

1 June 2016

Property | Real Estate

## Malaysian Resources Corp

### Slow But Promising

Buy (Maintained)

Target Price: MYR1.60

Price: MYR1.16

Market Cap: USD532m

Bloomberg Ticker: MRC MK

**Maintain BUY and a MYR1.60 TP (38% upside). We cut our FY16F earnings by 14% to reflect the later-than-expected contribution from LRT 3 PDP fees. Earnings visibility would be underpinned by MYR1.47bn in unbilled sales and its MYR5.01bn construction orderbook. The potential refinancing of the EDL loan or any non-core asset disposal may also possibly lead to a further re-rating of the stock.**

**Forecast.** We cut our FY16 earnings forecast by 14% as the LRT 3 PDP fees will likely kick in slower than expected this year. Meanwhile, unbilled sales and construction orderbook currently stand at MYR1.47bn and MYR5.01bn (vs MYR1.6bn and MYR4.3bn in 4Q15).

**Outlook.** Despite the weak results in 1Q, we expect earnings to come in stronger in the coming quarters, as construction jobs progress, and also there could be some small gain arising from the disposal of Shell Tower (after paying off debts and writing off goodwill) in 3Q16. Its recurring income base will strengthen with the PDP fees coming from LRT 3, Kwasa Damansara, and dividend income from the REIT. The Grid may, however, face some hiccups due to the proposed MRT station at the site. As such, new sales in 1Q was only MYR142m, mainly contributed by 9 Seputeh, and Sentral Residences.

**Maintain BUY.** We maintain our MYR1.60 TP, based on a 30% discount to RNAV. The potential refinancing of the loan related to the Eastern Dispersal Link (EDL) or even any non-core asset disposal could further re-rate the stock, as these should help to ease the burden on interest expense. A key downside risk would be a significant delay in construction works.

### 1Q16 earnings – Below expectations

(MYRm)	1Q16	4Q15	QoQ	1Q15	YoY	Comments
Revenue	436.0	388.2	12.3%	404.2	7.9%	
EBIT	64.6	51.3	25.9%	298.4	-78.4%	Inclusive of a MYR31m gain on disposal of Nu Tower 2.
EBIT (%)	14.8%	13.2%		73.8%		
NI	4.4	26.8	-83.6%	237.9	-98.2%	
Core NI	4.4	1.8	144.9%	237.9	-98.2%	Below expectations
Core NI (%)	1.0%	0.5%		58.8%		

Source: Company data, RHB

**1Q16 results were below expectation.** The significant YoY drop in earnings was largely attributed to the sale of Platinum Sentral that resulted in a gain of MYR220.5m in 1Q15. On a QoQ basis, 1Q16 earnings improved marginally from 4Q15 as contributions from both its construction and property development segments increased. The company's net gearing is relatively unchanged at 1.2x.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	1,514	1,697	1,893	2,241	2,345
Reported net profit (MYRm)	136	326	79	115	114
Recurring net profit (MYRm)	41	235	79	115	114
Recurring net profit growth (%)	na	468.5	(66.5)	46.6	(1.2)
Recurring EPS (MYR)	0.02	0.13	0.04	0.05	0.05
DPS (MYR)	0.03	0.00	0.00	0.00	0.00
Recurring P/E (x)	47.9	8.8	28.7	21.2	21.5
P/B (x)	1.03	0.92	0.92	0.88	0.85
P/CF (x)	3	2	2	na	357
Dividend Yield (%)	2.2	0.0	0.0	0.0	0.0
EV/EBITDA (x)	14.1	8.4	14.1	14.3	14.6
Return on average equity (%)	7.5	15.3	3.2	4.2	4.0
Net debt to equity (%)	146.6	123.8	97.5	107.4	113.3
Our vs consensus EPS (adjusted) (%)			(8.3)	(2.4)	(29.9)

Source: Company data, RHB

### Share Data

Avg Daily Turnover (MYR/USD)	1.78m/0.45m
52-wk Price low/high (MYR)	0.80 - 1.48
Free Float (%)	35
Shares outstanding (m)	1,887
Estimated Return	38%

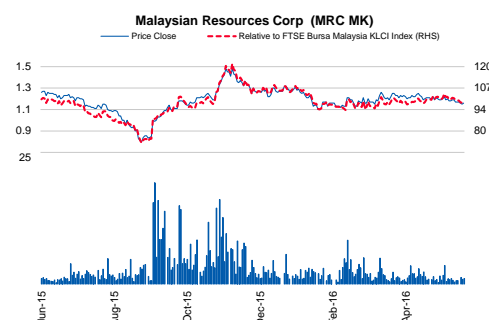
### Shareholders (%)

