

Malaysian Resources Corp

Rights Issuance Price Fixed

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Yesterday, MRCB fixed its rights issue price at RM0.79 and bagged a new contract amounting to RM58.9m to construct a stadium in Larkin. Following the price fixing, we raised our FY18E earning by 49% after factoring in the potential interest savings from the rights issuance exercise. While we are maintaining our OUTPERFORM call on MRCB, we also lowered our SoP-driven TP to RM1.14 from RM1.23 given that the amount raised from the rights issuance is lower than our earlier expectation.

Price fixed... Yesterday, MRCB announced that the issue price for the rights shares has been fixed at RM0.79 per rights share. The issue price of RM0.79 represents a 20.2% discount to its theoretical ex-all price of RM0.99. Based on the issue price of RM0.79, MRCB is looking to raise RM2.25b from the exercise instead of RM2.85b from its earlier proposed/illustrative issue price of RM1.00 due to weak market conditions. The exercise will bring down its existing net gearing of 0.99x (as of 2Q17) to 0.24x.

Secures Larkin stadium job... On a separate announcement, MRCB also announced that they have secured a stadium job in Larkin for a total consideration of RM58.9m. The construction work for the stadium would take up to 18 months from the award date and we are neutral on the contract award win as it is within our order-book replenishment assumption of RM1.0b. To-date, MRCB has won RM467.9m worth of jobs, making up 47% of our order-book replenishment of RM1.0b. Apart from the Larkin stadium job, they also announced the contract win for MRT2 station works (package S210) totalling to RM145.8m which have no impact to our FY17-18E earnings as we have already factored this in our estimates given that work package S210 is part of package V210 worth RM648.0m that they secured last year.

Outlook. Moving into FY17, management are maintaining their sales target at RM1.2b, banking on their planned launches of Sentral Suites (GDV: RM1.4b), 9 Seputeh Phase 2 (GDV: >RM900.0m), Bukit Rahman Putra (GDV: RM100.0m) and Bandar Sri Iskandar (GDV: RM16.0m). MRCB's remaining external construction order-book stands at c.RM7.0b. Coupled with c.RM1.5b unbilled property sales, these numbers will provide the group at least four years of earnings visibility.

Raising FY18E earnings. Following the announcement of its price fixing, we raised our FY18E core earnings by 49% after factoring in the potential interest savings from the proceeds of the entire rights issuance exercise, while keeping our FY17E earnings unchanged.

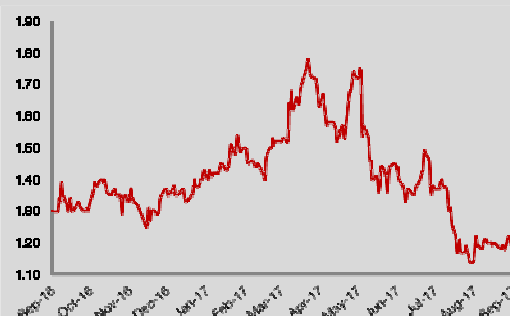
OUTPERFORM maintained. Nonetheless, we are maintaining our OUTPERFORM call on MRCB but with a lower SoP-driven Target Price of RM1.14 (cum-rights TP, RM1.48) from our previous TP of RM1.23 after factoring in a lower rights issue price of RM0.79 as compared to our previous assumption of RM1.00. We are positive with the rights issuance exercise as it brings MRCB back into a better financial footing coupled with the potential sale of EDL highway which would be an upcoming catalyst for the stock.

Downside risks to our call include: (i) weaker-than-expected property sales, (ii) higher-than-expected administrative cost, (iii) negative real estate policies, and (iv) tighter lending environment.

