

Company Note

Malaysia

HOLD (no change)

Consensus ratings*: Buy 5 Hold 5 Sell 0

Current price:	RM0.98
Target price:	RM1.06
Previous target:	RM1.00
Up/downside:	8.7%
CIMB / Consensus:	-6.6%

Reuters:	MYRS.KL
Bloomberg:	MRC MK
Market cap:	US\$1,031m
	RM4,277m
Average daily turnover:	US\$2.34m
	RM9.94m
Current shares o/s:	4,346m
Free float:	42.1%

*Source: Bloomberg

Key changes in this note

- FY17F EPS cut by 10.2%.
- FY18-19F EPS cut by 0.2%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.1	-5.3	-15.4
Relative (%)	8.3	-2.4	-21.1

Major shareholders	% held
EPF	33.5
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	7.8

Analyst(s)



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Malaysian Resources Corp

Piling in stronger infra profits in 9M17

- 9M17 core net profit was 51% of our full-year forecast and 54% of consensus'. Results were below expectations due to lower infra margin and higher taxes.
- Construction EBIT surged 366% yoy due to strong order book; property declined 39%.
- MRCB achieved RM1.2bn in property sales with RM1.6bn unbilled sales as at 9M17.
- Potential new wins from the RM2.9bn tender book were mitigated by uncertainties in the sale of the EDL highway and lower property margins capped by higher A&P costs.
- We raise our target price but maintain Hold due to the lack of any strong catalysts.

9M17's results missed expectations

MRCB's 9M17 core net profit was 51% of our full-year forecast and 54% of consensus'. The results were below expectations as we had overestimated construction margins and underestimated taxes. Excluding the RM44.4m gain from non-core asset divestment in 9M16, 9M17 core net profit increased 67% yoy, supported by RM7.2m JV profits from LRT 3 PDP, RM14.3m from associate MRCB-Quill REIT (MQREIT MK, HOLD) and better cost management. This helped to mitigate 9M17's 39% yoy decline in property EBIT.

Construction EBIT surged 366%

Construction recorded the biggest segmental improvement. 9M17 revenue grew by a whopping 237% yoy thanks to a larger order book, while EBIT surged 366%. However, 9M17 EBIT margin only grew marginally by 1% pt yoy to 3%, as most of MRCB's new contracts including LRT 3 PDP (6% fee at RM9bn construction cost), MRT 2 (RM648m) and Dash (RM369m) are at less than 25% physical progress. We expect construction margins to improve sequentially in the coming quarters.

9M17 property sales of RM1.2bn

MRCB achieved RM1.2bn in property sales as at 9M17, mostly drive by its residential developments. 9M YTD, the group launched three residential property projects namely 1) 1060 Carnegie in Melbourne which was 68% sold (RM344m GDV), 2) Kalista Park Homes in Bukit Rahman Putra which was 40% sold (RM101m GDV), and 3) RM1.6bn GDV Sentral Suites in KL Sentral (Tower 1 – 74% sold, Tower 2 – 20% sold, Tower 3 – 65% sold). Total cumulative unbilled sales amounted to RM1.6bn as at 9M17.

RM5.3bn outstanding order book; tendering for RM2.9bn

YTD, MRCB has secured RM498m worth of new contracts, which includes a RM369m package from Dash highway. This raises the group's external outstanding order book to RM5.3bn. During the results briefing, management highlighted that with the current value of jobs in tender of RM2.9bn, it will focus on securing more civil engineering and long-term fee-based contracts. Potential new job opportunities however, were not disclosed.

Sale of EDL is still pending despite abolishment of toll collection

The abolishment of toll collection effective 1 Jan 2018 for 100%-owned Eastern Dispersal Link (EDL) may be viewed positively as it could be a precursor to the long-delayed sale of the EDL. However, management clarified that the potential sale of the highway hinges on the government's final decision on the compensation value and model to the EDL's concessionaire. At this juncture, progress on the sale of EDL remains status quo.

