Malaysian Resources Corp

9M16 Within Expectations

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MARKET PERFORM ↔

Price: RM1.31

Target Price: RM1.33 ↔

9M16 CNP of RM56.0m makes up 39%/58% of our/consensus estimates. We deem the results as within our, but above consensus, forecasts, as the latter might not have factored in the potential gain from the sale of Menara Shell. Property sales of RM1.2b is deemed to be above our and management sales target of RM0.6b and RM1.0b, respectively, as we previously did not classify the sales of commercial asset into our sales target. No changes in FY16-17E core earnings. Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.33.

Within expectations. 9M16 CNP of RM56.0m makes up 39% and 58% of our and consensus forecasts, which we deem is within ours but above consensus' as we are expecting MRCB to recognise the profit from the sale of Menara Shell in 4Q16, which we believe that consensus might not have factored in. Property sales of RM1.2b is deemed to have exceeded our and management targets of RM0.6b and RM1.0b, respectively, after reclassifying the sale of its commercial assets, i.e. Menara Shell (RM640.0m) and Putrajaya Office (RM371.0m) as property sales which we normally exclude. As such, our FY16E sales is RM1.2b after accounting for sales of commercial assets. No dividends declared as expected.

Result highlights. While its 9M16 top line grew by 5% YoY its CNP saw a sharp fall of 75%. This is mainly due the absence of the recognition of a sizeable commercial property sale as compared to 9M15 in which MRCB registered a massive gain from the disposal of Platinum Sentral and other assets.

QoQ, its 3Q16 CNP came down by 35% despite an impressive growth of 42% in revenue largely due to similar reasons mentioned above as they recognised the gain on the sale of Sooka Sentral in 2Q16 while there is no recognition of sale of commercial properties in 3Q16.

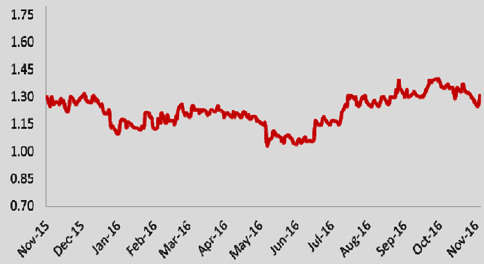
Outlook. Moving into FY17, management has a tall sales target of RM1.5b from launches at Sentral Suites (GDV: RM1.4b), Bukit Rahman Putra (GDV: RM415m) and Bandar Sri Iskandar (GDV: RM43m). MRCB's remaining external construction order book is at c.RM6.7b, coupled with c.RM1.4b unbilled property sales providing the group with at least four years of earnings visibility.

No changes in estimates. Post "reclassification" of our sales target, we increase FY16E sales to RM1.2b (from RM600m). However, we make no changes to our FY16-17E core earnings as we have already factored in the potential gain from the sale of Menara Shell but did not classify the sale into our FY16E property sales target.

Maintain MARKET PERFORM. We reaffirm our MARKET PERFORM call with an unchanged SoP-driven Target Price of RM1.33, as we believe that the main catalyst for MRCB still lies on the disposal of EDL highway, which would drive the group to greater profitability arising from interest cost savings.

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

Share Price Performance



KLCI	1,619.12
YTD KLCI chg	-4.3%
YTD stock price chg	2.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,808.7
Issued shares	2,144.0
52-week range (H)	1.42
52-week range (L)	1.02
3-mth avg daily vol:	2,755,926
Free Float	41%
Beta	1.0

Major Shareholders

Employees Provident Fund	34.0%
Gapurna Sdn Bhd	17.0%
Lembaga Tabung Haji	8.5%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	1,696.7	2,004.5	2,390.5
EBIT	547.1	226.2	294.1
PBT	370.1	257.3	166.1
Net Profit (NP)	**330.4**	**171.3**	**68.4**
Core Net Profit	**-74.6**	**140.3**	**68.4**
Consensus (NP)	n.a.	96.4	113.5
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	-2.6	5.0	2.4
EPS growth (%)	-279.5	-288.0	-51.2
NDPS (sen)	0.0	0.9	0.4
NTA/Share (RM)	0.69	0.87	0.89
PER (x)	11.5	22.1	55.3
Core PER (x)	-50.7	27.0	55.3
Price/NTA (x)	1.95	1.55	1.51
Net Gearing (x)	1.3	0.84	1.0
Dividend Yield (%)	0.0	0.7	0.3

