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## EQUITY RESEARCH

## Company Report

## Malaysia

## Construction &amp; Engineering

## Malaysian Resources Corp

BUY

December 4, 2015

## RECYCLING ASSETS TO UNLOCK VALUE

Price: MYR 1.26

Bloomberg:  
[MRC MK]Market Cap:  
USD 533.00 mOutstanding Shares:  
1,786.59 mSix Month Avg.  
Daily Trading vol.  
(USD m): 1.1452 week High/Low:  
MYR 1.52 / MYR 0.80

- > 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.
- > 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.
- > 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.
- > 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.

## IMPORTANT DISCLOSURE ON LAST PAGE

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Auerbach Grayson &amp; Company, LLC

25 West 45th Street New York, NY 10036 Telephone 212 557 4444 Toll-Free 1 800 31world www.agco.com

# Malaysian Resources Corp (MRC MK)

Property- Real Estate

Market Cap: USD533m

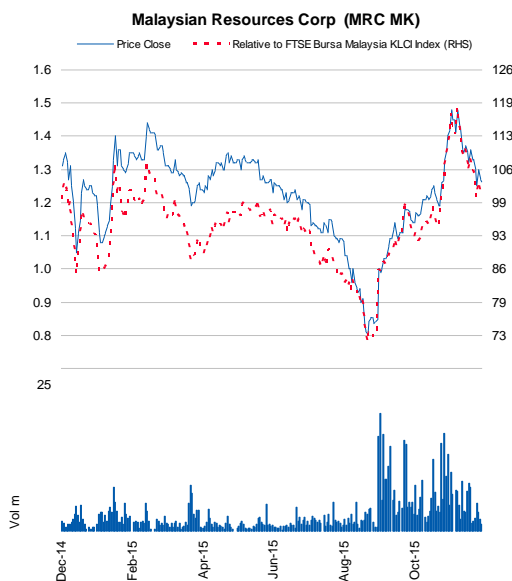
Buy (Maintained)

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
<b>Shareholders (%)</b>	
Employees Provident Fund	38.4
Gapurna SB	16.7
Lembaga Tabung Haji	10.1
<b>Share Performance (%)</b>	
	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

Shariah compliant

Loong Kok Wen, CFA +603 9207 7614

[loong.kok.wen@rhbgroup.com](mailto:loong.kok.wen@rhbgroup.com)

Alia Arwina +603 9207 7608

[alia.arwina@rhbgroup.com](mailto:alia.arwina@rhbgroup.com)

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
		FV based on		
Others		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

