

28 March 2017

Property | Real Estate

Malaysian Resources Corp

More To Come

We are upbeat on MRCB's construction division. Given the recent news flow of China investments into the Bandar Malaysia, we believe MRCB is a potential candidate involving in the development of this transit oriented development. Upon official signing, MRCB would likely see a significant boost in its property portfolio and construction orderbook. We raise our TP to MYR1.90 (from RM1.66, 17% upside). Maintain BUY.

A better version of "KL Sentral" in Bandar Malaysia. Investors should continue to like Malaysian Resources Corp (MRCB) given its potential involvement in the integrated transport terminal project in Bandar Malaysia. The project has been in the limelight recently. The recent announcement of the corporate exercise involving the consortium related to Bandar Malaysia development, as well as the setting up of Kuala Lumpur Internet City (KLIC) in Bandar Malaysia should indicate that the negotiation process on the transport hub could accelerate. MRCB, which has already signed a MOU with Wondrous Vista Development SB and Bandar Malaysia SB, is well-positioned to undertake the transport hub construction project, given its track record in building transit oriented developments (TOD).

Potential boost in property portfolio. Of the 486 acres in Bandar Malaysia, 60 acres have been earmarked for the development of the integrated transport terminal. Apart from building the terminal, we believe the consortium would also develop some other commercial components on the site, similar to the KL Sentral concept. The potential GDV for this 60 acres in Bandar Malaysia could be bigger than KL Sentral's MYR14bn, which occupies 72 acres of land, given that the latter started its development in early 2000 when property prices were still at low levels.

Other stations and packages for high speed rail. While the construction of the high speed rail (HSR) line could be undertaken by some foreign parties, apart from the main terminal in Bandar Malaysia, MRCB is also eyeing the construction jobs of the other five HSR stations in Malaysia, and possibly some sub packages for the track works. The construction of HSR is said to cost MYR60bn, and the tender could be called in late 2017/2018.

Still expecting strong contract flows. Other than the Bandar Malaysia and HSR contracts, we understand that MRCB is also actively bidding for other infrastructure and 1Malaysia Housing Programme (PR1MA) housing construction works. Tenderbook as at Dec 2016 is worth MYR6.3bn and we believe the amount is higher now. Outlook for orderbook replenishment is fairly positive, given its solid shareholding backing and *bumiputera*-controlled public listed company (PLC) status.

Maintain BUY. We raise our TP to MYR1.90, as we raise our construction P/E multiple to 16x, in line with the re-rating of the construction sector. We also lower our discount to RNAV to 25% (from 30%) in view of the strong contract flows this year. MRCB is a potential election play. The stock is one of our Top Picks in the property sector.

Buy (Maintained)

Target Price: MYR1.90
Price: MYR1.62
Market Cap: USD786m
Bloomberg Ticker: MRC MK

Share Data

Avg Daily Turnover (MYR/USD) 5.60m/1.26m
52-wk Price low/high (MYR) 1.03 - 1.68
Free Float (%) 40
Shares outstanding (m) 2,280
Estimated Return 17%

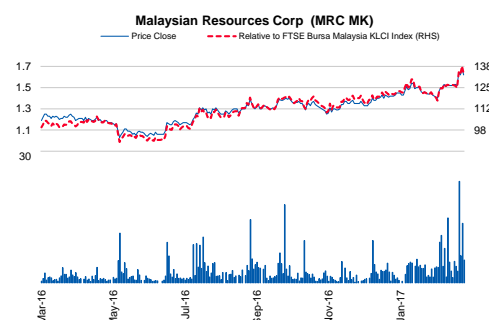
Shareholders (%)

Employees Provident Fund 33.9
Gapurna SB 17.0
Lembaga Tabung Haji 8.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	21.8	11.7	20.0	20.0	35.0
Relative	15.5	8.9	12.0	15.5	33.2

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	1,697	2,408	2,298	2,513	2,792
Reported net profit (MYRm)	326	267	183	196	211
Recurring net profit (MYRm)	221	267	183	196	211
Recurring net profit growth (%)	436.1	20.8	(31.7)	7.5	7.5
Recurring EPS (MYR)	0.12	0.14	0.09	0.09	0.10
DPS (MYR)	0.03	0.03	0.03	0.03	0.03
Recurring P/E (x)	13.0	11.9	19.0	17.7	16.4
P/B (x)	1.28	1.19	1.14	1.09	1.04
P/CF (x)	3.2	6.9	25.0	16.7	8.5
Dividend Yield (%)	1.5	1.7	1.7	1.7	1.7
EV/EBITDA (x)	9.8	8.9	13.0	12.5	12.1
Return on average equity (%)	15.3	10.3	6.1	6.3	6.5
Net debt to equity (%)	123.8	73.1	81.6	83.2	85.7
Our vs consensus EPS (adjusted) (%)			37.4	7.7	15.9

Source: Company data, RHB

Analyst

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Financial Exhibits

Financial model updated on : 2017-03-27.