Result Highlight

Y/E : Dec (RM mn)	3Q16	2Q16	QoQ	3Q15	YoY	9M16	9M15	YoY
Turnover	**551.2**	**389.2**	**42%**	**374.1**	**47%**	**1,376.4**	**1,308.5**	**5%**
EBIT	**88.8**	**109.5**	**-19%**	**62.0**	**43%**	**231.9**	**423.8**	**-45%**
Interest expense	-42.0	-44.4	-5%	-44.5	-6%	-133.1	-134.1	-1%
Associates	12.1	6.7	82%	7.8	56%	19.2	16.9	14%
Joint-ventures	2.6	2.0	33%	0.0	n.m.	5.0	-8.8	-157%
Pretax profit	**61.6**	**73.8**	**-16%**	**25.3**	**143%**	**154.0**	**369.7**	**-58%**
Taxation	-22.0	-16.7	32%	-18.7	17%	-43.9	-44.3	-1%
Minority Interest	10.2	11.6	-12%	2.2	373%	30.8	26.4	17%
Net Profit	**29.4**	**45.5**	**-35%**	**4.4**	**564%**	**79.3**	**299.0**	**-73%**
Core net profit	**29.4**	**45.5**	**n.a.**	**4.4**	**564%**	**56.0**	**227.0**	**-75%**
EPS (sen)	1.4	2.4		0.2		2.8	12.7	
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	16%	28%		17%		17%	32%	
Pretax margin	11%	19%		7%		11%	28%	
Effective tax rate	36%	23%		74%		29%	12%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM mn)	3Q16	2Q16	QoQ	3Q15	YoY	9M15	9M16	YoY-Ytd
Revenue								
-Engineering and Construction	262.2	183.5	43%	330.2	-21%	852.5	800.2	7%
-Property development	357.9	227.0	58%	91.5	291%	740.6	574.3	29%
-Infrastructure / environmental	28.2	31.1	-9%	28.8	-2%	87.5	87.1	0%
-Building services	19.5	27.5	-29%	22.4	-13%	69.6	64.7	8%
-Investment holding and Others	100.3	42.8	135%	110.0	-9%	171.8	274.0	-37%
-Elimination	-217.0	-122.7	77%	-209.8	3%	-545.6	-491.8	11%
Group Revenue	**551.2**	**389.2**	**42%**	**373.1**	**48%**	**1,376.4**	**1,308.5**	**5%**
Segment Profit								
-Engineering and Construction	7.0	1.8	284%	49.7	-86%	10.0	79.4	-87%
-Property development	70.5	121.4	-42%	79.5	-11%	228.2	360.2	-37%
-Infrastructure / environmental	13.7	19.5	-30%	12.3	12%	46.4	44.2	5%
-Building services	0.4	4.6	-91%	0.2	121%	12.5	2.8	346%
-Investment holding and Others	-1.5	-1.2	24%	-14.8	-90%	-20.0	-20.2	-1%
Elimination	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Group EBIT	**90.2**	**146.2**	**-38%**	**127.0**	**-29%**	**277.1**	**466.4**	**-41%**
Segment Margin	3%	1%		15%		1%	10%	
-Engineering and Construction	20%	54%		87%		31%	63%	
-Property development	49%	63%		43%		53%	51%	
-Infrastructure / environmental	2%	17%		1%		18%	4%	
-Building services	-2%	-3%		-13%		-12%	-7%	
-Investment holding and Others	3%	1%		15%		1%	10%	