Maintain Hold with higher TP

We cut FY17F EPS forecasts by 10.2% as we raise effective tax rates and cut construction EBIT margin. For FY18-19F EPS forecasts, we trim by 0.2%. Our target price, still based on a 20% discount to RNAV, is raised as we roll over to end-2018 and update for balance sheet items. We maintain Hold as we believe there is a lack of strong catalysts in the medium term. Upside risk is stronger-than-expected contract wins, while downside risks are weaker earnings.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	1,697	2,408	2,432	2,554	2,681
Operating EBITDA (RMm)	159.9	313.3	259.8	316.2	333.6
Net Profit (RMm)	330.4	267.4	100.1	131.3	142.1
Core EPS (RM)	0.033	0.062	0.023	0.030	0.033
Core EPS Growth	73.7%	84.1%	(62.6%)	31.2%	8.2%
FD Core P/E (x)	29.18	15.85	44.47	35.53	32.83
DPS (RM)	0.013	0.015	0.015	0.015	0.015
Dividend Yield	1.28%	1.54%	1.54%	1.54%	1.54%
EV/EBITDA (x)	43.21	19.98	17.52	15.02	13.93
P/FCFE (x)	4.83	NA	NA	8.29	16.12
Net Gearing	155%	73%	11%	16%	13%
P/BV (x)	2.36	1.45	0.93	0.99	0.98
ROE	8.6%	11.3%	2.7%	3.0%	3.3%
% Change In Core EPS Estimates			(10.2%)	(0.2%)	(0.2%)
CIMB/consensus EPS (x)			0.62	0.77	0.63

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	3QFY17	3QFY16	yoy % chg	qoq % chg	3QFY17 Cum	3QFY16 Cum	yoy % chg	Prev. FY17F	Comments
Revenue	1,134.1	551.2	105.7	49.9	2,415.5	1,376.4	75.5	2,432.2	Construction surged 237% yoy
Operating costs	(1,056.9)	(470.5)	124.6	49.5	(2,220.1)	(1,221.7)	82	(2,172.4)	In line with higher construction revenue
EBIT	77.3	80.7	(4)	55.4	195.3	154.7	26.3	190.8	
EBIT margin (%)	6.8	14.6	(53)	3.7	8.1	11.2	(28.0)	7.8	Construction margin still slow
EBIT	77.3	80.7	(4)	55.4	195.3	154.7	26.3		
Interest expense	(41.4)	(42.0)	(1.2)	10.9	(134.0)	(133.1)	0.7	(167.1)	Debt stood at RM4.2bn
Interest & invt inc	7.9	8.1	(2.2)	(47.3)	40.2	108.2	(62.9)	64.5	Cash stood at RM779.5m
Associates' contrib	8.6	14.8	(41.9)	26.1	14.2	24.2	(41.2)	32.9	
Exceptionals	3.8	-	nm	-	3.8	44.4	(91.4)	-	Disposal of non-core asset in 9M16
Pretax profit	52.3	61.6	(15.1)	53.1	115.8	154.0	(24.8)	191.3	
Tax	(21.8)	(22.0)	(7.0)	169	(38.8)	(43.9)	(11.6)	(29.0)	
Tax rate (%)	41.7	35.7	16.7	76	33.5	28.5	17.5	15.2	Reversal of deferred tax liabilities
Minority interests	(2.4)	(10.2)	(76.3)	(10)	(15.0)	(30.8)	(51.2)	(50.8)	
Net profit	28.1	29.4	(4.4)	20.2	61.9	79.3	(21.9)	111.5	
Core net profit	24.3	29.4	(17.4)	n.m.	58.1	34.9	66.6	111.5	9M17 core net profit made up 51% of our
EPS (sen)	1.3	1.5	(14.1)	19.6	2.9	4.2	(32.5)	6.0	full-year forecast and 54% of consensus
Core EPS (sen)	1.3	1.5	(14.1)	19.6	3.0	1.8	66.6	6.0	

SOURCE: CIMB RESEARCH, COMPANY

Briefing highlights

Updates on the status of the Eastern Dispersal Link (EDL) ▶

During the results briefing, management clarified that at this juncture, the group has yet to receive confirmation from the government on how the EDL's toll abolishment's mechanism and compensation would be. But it is the group's intention to proceed with disposing of the highway. The government's final decision would then be a major factor in getting the EDL's sale negotiations to move along swiftly.

Indicatively, should MRCB succeed in selling EDL, this would take away RM1.1bn or 25% of the RM4.2bn worth of group borrowings as at end-3Q17.