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.12	0.14	0.09	0.09	0.10
Property	EPS (MYR)	0.18	0.14	0.09	0.09	0.10
Malaysian Resources Corp	DPS (MYR)	0.03	0.03	0.03	0.03	0.03
Bloomberg MRC MK	BVPS (MYR)	1.27	1.36	1.42	1.48	1.55
Buy	Weighted avg adjusted shares (m)	1,773	1,965	2,144	2,144	2,144
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
25% discount to RNAV	Recurring P/E (x)	13.0	11.9	19.0	17.7	16.4
Key drivers	P/E (x)	8.8	11.9	19.0	17.7	16.4
i. New property sales;	P/B (x)	1.28	1.19	1.14	1.09	1.04
ii. Asset disposals;	FCF Yield (%)	(52.5)	7.8	(8.5)	(11.3)	(3.7)
iii. New construction contracts.	Dividend Yield (%)	1.5	1.7	1.7	1.7	1.7
Key risks	EV/EBITDA (x)	9.8	8.9	13.0	12.5	12.1
Weaker-than-expected market conditions	EV/EBIT (x)	10.5	9.8	15.6	15.0	14.6
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysian Resources Corp (MRCB) is engaged in construction (niche strength 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.	Total turnover	1,697	2,408	2,298	2,513	2,792
	Gross profit	160	236	276	296	314
	EBITDA	590	593	475	516	557
	Depreciation and amortisation	(43)	(57)	(77)	(86)	(96)
	Operating profit	547	536	398	430	461
	Net interest	(185)	(176)	(127)	(138)	(147)
	Income from associates & JVs	8	33	34	36	38
	Pre-tax profit	370	393	304	327	352
	Taxation	(6)	(74)	(76)	(82)	(88)
	Minority interests	(38)	(52)	(46)	(49)	(53)
	Recurring net profit	221	267	183	196	211
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	493	115	(132)	(88)	85
	Cash flow from operations	893	459	139	208	408
	Capex	(2,402)	(210)	(435)	(599)	(537)
	Cash flow from investing activities	(2,774)	(256)	(435)	(729)	(537)
	Proceeds from issue of shares	(7)	457	0	0	0
	Dividends paid	(45)	(44)	(59)	(40)	(43)
	Cash flow from financing activities	(355)	(37)	(59)	(40)	(43)
	Cash at beginning of period	661	522	722	531	528
	Net change in cash	(2,236)	165	(354)	(561)	(173)
	Ending balance cash	(1,576)	687	368	(30)	355
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	524	724	533	530	371
	Tangible fixed assets	3,748	3,900	4,258	4,771	5,211
	Intangible assets	317	253	253	253	253
	Total investments	5	34	34	34	34
	Total other assets	325	399	468	254	358
	Total assets	7,090	7,752	7,982	8,500	8,977
	Short-term debt	1,042	806	806	806	806
	Total long-term debt	2,345	2,131	2,331	2,531	2,631
	Other liabilities	146	161	161	161	161
	Total liabilities	4,777	4,727	4,789	5,124	5,400
	Shareholders' equity	2,260	2,926	3,048	3,182	3,330
	Minority interests	53	99	145	194	247
	Total equity	2,313	3,025	3,193	3,376	3,577
	Net debt	2,863	2,213	2,604	2,807	3,066
	Total liabilities & equity	7,090	7,752	7,982	8,500	8,977
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	12.0	41.9	(4.6)	9.3	11.1
	Recurrent EPS growth (%)	415.6	9.0	(37.4)	7.5	7.5
	Gross margin (%)	9.4	9.8	12.0	11.8	11.2
	Operating EBITDA margin (%)	34.8	24.6	20.6	20.5	20.0
	Net profit margin (%)	19.2	11.1	7.9	7.8	7.6
	Dividend payout ratio (%)	13.5	22.1	22.1	22.1	22.1
	Capex/sales (%)	141.6	8.7	18.9	23.8	19.2
	Interest cover (x)	2.44	2.49	2.38	2.41	2.47

