

Malaysia

REDUCE (no change)

Consensus ratings*: Buy 6 Hold 3 Sell 1

Current price:	RM0.70
Target price:	RM0.65 ▲
Previous target:	RM0.54
Up/downside:	-7.1%
CGS-CIMB / Consensus:	-22.1%

Reuters:	MYRS.KL
Bloomberg:	MRC MK
Market cap:	US\$748.0m
	RM3,074m
Average daily turnover:	US\$6.05m
	RM24.56m
Current shares o/s:	4,346m
Free float:	42.1%
*Source: Bloomberg	

Key changes in this note

➤ No change



Price performance	1M	3M	12M
Absolute (%)	-10.8	22.8	-33.2
Relative (%)	-13.6	17	-35.8

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

It all boils down to the sale of EDL

- 1HFY18 core net profit was below expectations mainly due to weaker property sales.
- RM5.1bn order book has substantial upside from property development spin-offs.
- Impact of LRT 3's conversion from PDP to design and build scope remains unclear.
- MRCB targets to finalise EDL sale in 4Q18. EDL debt: 26% of total debt.
- Maintain Reduce with a higher target price (30% RNAV discount). We estimate a 14 sen/share upside to TP if the EDL debt is stripped out.

1HFY18 core net profit below expectations

MRCB's 1HFY18 core net profit (excluding RM31.3m Penang land sale gain) made up 15-18% of our and consensus' full-year forecasts. The results were below expectations due to weaker property sales and lower construction billings following the completion of the KL Sports City project, which led to a 33% yoy drop in revenue. The 13% decline in core net profit could have been steeper if not for the almost 3x surge in JV profits, of which RM15m came from the 50% portion of the LRT 3 PDP profits.

Segmental performance; boosted by land sale gain

Infrastructure/construction revenue contracted 45% yoy due to the completion of KL Sports City project but EBIT dropped by just 6% on account of the new order book, resulting to a 2% pts improvement in EBIT margin to 4% in 1H18. Property development revenue was impacted by the completion and handing over of Easton Burwood in Melbourne. The 13% property EBIT margin included the RM31.3m land sale gain. Excluding the land sale, core property EBIT margin stood at an est. 5% in 1H18.

Upside to order book from property development spin-offs

During the results conference call, management guided that with the absence of government large-scale rail contracts, upside to RM5.1bn outstanding order book would come from spin-offs of its own property development/land swap ventures i.e. the project delivery partner (PDP) contract for the Bukit Jalil project (est. RM11-15bn).

More clarity on the impact of LRT 3 in 4Q18

Confirmation that the LRT 3 project has been converted to a design and build (based on a fixed contract value) from a PDP structure may not necessarily translate to a substantial upside to the original cost of RM9bn. It is also unclear whether the fixed-price contract sum would translate to a lower or higher effective project margin vs. the 6% fee for the PDP scheme. What is clear is that the total value of work package contracts (WPC) awarded amounted to RM16bn and active negotiations with contractors are under way to accommodate the cost cuts. More details are expected in 4Q18.

Green light for EDL sale pending tabling in Cabinet

Management believes that it should be able strike a deal to divest its 100% stake in the Eastern Dispersal Link (EDL) highway in 4Q18, if the proposal progresses to Cabinet within 3Q18. EDL's equity value stood at RM72m, shareholder advances at RM191m, and total debt at RM1bn, or 26% of MRCB's total debt of RM3.9bn, as at end 2Q18. We maintain our FY18-20F EPS forecasts pending the possible resolution to the EDL sale and clarity on the impact of LRT 3's cost reduction.

Retain Reduce with a higher TP

Maintain Reduce in view of the uncertainties arising from LRT 3 and potentially weaker core earnings outlook in 2H18F. We raise our TP to RM0.65 as we narrow our RNAV discount from 50% to 30% to reflect the prospects of divesting EDL, which would raise RNAV/share by 14 sen if the EDL debt is stripped out. Upside risk is the sale of EDL; downside risk is weaker earnings.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	2,408	2,824	2,908	3,025	3,085
Operating EBITDA (RMm)	313.3	208.9	215.2	250.7	255.8
Net Profit (RMm)	267.4	167.6	131.3	142.1	144.4
Core EPS (RM)	0.062	0.039	0.030	0.033	0.033
Core EPS Growth	84.1%	(37.3%)	(21.7%)	8.2%	1.6%
FD Core P/E (x)	11.38	19.07	25.51	23.57	23.19
DPS (RM)	0.015	0.017	0.015	0.015	0.015
Dividend Yield	2.14%	2.43%	2.14%	2.14%	2.14%
EV/EBITDA (x)	16.17	26.15	25.10	21.28	20.60
P/FCFE (x)	NA	6.7	572.3	64.2	51.3
Net Gearing	73.1%	52.8%	52.6%	51.9%	50.9%
P/BV (x)	1.04	0.63	0.65	0.66	0.67
ROE	11.3%	4.3%	2.8%	3.0%	3.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.80	0.63	0.62