OUTPERFORM ↔

Cum/Ex-Price : RM1.19/RM0.99
Cum/Ex-Target Price : RM1.48/RM1.14 ↓

Share Price Performance



KLCI	1,776.66
YTD KLCI chg	8.2%
YTD stock price chg	-10.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,609.2
Issued shares	2,192.6
52-week range (H)	1.80
52-week range (L)	1.13
3-mth avg daily vol:	6,057,545
Free Float	41%
Beta	1.0

Major Shareholders

Employees Provident Fund	34.7%
Gapurna Sdn Bhd	16.6%
Bank Kerjasama Rakyat Malaysia Bhd	7.8%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	2,408.1	2,408.6	2,714.6
EBIT	547.1	535.9	257.9
PBT	392.6	129.9	259.8
Net Profit (NP)	267.4	54.1	108.2
Core NP	244.1	54.1	108.2
Consensus (CNP)	n.a.	119.4	140.8
Earnings Revision	n.a.	0%	49%
*Core EPS (sen)	4.3	0.9	1.9
Core EPS growth(%)	-427.1	-77.8	100.0
NDPS (sen)	2.8	1.0	1.5
NAV/Share (RM)	0.44	1.21	1.22
*PER (x)	23.3	115.1	57.6
*Core PER (x)	25.5	115.1	57.6
Price/NAV (x)	2.46	0.90	0.90
Net Gearing (x)	0.8	-0.2	-0.2
Dividend Yield (%)	2.5	1.0	1.4

*On a post rights issuance basis.



OTHER POINTS

SOP Valuations			
Property Development	Various	NPV of profits (WACC: 11%) after 50% discount	1,477.41
Property Investment	Various	Book Value	1,975.55
Construction	Various	FY18` PER of 8x	210.00
Building Services	100%	FY18 PER of 7x	58.37
Quill Capital REITs	31%	Estimate Market Cap of Quill	453.02
Concession			
EDL	100%	DCF (WACC: 7%)	889.75
Sub Total			5,064.12
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant conversion			262.00
Proceeds from rights			2,232.04
Total			7,636.96
No of FD shares			5,713.44
SoP (RM)			1.34
Holding Co. Discount			15%
TP (RM)			1.14

