

28 February 2017

Malaysian Resources Corp

Above Expectations

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FY16 CNP of RM244.1m was above expectations, exceeding our/streets' FY16 full-year estimates by 74%/165%. FY16 sales of RM1.2b were in line with our target. Dividend of 2.75 declared, higher than our full-year expectations of 0.9 sen. No changes to FY17E earnings and sales rollout FY18 of RM75.8m. Maintain MARKET PERFORM with a higher SoP-driven Target Price of RM1.46 (previously, RM1.33).

Above expectations. Exceeding our/streets' FY16 full-year estimates by 74%/165%, its FY16 CNP of RM244.1m was above expectations. The better-than-expected performance was mainly driven by several sale of assets i.e. Menara Shell, Sooka Sentral, and Jalan Kia Peng land of which we did not manage to capture the earnings from the sale of its Jalan Kia Peng land. Sales was also in line with our target of RM1.2b. Dividend of 2.75 declared, which was higher than our full-year expectations of 0.9 sen.

Fuelled by asset disposals. Its FY16 CNP saw commendable improvements of 68% on the back of higher revenue (+42%) that was driven by several divisions, which saw growth in revenue, i.e. construction (+20%), property development (+71%) and its investment division (+311%). However, the main kicker to its significant increase lies in its investment division which MRCB managed to realise the gains from the disposal of its assets, i.e. Menara Shell, Sooka Sentral, and Jalan Kia Peng land. **QoQ**, a 540% increase in 4Q16 CNP was mainly driven by similar reasons as above which are the gains on the sale of its assets, and these sales of assets also brought its net gearing down to 0.76x from 1.05x previously.

Outlook. Moving into FY17, management has reduced its sales target to RM1.2b (previously, RM1.5b) 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 is at c.RM7.0b, coupled with c.RM1.2b unbilled property sales providing the group with at least four years of earnings visibility.

No changes in estimates. Post results, there are no changes to our FY17E earnings and sales target of RM68.8m and RM467.8m, respectively. To recap, bulks of its FY16E earnings are driven by asset disposals, and we have not factored any asset disposal in our FY17 sales target, which explains the lower sales target as compared to management's RM1.2b. That said, we also take this opportunity to roll out our FY18E NP of RM75.7m.

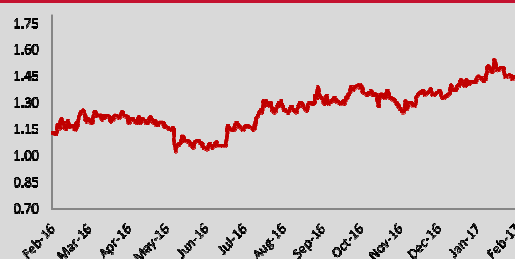
Maintain MARKET PERFORM. We reaffirm our MARKET PERFORM call with a higher SoP-driven Target Price of RM1.46 (previously, RM1.33) after we factored in the gains from the above-said disposals and updated our valuation for MQREIT since our initiation report back in Nov 2016. Nonetheless, we still believe that the main catalyst for MRCB 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.

MARKET PERFORM ↔

Price: RM1.43
Target Price: RM1.46 ↑

Share Price Performance



KLCI 1,693.84
 YTD KLCI chg 3.2%
 YTD stock price chg 7.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,070.2
Issued shares	2,147.0
52-week range (H)	1.55
52-week range (L)	1.02
3-mth avg daily vol:	2,256,222
Free Float	41%
Beta	1.0