Source: Company, Kenanga Research

SOP Valuations

	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%) after 72% discount	885.70
Property Investment	Various	Book Value	2,352.79
Construction	Various	FY17` PER of 7x	87.93
Building Services	100%	FY17 PER of 7x	58.37
Quill Capital REITs	30%	Estimate Market Cap of Quill	235.90
Concession			
EDL	100%	DCF (WACC: 7%)	889.75
Sub Total			**4,510.45**
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant			262.00
Total			**4,851.25**
No of FD shares			2,825.37
SoP (RM)			**1.72**
Holding Co. Discount			**23%**
TP (RM)			**1.33**

Source: Kenanga Research

Peer Comparison

NAME	Price (30/11/16) (RM)	Mkt Cap (RMm)	PER (x) FY15/16	PER (x) FY16/17	PER (x) FY17/18	Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm) FY15/16	Net Profit (RMm) FY16/17	Net Profit (RMm) FY17/18	FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
DEVELOPERS UNDER COVERAGE															
IOI PROPERTIES GROUP BHD*#	1.95	9,214	16.6	14.3	14.2	2.3%	4.1%	0.57	648.5	753.2	755.5	16.1%	0.3%	2.23	MARKET PERFORM
S P SETIA BHD*	3.30	9,416	9.4	12.5	11.1	5.1%	13.9%	1.13	918.3	692.0	780.0	-24.6%	12.7%	3.53	OUTPERFORM
UEM SUNRISE BHD*	1.04	4,719	18.4	34.7	30.8	1.5%	3.9%	0.76	257.2	136.6	153.6	-46.9%	12.5%	1.00	UNDERPERFORM
SUNWAY BHD	2.95	5,985	8.6	10.5	10.4	3.3%	11.7%	0.73	594.2	484.6	489.7	-18.4%	1.0%	3.23	MARKET PERFORM
MAH SING GROUP BHD^	1.34	3,229	10.5	10.2	10.2	4.6%	14.3%	0.96	357.2	369.1	369.5	3.3%	0.1%	1.49	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.38	3,859	74.2	32.2	15.8	0.0%	2.5%	1.01	44.0	126.5	257.7	187.8%	103.7%	1.58	OUTPERFORM
UOA DEVELOPMENT BHD*	2.37	3,866	9.7	9.8	9.1	6.3%	14.1%	1.17	399.0	395.0	427.0	-1.0%	8.1%	2.54	OUTPERFORM
MALAYSIAN RESOURCES CORP BHD	1.31	2,809	-49.6	26.2	54.1	0.7%	-3.3%	1.51	-74.6	140.3	68.4	-288.0%	-51.2%	1.33	MARKET PERFORM
KSL HOLDINGS BHD	1.07	1,102	4.8	5.1	5.9	0.0%	10.5%	0.46	211.5	198.4	190.3	-6.2%	-4.1%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.46	1,406	5.9	6.7	5.9	6.0%	31.8%	1.42	255.2	224.2	253.0	-12.1%	12.8%	2.65	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.49	339	19.1	13.4	10.8	3.0%	2.2%	0.39	17.8	25.5	31.6	43.0%	24.1%	1.60	MARKET PERFORM
HUA YANG BHD	1.08	380	3.5	4.2	4.5	2.4%	21.9%	0.61	110.1	90.5	84.8	-17.8%	-6.3%	1.32	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.47	3,297	10.8	13.7	12.5	3.2%	7.0%	0.7	304.2	240.3	263.0	-21.0%	9.4%	4.80	NEUTRAL
GLOMAC BHD	0.72	521	3.6	8.1	6.5	5.8%	14.2%	0.5	145.8	64.4	79.6	-55.8%	23.6%	0.77	NEUTRAL
PARAMOUNT CORP BHD	1.38	584	9.8	8.6	8.1	5.8%	7.2%	0.6	59.5	67.7	71.9	13.7%	6.3%	2.18	BUY
TAMBUN INDAH LAND BHD	1.41	602	5.6	5.9	5.9	6.7%	22.9%	1.2	108.4	101.6	101.6	-6.2%	0.0%	1.66	BUY

** Core NP and Core PER*
*** Crescendo per share data is based on non-Fully Diluted*
^ Last price and TP is Ex-rights and Ex-Bonus.
 # IOIPG's Price/per share data is based on ex-rights

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation tothe 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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