Construction targets for 2018 ▶

The group aims to secure at least 25% of the total RM2.9bn worth of projects it has tendered. Although details on the projects that MRCB has tendered are scant, the group hinted that it is looking for infrastructure projects and long-term fee-based management contracts. For FY18, MRCB is more upbeat about its construction division's prospects than that of its property development division.

Many of MRCB's ongoing big-ticket projects are still in the early stages. These include Kwasa Utama (RM2.6bn), an MRT 2 package (RM648m), and construction of PR1MA homes in Brickfields (RM335m). Thus, the group aims for these projects to drive its earnings for FY18 when the revenue recognition rises along with the higher construction progress.

Other degearing initiatives apart from EDL sale ▶

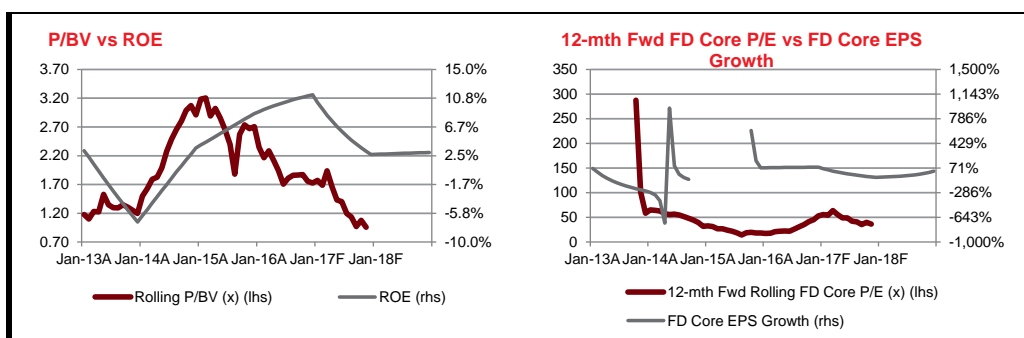
Even without the sale of the EDL, the group guided that its plan for other asset-disposal exercises (Menara Celcom and Ascott Sentral KL), the Employees Provident Fund's subscription of the Bukit Jalil development project, and the recently-completed rights issue could theoretically lower MRCB's net gearing to below 0.3x.

Figure 2: Revised RNAV

	Land bank		GDV	Stake	Value	Value
Ongoing property development	(Acres)	(m sq ft)	(RM m)	(%)	(RM psf)	(RM m)
Bukit Jalil KL Sports City	76.1	3.3	20,700.0	17%	400.0	225.4
Kwasa Sentral (Kwasa Damansara)	64.1	2.8	8,606.0	70%	300.0	586.4
Cyberjaya City	113.3	4.9	5,350.0	70%	350.0	1,209.2
KL Sentral - Lot F	5.7	0.2	2,993.0	100%	1,000.0	248.3
Semarak City - Setapak	27.4	1.2	2,977.0	100%	300.0	358.1
Penang Sentral - phases 3 & 7	16.7	0.7	2,100.0	70%	120.0	61.1
PJ Sentral - Nilaitera	7.8	0.3	1,656.0	100%	350.0	118.9
Lot 349, KL Sentral (service apartments)	4.9	0.2	1,413.0	100%	1,000.0	213.4
Q Sentral Office Tower	1.9	0.1	1,228.0	66%	1,000.0	54.6
Lot 94 Jalan Kia Peng	1.9	0.1	1,012.0	100%	500.0	41.4
9 Seputeh - Old Klang Road	8.0	0.3	795.0	100%	200.0	69.7
Pulai Johor	67.5	2.9	770.0	100%	35.0	102.9
PJ Sentral - Tower 1	0.0	0.0	700.0	100%	550.0	0.0
Penang Sentral - phases 1 & 2	6.0	0.3	590.0	100%	120.0	31.4
PJ Sentral - Tower 5	0.0	0.0	455.0	100%	550.0	0.0
PJ Sentral - Celcom Tower	2.3	0.1	428.0	100%	450.0	45.1
Suria Subang	3.2	0.1	401.0	100%	200.0	27.9
Seri Iskandar - phase 3	159.0	6.9	350.0	70%	10.0	48.5
Seri Iskandar - Phase 2	245.0	10.7	321.0	70%	5.0	37.4
Rahman Putra - phase 3	4.6	0.2	307.0	100%	20.0	4.0
Canegie - Melbourne	1.0	0.0	305.0	100%	450.0	19.6
Selbourne 2 - Shah Alam	2.4	0.1	198.0	100%	200.0	20.9
Rahman Putra - phase 2	4.1	0.2	175.0	100%	20.0	3.6
Rahman Putra - phase 1	5.5	0.2	84.0	100%	20.0	4.8
Total	828.4	36.1	53,914.0			3,532.4
				Stake		
Eastern Dispersal Link (EDL), 14.5% IRR, 12% WACC				100%		1,195.3
Construction Net profit (FY19) at 15x P/E				100%		681.3
MQ REIT				31%		417.3
LRT 3 PDP DCF value (6% PDP fees)				50%		210.5
Property investments (3Q17)						545.4
Associates & investments (3Q17)						529.9
Net working capital less prop development cost (3Q17)						926.0
Total borrowings (3Q17)						(4,179.9)
Total RNAV (RM m)						3,858.2
Enlarged no. of shares (m)						4,345.7
Outstanding warrants "A" (2013/2018)						576.5
Proceeds from warrants @RM1.68 strike price						968.5
New free warrants (10-years)						438.5
Proceeds from new warrants @RM1.25 strike price						548.1
FD no.of shares (m)						5,360.7
1-for-1 rights issue proceeds @RM0.79/share						1,732.1
FD RNAV (RM m)						7,107.0
FD RNAV/share (RM)						1.33
Discount to RNAV (%)						20%
Target price (RM/share)						1.06

