

# Malaysian Resources Corp (MRC MK)

Property - Real Estate

Market Cap: USD655m

**Neutral** (Maintained)

Target Price: MYR1.31

Price: MYR1.32

## Decent Start To The Year

Macro	◆◆◆
Risks	◆◆
Growth	◆◆
Value	◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	1.82m/0.50m
Cons. Upside (%)	40.9
Upside (%)	-0.7
52-wk Price low/high (MYR)	1.05 - 1.79
Free float (%)	39
Share outstanding (m)	1,776
<b>Shareholders (%)</b>	
Employees Provident Fund	38.9
Gapurna SB	12.5
Lembaga Tabung Haji	8.8

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.2	0.0	(6.4)	(11.4)	(15.4)
Relative	5.4	2.8	(6.5)	(11.5)	(11.8)

### Shariah compliant

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1Q15 results came in line with expectations. Maintain **NEUTRAL** and TP of MYR1.31 (1% downside). The strong revenue growth this quarter was driven by contributions from ongoing projects. MRCB also completed the disposal of Platinum Sentral in 1Q15. Going forward, management expects earnings to be driven by its unbilled sales of MYR2.9bn and about MYR2.5bn of project launches.

- ◆ **Within expectations.** Malaysian Resources Corp's (MRCB) 1Q15 core net profit of MYR17.4m came in broadly in line with our estimate at about 22% of full-year forecast, although it was slightly below consensus full-year estimates at 18%. Revenue almost doubled YoY, driven by increased contributions from its Q Sentral Residences and the ongoing works for the Ampang LRT line extension. MRCB also recognised a net gain of MYR220.5m from the disposal of Platinum Sentral (PS) which was completed on 30 March. With the completion of PS' disposal, MRCB is now the largest unitholder in MRCB-Quill REIT (previously Quill Capita Trust) (QUIL MK, NEUTRAL, TP: MYR1.25). Net gearing was reduced to 1.12x (4Q14: 1.47x) after the disposal of PS and Nu Tower 1.
- ◆ **Business updates.** Despite the ongoing concerns on the slowdown in the property market, MRCB is still guiding for a total sales target of about MYR1bn for this year. It plans to launch five new projects this year, with total GDV of about MYR2.5bn. These include The Grid in Jalan Kia Peng (GDV: MYR387m) as well as Phase 1 of Semarak City (GDV: about MYR500m) and Penang Sentral (GDV: MYR834m). Unbilled sales are still steady at MYR2.9bn, of which MYR1.8bn is attributable to its property development segment. Management has indicated that it could be disposing of more of its investment and purpose-built office assets into MRCB-Quill REIT going forward to boost future earnings. On its construction side, MRCB has confirmed that it was shortlisted for the tender of LRT Line 3 and is currently in the midst of preparing the proposal for submission.
- ◆ **Maintain NEUTRAL.** We make no earnings changes. Our RNAV-based TP is maintained at MYR1.31, based on an unchanged discount to RNAV of 35%. We remain cautious on the company's short-term prospects, given its high exposure to the presently unfavourable high-end high-rise residential segment.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	941	1,515	1,533	1,819	1,985
Reported net profit (MYRm)	(109)	136	80	99	114
Recurring net profit (MYRm)	(109)	41	80	99	114
Recurring net profit growth (%)	(281.5)	na	92.9	24.3	15.1
Recurring EPS (MYR)	(0.08)	0.03	0.05	0.06	0.06
DPS (MYR)	0.00	0.03	0.03	0.03	0.03
Recurring P/E (x)	na	52.0	29.1	23.4	20.4
P/B (x)	1.18	1.17	1.15	1.12	1.08
P/CF (x)	41.7	10.0	15.7	13.8	12.3
Dividend Yield (%)	0.0	1.9	1.9	1.9	1.9
EV/EBITDA (x)	68.7	6.1	11.9	11.0	10.2
Return on average equity (%)	(7.1)	7.5	4.0	4.8	5.4
Net debt to equity (%)	167.4	146.8	136.5	130.4	122.6
Our vs consensus EPS (adjusted) (%)			(23.2)	(36.7)	(24.6)

