

25 August 2016

Property | Real Estate

Malaysian Resources Corp

Looking Forward To The Menara Shell Disposal

Reiterate BUY with an unchanged TP of MYR1.60 (24% upside). We increase our FY16F earnings forecast by 91% to reflect gains from the disposals of Sooka Sentral and Menara Shell, with net gains totalling MYR127m. Earnings visibility is supported by MYR1.3bn in unbilled property sales and MYR6.6bn in construction orderbook. We are positive on the continuous efforts by the group to reduce its gearing level. The potential disposal of EDL and further future asset disposals are potential re-rating catalysts for the stock.

Forecast. We increase our FY16 net earnings forecast by 91% to include the impact of the MYR41.6m gain from the disposal of Sooka Sentral in 2Q16, and the anticipated net gain of MYR86m from the disposal of Menara Shell, which is expected to be completed by end-FY16. Unbilled property sales and construction order book currently stand at MYR1.3bn and MYR6.6bn respectively (vs MYR1.47bn and MYR5.01bn in 1Q16).

Outlook. We are encouraged by the much improved gearing position of the group, of which the net gearing has fallen to 1.09x as at end-1H16, from 1.27x as at end-FY15, and has been reduced further to 0.92x upon completion of the second tranche of the private placement exercise.

Maintain BUY. We maintain our MYR1.60 TP, based on a 30% discount to RNAV. A key downside risk to our forecasts would be a significant delay in construction works. Refinancing of the Eastern Dispersal Link (EDL)-related borrowings and non-core asset disposal are potential re-rating catalysts.

2Q16 earnings – results are in line

(MYRm)	2Q16	1Q16	QoQ (%)	2Q15	YoY (%)	Comments
Revenue	389.2	436	-10.7	530.3	-26.6	
EBIT	109.5	64.6	69.6	135.3	-19.1	
EBIT (%)	28.1%	14.8%		25.5%		
Pretax income	73.8	18.7	295.4	92	-19.8	
Pretax margin (%)	19%	4.3%		17.3%		
NP - reported	45.5	4.4	938.4	60.1	-24.3	Gain from the disposal of SookaSentral
NM - reported (%)	11.7%	1%		11.3%		
NP - recurring	42.7	4.4	874.5	-5.4	-891.4	
NM- recurring (%)	11%	1.0%		-1%		

Source: Company data, RHB

1H16 results above expectations. Core net profit was above expectations at 60%/59% of our/street estimates, mainly due to the MYR41.6m gain recognised on disposal of Sooka Sentral in 2Q16. YoY earnings dropped mainly due to the sale of Platinum Sentral resulting in a MYR220.5m gain in 1Q15. QoQ, earnings improved mainly due to the gain from disposal of Sooka Sentral.

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	150	159	165
Recurring net profit (MYRm)	41	235	150	159	165
Recurring net profit growth (%)	0.0	468.5	(36.1)	5.9	3.9
Recurring EPS (MYR)	0.02	0.13	0.08	0.08	0.08
DPS (MYR)	0.03	na	na	na	na
Recurring P/E (x)	53.3	9.7	16.7	17.1	16.5
P/B (x)	1.14	1.02	1.00	0.94	0.89
P/CF (x)	2.9	2.6	2.4	na	38.4
Dividend Yield (%)	2.0	na	na	na	na
EV/EBITDA (x)	14.7	8.8	10.6	12.4	12.3
Return on average equity (%)	7.5	15.3	6.0	5.7	5.6
Net debt to equity (%)	146.6	123.8	90.7	97.0	99.1
Our vs consensus EPS (adjusted) (%)			75.1	34.5	1.7

Source: Company data, RHB

Buy (Maintained)

Target Price:	MYR1.60
Price:	MYR1.29
Market Cap:	USD668m
Bloomberg Ticker:	MRC MK

Share Data

Avg Daily Turnover (MYR/USD)	2.91m/0.72m
52-wk Price low/high (MYR)	0.84 - 1.48
Free Float (%)	35
Shares outstanding (m)	2,080
Estimated Return	24%