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY18	2QFY17	yoy % chg	1QFY18	qoq % chg	2QFY18 Cum	2QFY17 Cum	yoy % chg	Prev. FY18F	Comments
Revenue	405.2	725.3	(44.1)	427.6	(5.2)	832.8	1,245.1	(33.1)	2,908.4	Lower revenue from Bukit Jalil's completion and zero toll revenue from EDL since Jan-18
Operating costs	(353.4)	(655.4)	(46.1)	(406.8)	(13.1)	(766.4)	(1,113.5)	(31)	(2,693.2)	
EBITDA	51.8	69.9	(26)	20.8	149.4	66.5	131.6	(49.5)	215.2	In line
EBITDA margin (%)	12.8	9.6	33	4.9	163.2	8.0	10.6	(24.4)	7.4	
Depn & amort.	(8.9)	(19.8)	(55.0)	(12.5)	(28.9)	(15.3)	(35.3)	(56.7)	(73.3)	
EBIT	42.9	50.1	(14)	8.3	419.4	51.2	96.2	(46.8)	140.9	
Interest expense	(16.8)	(37.4)	(55.2)	(4.3)	292.2	(21.0)	(72.6)	(71.0)	(162.1)	Debt stood at RM3.9bn
Interest & invt inc	11.1	15.1	(26.5)	15.9	(30.3)	27.0	32.3	(16.4)	130.9	Cash stood at RM455m
Associates & JV	5.8	6.8	(15.0)	10.7	(45.8)	16.5	5.7	190.7	34.2	RM15m from LRT PDP (50% stake)
Exceptionals	31.3	3.8	714.0	1.6	1,798.1	31.3	5.5	469.7	-	RM31.3m gain from Penang land sale in 2Q18
Pretax profit	43.0	34.6	24.4	30.6	40.8	73.6	61.6	19.5	188.0	
Tax	(10.8)	(7.9)	(7.0)	(4.9)	118	(15.7)	(16.3)	(3.7)	(32.0)	
Tax rate (%)	25.0	22.8	9.9	16.1	55	21.3	26.5	(19.4)	(24.7)	
Minority interests	1.2	(2.7)	144.1	(4.1)	129	(2.9)	(12.6)	(76.8)	(50.8)	
Net profit	33.4	24.0	39.1	21.5	55.4	55.0	32.7	68.2	131.3	1H18 core net profit made up 18% of our full-year forecast and 15% of consensus
Core net profit	2.1	20.2	(89.4)	19.9	n.m.	23.7	27.2	(12.9)	131.3	
EPS (sen)	0.8	1.1	(30.9)	0.5	55.1	1.3	1.5	(17.2)	3.0	
Core EPS (sen)	0.8	1.1	(30.9)	0.5	55.1	1.2	1.4	(12.9)	3.0	