Source: Company data, RHB

More To Come

Building the next KL Sentral in Bandar Malaysia

Bandar Malaysia has been in the limelight recently, particularly after the group of companies related to Bandar Malaysia development announced its corporate exercise. The recent announcement of the setting up of KLIC that would cater for the Digital Free Trade Zone at the KL International Airport (KLIA) Aeropolis launched by Alibaba Group founder and executive chairman Jack Ma also signifies a big step bringing this landmark project into the international e-commerce arena. It was reported that KLIC, the digital hub, would be as big as 5m sq ft with a GDV of US\$1.13bn.

Given the investment flows in Bandar Malaysia, MRCB could benefit, given its potential involvement in the integrated transport terminal project there. In Jan 2017, the company has signed a MOU with Wondrous Vista Development SB and Bandar Malaysia SB (the registered owner of 486 acres of land at Bandar Malaysia) to develop the transport hub. In our view, although it was only a MOU, MRCB is well positioned to secure the development contract. Apart from its track record in developing KL Sentral, the company also has many other ongoing TOD projects currently, including Penang Sentral, PJ Sentral Garden City, Cyberjaya City Centre and Kwasa Sentral. Given the progress on Bandar Malaysia, we believe the negotiations between the Government and consortium would accelerate, and we expect the official agreement to be signed later this year.

Potential boost to property portfolio and construction orderbook

The transport terminal in Bandar Malaysia is planned to connect multiple public transportation system into one spot. These include the Mass Rapid Transit (MRT) Lines 2 and 3 (MRT2/3), KLIA Express/Transit, KTM and HSR. We believe the development would be similar to the KL Sentral concept, whereby the latter has a land area of 72 acres, of which 20 acres are occupied by the station. Including the other commercial and residential components, we believe the potential GDV from this Bandar Malaysia integrated terminal project could be much larger compared to that of KL Sentral (MYR14bn), given that KL Sentral started since early 2000, and property prices were at much lower levels.

Figure 1: Location of the integrated transport terminal in Bandar Malaysia masterplan



Source: Bandar Malaysia's website

Figure 2: Location of Bandar Malaysia



Legend

— New Pantai Expressway (NPE)	— MRT Line 1
— East-West Link	— Proposed MRT Line 2
— KL-Seremban Highway	— Proposed MRT Line 3
— Smart Tunnel	— KTM
— Beersaya	— ERL
— Maju Expressway (MEX)	— Proposed HSR
— Federal Highway	— KL Golden Triangle

Source: RHB

Eyeing on other packages of HSR

The participation in the transport hub project in Bandar Malaysia should also open the doors for other HSR contracts. While the construction of the HSR line could be undertaken by some foreign parties, apart from the main terminal, MRCB is also eyeing on the construction jobs for other five HSR transit stations in Malaysia, including Putrajaya, Seremban, Ayer Keroh, Muar, Batu Pahat and Iskandar Puteri, as well as some sub packages for the track works. The construction of HSR is estimated to cost MYR60bn, excluding land acquisition and rolling stocks, and the tender could be called in late 2017/2018.

Strong job flows this year

Besides the catalyst from the Bandar Malaysia transport terminal job, we understand that the company is also actively bidding for other infrastructure and PR1MA housing construction jobs. Tenderbook as at Dec 2016 stood at MYR6.3bn, but we believe the amount is higher now and new wins should help replenish the current outstanding orderbook of MYR5.4bn (excluding the Kwasa Land and Kwasa Utama projects, the orderbook is MYR2.4bn). Given the expectation of more contract flows ahead of the upcoming general election, outlook for MRCB's orderbook replenishment is fairly positive given its solid shareholding backing and *bumiputera*-controlled PLC status.

Expect stronger sales from individual property project

We believe MRCB would rely less on en bloc disposal of commercial buildings to drive its property sales this year. As such, 1Q17 new property sales is likely to be lower, given that bulk of its launches are concentrated from 2Q onwards. Its MYR1.2bn sales target would be mainly driven by Sentral Suites, which is slated for launch in mid-2017. The project, with a GDV of MYR1.4bn, has received an encouraging booking rate of 80% for Tower 1 and 60% for Tower 2. This is given its strategic location and the fact that it is probably the last residential block in KL Sentral. Other key launches are mostly its ongoing projects, including 9 Seputeh Phase 2 (GDV: MYR900m), Bukit Rahman Putra's Kalista Park (GDV: MYR100m) and Bandar Sri Iskandar 2C Viscaria.