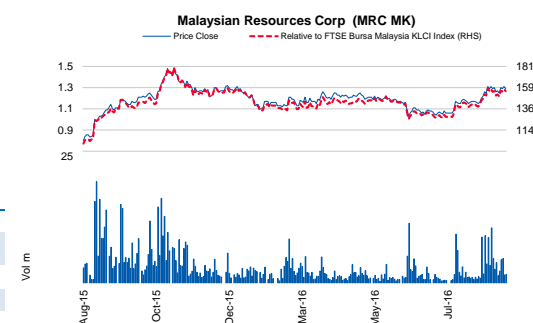
Shareholders (%)

Employees Provident Fund	37.4
Gapurna SB	19.0
Lembaga Tabung Haji	9.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.8	12.2	10.3	11.2	59.3
Relative	1.5	11.5	7.3	9.9	51.9

Source: Bloomberg



Source: Bloomberg

Analyst

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Figure 1: 1H16 results summary

FYE Dec (MYRm)	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	1H15	1H16	YoY (%)	Comments
Revenue	530.3	436.0	389.2	(10.7)	(26.6)	934.5	825.2	(11.7)	Mainly contributed by the property division
EBITDA	140.3	69.6	114.5	64.6	(18.4)	448.8	191.1	(57.4)	
<i>EBITDA Margin (%)</i>	26.5	16.0	29.4			48.0	23.2		
Depreciation	(5.0)	(5.0)	(5.0)	0.0	0.0	(15.0)	(17.0)	13.3	
EBIT	135.3	64.6	109.5	69.6	(19.1)	433.8	174.1	(59.9)	Include a MYR41.6m gain from the disposal of Sooka Sentral
<i>EBIT Margin (%)</i>	25.5	14.8	28.1			46.4	21.1		
Interest expense	(44.3)	(46.7)	(44.4)	(5.0)	0.2	(89.7)	(91.1)	1.6	
Interest income	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Associates	0.9	0.8	8.6	nm	nm	0.3	9.4	2,861.4	
El/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Pretax profit	92.0	18.7	73.8	295.4	(19.8)	344.4	92.4	(73.2)	1H15 profit was lifted by the MYR220.5 gain on disposal of Platinum Sentral
<i>Pretax Margin (%)</i>	17.3	4.3	19.0			36.9	11.2		
Tax	(18.5)	(5.2)	(16.7)	221.5	(9.8)	(25.6)	(21.9)	(14.5)	
<i>Effective tax rate (%)</i>	20.1	27.8	<i>n.m.</i>			7.4	23.7		
Minority Interest	(13.3)	(9.1)	(11.6)	27.4	(13.4)	(24.2)	(20.6)	(14.9)	
Net Profit	60.1	4.4	45.5	938.4	(24.3)	298.0	49.9	(83.3)	
Core Profit	(5.4)	4.4	42.7	874.5	(891.4)	232.5	47.1	(79.7)	Above expectations
<i>Net Margin (%)</i>	<i>(1.0)</i>	1.0	11.0			24.9	5.7		

Source: Company, 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
Subtotal		46,829		1,601.8

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
Subtotal				386.1

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
RNAV per share			2.28
Discount			30%
Target Price (MYR)			1.60