**Figure 1: MRCB's quarterly review**

FYE Dec (MYRm)	1QFY14	4QFY14	1QFY15	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>204.6</b>	<b>487.2</b>	<b>404.2</b>	<b>(17.0)</b>	<b>97.5</b>	Higher in 1Q15 due to higher revenue contribution from its property development segment.
<b>EBITDA</b>	73.1	76.7	303.4	nm	nm	
<i>EBITDA Margin (%)</i>	35.7	15.8	75.1			
Depreciation	(5.0)	(5.0)	(5.0)	0.0	0.0	
<b>EBIT</b>	<b>68.1</b>	<b>71.7</b>	<b>298.4</b>	<b>nm</b>	<b>nm</b>	
<i>EBIT Margin (%)</i>	33.3	14.7	73.8			
Interest expense	(38.4)	(45.5)	(45.4)	(0.2)	18.1	Higher interest expense as MRCB started incurring finance costs for the EDL highway from Aug 2014 onwards.
Interest income	0.0	0.0	0.0	nm	nm	
Associates	(5.8)	(9.6)	(0.6)	nm	nm	
El/Others	39.3	10.3	242.6	nm	nm	Earnings boosted this quarter by a one-off gain of MYR220.5m from the disposal of Platinum Sentral in 1Q15.
<b>Pretax profit</b>	<b>23.9</b>	<b>16.6</b>	<b>252.5</b>	<b>nm</b>	<b>nm</b>	
<i>Pretax Margin (%)</i>	11.7	3.4	62.5			
Tax	(10.5)	(18.0)	(7.1)	(60.7)	(32.9)	
<i>Effective tax rate (%)</i>	44.1	108.1	2.8			
Minority Interest	(7.2)	(12.2)	(10.9)	(10.3)	50.7	
<b>Net Profit</b>	<b>12.0</b>	<b>(5.3)</b>	<b>237.9</b>	<b>nm</b>	<b>nm</b>	
<b>Core Profit</b>	<b>12.0</b>	<b>(5.3)</b>	<b>17.4</b>	<b>nm</b>	<b>44.9</b>	Within expectations.
<i>Net Margin (%)</i>	5.9	(1.1)	4.3			

