

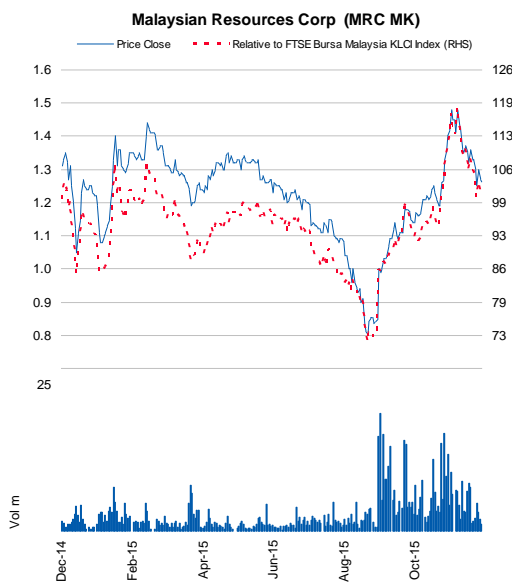
Malaysian Resources Corp (MRC MK)

Buy (Maintained)

 Property- Real Estate
 Market Cap: USD533m

 Target Price: MYR1.60
 Price: MYR1.26

Recycling Assets To Unlock Value

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	7.49m/1.74m
Cons. Upside (%)	35.7
Upside (%)	26.7
52-wk Price low/high (MYR)	0.80 - 1.48
Free float (%)	35
Share outstanding (m)	1,787
Shareholders (%)	
Employees Provident Fund	38.4
Gapurna SB	16.7
Lembaga Tabung Haji	10.1
Share Performance (%)	
	YTD 1m 3m 6m 12m
Absolute	3.3 (7.4) 48.2 (0.8) (3.8)
Relative	8.3 (7.2) 43.8 3.5 1.0

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We view MRCB's disposal of Shell Tower positively as this could help the company reduce its gearing level, improve cash flow and strengthen its recurring earnings base. We maintain BUY and a MYR1.60 TP (27% upside). Management has, thus far, delivered its guidance while investors should watch out for an increase in construction job flows and landbanking efforts, going into 2016.

- ◆ **Selling Shell Tower for MYR640m.** Malaysian Resources Corp (MRCB) announced that it has entered into a heads of agreement (HOA) for the disposal of Menara Shell at KL Sentral to 31%-owned MRCB-Quill REIT (MQREIT MK, BUY, TP: MYR1.23) for a consideration of MYR640m. We view this positively, as the sale will help to further reduce the company's gearing to around 1x (it is currently at 1.13x, or at 0.58x if we exclude the debt on its toll road concession). Note that along with its ongoing placement exercise, we also expect some additional borrowings in the pipeline to fund some of its construction projects. Pending further details upon the signing of the sale and purchase agreement in two months, we think the transaction could consist of cash and REIT units, and this may also help to strengthen MRCB's recurring earnings base.
- ◆ **Details on asset sold.** Based on the consideration of MYR640m and NLA of 556,468 sq ft, the transaction values the office tower at MYR1,150 psf, which is lower than Platinum Sentral's MYR1,400 psf. The lower valuation is due to the lower specifications of Menara Shell, which is a purpose-built building. Currently, the office block is 100%-tenanted, and we estimate that the yield could be around 6-6.5%. Given the book value of MYR431.7m, the disposal could yield an estimated gain of MYR208.3m. This would likely be recognised in mid-2016 upon the completion of the disposal.
- ◆ **Maintain BUY.** We keep our core earnings forecast unchanged for now, and believe the impact should be minimal as the loss of income from Menara Shell will be partly offset by the income from MRCB-Quill REIT. We maintain our BUY rating and MYR1.60 TP (based on 30% discount to RNAV), as the selling price is within our estimate. We remain positive on the stock, as management has thus far delivered what it has guided, and we expect momentum on construction job flow and news flow on its property development to continue going into 2016.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	941	1,514	1,858	2,105	2,802
Reported net profit (MYRm)	(114)	136	341	102	137
Recurring net profit (MYRm)	(114)	41	50	102	137
Recurring net profit growth (%)	(289.7)	na	19.9	105.5	34.5
Recurring EPS (MYR)	(0.08)	0.02	0.03	0.05	0.06
DPS (MYR)	0.01	0.03	0.06	0.02	0.02
Recurring P/E (x)	na	52.0	45.1	24.4	19.8
P/B (x)	1.24	1.12	0.98	1.00	0.97
P/CF (x)	28.9	2.9	3.6	20.1	13.9
Dividend Yield (%)	0.8	2.0	5.0	1.2	1.7
EV/EBITDA (x)	133	15	10	14	14
Return on average equity (%)	(7.4)	7.5	15.9	4.0	4.9
Net debt to equity (%)	167.1	146.6	117.1	98.2	104.6
Our vs consensus EPS (adjusted) (%)			(30.2)	(10.9)	(9.2)

