

## COMPANY RESULTS

### Malaysian Resources Corporation (MRC MK)

2Q15: Construction Drags Earnings

**MRCB recorded 2Q15 net profit of RM11.1m, which came in below our estimates. The construction division slumped into the red as high operating costs and low margins persist. The property division is seeing steady earnings growth, but the EDL continues to post a drag. MRCB is one of three frontrunners for the lucrative LRT 3 PDP role, which will be awarded soon. We maintain BUY but lower our target price to RM1.50, after adjusting our margins assumptions for future property projects.**

#### 2Q15 RESULTS

Year to 31 Dec (RMm)	2Q15	1Q15	qoq % chg	yoy % chg	1H15	yoy % chg
Turnover	489.1	404.2	21.0	93.7	893.3	95.4
Engineering & Construction	192.1	169.1	13.6	1.5	361.2	15.9
Property development	253.6	224.2	13.1	721.8	477.7	158.9
Infrastructure & Environmental	28.4	29.1	(2.5)	n.m	57.6	nm
EBIT	129.1	282.4	(54.3)	(22.5)	411.5	107.6
Engineering & Construction	27.5#	2.2	nm	198.6	29.7	103.2
Property development	79.4	273.3	(71.0)	158.6	352.7	nm
Infrastructure & Environmental	16.7	16.5	1.2	nm	33.3	n.m
Pre-Tax Profit	92.0	259.2	(64.5)	(33.9)	351.2	106.1
Net Profit	60.1	237.9	(74.7)	(49.3)	298.0	128.3
Core Net Profit	11.1	15.9	(25.1)	19.0	27.0	(8.7)
Construction margin	n.m	1.3%			n.m	
Property margin	16.0%*	24.0%*			20.0%	

Source: Malaysian Resources Corporation Berhad, UOB Kay Hian

\*adjusted to remove one off gain from Platinum Sentral disposal, ^adjusted to remove one off gain from DMIA asset disposal amounting to RM38m, #includes a one-off LAD write-back amounting RM34m

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	941	1,515	1,530	1,868	1,914
EBITDA	(91)	315	341	376	382
Operating profit	(91)	315	327	363	368
Net profit (rep./act.)	(119)	182	292	142	143
Net profit (adj.)	(119)	60	72	142	143
EPS (sen)	(7.2)	3.6	4.4	8.6	8.7
PE (x)	n.m.	22.8	18.9	9.7	9.6
P/B (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	n.m.	14.2	13.2	11.9	11.7
Dividend yield (%)	0.0	3.0	2.4	2.4	2.4
Net margin (%)	(12.7)	12.0	19.1	7.6	7.5
Net debt/(cash) to equity (%)	174.7	153.4	142.5	136.6	128.3
Interest cover (x)	(3.6)	2.1	2.0	2.5	2.6
ROE (%)	(7.7)	9.9	14.6	6.8	6.5
Consensus net profit	-	-	81	111	133
UOBKH/Consensus (x)	-	-	0.89	1.28	1.08

Source: Malaysian Resources Corporation Berhad, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

Share Price	RM0.83
Target Price	RM1.50
Upside	+80.7%
(Previous TP)	RM2.05)

#### COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	1,786.6
Market cap (RMm):	1,482.9
Market cap (US\$m):	349.5
3-mth avg daily t'over (US\$m):	0.4

#### Price Performance (%)

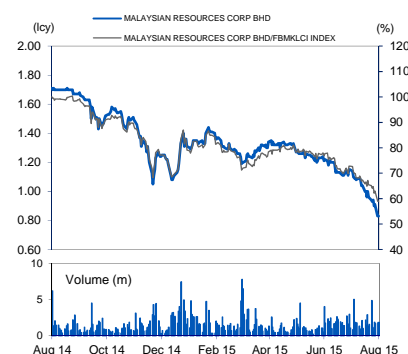
52-week high/low		RM1.71/RM0.830		
1mth	3mth	6mth	1yr	YTD
(27.8)	(37.6)	(39.0)	(50.6)	(32.0)