Update on asset disposal

The company's strategic plan to sell Eastern Dispersal Link (EDL) remains unchanged. The negotiation on the potential disposal of EDL was not as smooth as expected. To recall, in Oct 2016, MRCB announced that it received two indications of interest; one from PLUS Malaysia and the other, a client of ZJ Advisory SB. We understand that one of the negotiating parties has experienced some hiccup in its financing plan, and hence MRCB has to explore the deal with other parties now. Besides this, management is also looking to repackage EDL in order to enhance the asset's valuations. The plan to remove EDL from MRCB's book could take longer than expected.

Valuations

We raise our TP to MYR1.90 and maintain BUY on MRCB. We now peg our P/E multiple on the construction division to 15.9x, to be in line with the sector's average, and we also lower our discount to RNAV to 25% (from 30%) in view of the strong news flow ahead. Note that, the construction sector (measured by KL Construction Index) has appreciated by 14% YTD. We retain our bullish stance on the stock, given:

- MRCB is a potential election play;
- Its GDV portfolio and construction orderbook could be substantially boosted when the Bandar Malaysia integrated transport terminal project is officially signed and announced, potentially in 2H17;
- Strong project/bidding partner that could enhance contract flow.

Figure 3: Construction sector valuations table (as at 23 Mar 2017)

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV(x)	P/CF(x)	ROE (%)	DY (%)	Rec
					FY17F	FY18F	FY17F	FY18F					
Gamuda	Jul	5.25	5.80	12,700	18.2	15.7	11.2	16.5	1.7	86.1	9.8	2.3	Buy
IJM^	Mar	3.50	3.83	12,547	16.4	15.7	30.9	4.3	1.3	14.6	8.0	2.4	Buy
Sunway Construction	Dec	1.79	2.05	2,314	15.4	13.6	21.5	13.3	3.9	9.0	27.7	2.3	Buy
HSL	Dec	1.69	2.18	931	11.8	10.1	40.0	16.3	1.2	7.5	10.8	2.0	Buy
Gadang^	May	1.28	1.55	828	7.7	7.0	10.2	9.9	1.2	10.2	16.3	2.3	Buy
Kimlun	Dec	2.19	2.57	680	8.1	7.7	0.5	6.1	1.1	4.4	14.7	3.1	Buy
WCT	Dec	1.86	1.80	2,348	16.2	14.1	41.7	14.9	0.8	6.7	5.2	3.1	Neutral
Pintaras	Jun	3.53	3.50	577	14.5	11.6	+>100.0	25.0	1.7	11.4	11.9	5.4	Neutral
Sector Avg					15.9	14.3	22.0	11.0					

