

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

1Q15: Earnings See Positive Growth Momentum

MRCB reported core net profit of RM15.9m for 1Q15, which represents 17.4% of our full-year estimates. Earnings improved on the back of strong billings for the property development arm. However, the Nu Sentral Mall which is being disposed of by the group continues to drag down earnings. We expect the company's move to further unlock its investment property value to carry on within the next quarter, which would further reduce its heavy balance sheet. Maintain BUY. Target price: RM2.05.

1Q15 RESULTS

Year to 31 Dec (RMm)	1Q15	4Q14	qoq % chg	yoy % chg
Turnover	404.2	487.2	(17.0)	97.5
Engineering & Construction	169.1	269.8	(37.3)	38.3
Property development	224.2	230.8	(2.9)	45.8
Infrastructure & nvironmental	29.1	26.9	8.2	259.1
EBIT	282.4	35.0	>+100	>+100
Engineering & Construction	2.2	(1.0)	>-100	(59.7)
Property development	273.3	45.8	>-100	>+100
Infrastructure & Environmental	16.5	16.7	(1.1)	>-100
Pre-Tax Profit	259.2	16.6	>+100	>+100
Net Profit	237.9	4.1	>+100	>+100
Core Net Profit	15.9	4.1	>+100	n.m
Construction margin	1.3%	n.m		
Property margin	24%*	20%		

* Adjusted to remove one off gain from Platinum Sentral disposal
Source: Malaysian Resources Corporation Berhad, UOB Kay Hian

RESULTS

• **Within expectations.** Malaysian Resources Corporation (MRCB) reported 1Q15 revenue and net profit of RM237.9m (>+100% qoq, >+100% yoy) and a net profit of RM237.9m which includes a one-off gain of RM220m as a result of the completion of its disposal of its Platinum Sentral into its REIT. Excluding the one-off gain, the group recorded core net profit of RM15.9m (287.8% qoq, >+100% yoy) which accounts for about 17.4% of our core 2015 full-year estimate of RM91m. We believe that numbers in the subsequent quarters would be stronger due to the: a) higher momentum of progress billings, and b) the company completing the disposal of Nu Sentral Mall which is dragging numbers down.

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	941	1,515	1,558	1,794	2,068
EBITDA	(91)	315	666	382	403
Operating profit	(91)	315	652	369	389
Net profit (rep./act.)	(119)	182	313	147	158
Net profit (adj.)	(119)	60	93	147	158
EPS (sen)	(7.2)	3.6	5.6	8.9	9.5
PE (x)	n.m.	36.3	23.5	14.8	13.8
P/B (x)	1.3	1.1	1.0	0.9	0.9
EV/EBITDA (x)	n.m.	16.3	7.7	13.4	12.7
Dividend yield (%)	0.0	1.9	1.5	1.5	1.5
Net margin (%)	(12.7)	12.0	20.1	8.2	7.6
Net debt/(cash) to equity (%)	174.7	153.4	116.9	112.8	104.2
Interest cover (x)	(3.6)	2.1	3.8	2.7	2.8
ROE (%)	(7.7)	9.9	14.7	6.3	6.4
Consensus net profit	-	-	96	145	137
UOBKH/Consensus (x)	-	-	0.96	1.02	1.15

Source: Malaysian Resources Corporation Berhad, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM1.32
Target Price	RM2.05
Upside	+55.3%

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	1,786.6
Market cap (RMm):	2,358.3
Market cap (US\$m):	654.8
3-mth avg daily t'over (US\$m):	0.5

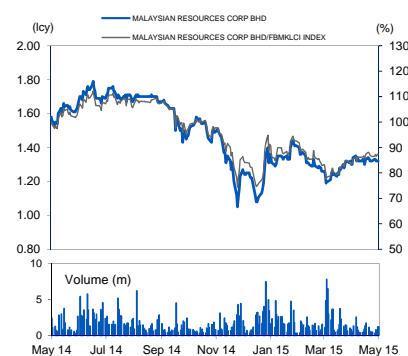
Price Performance (%)

52-week high/low	RM1.79/RM1.05			
1mth	3mth	6mth	1yr	YTD
0.0	(6.4)	(11.4)	(15.4)	8.2

Major Shareholders

Employees Provident Fund	36.5
Gapurna Sdn Bhd	15.5
Lembaga Tabung Haji	10.2
FY15 NAV/Share (RM)	1.38
FY15 Net Debt/Share (RM)	1.61

PRICE CHART



Source: Bloomberg

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- **Property division continues to show decent earnings growth.** The property division propelled earnings for MRCB this quarter, having contributed an adjusted EBIT of about RM53m during the quarter which translates to a qoq and yoy growth of 15.7% and 51% respectively. We expect the property division earnings to be further boosted in the subsequent quarters as its developments achieve higher billing momentum. Margin-wise, there has been significant improvement as a bulk of revenue recognition was completed this quarter in relation to Q Sentral, which is due for delivery soon.

