

Malaysian Resources Corp (MRC MK)

Property - Real Estate

Market Cap: USD558m

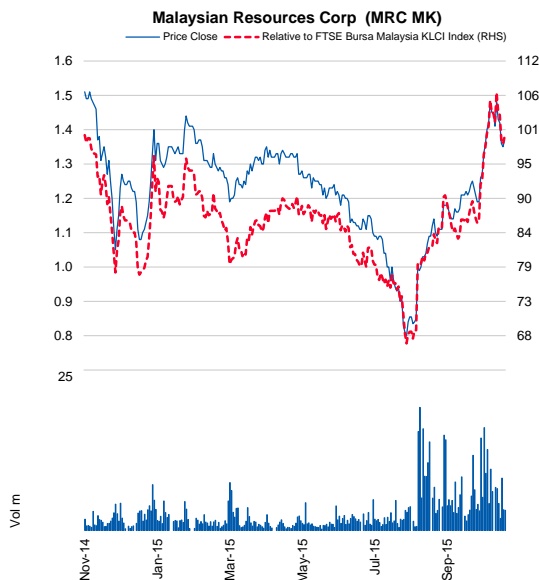
Buy (Maintained)

Target Price: MYR1.60

Price: MYR1.37

Better Quarters Ahead

Macro	◆◆◆
Risks	◆◆◆
Growth	◆◆
Value	◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	6.89m/1.61m
Cons. Upside (%)	13.9
Upside (%)	16.5
52-wk Price low/high (MYR)	0.80 - 1.51
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	12.3	13.2	45.7	3.0	(9.3)
Relative	18.1	16.6	40.8	11.3	(0.3)

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MRCB's 3Q15 numbers fell short of expectations, hampered by the underperformance of its property segment. However, we maintain our BUY call and TP of MYR1.60 (17% upside). We expect stronger earnings in the coming quarters, given the more promising earnings visibility backed by its MYR6bn construction orderbook and MYR1.7bn unbilled property sales.

- ◆ **Earnings hampered by low property contribution.** Malaysian Resources Corp's (MRCB) 3Q15 core net profit of MYR5.6m brought 9M15 core profit to MYR23.1m, coming in below our and consensus estimates at less than 50% of full-year numbers. We note that 9M revenue contribution from its property division was down 11% YoY, as its Q Sentral project is now reaching the tail-end of the development and due to the lack of new launches this year amid the prolonged soft market sentiment. That said, revenue from its construction segment was up more than 50% YoY, although we note that overall EBIT margins saw some dilution due to lower margins from the construction segment.
- ◆ **Better outlook ahead from non-core asset disposals.** We believe that earnings should start to pick up from 4Q15 onwards as new construction contracts take off. We note that 4Q earnings will also see a boost from the disposal of MRCB's stake in the recently-completed Nu Sentral, which is expected to result in total gains of about MYR70m. In addition, its recent sale of Sooka Sentral is expected to result in net gains of MYR30m to be recognised in 1Q16. A key risk to our forecasts is a later-than-expected earnings turnaround.
- ◆ **Maintain BUY.** We trim our FY15 earnings estimate by 8% as we fine-tune our cost assumptions. Our TP for MRCB is maintained at MYR1.60, based on an unchanged 30% discount to RNAV. To reiterate, we expect FY16 operating earnings to gradually turn around as earnings from its recent construction contracts secured after the new management came on board will start to kick in, which should result in better margins. Earnings visibility should be promising, given the backing of its MYR6bn construction orderbook and MYR1.7bn of unbilled sales, as well as the Light Rail Transit 3 (LRT3) project delivery partner (PDP) fees. Its ability to secure the LRT3 PDP role and the Bukit Jalil land swap deal are good indicators of management's ability to secure jobs, and these are expected to take time to translate into earnings.

