRCB – for the very first parcel known as “Project MX-1”. Thirdly, we believe the investing fraternity (ourselves included) is warming up to its new management. This is on the back of the relentless efforts by its key members to meet and exchange ideas with analysts and fund managers, in-between the day-to-day running of the company and endless meetings with investment bankers. However, we are mindful that a lot remains to be done to put MRCB on a firmer footing, with the key one over the immediate term being a final solution to the impasse at the Eastern Dispersal Link (EDL) in Johor.

Three major disposals in three months. MRCB will raise a total of MYR759m cash proceeds from three key disposals comprising: i) a 100% stake in security surveillance systems provider GTC Global Sdn Bhd (MYR45m) – already completed in January, ii) a 30% stake in the Duta-Ulu Kelang Expressway (DUKE) (MYR228m), and iii) the injection of an office complex Platinum Sentral in KL Sentral into Quill Capita Trust (QUIL MK, NEUTRAL, FV: MYR1.25) in exchange for MYR486m cash and 200m new units in the latter at an issue price of MYR1.32 per unit. This translates to a 28% stake in the REIT. *Ceteris paribus*, the MYR759m cash proceeds will reduce MRCB’s net debt and gearing to MYR2.1bn and 1.3x respectively from MYR2.9bn (net debt) and 1.7x (gearing) as at 31 Dec 2013. We view the disposals positively, as they will substantially strengthen MRCB’s balance sheet. More importantly, the speed and decisiveness of its new management in effecting these transactions give us the comfort that it has a strong sense of urgency to lift the company out of its doldrums.

A strong contender for “Project MX-1” of Kwasa Damansara. The long wait for the commencement of the MYR10bn Kwasa Damansara township project, ie the redevelopment 2,330 acres of Rubber Research Institute land in Sungai Buloh, Selangor, (see Figures 1 & 2) may be finally over with the issuance of notice for RFP in March by master developer Kwasa Land SB, a wholly-owned unit of the Employees Provident Fund (EPF), to 20 pre-qualified developers, MRCB included (see Figure 3), for the very first parcel known as “Project MX-1”

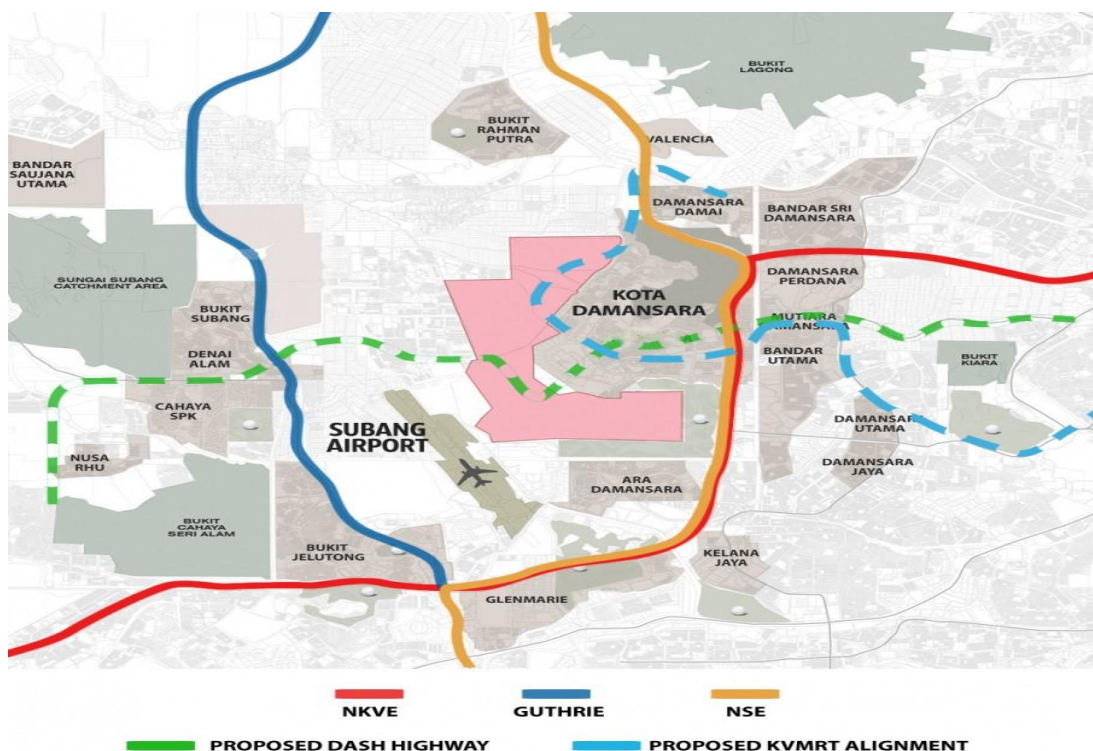
Kwasa Land has disclosed on its website that “Project MX-1” is basically the town centre for the Kwasa Damansara township. It intends to turn the 64-acre site into “a thriving hub of activity” backed by “commercial, retail and residential developments”. It describes the location of “Project MX-1” as “extremely strategic with the advantage of a main road frontage and two MRT stations traversing the area”.

