

Outthink. Outperform.

Highway trouble solved

Malaysian Resources Corp Bhd (MRCB) has agreed to terminate its Eastern Dispersal Link Expressway (EDL) concession for cash compensation of RM1,325.8m from the government. We view this long-awaited deal positively as it will lead to interest cost savings, a one-off gain of RM24m and reduce net gearing to 0.28x from 0.53x as at end-2017. We upgrade our core EPS forecasts by 10-14% in FY19-20E and lift our TP to RM0.90 from RM0.88, based on a 40% discount to RNAV. Maintain our BUY call.

Deal struck

MRCB has entered into a termination and settlement agreement for its EDL concession with The Government of Malaysia (GOM). GOM will pay RM1,325.8m to MRCB. The total cost and net book value of EDL service concession assets are about RM1,326.57m and RM1,135.28m respectively. MRCB expects a net pro forma gain of RM24.05m from the early settlement of the concession debt.

Positive for earnings and financial position

We view the concession termination agreement positively as it will reduce the group's net gearing of 0.53x at end-2017 to 0.28x. After settling the EDL concession debts of RM1,074.2m and other expenses, MRCB will receive RM226.58m cash that can be deployed to finance its other projects such as Kwasa Sentral and Cyberjaya City Centre. The one-off gain of RM24m will also lift FY19E earnings assuming the deal is completed in 1Q19. There is also interest cost savings in FY19-20E with the early settlement of the Senior and Junior Sukuk totaling RM1.07bn (high interest rates of 6.3-10.4% p.a.).

Core EPS upgrade

We revise core EPS up by 10% in FY19E and 14% in FY20E to reflect the interest cost savings from the repayment of EDL debt and the new contract value agreed by GOM of RM11.9bn for the LRT Line 3 (LRT3) project. We raise our RNAV/share estimate to RM1.50 from RM1.46 to reflect the lower net debt.

BUY with higher TP of RM0.90

We reiterate our BUY call on MRCB with our target price raised to RM0.90 from RM0.88, based on the same 40% discount to RNAV. We expect the clearing of uncertainties on the EDL and LRT3 projects will potentially lead to a relief rally for the share price.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	2,408.1	2,823.7	2,106.6	1,872.3	1,824.5
EBITDA (RMm)	288.1	261.4	260.2	248.6	266.0
Pretax profit (RMm)	392.6	247.3	229.8	239.6	281.2
Net profit (RMm)	267.4	167.6	161.9	176.1	199.9
EPS (sen)	13.8	6.6	3.7	4.0	4.6
PER (x)	5.7	11.9	21.1	19.4	17.1
Core net profit (RMm)	22.0	117.2	102.6	152.1	199.9
Core EPS (sen)	0.6	4.6	2.3	3.5	4.6
Core EPS growth (%)	56.8	282.6	(37.3)	27.7	21.0
Core PER (x)	120.1	17.0	33.3	22.5	17.1
Net DPS (sen)	2.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	3.5	2.2	2.2	2.2	2.2
EV/EBITDA (x)	20.6	17.4	16.9	10.7	10.7
Chg in EPS (%)			1.1	9.9	13.7
Affin/Consensus (x)			1.4	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Company Update

MRCB

MRC MK

Sector: Construction & Infrastructure

RM0.78 @ 12 November 2018
BUY (maintain)

Upside 15%

Price Target: RM0.90

Previous Target: RM0.88



	1M	3M	12M
Absolute	7.6%	-10.9%	-26.2%
Rel to KLCI	9.8%	-5.2%	-24.2%

Stock Data

Issued shares (m)	4,395.1
Mkt cap (RMm)/(US\$m)	3,406.2/813.2
Avg daily vol - 6mth (m)	30.6
52-wk range (RM)	0.55-1.31
Est free float	37%
BV per share (RM)	1.1
P/BV (x)	0.7
Net cash/ (debt) (RMm) (2Q18)	(3,436.4)
ROE (2018E)	3.3%
Derivatives	Yes
Warr 2018 (RM0.026, EP: RM2.30)	
Shariah Compliant	Yes

Key Shareholders

EPF	35.5%
Gapurna Sdn Bhd	16.6%
Bank Kerjasama Rakyat	7.0%

Source: Affin Hwang, Bloomberg

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EDL deal clears the air of uncertainty

Recall that GOM stopped toll collection on the EDL in December 2017 and was negotiating the compensation for concession termination. But the change in government led to some uncertainties on the deal, which have been cleared with the signing of the agreement.