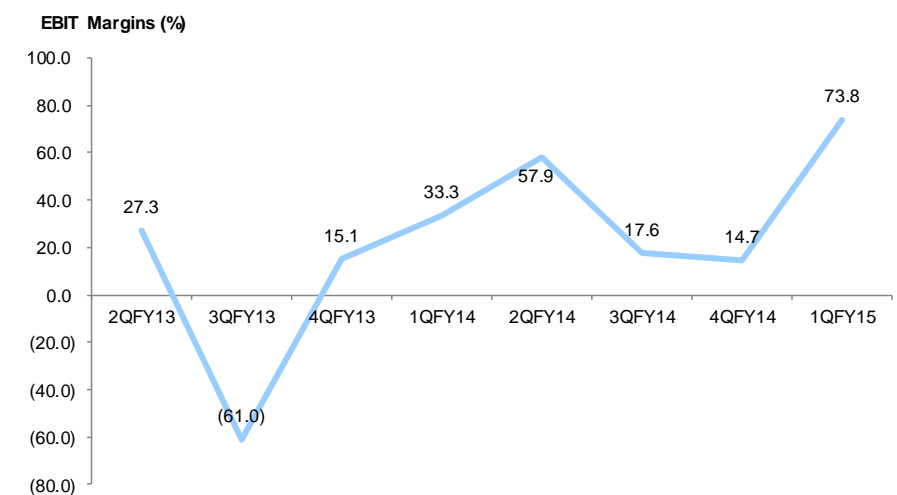
Source: RHB

**Figure 2: MRCB's historical performance**

FYE Dec (MYRm)	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15
<b>Revenue</b>	<b>185.7</b>	<b>159.7</b>	<b>369.0</b>	<b>204.6</b>	<b>325.7</b>	<b>497.3</b>	<b>487.2</b>	<b>404.2</b>
<b>EBITDA</b>	<b>55.7</b>	<b>(92.4)</b>	<b>60.6</b>	<b>73.1</b>	<b>193.5</b>	<b>92.7</b>	<b>76.7</b>	<b>303.4</b>
<i>EBITDA Margin (%)</i>	<i>30.0</i>	<i>(57.8)</i>	<i>16.4</i>	<i>35.7</i>	<i>59.4</i>	<i>18.7</i>	<i>15.8</i>	<i>75.1</i>
Depreciation	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
<b>EBIT</b>	<b>50.7</b>	<b>(97.4)</b>	<b>55.6</b>	<b>68.1</b>	<b>188.5</b>	<b>87.7</b>	<b>71.7</b>	<b>298.4</b>
<i>EBIT Margin (%)</i>	<i>27.3</i>	<i>(61.0)</i>	<i>15.1</i>	<i>33.3</i>	<i>57.9</i>	<i>17.6</i>	<i>14.7</i>	<i>73.8</i>
Interest expense	(40.1)	(45.2)	(36.0)	(38.4)	(47.1)	(40.2)	(45.5)	(45.4)
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Associates	2.4	2.8	(0.3)	(5.8)	(2.7)	(6.2)	(9.6)	(0.6)
El/Others	32.0	45.7	41.0	39.3	175.0	32.9	10.3	242.6
<b>Pretax profit</b>	<b>13.1</b>	<b>(139.7)</b>	<b>19.3</b>	<b>23.9</b>	<b>138.8</b>	<b>41.3</b>	<b>16.6</b>	<b>252.5</b>
<i>Pretax Margin (%)</i>	<i>7.1</i>	<i>(87.5)</i>	<i>5.2</i>	<i>11.7</i>	<i>42.6</i>	<i>8.3</i>	<i>3.4</i>	<i>62.5</i>
Tax	(5.0)	(0.9)	(9.1)	(10.5)	(15.4)	(9.3)	(18.0)	(7.1)
<i>Effective tax rate (%)</i>	<i>38.3</i>	<i>(0.7)</i>	<i>47.3</i>	<i>44.1</i>	<i>11.1</i>	<i>22.5</i>	<i>108.1</i>	<i>2.8</i>
Minority Interest	(2.3)	18.3	(8.8)	(7.2)	(5.5)	(6.0)	(12.2)	(10.9)
<b>Net Profit</b>	<b>5.8</b>	<b>(122.4)</b>	<b>2.2</b>	<b>12.0</b>	<b>118.5</b>	<b>27.4</b>	<b>(5.3)</b>	<b>237.9</b>
<b>Core Profit</b>	<b>5.8</b>	<b>(122.4)</b>	<b>2.2</b>	<b>12.0</b>	<b>7.2</b>	<b>27.4</b>	<b>(5.3)</b>	<b>17.4</b>
<i>Net Margin (%)</i>	<i>3.1</i>	<i>(76.6)</i>	<i>0.6</i>	<i>5.9</i>	<i>2.2</i>	<i>5.5</i>	<i>(1.1)</i>	<i>4.3</i>

Source: RHB

**Figure 3: Historical EBIT margin (%)**



Source: Company

**Figure 4: MRCB's RNAV breakdown**

<u>Ongoing Development</u>	<u>Acres</u>	<u>GDV (MYR mil)</u>	<u>Stake</u>	<u>NPV @ 13%</u>
Q Sentral Office Tower		1,228.0	66%	13.9
Sentral Residences		1,307.0	51%	16.6
9 Seputeh, Old Klang Road	17.6	2,178.0	100%	89.5
Senawang Sentral, Negeri Sembilan		56.0	100%	2.3
Bandar Seri Iskandar, Perak	4,000.0	348.0	70%	7.9
Jalan Kia Peng	1.0	387.0	100%	13.7
Office Towers - Lot F	5.7	3,113.0	100%	104.3
Kajang Utama	4.1	234.0	100%	8.8
Lot 2C4 Putrajaya	1.8	336.0	70%	8.8
Semarak City, Setapak	27.4	2,977.0	100%	52.2
Lot 349, KL Sentral	4.9	1,272.0	70%	29.8
Suria Subang	3.2	401.0	100%	14.2
Selbourne 2, Shah Alam	2.4	198.0	100%	7.4
Batu Ferringhi	3.3	322.0	100%	11.4
Salak South	6.2	2,120.0	70%	42.3
Penang Sentral	5.2	2,690.0	100%	54.6
PJ Sentral		2,550.0	100%	81.8
Project MX-1		8,000.0	70%	119.7
New Jalan Kia Peng development	1.9	951.1	100%	20.3
		30,668.1		<b>699.7</b>
<u>Investment / For Sale properties</u>	<u>Location</u>	<u>Market Value (MYR mil)</u>	<u>Book Value (MYR mil)</u>	<u>Net surplus (MYR mil)</u>
Nu Sentral Retail Mall	KL Sentral	1,207.5	1,050.0	119.8
Shell Tower	KL Sentral	837.2	728.0	81.9
Ascott Residences	KL Sentral	207.0	180.0	20.3
Puncak Wangi - Lot 8	Petaling Jaya	491.1	427.0	48.0
Nu Towers	KL Sentral	811.9	706.0	79.4
Aloft Hotel	KL Sentral	249.6	217.0	24.4
St. Regis - Hotel	KL Sentral	717.6	624.0	71.1
St. Regis - Serviced Residences	KL Sentral	742.9	646.0	72.7
				<b>517.6</b>
<u>Other Divisions</u>				<u>Equity value surplus (MYR mil)</u>
Construction ( 12x 1-year forward earnings)				106.5
Shareholders Funds				2,251.04
Proceeds from ESOS				25.60
Total RNAV				3,600.47
Share base				1,760.18
No. of ESOS (mil)				16.00
Enlarged share base (mil)				1,776.18
<b>RNAV per share</b>				<b>2.03</b>
Discount				35%
<b>Target Price (MYR)</b>				<b>1.31</b>