Employees Provident Fund	37.4
Gapurna SB	19.0
Lembaga Tabung Haji	9.6

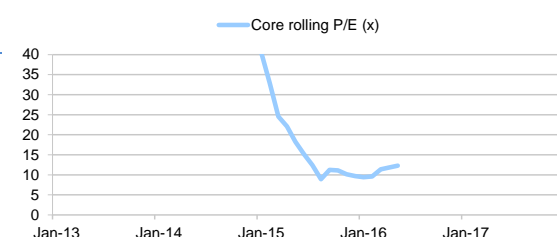
### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.4)	(4.1)	2.7	(7.2)	(7.9)
Relative	(5.7)	(1.5)	4.2	(4.7)	(1.2)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

### Analyst

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Figure 1: Quarterly results

FYE Dec (MYRm)	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>404.2</b>	<b>388.2</b>	<b>436.0</b>	<b>12.3</b>	<b>7.9</b>	Mainly contributed by Sentral Residences and 9 Seputeh
<b>EBITDA</b>	303.4	56.3	69.6	<b>23.6</b>	<b>(77.1)</b>	
<i>EBITDA margin (%)</i>	75.1	14.5	16.0			
Depreciation	(5.0)	(5.0)	(5.0)	0.0	0.0	
<b>EBIT</b>	<b>298.4</b>	<b>51.3</b>	<b>64.6</b>	<b>25.9</b>	<b>(78.4)</b>	EBIT in 1Q16 included a MYR31m gain on disposal of Nu Tower 2.
<i>EBIT margin (%)</i>	73.8	13.2	14.8			
Interest expense	(45.4)	(50.7)	<b>(46.7)</b>	(7.9)	3.0	
Interest income	0.0	0.0	0.0	nm	nm	
Associates	(0.6)	(0.2)	<b>0.8</b>	nm	nm	
El/Others	0.0	0.0	0.0	nm	nm	
<b>Pretax profit</b>	<b>252.5</b>	<b>0.4</b>	<b>18.7</b>	<b>4,847.7</b>	<b>(92.6)</b>	1QFY15 net profit was lifted by the MYR220.5m gain on disposal of Platinum Sentral
<i>Pretax margin (%)</i>	62.5	0.1	4.3			
Tax	(7.1)	38.3	<b>(5.2)</b>	(113.6)	(26.6)	
<i>Effective tax rate (%)</i>	2.8	(10,148.0)	<i>n.m.</i>			
Minority interest	(10.9)	(7.2)	<b>(9.1)</b>	25.4	(16.7)	
<b>Net profit</b>	<b>237.9</b>	<b>26.8</b>	<b>4.4</b>	<b>(83.6)</b>	<b>(98.2)</b>	
<b>Core profit</b>	<b>237.9</b>	<b>1.8</b>	<b>4.4</b>	<b>144.9</b>	<b>(98.2)</b>	Below expectations
<i>Net margin (%)</i>	58.8	0.5	1.0			