Source: Company data, RHB

Figure 1: MRCB's RNAV breakdown

Ongoing Development	Acres	GDV (MYR m)	Stake	NPV @ 13%
Q Sentral Office Tower	1.9	1,228	66%	17.9
Sentral Residences	2.4	1,307	51%	22.5
Seri Iskandar - Phase 2	245.0	321	70%	4.4
PJ Sentral - Celcom Tower	2.3	428	100%	25.0
PJ Sentral - MBSB Tower	-	239	100%	14.0
PJ Sentral - MyIPO Tower	-	250	100%	14.6
Burwood, Australia	1.2	182	100%	6.1
9 Seputeh, Old Klang Road	8.0	795	100%	19.3
Penang Sentral Phase 1-2	6.0	590	100%	36.9
Penang Sentral Phase 3-7	16.7	2,100	70%	84.5
The Grid, Kia Peng	1.0	387	100%	16.5
KL Sentral - Lot F	5.7	3,113	100%	266.8
Kajang Utama, 3 Residences	4.1	234	100%	18.7
Putrajaya office tower	1.8	336	70%	17.1
Semarak City, Setapak	27.4	2,977	100%	116.0
Lot 349, KL Sentral (service apartments)	4.9	1,272	100%	92.6
Suria Subang	3.2	401	100%	19.4
Selbourne 2, Shah Alam	2.4	198	100%	10.1
PJ Sentral - Tower 1	-	700	100%	56.6
PJ Sentral - Tower 5	-	455	100%	41.0
Seri Iskandar - Phase 3	159.0	350	70%	9.0
Rahman Putra - Phase 1	5.5	84	100%	4.2
Rahman Putra - Phase 2	4.1	175	100%	7.8
Rahman Putra - Phase 3	4.6	307	100%	12.3
Kwasa Sentral	64.1	8,000	70%	193.0
New Jalan Kia Peng development	1.9	1,300	100%	57.7
Pulai, Johor	67.5	1,100	100%	33.5
Cyberjaya City	113.3	8,000	70%	132.4
Bukit Jalil	-	10,000	85%	195.9
Subtotal		46,829		1,545.8
Investment / For Sale properties	Location	Mkt value (MYR m)	BV (MYR m)	Net surplus (MYR m)
Shell Tower	KL Sentral	640.0	431.7	156.2
Ascott Residences	KL Sentral	268.0	96.8	128.4
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
Subtotal				386.1
Others	FV based on RHB's TP (MYRm)	BV (MYR m)	Equity value/surplus (MYRm)	
Construction (12x 1-year forward earnings)			257.1	
31% MQ REIT	253.6	264.0	(10.4)	
LRT 3 PDP (based on DCF)			187.1	
Shareholders Funds (excl. construction)			2,833.77	
Total RNAV			5,199.55	
Share base (m)*			2,280.19	
RNAV per share			2.28	
Discount			30%	
Target Price (MYR)			1.60	

Note: * includes placement shares

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	941	1,514	1,858	2,105	2,802
Cost of sales	(916)	(1,145)	(1,321)	(1,678)	(2,258)
Gross profit	25	369	536	426	544
Gen & admin expenses	(122)	(172)	(189)	(220)	(275)
Other operating costs	107	118	116	109	98
Operating profit	10	316	463	316	367
Operating EBITDA	31	354	507	370	431
Depreciation of fixed assets	(21)	(39)	(44)	(54)	(64)
Operating EBIT	10	316	463	316	367
Net income from investments	4	38	2	2	2
Interest income	23	38	40	40	40
Interest expense	(148)	(171)	(136)	(172)	(181)
Exceptional income - net	-	-	88	-	-
Pre-tax profit	(110)	221	457	185	228
Taxation	(12)	(53)	(69)	(46)	(57)
Minority interests	9	(31)	(48)	(37)	(34)
Profit after tax & minorities	(114)	136	341	102	137
Reported net profit	(114)	136	341	102	137
Recurring net profit	(114)	41	50	102	137