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	1,697	2,408	2,432	2,554	2,681
Gross Profit	1,697	2,408	2,432	2,554	2,681
Operating EBITDA	160	313	260	316	334
Depreciation And Amortisation	(59)	(64)	(69)	(74)	(80)
Operating EBIT	101	250	191	242	254
Financial Income/(Expense)	73	(115)	(103)	(93)	(83)
Pretax Income/(Loss) from Assoc.	8	32	33	34	36
Non-Operating Income/(Expense)	0	227	70	5	0
Profit Before Tax (pre-EI)	182	393	191	188	206
Exceptional Items	188	0	0	0	0
Pre-tax Profit	370	393	191	188	206
Taxation	(6)	(74)	(40)	(32)	(35)
Exceptional Income - post-tax					
Profit After Tax	364	319	151	156	171
Minority Interests	(34)	(52)	(51)	(25)	(29)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	330	267	100	131	142
Recurring Net Profit	145	267	100	131	142
Fully Diluted Recurring Net Profit	145	267	100	131	142

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	159.9	313.3	259.8	316.2	333.6
Cash Flow from Inv. & Assoc.					
Change In Working Capital	64.2	9.3	41.8	45.3	49.0
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.0	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	72.6	(115.1)	(102.8)	(93.4)	(83.4)
Tax Paid	(6.1)	(73.5)	(40.3)	(32.0)	(35.3)
Cashflow From Operations	290.6	133.9	158.5	236.0	263.8
Capex	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries	6.5	10.7	14.9	15.0	15.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	(171.4)	(171.4)	(171.4)	(171.4)	(171.4)
Cash Flow From Investing	(174.9)	(170.7)	(166.5)	(166.4)	(166.4)
Debt Raised/(repaid)	762.2	(450.3)	(719.9)	492.7	192.0
Proceeds From Issue Of Shares	0.0	0.0	1,716.6	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(21.1)	(21.1)	(21.1)	(21.1)	(21.1)
Preferred Dividends					
Other Financing Cashflow	(996.1)	708.9	26.8	(241.2)	31.8
Cash Flow From Financing	(255.1)	237.5	1,002.4	230.4	202.6
Total Cash Generated	(139.4)	200.6	994.4	300.0	300.0
Free Cashflow To Equity	877.9	(487.1)	(727.8)	562.3	289.3
Free Cashflow To Firm	300.6	139.1	159.1	231.7	254.6

