

Outthink. Outperform.

Weak quarter

Malaysian Resources Corp (MRCB) reported a weak 3Q15 result mainly due to absence of exceptional gains from property disposals recognised in previous quarters. Core net profit fell 79% QoQ mainly due to weaker property development earnings, which was in line with our expectations. We reiterate our BUY call but reduced our target price to RM1.60 from RM1.80 to reflect the potential dilution from the proposed private placement on our RNAV estimate.

Weaker 3Q15 result

MRCB saw net profit contracting 91% QoQ and 79% YoY to RM5.6m due to the absence of exceptional gains. Core net profit also declined 79% QoQ to RM4.4m due to weaker property development earnings, which was partly offset by higher construction earnings. The lower property development earnings were due to the completion of Q Sentral in 3Q15.

Property gain boost for 4Q15

For 9M15, net profit jumped 92% YoY to RM304m. This was lifted by one-off gain from the disposal of Platinum Sentral office block and Paradigma Berkat. Core earnings increased 48% YoY to RM40m driven by higher construction and property development earnings. Its highway concession incurred a pre-tax loss of RM30m due to high interest expense and amortisation charges. MRCB completed the sale of its 51% stake in Nu Sentral in October and a RM70m gain will be recognised in 4Q15.

Earnings revision

We fine-tuned our earnings forecast for FY15E and upgrade our FY16E earnings marginally by 1% to reflect the delayed launch of two new projects next year, ie, 3 Residences and Semarak City. We reduced our fully-diluted RNAV estimate to RM2.00 from RM2.20 to reflect the potential dilution from the proposed share placement assuming new share issuance at 20% of existing share capital at indicative price of RM1.24.

Moderated target price

The share price could see short-term weakness due to the overhang from the proposed share placement. Applying the same 20% discount to our reduced RNAV, we cut our target price to RM1.60 from RM1.80. We continue to like MRCB for its good long-term prospects. BUY.

Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	940.9	1,514.8	1,693.3	1,518.9	1,547.6
EBITDA (RMm)	71.6	281.8	294.8	277.1	317.8
Pretax profit (RMm)	(110.4)	220.6	483.9	173.2	172.9
Net profit (RMm)	(109.1)	152.6	382.9	104.8	112.2
EPS (sen)	(3.9)	8.0	17.5	5.7	6.0
PER (x)	NM	15.3	6.4	23.4	21.8
Core net profit (RMm)	(67.7)	4.2	53.6	79.8	112.2
Core EPS (sen)	(4.6)	0.2	3.0	4.5	6.3
Core EPS growth (%)	NM	NM	136.7	31.4	29.5
Core PER (x)	NM	91.9	38.8	29.5	22.8
Net DPS (sen)	1.0	2.5	2.5	2.5	2.5
Dividend Yield (%)	0.7	1.8	1.8	1.8	1.8
EV/EBITDA (x)	22.1	75.9	19.6	22.1	24.2
Chg in EPS (%)			0.1	1.1	(12.3)
Affin/Consensus (x)			4.9	0.9	0.9

Source: Company, Affin estimates

Result Note

MRCB

MRC MK
Sector: Construction

RM1.37 @ 19 November 2015

BUY (maintain)

Upside 17%

Price Target: RM1.60

Previous Target: RM1.80



Price Performance

	1M	3M	12M
Absolute	+13.2%	+45.7%	-9.3%
Rel to KLCI	+17.2%	+38.9%	-0.3%

Stock Data

Issued shares (m)	1786.6
Mkt cap (RMm)/(US\$m)	2,448.9/563
Avg daily vol - 6mth (m)	3.9
52-wk range (RM)	0.80-1.57
Est free float	34.5%
BV per share (RM)	1.29
P/BV (x)	1.06
Net cash/ (debt) (RMm) (2Q14)	(2,787)
ROE (2015F)	17.1%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

EPF	38.4%
Gapurna Sdn Bhd	16.7%
LTH	10.1%

Source: Affin, Bloomberg

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Fig 1: Result summary

FYE 31 Dec (RMm)	3Q15	QoQ% chg	YoY% chg	9M15	YoY% chg	9H15 Comment
Revenue	374.1	(29.5)	(24.8)	1,308.5	27.3	Drop in revenue QoQ mainly from its property development division on completion of Q Sentral in 2Q15. But higher revenue for 9M15 due to higher progress billings for construction projects.
Op costs	(323.6)	(25.4)	(30.5)	(1,116.6)	22.1	
EBITDA	71.0	(26.2)	123.1	232.8	106.0	
EBITDA margin (%)	19.0	0.8ppt	12.6ppt	17.8	6.8ppt	9M15 margin is lifted by RM34m w rite-back of provisions for liquidated ascertained damages for Nu Sentral completion delay.
Depreciation	(13.6)	29.6	159.2	(40.8)	159.2	
EBIT	57.4	(33.0)	116.0	192.0	97.4	
Int expense	(44.5)	0.4	10.5	(134.1)	6.7	
Int and other inc	11.6	7.4	(64.7)	44.5	(64.1)	Government compensation for EDL lifted other income in 1H14 but did not recur in 1H15.
Associates	0.8	(16.4)	NA	8.1	NA	
Forex gain (losses)	0.0	0.0	0.0	0.0	0.0	
Exceptional items	0.0	(100.0)	(100.0)	259.3	110.5	Gain on sale of Platinum Sentral to MRCB Quill REIT (RM220.5m) and sale of 70%-owned Paradigma Berkat to DMIA (RM38.8m) recognised in 1H15.
Pretax profit	25.3	(72.5)	(38.7)	369.7	81.3	Lower qoq in 3Q15 due to absence of exceptional gains. Higher yoy in 9M15 due to jump in exceptional gains and w rite-back of provisions.
Core pretax	25.3	(52.3)	94.6	110.4	36.7	
Tax	(18.7)	1.2	101.5	(44.3)	25.6	
Tax rate (%)	76.3	56.0ppt	56.7ppt	12.0	(5.3ppt)	Lower tax rate as gain on sale of property investments are not subject tax.
Discontinuing operations	1.2	7,481.3	(13.3)	4.6	(42.0)	
Minority interests	(2.2)	(83.9)	(64.2)	(26.4)	41.0	
Net profit	5.6	(90.6)	(79.4)	303.6	92.3	9M15 result was in line with expectations.
EPS (sen)	0.3	(97.6)	(78.4)	17.0	91.8	
Core net profit	4.4	(79.2)	NM	39.7	48.3	Includes w rite-back of LAD that lifted core earnings in 1H15 but weaker in 3Q15 due to lower property earnings.

Source: Affin Hwang estimates, company

Fig 2: RNAV and target price

Segment	Value (RMm)	Per share
Property development	3,306	1.85
Property investment	1,261	0.71
Construction	604	0.34
Concession	987	0.55
Car Park & REIT	423	0.24
Total	6,581	
Net cash/(debt)	(1,580)	(0.88)
RNAV	5,000	
No. of shares	1,787	
RNAV / share	2.80	2.80
Fully-diluted no. of shares	2,363	
Fully-diluted RNAV	2.68	
Post-placement FD no. of shares *	2,720	
Fully-diluted RNAV post-placement *	2.00	
Target price @ 20% discount	1.60	

* Assumes share placement is 20% of share capital at RM1.24 price.

Source: Affin Hwang estimates



Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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