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	10	316	463	316	367
Depreciation & amortisation	21	39	44	54	64
Change in working capital	172	583	284	(68)	(37)
Operating cash flow	203	938	791	302	394
Interest received	23	38	40	40	40
Interest paid	(148)	(171)	(136)	(172)	(181)
Tax paid	(12)	(53)	(69)	(46)	(57)
Cash flow from operations	66	752	625	123	195
Capex	(163)	(168)	(1,391)	(376)	(677)
Other investing cash flow	(182)	126	(1,209)	(0)	(161)
Cash flow from investing activities	(345)	(42)	(2,599)	(376)	(838)
Dividends paid	-	(17)	(45)	(111)	(33)
Proceeds from issue of shares	388	218	-	-	-
Increase in debt	186	180	-	-	-
Cash flow from financing activities	574	382	(45)	(111)	(33)
Cash at beginning of period	644	603	661	391	846
Total cash generated	295	1,091	(2,018)	(364)	(676)
Implied cash at end of period	939	1,694	(1,358)	27	170

Source: Company data, RHB

Financial Exhibits

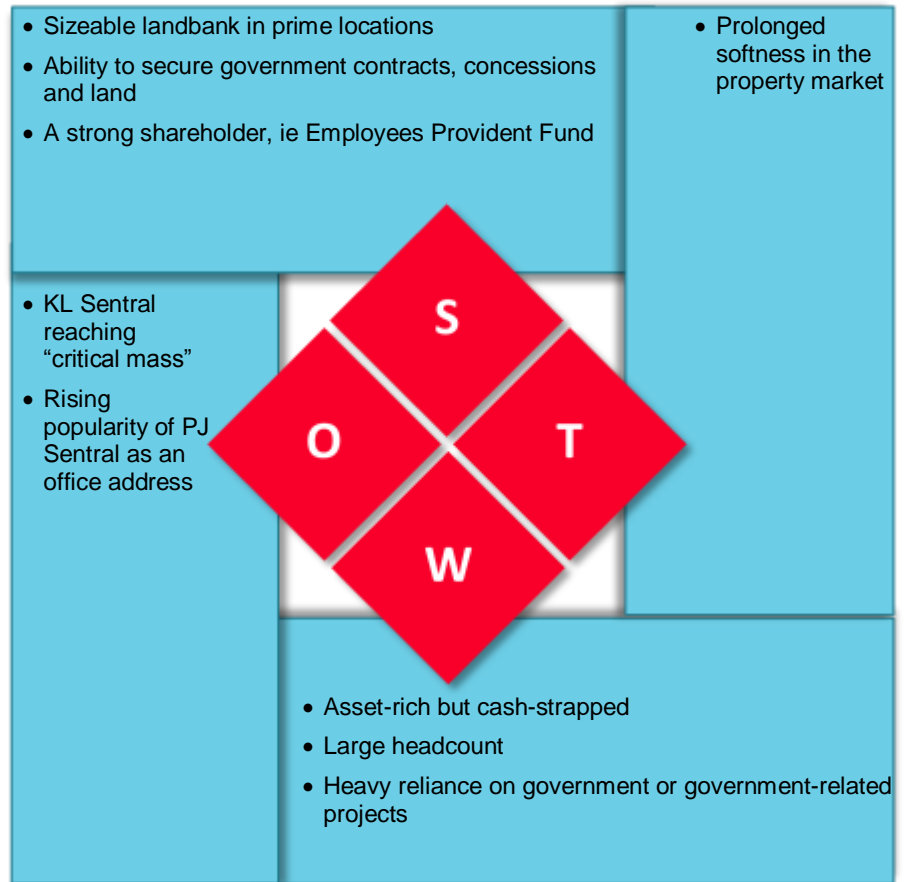
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	608	664	393	849	744
Inventories	725	874	865	923	1,151
Accounts receivable	208	748	763	807	998
Other current assets	2,305	978	678	678	678
Total current assets	3,845	3,264	2,700	3,257	3,571
Total investments	532	6	0	0	0
Tangible fixed assets	1,714	2,084	2,736	3,057	3,670
Intangible assets	138	139	139	139	139
Total other assets	390	1,594	1,456	1,434	1,215
Total non-current assets	2,774	3,822	4,332	4,631	5,025
Total assets	6,619	7,087	7,032	7,888	8,596
Short-term debt	2,594	1,391	925	925	925
Accounts payable	607	653	1,120	1,153	1,535
Other current liabilities	643	572	161	83	95
Total current liabilities	3,844	2,615	2,206	2,162	2,555
Total long-term debt	916	2,300	2,300	2,745	2,945
Other liabilities	122	107	107	107	107
Total non-current liabilities	1,038	2,407	2,407	2,852	3,052
Total liabilities	4,883	5,022	4,613	5,014	5,607
Share capital	1,651	1,760	1,787	2,154	2,154
Retained earnings reserve	(275)	(155)	142	193	274
Other reserves	299	380	380	380	380
Shareholders' equity	1,675	1,985	2,308	2,727	2,808
Minority interests	61	79	110	147	181
Total equity	1,737	2,065	2,418	2,874	2,989
Total liabilities & equity	6,619	7,087	7,032	7,888	8,596