Given that the two MRT stations will form an integral part to “Project MX-1”, we believe MRCB’s track record in KL Sentral, a world-class TRO, will put the company head and shoulders above its 19 competitors. We gathered from sources that the GDV of “Project MX-1” could be worth as much as MYR7bn over a 12-year development period.

Investors warming up to new management. We believe that the investing fraternity (ourselves included) is warming up to MRCB’s new management. This is on the back of the relentless efforts by its key members to accommodate meetings with analysts and fund managers to exchange ideas, in-between the day-to-day running of the company and endless meetings with investment bankers to evaluate further restructuring proposals. We believe familiarity with the new management will reduce the risk premium investors ascribe to MRCB, potentially resulting in higher stock valuations.

A decision on EDL by mid-2014? MRCB is hopeful that the Government will make a final decision on the EDL by mid-2014. We understand that it will either take over the MYR1.3bn expressway or allow MRCB to carry out tolling in accordance with the terms of the concession agreement at the agreed toll rate and point of collection, ie the Custom and Immigration Complex (CIQ) in Johor Bahru, Johor. We understand that the Government is mindful that it is really not in its best interest to drag its feet on this issue. Continuing indecision will cost the Government – in terms of monthly compensation to MRCB – MYR12m in 2014, up from 2013’s MYR11m. To recap, the EDL was supposed to start tolling in May 2012.

Figure 1: Kwasa Damansara location (pink-shaded area)



Source: www.kwasaland.com.my

Figure 2: Aerial view of Kwasa Damansara



Source: www.kwasaland.com.my

Figure 3: Developers pre-qualified to bid for "Project MX-1"

Bandar Raya Developments	Goldis	Mah Sing	Sunway
Bandar Utama City Corp SB	Guocoland Malaysia	Malaysian Resources Corporation	Tropicana Corporation
DRB-HICOM	IJM Land	Perbadanan Kemajuan Negeri Selangor	UEM Sunrise
Eastern & Oriental	IOI Properties	Putrajaya Holdings SB	WCT
Gamuda	I&P Group SB	SP Setia	YTL Corporation

Source: www.kwasaland.com.my

Forecasts. We raise our FY14 core net profit forecast by 10%, largely to factor in interest savings arising from proceeds from the disposals of GTC Global SB and a 30% stake in DUKE.

Risks to our view. These include: i) prolonged weakness in the property market, ii) rising input costs, and iii) new construction contract wins in FY14 to fall short of our MYR300m assumption.

Upgrade to BUY (from Neutral). We turn positive on MRCB as: i) we are impressed by the speed and decisiveness of the new management in effecting the restructuring within the company, ii) the long-awaited Kwasa Damansara township project has finally gotten off the ground with the open bidding for “Project MX-1” now underway, and iii) we believe investing fraternity is warming up to its new management.

We like MRCB for: i) its prime landbank in KL Sentral, PJ Sentral, Setapak, Old Klang Road and Penang; ii) its strength in TRO that makes it a strong contender for “Project MX-1” of Kwasa Damansara; and iii) declining risk premium and, hence, potentially higher valuations as investors warm up to the new entrepreneurial management that has already been seen breathing fresh air into the company. This includes a much shorter lead time in decision-making processes. We raise our FV by 38% to MYR1.82 (from MYR1.32) based on RNAV (see Figure 5) after ascribing mid-cycle valuations to the company’s property assets from low-cycle valuations previously. This is in line with the recent upgrade in our weighting for the property sector to OVERWEIGHT (from Neutral) (see our Sector Update *Property Sector - Ready For A Rebound* (27 Mar 2014)).