<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	1,514	1,858	2,105	2,802
Cost of sales	(916)	(1,145)	(1,321)	(1,678)	(2,258)
<b>Gross profit</b>	<b>25</b>	<b>369</b>	<b>536</b>	<b>426</b>	<b>544</b>
Gen & admin expenses	(122)	(172)	(189)	(220)	(275)
Other operating costs	107	118	116	109	98
<b>Operating profit</b>	<b>10</b>	<b>316</b>	<b>463</b>	<b>316</b>	<b>367</b>
Operating EBITDA	31	354	507	370	431
Depreciation of fixed assets	(21)	(39)	(44)	(54)	(64)
<b>Operating EBIT</b>	<b>10</b>	<b>316</b>	<b>463</b>	<b>316</b>	<b>367</b>
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	-	-
<b>Pre-tax profit</b>	<b>(110)</b>	<b>221</b>	<b>457</b>	<b>185</b>	<b>228</b>
Taxation	(12)	(53)	(69)	(46)	(57)
Minority interests	9	(31)	(48)	(37)	(34)
<b>Profit after tax &amp; minorities</b>	<b>(114)</b>	<b>136</b>	<b>341</b>	<b>102</b>	<b>137</b>
<b>Reported net profit</b>	<b>(114)</b>	<b>136</b>	<b>341</b>	<b>102</b>	<b>137</b>
<b>Recurring net profit</b>	<b>(114)</b>	<b>41</b>	<b>50</b>	<b>102</b>	<b>137</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>10</b>	<b>316</b>	<b>463</b>	<b>316</b>	<b>367</b>
<b>Depreciation &amp; amortisation</b>	<b>21</b>	<b>39</b>	<b>44</b>	<b>54</b>	<b>64</b>
<b>Change in working capital</b>	<b>172</b>	<b>583</b>	<b>284</b>	<b>(68)</b>	<b>(37)</b>
<b>Operating cash flow</b>	<b>203</b>	<b>938</b>	<b>791</b>	<b>302</b>	<b>394</b>
Interest received	23	38	40	40	40
Interest paid	(148)	(171)	(136)	(172)	(181)
Tax paid	(12)	(53)	(69)	(46)	(57)
<b>Cash flow from operations</b>	<b>66</b>	<b>752</b>	<b>625</b>	<b>123</b>	<b>195</b>
Capex	(163)	(168)	(1,391)	(376)	(677)
Other investing cash flow	(182)	126	(1,209)	(0)	(161)
<b>Cash flow from investing activities</b>	<b>(345)</b>	<b>(42)</b>	<b>(2,599)</b>	<b>(376)</b>	<b>(838)</b>
Dividends paid	-	(17)	(45)	(111)	(33)
Proceeds from issue of shares	388	218	-	-	-
Increase in debt	186	180	-	-	-
<b>Cash flow from financing activities</b>	<b>574</b>	<b>382</b>	<b>(45)</b>	<b>(111)</b>	<b>(33)</b>
Cash at beginning of period	644	603	661	391	846
<b>Total cash generated</b>	<b>295</b>	<b>1,091</b>	<b>(2,018)</b>	<b>(364)</b>	<b>(676)</b>
<b>Implied cash at end of period</b>	<b>939</b>	<b>1,694</b>	<b>(1,358)</b>	<b>27</b>	<b>170</b>