Source: Kenanga Research

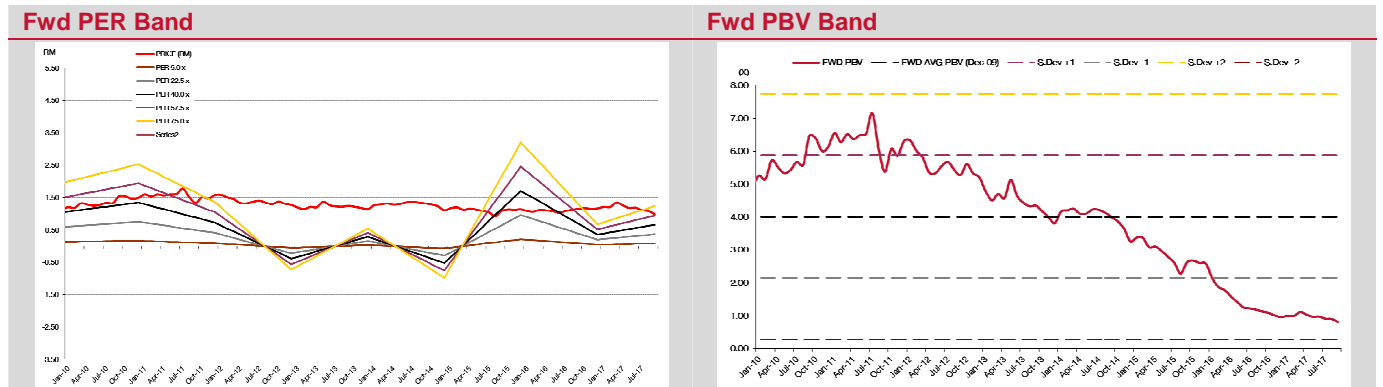
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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	1,514.5	1,696.7	2,408.1	2,408.6	2,714.6	Growth					
EBITDA	354.4	547.1	535.9	274.1	330.9	Turnover (%)	-	12.0	41.9	0.0	12.7
Depreciation	-38.8	0.0	0.0	-16.2	-15.0	EBITDA (%)	-	54.4	-2.0	-48.9	20.7
Operating Profit	315.6	547.1	535.9	257.9	316.0	Operating Profit (%)	-	73.3	-2.0	-51.9	22.5
Int Income	38.4	0.0	0.0	19.2	13.5	PBT (%)	-	67.8	6.1	-66.9	100.0
Interest Exp	-171.2	-184.8	-175.9	-156.5	-86.5	Core Net Profit (%)	-	-279.5	-427.1	-77.8	100.0
Associate	12.3	16.0	26.3	2.6	2.6	Profitability (%)					
Jointly Controlled Entity	-36.6	-8.1	6.3	-0.9	-0.9	EBITDA Margin	23.4	32.2	22.3	11.4	12.2
PBT	220.6	370.1	392.6	129.9	259.8	Operating Margin	20.8	32.2	22.3	10.7	11.6
Taxation	-53.3	-6.1	-73.5	-32.5	-64.9	PBT Margin	14.6	21.8	16.3	5.4	9.6
Minority Interest	-30.9	-33.6	-51.7	-43.3	-86.6	Core Net Margin	2.7	-4.4	10.1	2.2	4.0
Net Profit	136.5	330.4	267.4	54.1	108.2	Effective Tax Rate	24.1	1.6	18.7	25.0	25.0
Core Net Profit	41.6	-74.6	244.1	54.1	108.2	ROE	2.09	-3.30	8.58	0.75	1.49
						ROA	0.59	-1.05	3.23	0.44	0.83
						DuPont Analysis					
						Net Margin (%)	2.7	-4.4	10.1	2.2	4.0
						Assets Turnover (x)	0.2	0.2	0.3	0.2	0.2
						Leverage Factor (x)	3.5	3.1	2.7	1.7	1.8
						ROE (%)	2.09	-3.30	8.58	0.75	1.49
						Leverage					
						Debt/Asset (x)	0.5	0.5	0.4	0.3	0.3
						Debt/Equity (x)	1.9	1.5	1.0	0.5	0.5
						Net Debt/Equity (x)	1.5	1.3	0.8	-0.2	-0.2
						Valuations					
						EPS (sen)	2.7	5.8	4.7	0.9	1.9
						Core EPS (sen)	0.7	-1.3	4.3	0.9	1.9
						NDPS (sen)	0.8	0.0	2.8	1.0	1.5
						NTA/share (RM)	0.30	0.34	0.44	1.21	1.22
						PER (x)	37.1	17.1	21.2	104.6	52.3
						Core PER (x)	136.1	-75.8	23.2	104.6	52.3
						Net Div. Yield (%)	0.8	0.0	2.8	1.1	1.5
						P/NTA (x)	3.30	2.91	2.24	0.82	0.81

Balance Sheet					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	2,083.5	2,537.9	1,249.8	1,661.3	1,436.0
Intangible Assets	271.8	317.1	317.1	317.1	317.1
Other FA	1,694.0	2,336.6	2,523.1	2,564.6	2,614.5
Inventories	874.2	551.7	962.9	963.3	1,140.1
Receivables	748.3	1,095.1	1,248.0	1,248.2	1,373.9
Other CA	978.0	45.5	978.0	978.0	978.0
Cash	660.7	520.7	598.4	4,995.3	5,508.0
Total Assets	7,041.9	7,089.8	7,562.5	12,413.1	13,052.9
Payables	652.6	1,188.4	1,494.4	1,494.6	1,626.2
ST Borrowings	1,390.5	1,042.1	1,042.1	1,042.1	1,042.1
Other ST Liability	527.4	54.8	54.8	54.8	54.8
LT Borrowings	2,300.1	2,345.2	1,887.2	2,287.2	2,687.2
Other LT Liability	106.8	135.2	135.2	135.2	135.2
Minorities Int.	79.3	52.6	104.4	147.7	234.3
Net Assets	1,985.3	2,260.1	2,844.4	7,251.4	7,273.0
Share Capital	2,111.2	2,114.5	2,471.9	6,884.3	6,884.3
Reserves	28.9	62.5	62.5	62.5	62.5
Equity	1,985.3	2,260.1	2,844.4	7,251.4	7,273.0