Source: RHB

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	941	1,515	1,533	1,819	1,985
Cost of sales	(1,060)	(1,276)	(1,134)	(1,394)	(1,530)
<b>Gross profit</b>	<b>(119)</b>	<b>239</b>	<b>399</b>	<b>426</b>	<b>454</b>
Gen & admin expenses	-	(80)	(80)	(80)	(80)
Other operating costs	152	257	10	10	10
<b>Operating profit</b>	<b>33</b>	<b>416</b>	<b>329</b>	<b>356</b>	<b>384</b>
Operating EBITDA	52	440	353	380	408
Depreciation of fixed assets	(20)	(24)	(24)	(24)	(24)
<b>Operating EBIT</b>	<b>33</b>	<b>416</b>	<b>329</b>	<b>356</b>	<b>384</b>
Net income from investments	5	(24)	(12)	(12)	(12)
Interest expense	(148)	(171)	(168)	(168)	(166)
<b>Pre-tax profit</b>	<b>(110)</b>	<b>221</b>	<b>149</b>	<b>176</b>	<b>206</b>
Taxation	(12)	(53)	(37)	(44)	(53)
Minority interests	14	(31)	(32)	(33)	(39)
<b>Profit after tax &amp; minorities</b>	<b>(109)</b>	<b>136</b>	<b>80</b>	<b>99</b>	<b>114</b>
<b>Reported net profit</b>	<b>(109)</b>	<b>136</b>	<b>80</b>	<b>99</b>	<b>114</b>
<b>Recurring net profit</b>	<b>(109)</b>	<b>41</b>	<b>80</b>	<b>99</b>	<b>114</b>

Source: Company data, RHB

<b>Cash flow (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>33</b>	<b>416</b>	<b>329</b>	<b>356</b>	<b>384</b>
<b>Depreciation &amp; amortisation</b>	<b>20</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>Change in working capital</b>	<b>150</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating cash flow</b>	<b>202</b>	<b>440</b>	<b>353</b>	<b>380</b>	<b>408</b>
Interest paid	(148)	(171)	(168)	(168)	(166)
Tax paid	(9)	(53)	(37)	(44)	(53)
<b>Cash flow from operations</b>	<b>46</b>	<b>216</b>	<b>148</b>	<b>168</b>	<b>190</b>
Capex	(8)	(8)	(8)	(8)	(8)
Other investing cash flow	(188)	57	(100)	(100)	(100)
<b>Cash flow from investing activities</b>	<b>(195)</b>	<b>50</b>	<b>(108)</b>	<b>(108)</b>	<b>(108)</b>
Dividends paid	(26)	-	(44)	(44)	(44)
Increase in debt	119	1,384	-	-	-
<b>Cash flow from financing activities</b>	<b>93</b>	<b>1,384</b>	<b>(44)</b>	<b>(44)</b>	<b>(44)</b>
Cash at beginning of period	644	603	661	780	796
<b>Total cash generated</b>	<b>(57)</b>	<b>1,650</b>	<b>(4)</b>	<b>16</b>	<b>38</b>
<b>Implied cash at end of period</b>	<b>587</b>	<b>2,253</b>	<b>657</b>	<b>796</b>	<b>834</b>