Source: Company data, RHB

## Financial Exhibits

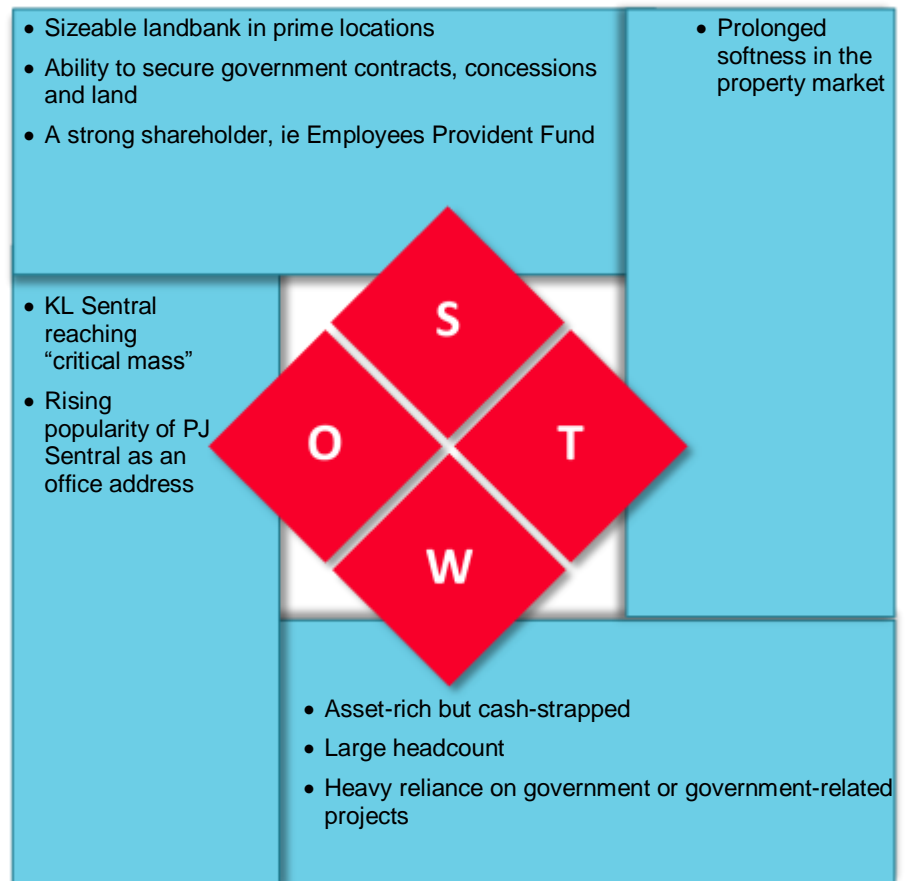
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	608	664	393	849	744
Inventories	725	874	865	923	1,151
Accounts receivable	208	748	763	807	998
Other current assets	2,305	978	678	678	678
<b>Total current assets</b>	<b>3,845</b>	<b>3,264</b>	<b>2,700</b>	<b>3,257</b>	<b>3,571</b>
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
<b>Total assets</b>	<b>6,619</b>	<b>7,087</b>	<b>7,032</b>	<b>7,888</b>	<b>8,596</b>
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
<b>Total current liabilities</b>	<b>3,844</b>	<b>2,615</b>	<b>2,206</b>	<b>2,162</b>	<b>2,555</b>
Total long-term debt	916	2,300	2,300	2,745	2,945
Other liabilities	122	107	107	107	107
<b>Total non-current liabilities</b>	<b>1,038</b>	<b>2,407</b>	<b>2,407</b>	<b>2,852</b>	<b>3,052</b>
<b>Total liabilities</b>	<b>4,883</b>	<b>5,022</b>	<b>4,613</b>	<b>5,014</b>	<b>5,607</b>
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
<b>Shareholders' equity</b>	<b>1,675</b>	<b>1,985</b>	<b>2,308</b>	<b>2,727</b>	<b>2,808</b>
Minority interests	61	79	110	147	181
<b>Total equity</b>	<b>1,737</b>	<b>2,065</b>	<b>2,418</b>	<b>2,874</b>	<b>2,989</b>
<b>Total liabilities &amp; equity</b>	<b>6,619</b>	<b>7,087</b>	<b>7,032</b>	<b>7,888</b>	<b>8,596</b>

Source: Company data, RHB

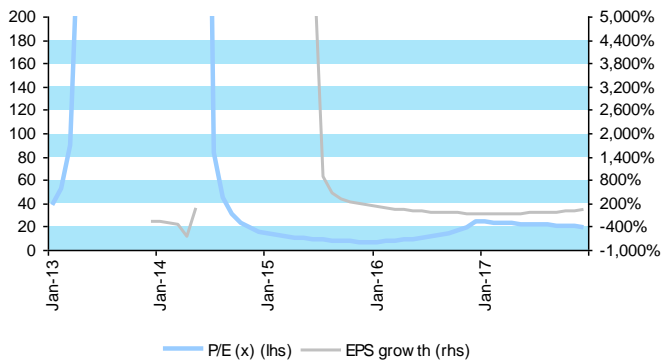
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(26.7)	61.0	22.6	13.3	33.1
Operating profit growth (%)	(95.5)	3032.9	46.8	(31.9)	16.3
Net profit growth (%)	(289.7)	0.0	149.5	(70.1)	34.5
EPS growth (%)	(273.2)	0.0	140.0	(73.1)	23.0
BVPS growth (%)	(0.7)	11.2	14.5	(2.0)	3.0
Operating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