Figure 4: Outstanding construction orderbook

Project	Outstanding value (MYRm)
LRT line extension	626.6
Lot B, Q Sentral (internal)	288.7
Kuala Sg Pahang breakwater (Phase 3)	103.7
Giant hypermarket in Setapak	46.0
Pantai Seiring – Pulau Besar 33kV overhead transmission line	31.0
Giant hypermarket in Kampar, Perak	24.5
Others	54.0
Total	1,174.5

Source: Company data, RHB estimates

Figure 5: RNAV

Ongoing development (MYRm)	Acres	GDV	Stake	NPV @ 12%
Q Sentral Office Tower		1,228.0	66%	40.7
Sentral Residences		1,307.0	51%	38.2
9 Seputeh, Old Klang Road	17.6	2,400.0	100%	86.0
Senawang Sentral, Negeri Sembilan		56.0	100%	4.2
Bandar Seri Iskandar, Perak	4,000.0	348.0	70%	16.4
Jalan Kia Peng	1.0	281.0	100%	14.2
Office Towers - Lot F	5.7	3,113.0	74%	49.2
Kajang Utama	4.1	214.0	100%	7.6
Lot 2C4 Putrajaya	1.8	461.0	70%	10.8
Mixed Development at Setapak	27.4	2,880.0	100%	22.2
Lot 349	4.9	1,273.0	70%	19.0
Suria Subang	3.2	338.0	100%	8.5
Selbourne 2, Shah Alam	2.4	198.0	100%	12.5
Batu Ferringhi	3.3	322.0	100%	16.3
Salak South (Phase 1)	6.2	282.0	70%	9.3
Penang Sentral (Phase 1)	5.2	512.0	49%	7.9
		15,213.0		362.9
Investment/for sale properties	Location	Market Value	Book Value	Net surplus
Platinum Sentral	KL Sentral	750.0	401.8	243.7
Nu Sentral Retail Mall	KL Sentral	1,207.5	1,050.0	118.1
Shell Tower	KL Sentral	837.2	728.0	81.9
Ascott Residences	KL Sentral	207.0	180.0	20.3
Puncak Wangi - Lot 8	Petaling Jaya	491.1	427.0	48.0
Nu Towers	KL Sentral	811.9	706.0	79.4
Aloft Hotel	KL Sentral	249.6	217.0	24.4
St. Regis - Hotel	KL Sentral	717.6	624.0	70.2
St. Regis - Serviced Residences	KL Sentral	742.9	646.0	72.7
				758.8
Other divisions				Equity value surplus
Construction (12x 1-year forward earnings)				106.5
Gains/Surplus from disposal of DUKE				99.2
				205.67
Shareholders' funds				1,675.42
Proceeds from ESOS				25.60
Total RNAV				3,028.34
Share base				1,651.31
No. of ESOS (m)				16.00
Enlarged share base (m)				1,667.31
RNAV per share				1.82

Source: Company data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	1,227	1,283	941	1,153	1,477
Cost of sales	(1,001)	(988)	(1,060)	(850)	(1,108)
Gross profit	225	295	(119)	303	369
Gen & admin expenses	(82)	(81)	-	(80)	(80)
Other operating costs	(13)	6	152	10	10
Operating profit	130	221	33	233	299
Operating EBITDA	142	241	52	252	319
Depreciation of fixed assets	(11)	(20)	(20)	(20)	(20)
Operating EBIT	130	221	33	233	299
Net income from investments	(4)	2	5	7	7
Interest expense	(3)	(89)	(148)	(139)	(132)
Exceptional income - net	-	-	-	129	-
Pre-tax profit	123	134	(110)	230	174
Taxation	(15)	(43)	(12)	(25)	(43)
Minority interests	(14)	(31)	14	(33)	(33)
Profit after tax & minorities	94	60	(109)	172	97
Reported net profit	94	60	(109)	172	97
Recurring net profit	94	60	(109)	43	97

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	130	221	33	233	299
Depreciation & amortisation	11	20	20	20	20
Change in working capital	(13)	(302)	150	(129)	-
Operating cash flow	129	(61)	202	123	319
Interest received	24	23	-	-	-
Interest paid	(152)	(174)	(148)	(139)	(132)
Tax paid	(32)	(43)	(9)	(25)	(43)
Cash flow from operations	(31)	(256)	46	(41)	143
Capex	(16)	(8)	(8)	(8)	(8)
Other investing cash flow	(727)	(23)	(188)	173	(100)
Cash flow from investing activities	(743)	(31)	(195)	165	(108)
Dividends paid	(16)	(21)	(26)	-	(33)
Proceeds from issue of shares	5	2	-	-	-
Increase in debt	1,468	(908)	119	-	-
Other financing cash flow	(3)	0	-	-	-
Cash flow from financing activities	1,455	(927)	93	-	(33)
Cash at beginning of period	487	371	644	603	857
Total cash generated	680	(1,214)	(57)	125	3
Implied cash at end of period	1,168	(843)	587	728	860