LRT3 contract terms revised

MRCB–George Kent Joint Venture received a Letter of Appointment from Prasarana for the LRT Line 3 (LRT3) for a fixed contract value of RM11,856m (includes contingency sum of RM400m) on 2 November 2018. The date of completion is 28 February 2024. The change in role to a turnkey contract rather than Project Delivery Partner (PDP) increases execution risk due to the fixed contract value. However, the JV could reap a higher profit margin than the fixed PDP fee at 6% of project value if there are any cost savings.

Key risks

Key upside/downside risks are stronger/weaker property sales and higher/lower construction margins.

Fig 1: Change in RNAV and target price assumptions

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	4,890	4,869	0
Property investment	1,557	1,557	0
Construction	958	1,021	(6)
Concession	0	18	(100)
Car Park & REIT	530	530	(0)
Total	7,935	7,996	(1)
Net cash/(debt)	(1,373)	(1,599)	(14)
RNAV	6,563	6,397	3
No. of shares	4,385	4,385	0
RNAV / share	1.50	1.46	3
Fully-diluted no. of shares	4,385	4,385	0
Fully-diluted RNAV	1.50	1.46	3
Target price @ 40% discount	0.90	0.88	2

Source: Affin Hwang estimates

MRCB - FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Revenue	2,408.1	2,823.7	2,106.6	1,872.3	1,824.5
Operating expenses	(2,120.0)	(2,562.3)	(1,846.4)	(1,623.7)	(1,558.5)
EBITDA	288.1	261.4	260.2	248.6	266.0
Depreciation	(52.4)	(52.4)	(52.4)	(52.4)	(52.4)
EBIT	235.7	208.9	207.8	196.1	213.6
Net int income/(expense)	(121.1)	(52.9)	(66.3)	(22.0)	13.7
Associates' contribution	32.7	25.0	28.9	41.4	54.0
Exceptional gain/(loss)	245.4	66.3	59.3	24.1	0.0
Pretax profit	392.6	247.3	229.8	239.6	281.2
Tax	(73.5)	(65.5)	(60.9)	(57.1)	(74.5)
Minority interest	(51.7)	(14.2)	(7.0)	(6.4)	(6.8)
Net profit	267.4	167.6	161.9	176.1	199.9
Core net profit	22.0	117.2	102.6	152.1	199.9

Balance Sheet Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Fixed assets	3,901.9	3,383.0	3,324.9	3,269.2	3,215.7
Other long term assets	686.4	955.7	984.6	799.5	853.4
Total non-current assets	4,588.3	4,338.7	4,309.5	4,068.7	4,069.1
Cash and equivalents	0.0	1,189.4	1,189.4	20.0	20.0
Stocks	816.8	851.4	757.8	668.4	641.3
Debtors	1,174.3	2,884.6	2,152.1	1,912.7	1,863.9
Other current assets	927.2	1,036.9	1,607.2	2,097.1	2,179.5
Total current assets	2,918.3	5,962.3	5,706.5	4,698.2	4,704.7
Creditors	896.5	835.1	590.4	520.8	499.6
Short term borrowings	806.3	1,432.1	1,387.5	268.8	224.2
Other current liabilities	486.7	1,720.6	1,626.0	1,452.9	1,389.0
Total current liabilities	2,189.6	3,987.8	3,604.0	2,242.4	2,112.9
Long term borrowings	1,072.3	891.2	891.2	891.2	891.2
Other long term liabilities	1,219.7	493.3	493.3	493.3	493.3
Total long term liabilities	2,292.0	1,384.6	1,384.6	1,384.6	1,384.6
Shareholders' Funds	2,925.8	4,824.1	4,915.9	5,021.9	5,151.7
Minority interests	99.2	104.5	111.5	117.8	124.7