Source: RHB

25 August 2016

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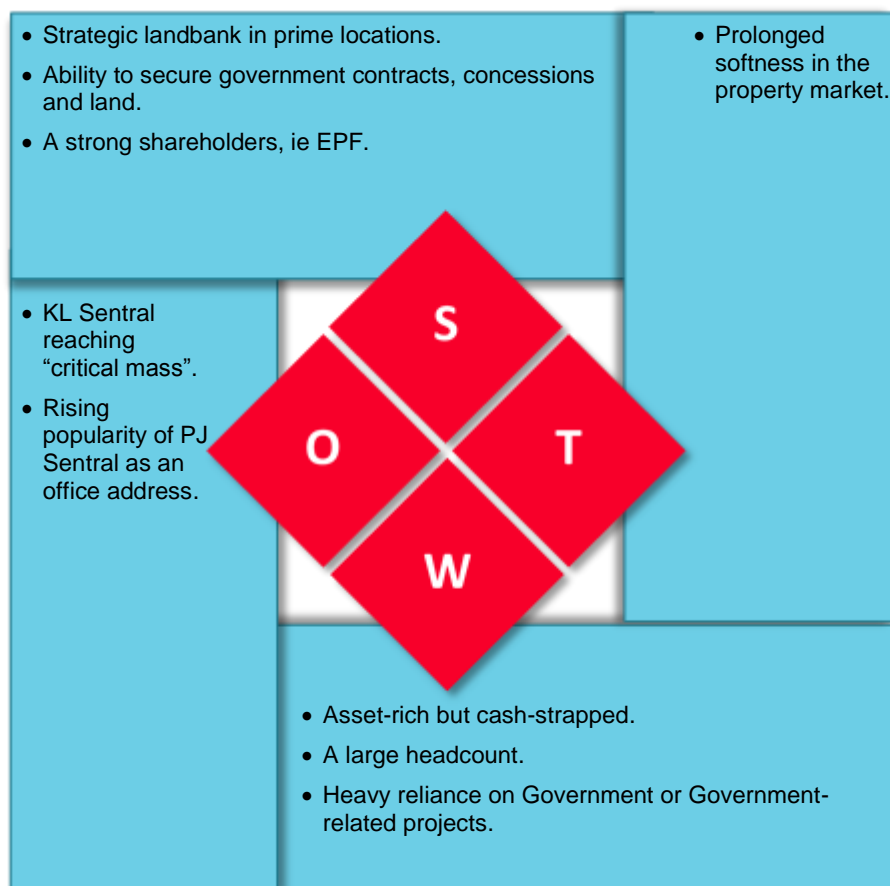
Financial Exhibits

Financial model updated on : 2016-08-25.

Asia					
Malaysia					
Property					
Malaysian Resources Corp					
Bloomberg MRC MK					
Buy					
Valuation basis					
30% discount to RNAV					
Key drivers					
i. New property sales;					
ii. Asset disposals;					
iii. New construction contracts.					
Key risks					
Weaker-than-expected market conditions					
Company Profile					
Malaysian Resources Corp (MRC) 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.					
Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Recurring EPS (MYR)	0.02	0.13	0.08	0.08	0.08
EPS (MYR)	0.08	0.18	0.08	0.08	0.08
DPS (MYR)	0.03	0.00	0.00	0.00	0.00
BVPS (MYR)	1.13	1.27	1.30	1.37	1.45
Weighted avg adjusted shares (m)	1,706	1,773	1,948	2,109	2,109
Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Recurring P/E (x)	53.3	9.7	16.7	17.1	16.5
P/E (x)	16.1	7.0	16.7	17.1	16.5
P/B (x)	1.14	1.02	1.00	0.94	0.89
FCF Yield (%)	26.5	(66.0)	24.4	(11.5)	(18.1)
Dividend Yield (%)	2.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	14.7	8.8	10.6	12.4	12.3
EV/EBIT (x)	16.5	9.5	12.5	14.9	15.0
Income statement (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	1,514	1,697	1,893	2,241	2,345
Gross profit	369	160	157	155	158
EBITDA	354	590	470	469	496
Depreciation and amortisation	(39)	(43)	(73)	(80)	(87)
Operating profit	316	547	397	390	409
Net interest	(133)	(185)	(133)	(133)	(143)
Income from associates & JVs	38	8	8	9	9
Pre-tax profit	221	370	273	265	275
Taxation	(53)	(6)	(68)	(66)	(69)
Minority interests	(31)	(38)	(55)	(40)	(41)
Recurring net profit	41	235	150	159	165
Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Change in working capital	583	493	780	(286)	(214)
Cash flow from operations	752	893	1,049	(16)	71
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
Balance sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	664	524	927	754	686
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	9,388	9,872	10,304
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	2,733	2,892	3,057
Minority interests	79	53	107	147	188
Total equity	2,065	2,313	2,840	3,039	3,245
Net debt	3,027	2,863	2,576	2,949	3,216
Total liabilities & equity	7,042	7,090	9,388	9,872	10,304
Key metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	61.0	12.0	11.5	18.4	4.6
Recurrent EPS growth (%)	0.0	446.8	(41.8)	(2.2)	3.9
Gross margin (%)	24.4	9.4	8.3	6.9	6.7
Operating EBITDA margin (%)	23.4	34.8	24.9	20.9	21.2
Net profit margin (%)	9.0	19.2	7.9	7.1	7.0
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	2.31	2.25	2.24

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

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

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