Source: Company data, RHB estimates

Financial Exhibits

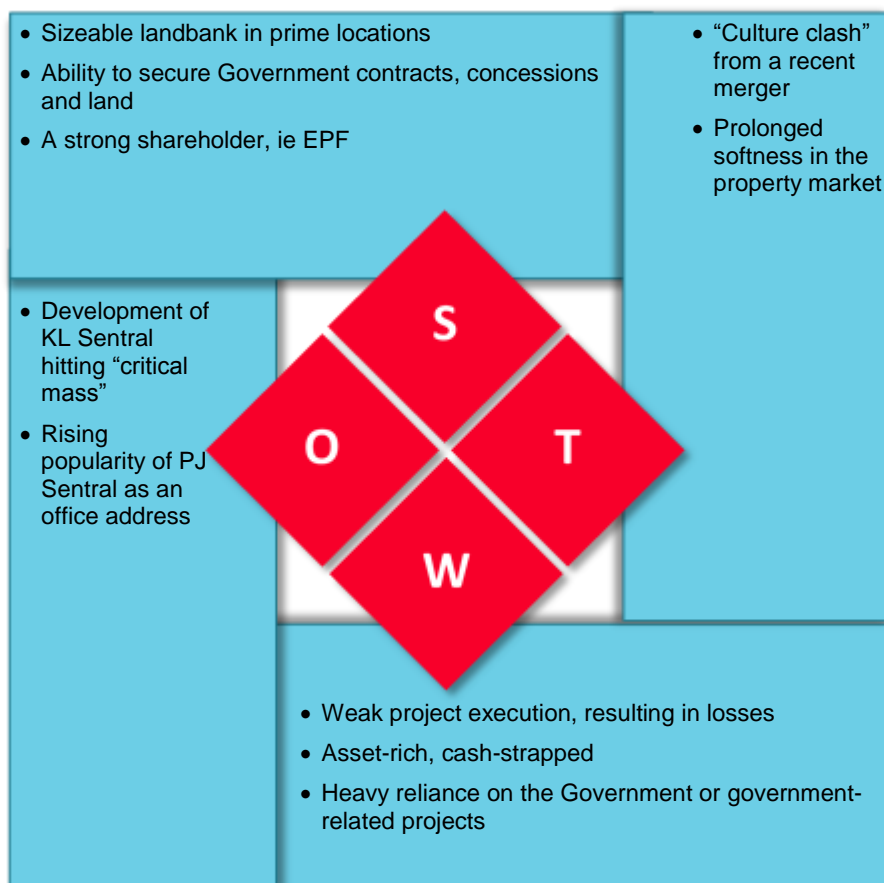
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	616	644	603	857	860
Inventories	17	10	8	8	8
Accounts receivable	1,121	1,429	649	649	649
Other current assets	426	1,821	2,577	2,577	2,577
Total current assets	2,179	3,903	3,838	4,092	4,094
Total investments	2,270	1,195	1,043	1,131	1,218
Tangible fixed assets	777	660	857	864	872
Intangible assets	77	75	291	291	291
Total other assets	105	122	566	437	437
Total non-current assets	3,229	2,052	2,757	2,723	2,818
Total assets	5,408	5,955	6,595	6,815	6,912
Short-term debt	352	2,419	2,594	2,594	2,594
Accounts payable	1,047	685	763	763	763
Other current liabilities	144	394	462	462	462
Total current liabilities	1,543	3,499	3,820	3,820	3,820
Total long-term debt	2,376	890	909	909	909
Other liabilities	75	83	129	177	177
Total non-current liabilities	2,451	973	1,038	1,086	1,086
Total liabilities	3,994	4,472	4,858	4,906	4,906
Share capital	1,386	1,388	1,651	1,651	1,651
Retained earnings reserve	(187)	(141)	(275)	(136)	(72)
Other reserves	177	167	299	299	299
Shareholders' equity	1,376	1,414	1,675	1,815	1,879
Minority interests	38	69	61	94	127
Other equity	0	-	-	-	-
Total equity	1,414	1,483	1,737	1,909	2,006
Total liabilities & equity	5,408	5,955	6,595	6,815	6,912