Cash Flow Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
EBIT	235.7	208.9	207.8	196.1	213.6
Depreciation & amortisation	(0.8)	(13.7)	(9.6)	(8.2)	(6.9)
Working capital changes	705.2	3,612.9	(1,163.2)	(518.3)	(109.5)
Cash tax paid	(73.5)	(65.5)	(60.9)	(57.1)	(74.5)
Others	(1,007.9)	(4,631.3)	1,710.8	765.4	174.5
Cashflow from operation	(141.3)	(888.7)	685.0	378.0	197.1
Capex	0.0	0.0	0.0	0.0	0.0
Disposal/(purchases)	0.0	0.0	0.0	226.6	0.0
Others	642.9	(1,057.0)	0.0	1,074.2	0.0
Cash flow from investing	642.9	(1,057.0)	0.0	1,300.8	0.0
Debt raised/(repaid)	(461.2)	451.9	(44.6)	(1,118.8)	(44.6)
Equity raised/(repaid)	401.9	1,798.1	0.0	0.0	0.0
Net interest income/(exp)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(76.6)	(70.1)	(70.1)	(70.1)	(70.1)
Others	(112.2)	(362.9)	0.0	0.0	0.0
Cash flow from financing	(248.1)	1,816.9	(114.7)	(1,188.9)	(114.7)
Free Cash Flow	(141.3)	(888.7)	685.0	378.0	197.1

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Growth					
Revenue (%)	41.9	17.3	(25.4)	(11.1)	(2.6)
EBITDA (%)	15.5	(9.3)	(0.4)	(4.5)	7.0
Core net profit (%)	2,113.7	433.6	(12.4)	48.2	31.5
Profitability					
EBITDA margin (%)	12.0	9.3	12.4	13.3	14.6
PBT margin (%)	16.3	8.8	10.9	12.8	15.4
Net profit margin (%)	11.1	5.9	7.7	9.4	11.0
Effective tax rate (%)	18.7	26.5	26.5	23.8	26.5
ROA (%)	7.3	3.8	3.2	3.8	4.6
Core ROE (%)	0.8	3.0	2.1	3.1	3.9
ROCE (%)	4.6	3.6	3.4	3.8	4.9
Dividend payout ratio (%)	19.9	26.7	47.4	43.6	38.4
Liquidity					
Current ratio (x)	1.3	1.5	1.6	2.1	2.2
Op. cash flow (RMm)	(141.3)	(888.7)	685.0	378.0	197.1
Free cashflow (RMm)	(141.3)	(888.7)	685.0	378.0	197.1
FCF/share (sen)	(3.8)	(20.3)	15.6	8.6	4.5
Asset management					
Debtors turnover (days)	178	373	373	373	373
Stock turnover (days)	124	110	131	130	128
Creditors turnover (days)	136	108	102	102	100
Capital structure					
Net gearing (%)	73.2	32.4	19.6	net cash	net cash
Interest cover (x)	1.6	2.3	2.6	3.3	5.3

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2Q17	3Q17	4Q17	1Q18	2Q18
Revenue	725.3	1,134.1	408.2	427.6	405.2
Operating expenses	(655.4)	(1,056.9)	(339.7)	(412.9)	(353.5)
EBITDA	69.9	90.4	68.5	14.7	51.8
Depreciation	(19.8)	(13.1)	(13.1)	(6.5)	(8.8)
EBIT	50.1	77.3	55.4	8.3	42.9
Net int income/(expense)	(26.1)	(33.5)	6.8	11.6	(37.0)
Associates' contribution	6.8	8.6	8.6	10.7	5.8
Exceptional items	3.8	0.0	60.8	0.0	31.3
Pretax profit	34.6	52.3	131.6	30.6	43.0
Tax	(7.9)	(21.8)	(26.7)	(4.9)	(10.8)
Minority interest	(2.7)	(2.4)	0.8	(4.1)	1.2
Net profit	24.0	28.1	105.7	21.5	33.4
Core net profit	21.2	28.1	59.4	21.5	9.7
Margins (%)					
EBITDA	9.6	8.0	16.8	3.4	12.8
PBT	4.8	4.6	32.2	7.1	10.6
Net profit	3.3	2.5	25.9	5.0	8.3

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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