Source: RHB

**Figure 2: RNAV estimate**

Ongoing Development	Acres	GDV (MYR m)	Stake	NPV @ 13%
Q Sentral Office Tower	1.9	1,228	66%	18.0
Sentral Residences	2.4	1,307	51%	22.7
Seri Iskandar - Phase 2	245.0	321	70%	4.4
PJ Sentral - Celcom Tower	2.3	428	100%	25.1
PJ Sentral - MBSB Tower	-	239	100%	14.0
PJ Sentral - MyIPO Tower	-	250	100%	14.7
Burwood, Australia	1.2	182	100%	6.2
9 Seputeh, Old Klang Road	8.0	795	100%	19.5
Penang Sentral Phase 1-2	6.0	590	100%	37.2
Penang Sentral Phase 3-7	16.7	2,100	70%	87.3
The Grid, Kia Peng	1.0	387	100%	16.7
KL Sentral - Lot F	5.7	3,113	100%	272.7
Kajang Utama, 3 Residences	4.1	234	100%	19.1
Putrajaya office tower	1.8	336	70%	17.4
Semarak City, Setapak	27.4	2,977	100%	119.4
Lot 349, KL Sentral (service apartments)	4.9	1,272	100%	94.7
Suria Subang	3.2	401	100%	19.8
Selbourne 2, Shah Alam	2.4	198	100%	10.3
PJ Sentral - Tower 1	-	700	100%	58.1
PJ Sentral - Tower 5	-	455	100%	41.8
Seri Iskandar - Phase 3	159.0	350	70%	9.2
Rahman Putra - Phase 1	5.5	84	100%	4.2
Rahman Putra - Phase 2	4.1	175	100%	7.9
Rahman Putra - Phase 3	4.6	307	100%	12.6
Kwasa Sentral	64.1	8,000	70%	200.6
New Jalan Kia Peng development	1.9	1,300	100%	59.4
Pulai, Johor	67.5	1,100	100%	34.7
Cyberjaya City	113.3	8,000	70%	139.8
Bukit Jalil		10,000	85%	214.1
<b>Subtotal</b>		<b>46,829</b>		<b>1,601.8</b>
Investment / For Sale properties	Location	Mkt value (MYR m)	BV (MYR m)	Net surplus (MYR m)
Shell Tower & Ascott Residences	KL Sentral	908.0	528.5	284.6
Plaza Alam Sentral	KL Sentral	147.0	74.3	54.6
Sooka Sentral	KL Sentral	90.8	50.0	30.6
Kompleks Sentral	Segambut	52.0	30.1	16.4
<b>Subtotal</b>				<b>386.1</b>
Others	FV based on RHB's TP (MYRm)	BV (MYR m)	Equity value/surplus (MYRm)	
Construction (12x 1-year forward earnings)				261.2
31% MQ REIT	253.6	264.0		(10.4)
LRT 3 PDP (based on DCF)				181.0
Kwasa Damansara PDP for infra works				68.8
Shareholders Funds (excl. construction)				2,708.18
Total RNAV				5,196.80
Share base				2,280.19
<b>RNAV per share</b>				<b>2.28</b>
Discount				30%
<b>Target Price (MYR)</b>				<b>1.60</b>

Source: RHB

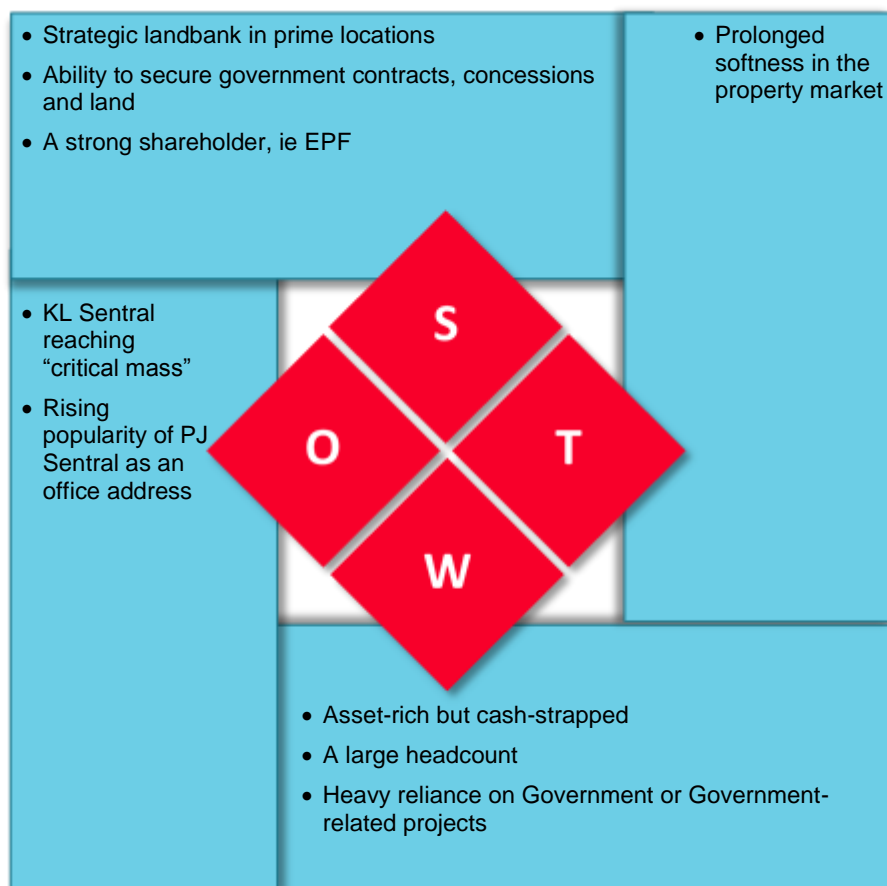
# Financial Exhibits

Financial model updated on : 2016-05-31.