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	56.6	49.1	26.5	21.6
P/B (x)	1.35	1.21	1.06	1.08	1.05
P/CF (x)	31.4	3.1	3.9	21.9	15.1
Dividend Yield (%)	0.7	1.9	4.6	1.1	1.5
EV/EBITDA (x)	138	15	11	15	15
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) (%)			(36.5)	(20.5)	(17.5)

Source: Company data, RHB

Figure 1: MRCB's results review

FYE Dec (MYRm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Revenue	497.3	530.3	374.1	(29.5)	(24.8)	1,027.6	1,308.5	27.3	Revenue growth underpinned by stronger contribution from its construction division.
EBITDA	92.7	140.3	67.0	(52.2)	(27.7)	359.4	512.8	42.7	
<i>EBITDA Margin (%)</i>	<i>18.7</i>	<i>26.5</i>	<i>17.9</i>			<i>35.0</i>	<i>39.2</i>		
Depreciation	(5.0)	(5.0)	(5.0)	0.0	0.0	(15.0)	(17.0)	13.3	
EBIT	87.7	135.3	62.0	(54.2)	(29.3)	344.4	495.8	44.0	
<i>EBIT Margin (%)</i>	<i>17.6</i>	<i>25.5</i>	<i>16.6</i>			<i>33.5</i>	<i>37.9</i>		
Interest expense	(40.2)	(44.3)	(44.5)	0.4	10.5	(125.7)	(134.1)	6.7	Higher interest expense in FY15 due to servicing of the loan for its Eastern Dispersal Link (EDL) concession.
Interest income	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Associates	(6.2)	0.0	0.0	nm	nm	(14.7)	8.1	nm	
EI/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Pretax profit	41.3	92.0	25.3	(72.5)	(38.7)	204.0	369.7	81.3	
<i>Pretax Margin (%)</i>	<i>8.3</i>	<i>17.3</i>	<i>6.8</i>			<i>19.9</i>	<i>28.3</i>		
Tax	(9.3)	(18.5)	(18.7)	1.2	>100	(35.3)	(44.3)	25.6	
<i>Effective tax rate (%)</i>	<i>22.5</i>	<i>20.1</i>	<i>74.0</i>			<i>17.3</i>	<i>12.0</i>		
Minority Interest	(6.0)	(13.3)	(2.2)	(83.9)	(64.2)	(18.7)	(26.4)	41.0	
Net Profit	27.4	60.1	5.6	(90.6)	(79.4)	157.9	303.6	92.3	Headline profit largely underpinned by the completion of Platinum Sentral's disposal.
Core Profit	27.4	0.1	5.6	nm	(79.4)	46.6	23.1	(50.4)	Below expectations.
<i>Net Margin (%)</i>	<i>5.5</i>	<i>0.0</i>	<i>1.5</i>			<i>4.5</i>	<i>1.8</i>		

Source: RHB

Figure 2: MRCB's RNAV breakdown

Ongoing Development	Acres	GDV (MYRm)	Stake	Net present value @ 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 & 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		Fair value based on RHB's TP (MYRm)	BV (MYRm)	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 (incl. placement shares)				2,280.19
RNAV per share				2.28
Discount				30%
Target Price (MYR)				1.60