Source: Company data, RHB

## Financial Exhibits

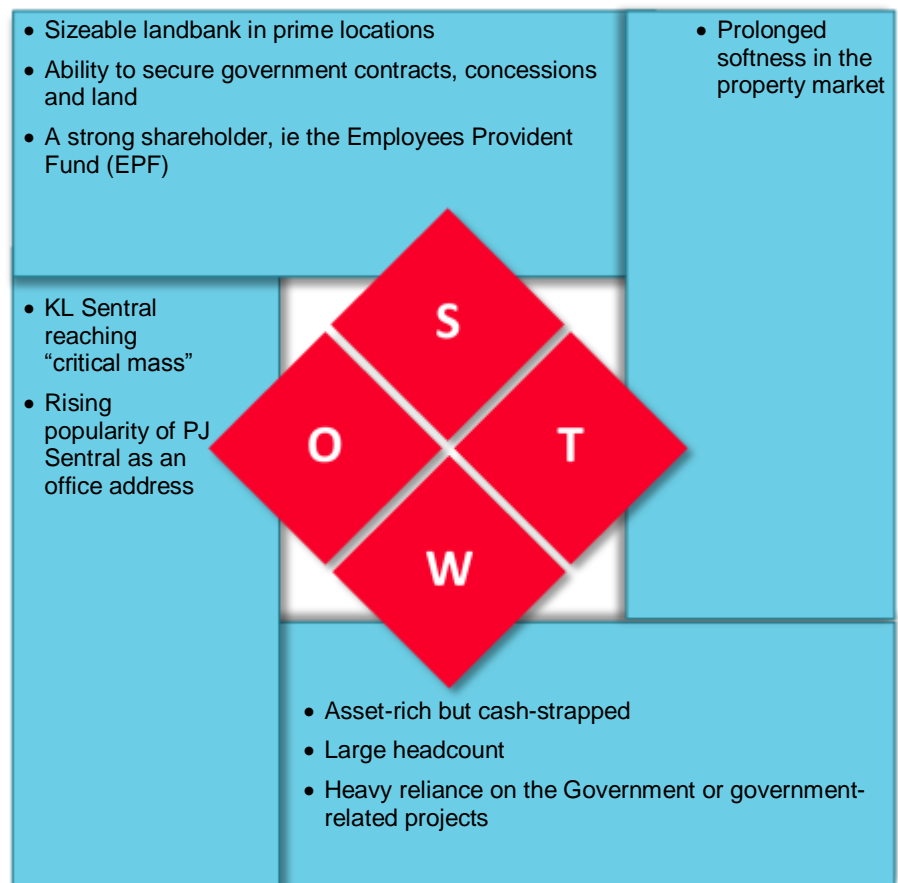
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	603	661	780	796	834
Inventories	8	43	43	43	43
Accounts receivable	649	1,314	1,314	1,314	1,314
Other current assets	2,577	1,274	1,274	1,274	1,274
<b>Total current assets</b>	<b>3,838</b>	<b>3,292</b>	<b>3,410</b>	<b>3,427</b>	<b>3,465</b>
Total investments	1,043	2,192	1,013	1,077	1,141
Tangible fixed assets	857	1,253	1,260	1,268	1,276
Intangible assets	291	269	-	-	-
Total other assets	566	36	1,402	1,402	1,402
Total non-current assets	2,757	3,750	3,676	3,747	3,819
<b>Total assets</b>	<b>6,595</b>	<b>7,042</b>	<b>7,086</b>	<b>7,174</b>	<b>7,283</b>
Short-term debt	2,594	1,391	1,391	1,391	1,391
Accounts payable	763	1,152	1,152	1,152	1,152
Other current liabilities	462	15	15	15	15
<b>Total current liabilities</b>	<b>3,820</b>	<b>2,557</b>	<b>2,557</b>	<b>2,557</b>	<b>2,557</b>
Total long-term debt	909	2,293	2,293	2,293	2,293
Other liabilities	129	127	104	104	104
<b>Total non-current liabilities</b>	<b>1,038</b>	<b>2,420</b>	<b>2,397</b>	<b>2,397</b>	<b>2,397</b>
<b>Total liabilities</b>	<b>4,858</b>	<b>4,977</b>	<b>4,954</b>	<b>4,954</b>	<b>4,954</b>
Share capital	1,651	1,760	1,760	1,760	1,760
Retained earnings reserve	(275)	(155)	(119)	(64)	6
Other reserves	299	380	380	380	380
<b>Shareholders' equity</b>	<b>1,675</b>	<b>1,985</b>	<b>2,021</b>	<b>2,076</b>	<b>2,146</b>
Minority interests	61	79	111	144	183
Other equity	-	-	0	-	-
<b>Total equity</b>	<b>1,737</b>	<b>2,065</b>	<b>2,132</b>	<b>2,220</b>	<b>2,330</b>
<b>Total liabilities &amp; equity</b>	<b>6,595</b>	<b>7,042</b>	<b>7,086</b>	<b>7,174</b>	<b>7,283</b>