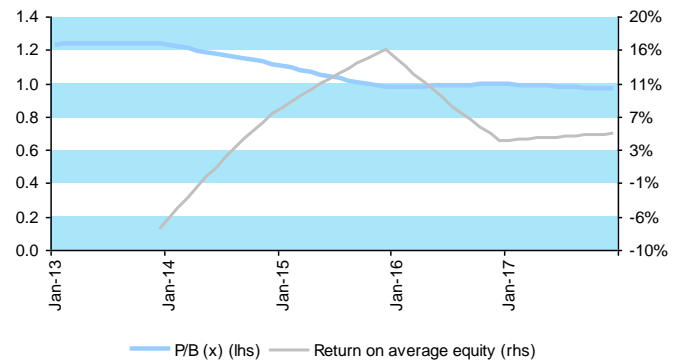


**P/E (x) vs EPS growth**



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



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

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

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

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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<b>RHB Research Institute Sdn Bhd</b> Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693	<b>RHB Securities Hong Kong Ltd.</b> 12 <sup>th</sup> Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	<b>RHB Research Institute Singapore Pte Ltd (formerly known as DMG &amp; Partners Research Pte Ltd)</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
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<b>Settlements</b>	<b>212.557.4478</b>	
<b>Fax</b>	<b>212.557.9066</b>	

**Executive**

David S. Grayson	Chief Executive Officer	1.212.453.3553	david@agco.com
Alex Seiler	President, Global Sales & Trading	1.212.453.3574	aseiler@agco.com
Garth Ballantyne	Managing Director, Global Trading	1.212.557.4444	gballantyne@agco.com
Frank Muller	Managing Director, Global Operations	1.212.453.3518	fmuller@agco.com

**Sales**

Simon Male	Director, Asian Sales	1.212.453.3570	smale@agco.com
Duke Shin	Asian Sales	1.212.453.3528	dshin@agco.com
Victoria Goodwin	Asian Sales	1.212.453.3507	vgoodwin@agco.com
Zoran Milojevic	Director, CEEMEA & LATAM Sales	1.212.453.3589	zmilojevic@agco.com
Simon Mandel	CEEMEA & LATAM Sales	1.212.453.3571	smandel@agco.com
Millie Asanovic	CEEMEA & LATAM Sales	1.212.453.3520	masanovic@agco.com
Michael Daoud	CEEMEA & LATAM Sales	1.212.453.3586	mdaoud@agco.com
Chris Dodson	Japanese Equities	1.212.453.3541	cdodson@agco.com
Stephan Lueck	Western Europe Sales	1.212.453.3538	slueck@agco.com
Dirk Schnitker	Western Europe Sales	1.212.453.3531	dschnitker@agco.com
Nikhil Bhatnagar	South Asian Sales	1.212.453.3573	nbhatnagar@agco.com
Abhijit Kukreja	South Asian Sales	1.212.453.3561	akukreja@agco.com

**Trading**

Geoffrey Gimber	Asian Trading	1.212.557.4444	ggimber@agco.com
Mike LoPiano	Asian Trading	1.212.557.4444	mikelopiano@agco.com
Pete Peters	Asian Trading	1.212.557.4444	ppeters@agco.com
Harry Kemp	Asian Trading	1.212.557.4444	hkemp@agco.com
Ross Levin	Asian Trading	1.212.557.4444	rlevin@agco.com
Wyatt Clarke	EMEA/ Western Europe	1.212.557.4444	wclarke@agco.com
Danielle Simon	EMEA/ Western Europe	1.212.557.4444	dsimon@agco.com
Steven Pollicino	Emerging Market Trading	1.212.557.4444	spollicino@agco.com
John Krase	Emerging Market Trading	1.212.557.4444	jkrase@agco.com
Yin You	Emerging Market Trading	1.212.557.4444	yyou@agco.com
John Geron	US Equities Trading	1.212.557.4444	jgeron@agco.com
Doug Rivelli	Director Program Trading	1.212.557.4444	drivelli@agco.com
John Hurkala	Program Trading	1.212.557.4444	jhurkala@agco.com
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**Research**

Kevin Keefe	Research Coordinator	1.212.453.3549	kkeefe@agco.com
-------------	----------------------	----------------	-----------------

**Information Services**

Ismael Sadek	Information Technology	1.212.453.3512	isadek@agco.com
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		1.212.557.4478	ops@agco.com
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