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet					
(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	524	724	1,719	2,019	2,319
Total Debtors	1,122	1,603	1,524	1,449	1,377
Inventories	63	58	58	58	58
Total Other Current Assets	507	781	797	812	829
Total Current Assets	2,216	3,166	4,097	4,337	4,582
Fixed Assets	337	438	447	456	465
Total Investments	662	822	796	771	747
Intangible Assets	317	253	253	253	253
Total Other Non-Current Assets	3,079	3,074	3,044	3,015	2,986
Total Non-current Assets	4,396	4,587	4,539	4,494	4,450
Short-term Debt	1,042	806	726	718	711
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	1,188	1,586	1,555	1,524	1,493
Other Current Liabilities	55	43	43	43	43
Total Current Liabilities	2,285	2,435	2,323	2,285	2,247
Total Long-term Debt	2,345	2,131	1,492	1,992	2,191
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	135	161	161	161	161
Total Non-current Liabilities	2,480	2,292	1,653	2,153	2,352
Total Provisions	0	0	0	0	0
Total Liabilities	4,766	4,727	3,976	4,437	4,599
Shareholders' Equity	1,793	2,926	4,556	4,285	4,319
Minority Interests	53	99	104	109	115
Total Equity	1,846	3,025	4,660	4,394	4,434

Key Ratios					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	12.0%	41.9%	1.0%	5.0%	5.0%
Operating EBITDA Growth	45.3%	95.9%	(17.1%)	21.7%	5.5%
Operating EBITDA Margin	9.4%	13.0%	10.7%	12.4%	12.4%
Net Cash Per Share (RM)	(0.66)	(0.51)	(0.11)	(0.16)	(0.13)
BVPS (RM)	0.41	0.67	1.05	0.99	0.99
Gross Interest Cover	0.55	1.42	1.14	1.49	1.61
Effective Tax Rate	1.6%	18.7%	21.1%	17.0%	17.2%
Net Dividend Payout Ratio	14.9%	7.9%	21.1%	16.1%	14.9%
Accounts Receivables Days	259.1	203.3	231.3	209.2	189.3
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	2.63%	5.97%	4.17%	5.35%	5.67%
ROCE (%)	6.78%	5.54%	3.97%	4.44%	4.54%
Return On Average Assets	1.56%	6.05%	3.10%	2.85%	2.84%

Key Drivers					
(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Outstanding Orderbook	3,415	3,705	3,995	4,285	4,575
Order Book Depletion	510	510	510	510	510
Orderbook Replenishment	1,000	800	800	800	800
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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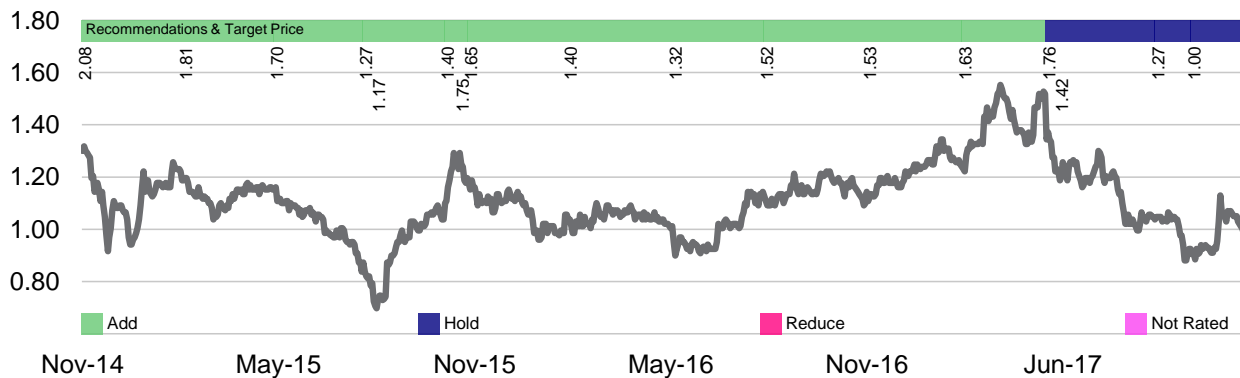
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	Rating Distribution (%)	Investment Banking clients (%)
Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

Spitzer Chart for stock being researched (2 year data)

Malaysian Resources Corp (MRC MK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

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- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.