Note: ^ FY17-18 valuations refer to those of FY18-19

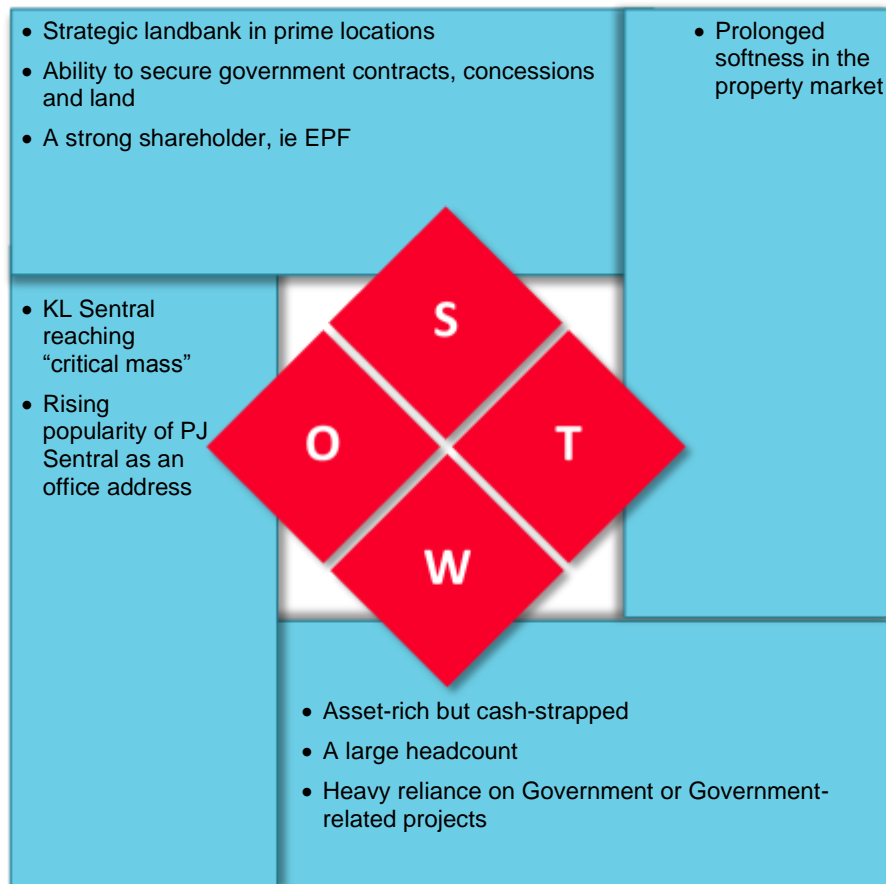
Source: RHB

Figure 4: MRCB's RNAV

Ongoing Development	Acres	GDV (MYR m)	Stake	NPV @ 11%
Q Sentral Office Tower	1.9	1,228	66%	18.1
Sentral Residences	2.4	1,307	51%	22.8
Seri Iskandar - Phase 2	245.0	321	70%	4.7
PJ Sentral - Celcom Tower	2.3	428	100%	25.2
PJ Sentral - MBSB Tower	-	239	100%	14.1
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%	19.6
Penang Sentral Phase 1-2	6.0	590	100%	37.3
Penang Sentral Phase 3-7	16.7	2,100	70%	88.0
KL Sentral - Lot F	5.7	3,113	100%	274.2
Kajang Utama, 3 Residences	4.1	234	100%	19.1
Putrajaya office tower	1.8	336	70%	17.5
Semarak City, Setapak	27.4	2,977	100%	128.9
Lot 349, KL Sentral (service apartments)	4.9	1,272	100%	95.2
Suria Subang	3.2	401	100%	19.9
Selbourne 2, Shah Alam	2.4	198	100%	10.3
PJ Sentral - Tower 1	-	700	100%	58.4
PJ Sentral - Tower 5	-	455	100%	42.0
Seri Iskandar - Phase 3	159.0	350	70%	10.0
Rahman Putra - Phase 1	5.5	84	100%	4.3
Rahman Putra - Phase 2	4.1	175	100%	8.2
Rahman Putra - Phase 3	4.6	307	100%	13.0
Kwasa Sentral	64.1	8,000	70%	216.0
New Jalan Kia Peng development	1.9	1,012	100%	49.6
Pulai, Johor	67.5	1,100	100%	35.0
Cyberjaya City	113.3	5,350	70%	94.7
Bukit Jalil	92.5	14,610	85%	359.7
PJ Sentral - Nilaitera	7.8	1,656	100%	109.6
Subtotal		48,501		1,816.5
Investment / For Sale properties	Location	Mkt value (MYR m)	BV (MYR m)	Net surplus (MYR m)
Ascott Residences	KL Sentral	268.0	96.8	128.4
Plaza Alam Sentral	KL Sentral	147.0	74.3	54.6
Kompleks Sentral	Segambut	52.0	30.1	16.4
Subtotal				199.3
Others	FV based on RHB's TP (MYRm)		BV (MYR m)	Equity value/surplus (MYRm)
Construction (12x 1-year forward earnings)				522.3
31% MQ REIT		393.3	264.0	129.3
LRT 3 PDP (based on DCF)				193.1
Kwasa Damansara PDP for infra works				75.7
Shareholders Funds (excl. construction)				2,835.82
Total RNAV				5,772.05
Share base				2,280.19
RNAV per share				2.53
Discount				25%
Target Price (MYR)				1.90

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-28	Buy	1.66	1.42
2016-12-12	Buy	1.63	1.34
2016-12-01	Buy	1.60	1.27
2016-08-26	Buy	1.60	1.27
2016-05-31	Buy	1.60	1.16
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

Source: RHB, Bloomberg

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