Cashflow Statement					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Operating CF	360.9	1,055.0	-718.9	250.5	196.2
Investing CF	-42.5	-825.1	1,101.5	-469.3	-15.0
Financing CF	162.3	-472.7	-317.1	4,615.7	-159.6
Change In Cash	480.8	-242.9	65.6	4,396.9	21.6
Free CF	245.4	606.7	642.7	-144.8	246.2

Source: Kenanga Research



20 September 2017

Peer Comparison

NAME	Price (19/9/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.06	11,343	12.5	12.2	11.9	3.5%	4.1%	4.2%	0.60	910.6	928.6	951.9	2.0%	2.5%	2.30	OUTPERFORM
S P SETIA BHD*#	3.39	10,333	12.8	13.6	15.8	3.9%	9.7%	8.0%	1.38	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.18	5,354	36.3	22.9	33.2	0.0%	2.2%	3.4%	0.83	147.3	233.5	161.3	58.5%	-30.9%	1.33	OUTPERFORM
SUNWAY BHD^	1.89	9,150	16.9	17.5	16.9	4.7%	7.3%	6.7%	0.50	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD	1.51	3,651	10.5	10.8	11.1	4.3%	10.1%	10.0%	1.05	346.8	338.9	327.6	-2.3%	-3.3%	1.70	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.57	4,623	35.8	41.0	18.6	0.0%	3.7%	4.4%	1.22	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.55	4,419	11.8	11.7	11.3	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	0.99	2,609	10.7	48.2	24.1	0.2%	8.6%	2.4%	0.81	244.1	54.1	108.2	-78%	100.0%	1.14	OUTPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.25	1,659	8.8	7.4	7.0	6.5%	31.8%	22.7%	1.18	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.41	1,126	30.7	13.4	10.1	1.9%	6.9%	11.6%	1.47	36.7	84.2	111.9	129.5%	32.9%	1.55	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.50	341	11.8	11.1	10.8	2.9%	2.2%	8.0%	0.45	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	0.84	294	4.8	6.8	5.9	1.4%	21.9%	12.2%	0.46	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.35	493	24.6	18.4	14.2	0.0%	3.3%	4.2%	0.77	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.42	472	59.8	65.6	36.6	0.4%	7.4%	1.1%	1.16	7.9	7.2	12.9	-8.9%	79.2%	1.60	OUTPERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.82	3,766	12.6	11.8	15.7	3.5%	8.6%	6.4%	0.76	298.0	320.5	240.4	7.6%	-25.0%	3.00	NEUTRAL
GLOMAC BHD	0.65	470	4.3	8.1	6.6	4.6%	10.5%	5.3%	0.42	108.2	57.8	70.8	-46.5%	22.5%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.75	743	9.9	11.7	9.2	9.7%	7.0%	14.7%	0.81	75.0	63.6	80.6	-15.2%	26.7%	2.37	BUY
TAMBUN INDAH LAND BHD	1.14	494	4.4	5.6	6.2	7.0%	20.0%	14.6%	0.83	112.2	87.5	79.7	-22.0%	-8.9%	1.41	NEUTRAL
LBS BINA GROUP BHD	1.80	1,221	14.3	11.3	8.8	5.3%	8.8%	9.0%	0.96	85.3	108.5	138.4	27.2%	27.5%	2.39	BUY

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

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Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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