STOCK IMPACT

- **Construction orderbook stands at about RM1b** which represents about 1.9x of its 2014 construction division revenue. A bulk of the outstanding construction orderbook comprises of orders for: a) the LRT extension job (RM548m), and b) construction of buildings (RM488m), and c) environmental rehabilitation jobs (RM34m). In the near term, we gather that the company has been shortlisted to bid for the PDP role of the RM9b LRT Line 3 construction (tender will close in Jun 15).
- **Property unbilled sales stand at RM1.8b (from RM1.7b in 4Q14)** which represents about 2.0x of its 2014 property division revenue. A major bulk of its unbilled sales still comes from the Sentral Residences (GDV: RM785m), the recently launched 9 Seputeh project (unbilled: RM355m, ASP: RM800psf) and the PJ Sentral enbloc building sales (GDV: RM409m). Currently, we are estimating that these projects will contribute about 20-22% to the group's EBIT margins.
- **About RM2.3b worth of projects to be launched in 2015.** This year, the group plans to launch about RM2.3b worth of projects, with a sales target of just above RM1b. Thus far, they have previewed one of their KLCC development dubbed The Grid (GDV: RM387m, bookings: 22%, ASP: RM1,400psf). Also, the company will soon launch two other affordable developments in the Klang Valley and two commercial developments in Penang and Putrajaya respectively.
- **Near-term catalysts include the REITing of its next investment property.** Following the completion of the Platinum Sentral injection, we believe MRCB will embark on a move to inject its investment properties into QCT, which will most likely be Shell Tower and Ascott Residences. We estimate these two assets have a combined value of close to RM865m, based on a cap rate of 6%. After the next REITing exercise, net gearing could drop to 1.05-1.10x.

EARNINGS REVISION/RISK

- No change.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM2.05**, which implies a 30% discount to our SOTP valuation of RM2.94/share. We believe there could potential trading opportunities along the way as the company delivers some of its target restructuring strategies this year, which include the disposal of non-core assets as well as REITing of its investment properties to further lower its gearing.

SHARE PRICE CATALYST

- Unlocking value of its investment properties via a REIT structure.

RNAV

	(RMm)
Property	3,506.4
Construction	279.5
Maintainance	64.8
Investment Properties	1,968.4
Concession	1,545.8
Net Debt	(2,463.0)
QCT 33% stake	264.0
Total RNAV	5,166.0
Sharebase	1,651.3
Issuance for PJ Sentral 2	108.8
Enlarged sharebase	1,760.1
RNAV/share	2.94
Discount	30%
Target Price (RM)	2.05

Source: UOB Kay Hian

KEY REVENUE ASSUMPTIONS

Catalyst	2015F	2016F	2017F
Engineering & Construction	867.5	897.2	1,037.4
Property Development	377.8	566.8	696.8
Infrastructure	144.1	151.3	151.3

Source: UOB Kay Hian

UPCOMING CATALYSTS

Catalyst	Timeline	Status
Tolling of EDL	Aug 14	Completed
Tender results for Kwasa Damansara	4Q14	Completed
REITing of next investment property	2Q15	Pending

Source: UOB Kay Hian

OTHER POTENTIAL REIT-ABLE ASSETS

Investment Property	Value (RMm)
Sooka Sentral, KL Sentral	61.6
Menara Shell (Lot 348)	707.4
Plaza Alam Sentral, Shah Alam	77.8
Kompleks Sentral, Segambut	30.0
Ascott Residences	157.3
Total Value	1,056.6

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Net turnover	1,515	1,558	1,794	2,068
EBITDA	315	666	382	403
Deprec. & amort.	0	14	14	14
EBIT	315	652	369	389
Total other non-operating income	n.a.	(14)	(14)	(14)
Associate contributions	(24)	(9)	3	4
Net interest income/(expense)	(152)	(175)	(144)	(145)
Pre-tax profit	221	455	214	234
Tax	(53)	(118)	(56)	(66)
Minorities	14	(24)	(11)	(11)
Net profit	182	313	147	158
Net profit (adj.)	60	93	147	158

CASH FLOW

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Operating	156	414	257	371
Pre-tax profit	221	455	214	234
Tax	(53)	(118)	(56)	(66)
Deprec. & amort.	0	(14)	(14)	(14)
Associates	39	449	0	0
Working capital changes	205	279	269	373
Other operating cashflows	(256)	(636)	(157)	(157)
Investing	(73)	419	(30)	(30)
Capex (growth)	0	(30)	(30)	(30)
Investments	39	449	0	0
Proceeds from sale of assets	0	0	0	0
Others	(112)	0	0	0
Financing	(83)	(750)	(272)	(272)
Dividend payments	(18)	(25)	(25)	(24)
Issue of shares	0	0	0	0
Proceeds from borrowings	182	(538)	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(248)	(188)	(248)	(248)
Net cash inflow (outflow)	0	82	(46)	69
Beginning cash & cash equivalent	309	661	683	638
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	308	743	638	706

BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	230	230	230	230
Other LT assets	3,520	3,939	3,993	4,050
Cash/ST investment	661	683	638	706
Other current assets	2,631	2,182	2,330	2,491
Total assets	7,042	7,035	7,191	7,477
ST debt	1,391	853	853	853
Other current liabilities	1,173	1,060	1,217	1,275
LT debt	2,317	2,488	2,488	2,488
Other LT liabilities	97	258	122	207
Shareholders' equity	1,985	2,273	2,396	2,529
Minority interest	79	103	114	125
Total liabilities & equity	7,042	7,035	7,191	7,477

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	20.8	42.7	21.3	19.5
Pre-tax margin	14.6	29.2	11.9	11.3
Net margin	12.0	20.1	8.2	7.6
ROA	2.7	4.4	2.1	2.1
ROE	9.9	14.7	6.3	6.4
Growth				
Turnover	61.0	2.9	15.1	15.3
EBITDA	n.a.	111.4	(42.5)	5.3
Pre-tax profit	n.a.	105.5	(52.9)	9.4
Net profit	n.a.	72.0	(52.9)	6.9
Net profit (adj.)	n.a.	54.7	58.8	6.9
EPS	n.a.	54.7	58.8	6.9
Leverage				
Debt to total capital	64.2	58.4	57.1	55.7
Debt to equity	186.7	147.0	139.5	132.1
Net debt/(cash) to equity	153.4	116.9	112.8	104.2
Interest cover (x)	2.1	3.8	2.7	2.8

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