Major Shareholders

Employees Provident Fund	34.0%
Gapurna Sdn Bhd	17.0%
Lembaga Tabung Haji	8.3%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	2,408.1	2,390.5	2,454.8
EBIT	547.1	535.9	294.9
PBT	392.6	166.9	177.6
Net Profit (NP)	267.4	68.8	75.7
Core Net Profit	244.1	68.8	75.7
Consensus (NP)	n.a.	112.4	150.4
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.6	2.4	2.7
EPS growth (%)	487.3	-71.8	10.0
NDPS (sen)	2.8	0.4	0.4
NTA/Share (RM)	0.69	0.89	0.92
PER (x)	15.1	58.7	53.4
Core PER (x)	16.6	58.7	53.4
Price/NTA (x)	2.08	1.60	1.56
Net Gearing (x)	1.3	0.82	0.9
Dividend Yield (%)	1.9	0.3	0.3



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Result Highlight

Y/E : Dec (RM mn)	4Q16	3Q16	QoQ chg	4Q15	YoY chg	FY16	FY15	YoY chg
Turnover	1,031.7	551.2	87%	388.2	166%	2,408.1	1,696.7	42%
EBIT	273.0	88.8	207%	-18.7	n.m.	504.9	405.1	25%
Interest expense	-42.8	-42.0	2%	-50.7	-16%	-175.9	-184.8	-5%
Associates	7.2	12.1	-41%	-0.8	-949%	26.3	16.0	65%
Joint-ventures	1.3	2.6	-52%	0.7	95%	6.3	-8.1	-178%
Pretax profit	238.6	61.6	287%	0.4	n.m.	392.6	370.1	6%
Taxation	-29.6	-22.0	35%	38.3	-177%	-73.5	-6.1	1109%
Minority Interest	20.9	10.2	105%	7.2	189%	51.7	33.6	54%
Net Profit	188.1	29.4	540%	31.4	499%	267.4	330.4	-19%
Core net profit	188.1	29.4	540%	-81.7	-330%	244.1	145.3	68%
EPS (sen)	8.8	1.4		-4.6		11.6	8.1	
DPS (sen)	0.3	0.2		0.0		0.8	1.0	
EBIT margin	26%	16%		-5%		21%	24%	
Pretax margin	23%	11%		0%		16%	22%	
Effective tax rate	12%	36%		-10148%		19%	2%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM mn)	4Q16	3Q16	QoQ chg	4Q15	YoY chg	FY16	FY15	YoY chg
Revenue								
-Engineering and Construction	514.8	262.2	96%	341.0	51%	1,367.3	1,141.2	20%
-Property development	603.3	357.9	69%	210.2	187%	1,344.0	784.5	71%
-Infrastructure / environmental	24.9	28.2	-12%	28.6	-13%	112.4	115.7	-3%
-Building services	26.1	19.5	34%	27.7	-6%	95.7	92.4	4%
-Investment holding and Others	209.5	100.3	109%	-181.3	-216%	381.3	92.8	311%
-Elimination	-347.0	-217.0	60%	-38.1	812%	-892.6	-529.8	68%
Group Revenue	1,031.7	551.2	87%	388.2	166%	2,408.1	1,696.7	42%
Segment Profit								
-Engineering and Construction	1.6	7.0	-77%	-44.0	-104%	10.0	35.4	-72%
-Property development	236.4	70.5	236%	12.8	1752%	228.2	373.0	-39%
-Infrastructure / environmental	12.1	13.7	-12%	14.4	-16%	46.4	58.6	-21%
-Building services	3.4	0.4	667%	7.1	-53%	12.5	9.9	26%
-Investment holding and Others	26.8	-1.5	-1879%	26.9	0%	-20.0	6.7	-399%
Elimination	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Group EBIT	280.3	90.2	211%	17.2	1533%	277.1	483.6	-43%
Segment Margin								
-Engineering and Construction	0%	3%		-13%		1%	3%	
-Property development	39%	20%		6%		17%	48%	
-Infrastructure / environmental	49%	49%		50%		41%	51%	
-Building services	13%	2%		26%		13%	11%	
-Investment holding and Others	13%	-2%		-15%		-5%	7%	