#### Major Shareholders

	%
Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1

FY15 NAV/Share (RM)	1.23
FY15 Net Debt/Share (RM)	1.75

#### PRICE CHART



Source: Bloomberg

#### ANALYST

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### RESULTS

- **Results were below expectations**, with net profit coming in at RM60.1m (-74.7% qoq, -49.3% yoy), on revenues of RM489.1m (+21% qoq, +93.7% yoy). Malaysian Resources Corporation's (MRCB) top-line growth in 2Q15 was driven by the recognition of ongoing jobs, particularly the Q Sentral office tower and ongoing LRT construction jobs. Included in the net profit are one-off recognitions of: a) gains arising from it's a DMIA asset disposal amounting to RM38m, and b) write-back on provisions for the NuSentral Mall construction that were made back in 2014 amounting to RM34m. Excluding these one-off items, core net profit came in at RM11.1m (-25.1% qoq, +19% yoy). Ytd, its cumulative 1H15 net profit came in at RM27m (-8.7% yoy) which accounts for about 30% of our full-year earnings estimates of RM93m and 33% of consensus full-year estimate of RM82m. Earnings missed estimates mainly due to a poorer construction division performance, and lower-than-expected traffic numbers at the Eastern Dispersal Link (EDL).
- **Construction went into the red.** The construction division recorded revenue of RM192.1m (+13.6% qoq, +1.5% yoy) and an adjusted EBIT of RM27.5m (+>100% qoq, +>100% yoy) which includes the liquidated and ascertained damages (LAD) write-back. However, after excluding the LAD write-back of RM34m, the construction division recorded an estimated loss of about RM8.1m. While revenue was up, earnings went into the red mainly due to: a) low construction margins particularly for the LRT extension project, and b) higher staff costs incurred for the division as it plans to expand its capacity.
- **Property development division took a dip.** In 2Q15, the property development arm recorded revenue and EBIT of RM253.6m (+13.1% qoq, +>100% yoy) and RM79.4m (-71% qoq, +>100% yoy) respectively. Excluding the one-off gain from the DMIA asset disposal, EBIT stood at RM45.4m. Margin wise, the property division recorded an adjusted EBIT margin of 16%, a dip from 24% in 1Q15, largely due to high startup costs for its mixed development, where piling works are ongoing.
- **EDL continues to drag numbers down.** In 2Q15, MRCB lost earnings contribution worth RM12.5m from EDL. This came on the back of lower vehicular traffic due to an increase in the vehicle entry permits (VEP) into Singapore for both Malaysia and Singaporean cars. Currently, traffic at the expressway averages at about 45,000 vpd, falling short of its 50,000 vpd target. Financially, this expressway accounts for a bulk of MRCB's interest costs, at about RM83m/year. However, management is in talks to refinance the debt, which could see significantly lower interest payments thereafter. Following a refinancing, we estimate that interest cost could potentially drop by RM20m-23m/year.

### STOCK IMPACT

- **A frontrunner for LRT3 PDP role.** We gather that MRCB (together with its partner, George Kent) has been shortlisted to bid for the PDP role of the RM9b LRT Line 3 construction of which's tender result is expected to be out soon. Assuming that MRCB secures the PDP role, we estimate that it would be able to potentially lift up its construction earnings by RM54m yearly for 5 years (based on a 6% PDP fee, and a 50% stake in the JV).
- **Construction orderbook stands at about RM889m** which represents about 1.7x of its 2014 construction division revenue. A bulk of the outstanding construction orderbook comprises of orders for: a) the LRT extension job (RM444m), and b) construction of buildings (RM431m), and c) environmental rehabilitation jobs (RM14m).

### EARNINGS REVISION/RISK

- We reduce our earnings estimates by 19.5%, 3.6% and 4.8% for 2015F-17F respectively to take into account the lower property development margins and higher losses from the EDL which is operating below projected traffic numbers.
- This year remains as a financial consolidation year for MRCB, but once the company is able to address its medium-term funding needs to fund its lucrative property developments, the stock should regain its traction.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM1.50** (from RM2.05), after a) reducing our margin assumptions for its property development division (from 25% to 20%), b) updating our traffic numbers for the EDL, and c) raising our SOTP discount to 35% (from 30%). Our target price is based on a 30% discount to our SOTP valuation of RM2.29/share. Our target price implies a 17x 2016F PE, below its 5-year -1SD PE of 19.5x.