Source: Company data, RHB

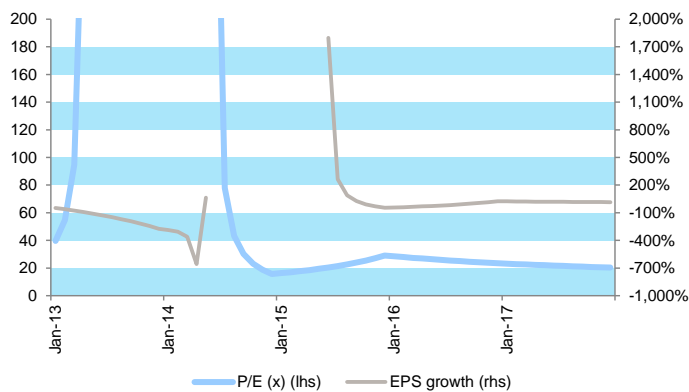
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(26.7)	61.0	1.2	18.7	9.1
Operating profit growth (%)	(85.3)	1180.1	(20.9)	8.1	8.1
Net profit growth (%)	(281.5)	na	(41.6)	24.3	15.1
EPS growth (%)	(274.4)	na	(45.9)	24.3	15.1
BVPS growth (%)	9.6	1.0	1.8	2.7	3.4
Operating margin (%)	3.5	27.5	21.5	19.6	19.4
Net profit margin (%)	(11.6)	9.0	5.2	5.4	5.7
Return on average assets (%)	(1.7)	2.0	1.1	1.4	1.6
Return on average equity (%)	(7.1)	7.5	4.0	4.8	5.4
Net debt to equity (%)	167.4	146.8	136.5	130.4	122.6
DPS	0.00	0.03	0.03	0.03	0.03
Recurrent cash flow per share	0.03	0.13	0.08	0.10	0.11

Source: Company data, RHB

## SWOT Analysis

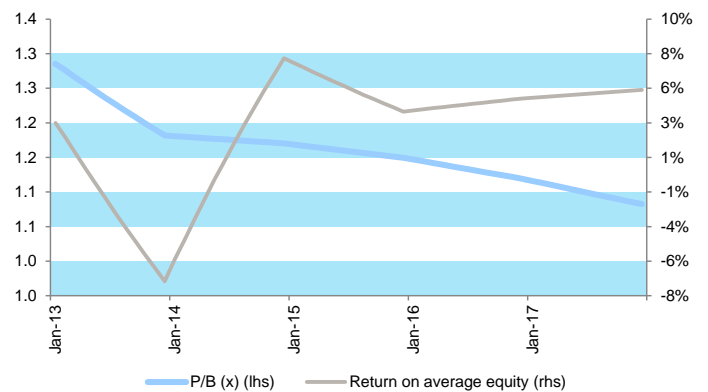


**P/E (x) vs EPS growth**



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 gross development value 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



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-04-23	Neutral	1.31	1.30
2015-04-08	Neutral	1.31	1.24
2015-02-24	Neutral	1.40	1.36
2014-12-16	Neutral	1.40	1.05
2014-11-18	Buy	2.05	1.49
2014-08-15	Buy	2.05	1.71
2014-07-25	Buy	1.87	1.75
2014-06-23	Buy	1.87	1.70
2014-05-21	Buy	1.82	1.56
2014-05-20	Buy	1.82	1.55

Source : RHB, Bloomberg



## 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

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

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