Source: Company data, RHB

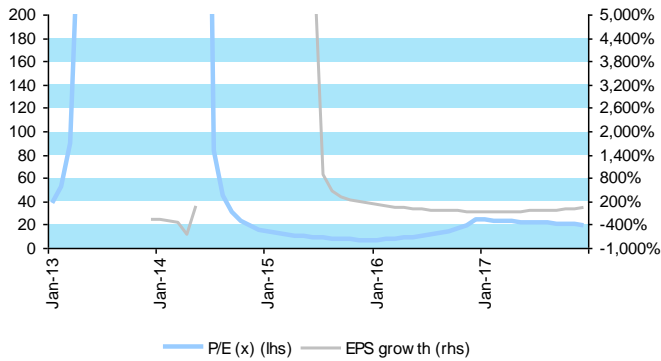
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(26.7)	61.0	22.6	13.3	33.1
Operating profit growth (%)	(95.5)	3032.9	46.8	(31.9)	16.3
Net profit growth (%)	(289.7)	0.0	149.5	(70.1)	34.5
EPS growth (%)	(273.2)	0.0	140.0	(73.1)	23.0
BVPS growth (%)	(0.7)	11.2	14.5	(2.0)	3.0
Operating margin (%)	1.1	20.8	25.0	15.0	13.1
Net profit margin (%)	(12.1)	9.0	18.3	4.8	4.9
Return on average assets (%)	(1.8)	2.0	4.8	1.4	1.7
Return on average equity (%)	(7.4)	7.5	15.9	4.0	4.9
Net debt to equity (%)	167.1	146.6	117.1	98.2	104.6
DPS	0.01	0.03	0.06	0.02	0.02
Recurrent cash flow per share	0.04	0.44	0.35	0.06	0.09

Source: Company data, RHB

SWOT Analysis

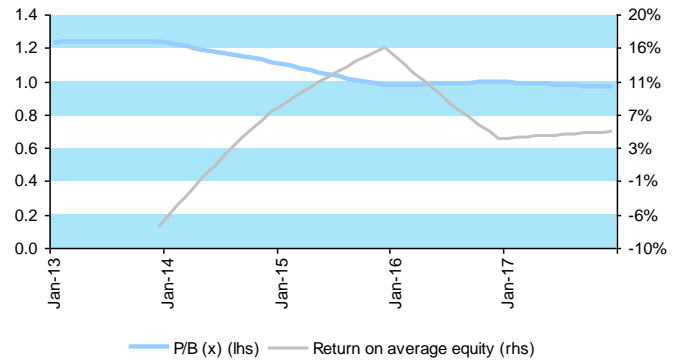


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

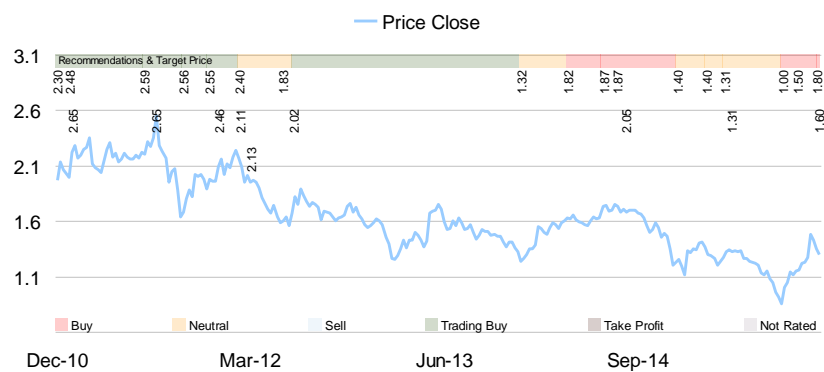


Source: Company data, RHB

Company Profile

Malaysian Resources Corp (MRCB) is engaged in construction (niche strength in environmental projects), property development and investment and toll road operations. Its property development business is underpinned by MYR16.5bn of GDV from landbank located at KL Sentral, PJ Sentral, KL city centre (Jalan Kia Peng), Setapak, Shah Alam, Penang, etc. It has two toll roads under its stable, ie the Eastern Dispersal Link (EDL) in Johor Bahru (100%) and the Duta-Ulu Klang Expressway (DUKE) in the Klang Valley.

Recommendation Chart



RHB Guide to Investment Ratings

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

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Not Rated: Stock is not within regular research coverage

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a) -

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a) -

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