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

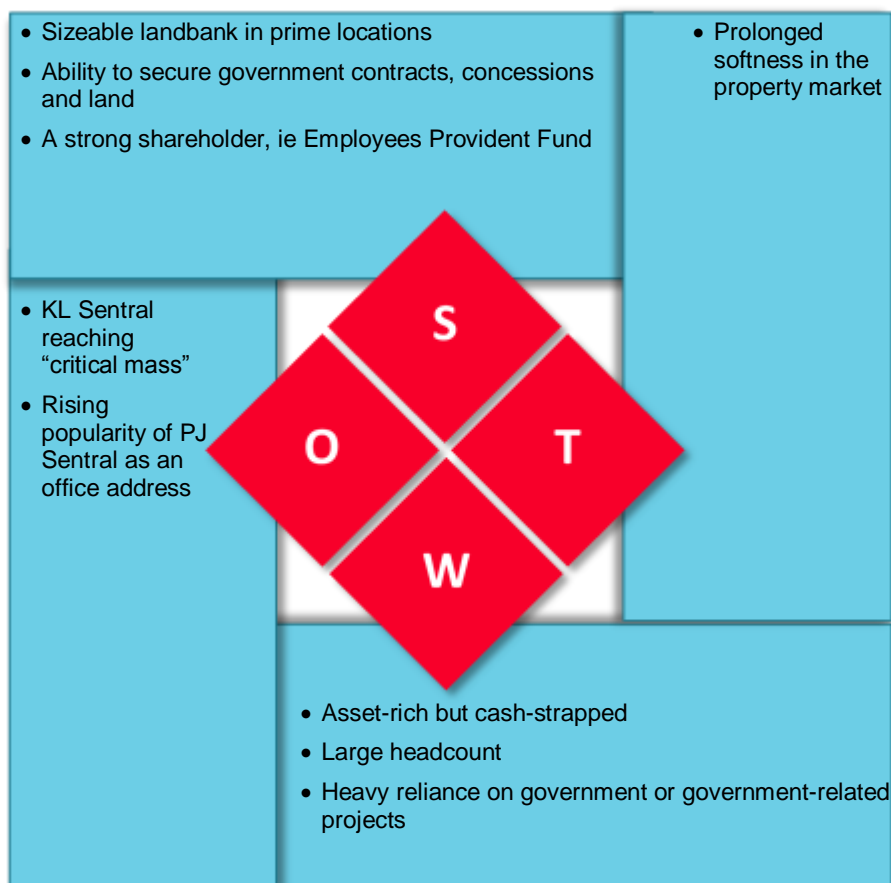
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	608	664	393	849	744
Inventories	725	874	865	923	1,151
Accounts receivable	208	748	763	807	998
Other current assets	2,305	978	678	678	678
Total current assets	3,845	3,264	2,700	3,257	3,571
Total investments	532	6	0	0	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

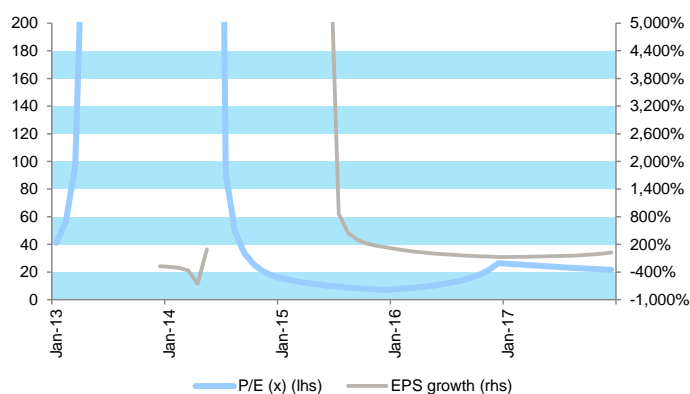
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(26.7)	61.0	22.6	13.3	33.1
Operating profit growth (%)	(95.5)	3032.9	46.8	(31.9)	16.3
Net profit growth (%)	(289.7)	0.0	149.5	(70.1)	34.5
EPS growth (%)	(273.2)	0.0	140.0	(73.1)	23.0
BVPS growth (%)	(0.7)	11.2	14.5	(2.0)	3.0
Operating 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

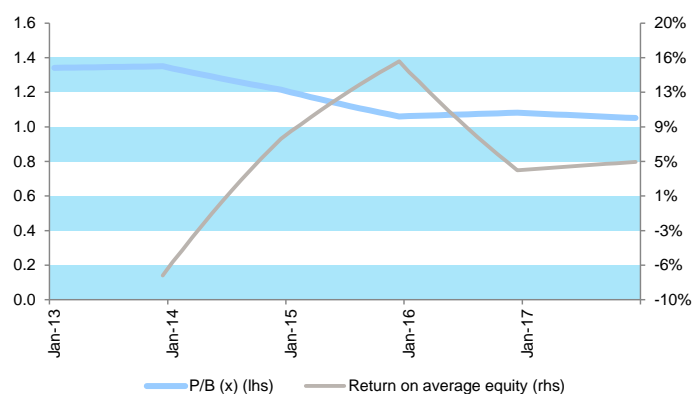


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Malaysian Resources Corp (MRC) 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
2015-11-17	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
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

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

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