Source: Company, Kenanga Research

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SOP Valuations			
SOP Valuation	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%) after 72% discount	885.70
Property Investment	Various	Book Value	2,595.39
Construction	Various	FY17 PER of 7x	87.93
Building Services	100%	FY17 PER of 7x	58.37
Quill Capital REITs	31%	Estimate Market Cap of Quill	290.96
Concession			
EDL	100%	DCF (WACC: 7%)	889.75
Sub Total			4,808.11
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant conversion			262.00
Total			5,148.91
No of FD shares			2,825.37
SoP (RM)			1.82
Holding Co. Discount			20%
TP (RM)			1.46

Source: Kenanga Research

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Peer Comparison

NAME	Price (27/2/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
S P SETIA BHD*	3.41	9,731	12.0	12.8	15.7	5.5%	9.7%	8.0%	1.17	808.0	761.3	620.6	-5.8%	-18.5%	3.53	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.00	8,795	13.6	11.0	10.9	3.6%	4.1%	4.2%	0.58	648.5	800.2	803.6	23.4%	0.4%	2.23	OUTPERFORM
UEM SUNRISE BHD*	1.15	5,218	35.4	32.4	32.3	0.0%	2.2%	2.3%	0.82	147.3	160.8	161.3	9.2%	0.3%	1.24	MARKET PERFORM
SUNWAY BHD	3.16	6,399	11.8	12.3	11.8	3.2%	7.3%	6.7%	0.72	541.6	521.7	542.6	-3.7%	4.0%	3.24	MARKET PERFORM
MAH SING GROUP BHD^	1.45	3,494	9.8	9.5	9.5	4.2%	14.3%	11.4%	1.04	357.2	369.1	369.5	3.3%	0.1%	1.49	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.51	4,223	32.7	31.0	18.5	0.0%	3.7%	3.5%	1.06	129.3	136.3	228.4	5.4%	67.5%	1.53	OUTPERFORM
UOA DEVELOPMENT BHD*	2.55	4,160	11.1	11.0	10.6	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.54	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.43	3,070	12.6	44.6	40.6	0.3%	8.6%	2.4%	1.56	244.1	68.8	75.7	-72%	10.0%	1.46	MARKET PERFORM
KSL HOLDINGS BHD	1.13	1,163	5.7	6.7	6.6	0.0%	8.8%	6.9%	0.43	204.6	173.7	177.1	-15.1%	2.0%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.51	1,436	5.6	6.8	6.0	5.5%	31.8%	22.7%	1.47	255.2	210.0	239.0	-17.7%	13.8%	2.65	OUTPERFORM
SUNSURIA BERHAD	1.32	1,054	28.7	10.8	6.7	2.3%	6.9%	13.3%	1.33	36.7	98.0	157.0	167.2%	60.1%	1.50	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.56	355	19.9	12.7	10.6	3.1%	2.2%	3.3%	0.41	17.8	28.0	33.5	57.2%	19.6%	1.68	MARKET PERFORM
HUA YANG BHD	1.12	394	3.6	5.6	6.4	1.8%	21.9%	12.2%	0.65	110.1	70.3	61.7	-36.2%	-12.3%	1.18	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.90	3,871	13.0	12.6	16.1	3.1%	7.0%	6.4%	0.78	298.0	307.0	240.3	3.0%	-21.7%	4.80	BUY
GLOMAC BHD	0.70	506	6.3	12.5	7.4	5.3%	14.2%	6.0%	0.51	80.9	40.5	68.7	-50.0%	69.6%	0.75	SELL
PARAMOUNT CORP BHD	1.67	706	9.4	8.8	8.4	5.4%	8.2%	8.3%	0.73	75.0	80.4	84.6	7.1%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.41	604	5.4	6.2	6.2	6.0%	22.9%	16.7%	1.05	112.2	97.2	96.7	-13.4%	-0.4%	1.63	BUY

* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

IOIPG's Price/per share data is based on ex-rights

Source: Kenanga Research

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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 to the 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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