Asia					
Malaysia					
Property					
<b>Malaysian Resources Corp</b>					
Bloomberg MRC MK					
<b>Buy</b>					
<b>Valuation basis</b>					
30% discount to RNAV					
<b>Key drivers</b>					
i. New property sales;					
ii. Asset disposals;					
iii. New construction contracts					
<b>Key risks</b>					
Weaker-than-expected market conditions					
<b>Company Profile</b>					
Malaysian Resources Corp is engaged in construction (its niche strength is in environmental projects), property development and investment and toll road operations. It is known for its transit-oriented developments, eg KL Sentral, Bukit Jalil City, Kwasa Damansara and Penang Sentral.					
<b>Financial summary</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Recurring EPS (MYR)	0.02	0.13	0.04	0.05	0.05
EPS (MYR)	0.08	0.18	0.04	0.05	0.05
DPS (MYR)	0.03	0.00	0.00	0.00	0.00
BVPS (MYR)	1.13	1.27	1.26	1.32	1.37
Weighted avg adjusted shares (m)	1,706	1,773	1,948	2,109	2,109
<b>Valuation metrics</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Recurring P/E (x)	47.9	8.8	28.7	21.2	21.5
P/E (x)	14.5	6.3	28.7	21.2	21.5
P/B (x)	1.03	0.92	0.92	0.88	0.85
FCF Yield (%)	29.5	(73.4)	22.8	(15.0)	(22.7)
Dividend Yield (%)	2.2	0.0	0.0	0.0	0.0
EV/EBITDA (x)	14.1	8.4	14.1	14.3	14.6
EV/EBIT (x)	15.8	9.0	18.0	17.8	18.6
<b>Income statement (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Total turnover	1,514	1,697	1,893	2,241	2,345
Gross profit	369	160	157	155	158
EBITDA	354	590	340	396	411
Depreciation and amortisation	(39)	(43)	(73)	(80)	(87)
Operating profit	316	547	267	317	324
Net interest	(133)	(185)	(133)	(133)	(143)
Income from associates & JVs	38	8	8	9	9
Pre-tax profit	221	370	143	192	190
Taxation	(53)	(6)	(36)	(48)	(47)
Minority interests	(31)	(38)	(29)	(29)	(28)
Recurring net profit	41	235	79	115	114
<b>Cash flow (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Change in working capital	583	493	780	(286)	(214)
Cash flow from operations	752	893	952	(71)	7
Capex	(168)	(2,402)	(436)	(296)	(562)
Cash flow from investing activities	(42)	(2,774)	(1,036)	(296)	(692)
Proceeds from issue of shares	218	(51)	0	0	0
Dividends paid	(17)	(45)	0	0	0
Cash flow from financing activities	382	(399)	0	0	0
<b>Balance sheet (MYRm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Total cash and equivalents	664	524	829	602	470
Tangible fixed assets	2,084	3,748	4,111	4,327	4,802
Intangible assets	139	317	317	317	317
Total investments	6	5	5	5	5
Total other assets	1,549	325	982	1,051	836
Total assets	7,042	7,090	9,290	9,720	10,088
Short-term debt	1,391	1,042	1,042	1,042	1,042
Other liabilities	107	146	146	146	146
Total liabilities	4,977	4,777	6,547	6,833	7,059
Shareholders' equity	1,985	2,260	2,662	2,777	2,891
Minority interests	79	53	81	110	138
Total equity	2,065	2,313	2,743	2,887	3,029
Net debt	3,027	2,863	2,674	3,101	3,432
Total liabilities & equity	7,042	7,090	9,290	9,720	10,088
<b>Key metrics</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Revenue growth (%)	61.0	12.0	11.5	18.4	4.6
Recurrent EPS growth (%)	na	446.8	(69.5)	35.4	(1.2)
Gross margin (%)	24.4	9.4	8.3	6.9	6.7
Operating EBITDA margin (%)	23.4	34.8	18.0	17.7	17.5
Net profit margin (%)	9.0	19.2	4.2	5.1	4.9
Dividend payout ratio (%)	32.7	0.0	0.0	0.0	0.0
Capex/sales (%)	11.1	141.6	23.1	13.2	24.0
Interest cover (x)	1.84	2.44	1.55	1.83	1.77

Source: Company data, RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-05-27	Buy	1.60	1.16
2016-02-23	Buy	1.60	1.19
2015-12-04	Buy	1.60	1.27
2015-11-20	Buy	1.60	1.35
2015-11-17	Buy	1.60	1.36
2015-11-13	Buy	1.80	1.43
2015-09-28	Buy	1.50	1.18
2015-08-25	Buy	1.00	0.81
2015-04-23	Neutral	1.31	1.30
2015-04-08	Neutral	1.31	1.24

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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