Source: Company data, RHB estimates

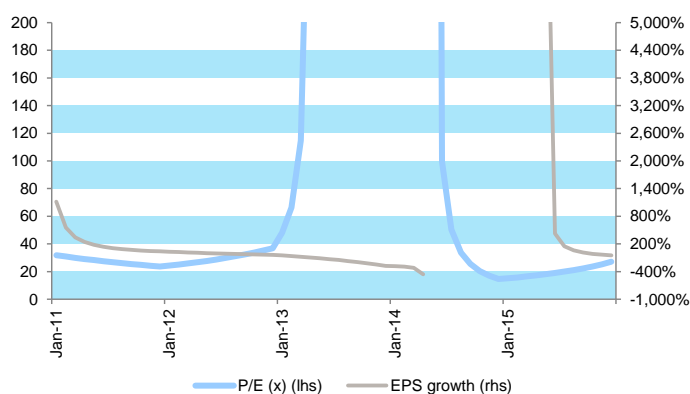
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	14.9	4.6	(26.7)	22.5	28.1
Operating profit growth (%)	18.8	69.4	(85.3)	615.2	28.5
Net profit growth (%)	39.0	(35.7)	(281.5)	0.0	(43.5)
EPS growth (%)	38.8	(35.8)	(274.4)	0.0	(46.1)
Bv per share growth (%)	6.7	2.6	9.6	(1.6)	3.5
Operating margin (%)	10.6	17.2	3.5	20.2	20.2
Net profit margin (%)	7.6	4.7	(11.6)	14.9	6.6
Return on average assets (%)	1.9	1.1	(1.7)	2.6	1.4
Return on average equity (%)	7.0	4.3	(7.1)	9.9	5.3
Net debt to equity (%)	150.4	180.7	167.4	139.0	132.1
DPS	0.02	0.02	0.00	0.02	0.02
Recurrent cash flow per share	(0.02)	(0.18)	0.03	(0.03)	0.09

Source: Company data, RHB estimates

SWOT Analysis

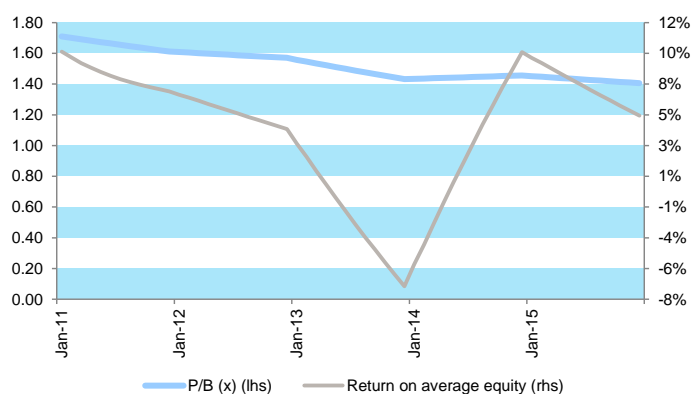


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

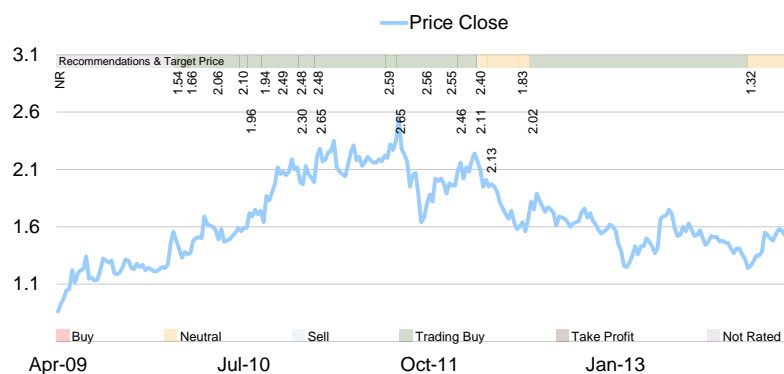


Source: Company data, RHB estimates

Company Profile

Malaysian Resources Corp (MRCB) is engaged in construction (niche strength in environmental projects), property development and investment and toll road operations. Its property development business is underpinned by MYR16.5bn of gross development value from landbank located at KL Sentral, PJ Sentral, KL city centre (Jalan Kia Peng), Setapak, Shah Alam, Penang, etc. It has two toll roads under its stable, ie the Eastern Dispersal Link (EDL) in Johor Bahru (100%) and the Duta-Ulu Klang Expressway (DUKE) in the Klang Valley.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-12-10	Neutral	1.32	1.28
2012-06-18	trading buy	2.02	1.80
2012-05-23	NEUTRAL	1.83	1.60
2012-03-07	NEUTRAL	2.13	1.96
2012-02-10	NEUTRAL	2.11	2.17
2012-02-09	trading buy	2.40	2.19
2011-12-23	trading buy	2.46	2.09
2011-11-29	trading buy	2.55	1.94
2011-09-29	trading buy	2.56	1.78
2011-07-26	trading buy	2.65	2.31

Source: RHB estimates, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
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