### RNAV

	(RMm)
Property	2,729.6
Construction	371.4
Maintenance	86.4
Investment Properties	1,968.4
Concession	1,403.2
Net Debt	(2,722.4)
QCT 33% stake	264.0
Total RNAV	4,100.6
Sharebase	1,651.3
Issuance for PJ Sentral 2	108.8
Enlarged sharebase	1,760.1
RNAV/share	2.33
Discount	35%
Target Price (RM)	1.50

Source: UOB Kay Hian

### KEY BRIEFING HIGHLIGHTS

- Secured RM162m in sales for 2Q15, lifting 1H15 sales to RM410m. Mainly driven by 9 Seputeh & Melbourne project
- Unbilled sales at RM1.7b (from RM1.8b in 1Q15)

### OTHER POTENTIAL REIT-ABLE ASSETS

Investment Property	Value (RMm)
Sooka Sentral, KL Sentral	61.6
Menara Shell (Lot 348)	707.4
Plaza Alam Sentral, Shah Alam	77.8
Kompleks Sentral, Segambut	30.0
Ascott Residences	157.3
<b>Total Value</b>	<b>1,056.6</b>

Source: UOB Kay Hian

### PE BAND



Source: Bloomberg, UOB Kay Hian  
\*2012 was a loss-making year

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
<b>Net turnover</b>	<b>1,515</b>	<b>1,530</b>	<b>1,868</b>	<b>1,914</b>
EBITDA	315	341	376	382
Deprec. & amort.	0	14	14	14
EBIT	315	327	363	368
Total other non-operating income	n.a.	(14)	(14)	(14)
Associate contributions	(24)	(9)	3	4
Net interest income/(expense)	(152)	(175)	(148)	(149)
<b>Pre-tax profit</b>	<b>221</b>	<b>350</b>	<b>203</b>	<b>209</b>
Tax	(53)	(34)	(51)	(54)
Minorities	14	(24)	(11)	(11)
<b>Net profit</b>	<b>182</b>	<b>292</b>	<b>142</b>	<b>143</b>
Net profit (adj.)	60	72	142	143

**BALANCE SHEET**

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	230	230	230	230
Other LT assets	3,520	3,939	3,993	4,050
Cash/ST investment	661	444	404	431
Other current assets	2,631	2,165	2,391	2,370
<b>Total assets</b>	<b>7,042</b>	<b>6,779</b>	<b>7,018</b>	<b>7,080</b>
ST debt	1,391	853	853	853
Other current liabilities	1,173	1,041	1,266	1,181
LT debt	2,317	2,488	2,488	2,488
Other LT liabilities	97	261	147	164
Shareholders' equity	1,985	2,033	2,150	2,269
Minority interest	79	103	114	125
<b>Total liabilities &amp; equity</b>	<b>7,042</b>	<b>6,779</b>	<b>7,018</b>	<b>7,080</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
<b>Operating</b>	<b>156</b>	<b>175</b>	<b>263</b>	<b>329</b>
Pre-tax profit	221	130	203	209
Tax	(53)	(34)	(51)	(54)
Deprec. & amort.	0	(14)	(14)	(14)
Associates	39	449	0	0
Working capital changes	205	281	281	345
Other operating cashflows	(256)	(636)	(157)	(157)
<b>Investing</b>	<b>(73)</b>	<b>419</b>	<b>(30)</b>	<b>(30)</b>
Capex (growth)	0	(30)	(30)	(30)
Investments	39	449	0	0
Proceeds from sale of assets	0	0	0	0
Others	(112)	0	0	0
<b>Financing</b>	<b>(83)</b>	<b>(750)</b>	<b>(272)</b>	<b>(272)</b>
Dividend payments	(18)	(25)	(25)	(24)
Issue of shares	0	0	0	0
Proceeds from borrowings	182	(538)	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(248)	(188)	(248)	(248)
<b>Net cash inflow (outflow)</b>	<b>0</b>	<b>(156)</b>	<b>(40)</b>	<b>26</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>309</b>	<b>661</b>	<b>444</b>	<b>404</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>308</b>	<b>504</b>	<b>404</b>	<b>431</b>

**KEY METRICS**

Year to 31 Dec (%)	2014	2015F	2016F	2017F
<b>Profitability</b>				
EBITDA margin	20.8	22.3	20.2	20.0
Pre-tax margin	14.6	8.5	10.9	10.9
Net margin	12.0	4.7	7.6	7.5
ROA	2.7	1.0	2.1	2.0
ROE	9.9	3.6	6.8	6.5
<b>Growth</b>				
Turnover	61.0	1.0	22.1	2.5
EBITDA	n.a.	8.2	10.5	1.5
Pre-tax profit	n.a.	58.1	56.6	2.7
Net profit	n.a.	60.7	95.5	1.4
Net profit (adj.)	n.a.	20.6	n.a.	1.4
EPS	n.a.	20.6	n.a.	1.4
<b>Leverage</b>				
Debt to total capital	64.2	61.0	59.6	58.3
Debt to equity	186.7	164.4	155.4	147.3
Net debt/(cash) to equity	153.4	142.5	136.6	128.3
Interest cover (x)	2.1	2.0	2.5	2.6

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