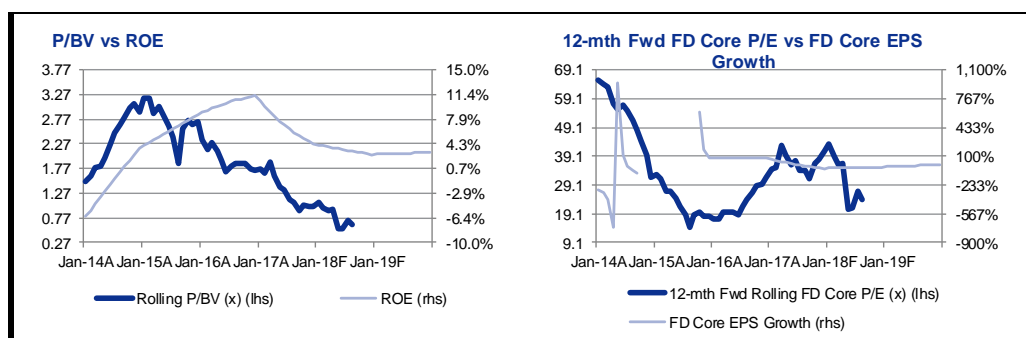
SOURCES: MORGANS, COMPANY REPORTS

Figure 2: 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%	200.0	390.9
Cyberjaya City	113.3	4.9	5,350.0	70%	330.0	1,140.1
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%	400.0	135.9
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			3,284.9
				Stake		
Eastern Dispersal Link (EDL) - DCF value				100%		896.5
Construction Net profit (FY19) at 15x P/E				100%		300.0
MQ REIT				31%		372.0
LRT 3 PDP DCF value (6% PDP fees)				50%		178.9
Property investments (2Q18)						1,255.4
Associates & investments (2Q18)						278.0
Net working capital less prop development cost (2Q18)						826.8
Total borrowings (2Q18)						(3,894.0)
Total RNAV (RM m)						3,498.5
Enlarged no. of shares (m)						4,345.7
Outstanding warrants (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
FD RNAV (RM m)						5,015.1
FD RNAV/share (RM)						0.94
Discount to RNAV (%)						30%
Target price (RM/share)						0.65

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	2,408	2,824	2,908	3,025	3,085
Gross Profit	2,408	2,824	2,908	3,025	3,085
Operating EBITDA	313	209	215	251	256
Depreciation And Amortisation	(64)	(69)	(74)	(80)	(85)
Operating EBIT	250	140	141	171	170
Financial Income/(Expense)	(115)	13	(31)	(21)	(14)
Pretax Income/(Loss) from Assoc.	32	25	34	36	37
Non-Operating Income/(Expense)	227	69	44	21	22
Profit Before Tax (pre-EI)	393	247	188	206	216
Exceptional Items	0	0	0	0	0
Pre-tax Profit	393	247	188	206	216
Taxation	(74)	(66)	(32)	(35)	(39)
Exceptional Income - post-tax					
Profit After Tax	319	182	156	171	177
Minority Interests	(52)	(14)	(25)	(29)	(33)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	267	168	131	142	144
Recurring Net Profit	267	168	131	142	144
Fully Diluted Recurring Net Profit	267	168	131	142	144

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	313.3	208.9	215.2	250.7	255.8
Cash Flow from Inv. & Assoc.					
Change In Working Capital	9.3	41.8	45.3	49.0	53.0
(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	(115.1)	13.4	(31.2)	(21.1)	(13.7)
Tax Paid	(73.5)	(65.5)	(32.0)	(35.3)	(38.9)
Cashflow From Operations	133.9	198.6	197.2	243.2	256.2
Capex	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries	10.7	14.9	15.0	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	(170.7)	(166.5)	(166.4)	(166.4)	(166.4)
Debt Raised/(repaid)	(450.3)	444.7	(24.9)	(24.7)	(24.4)
Proceeds From Issue Of Shares	0.0	1,716.6	0.0	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	708.9	26.8	(241.2)	31.8	31.8
Cash Flow From Financing	237.5	2,167.0	(287.2)	(14.0)	(13.7)
Total Cash Generated	200.6	2,199.1	(256.5)	62.8	76.0
Free Cashflow To Equity	(487.1)	476.9	5.9	52.2	65.3
Free Cashflow To Firm	139.1	148.2	192.9	234.1	242.3

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	724	778	822	868	917
Total Debtors	1,603	3,067	2,915	2,771	2,633
Inventories	58	154	128	134	141
Total Other Current Assets	781	1,962	1,982	2,001	2,021
Total Current Assets	3,166	5,962	5,846	5,774	5,712
Fixed Assets	438	614	627	639	652
Total Investments	822	1,790	1,726	1,666	1,609
Intangible Assets	253	226	226	226	226
Total Other Non-Current Assets	3,074	1,709	1,693	1,677	1,662
Total Non-current Assets	4,587	4,339	4,272	4,208	4,147
Short-term Debt	806	2,491	2,466	2,441	2,417
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	1,586	1,279	1,254	1,229	1,204
Other Current Liabilities	43	218	218	218	218
Total Current Liabilities	2,435	3,988	3,937	3,888	3,839
Total Long-term Debt	2,131	891	891	891	891
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	161	493	474	455	436
Total Non-current Liabilities	2,292	1,385	1,365	1,346	1,328
Total Provisions	0	0	0	0	0
Total Liabilities	4,727	5,372	5,302	5,233	5,166
Shareholders' Equity	2,926	4,824	4,706	4,633	4,572
Minority Interests	99	104	110	115	121
Total Equity	3,025	4,929	4,816	4,748	4,693

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	41.9%	17.3%	3.0%	4.0%	2.0%
Operating EBITDA Growth	95.9%	(33.3%)	3.0%	16.5%	2.0%
Operating EBITDA Margin	13.0%	7.4%	7.4%	8.3%	8.3%
Net Cash Per Share (RM)	(0.51)	(0.60)	(0.58)	(0.57)	(0.55)
BVPS (RM)	0.67	1.11	1.08	1.07	1.05
Gross Interest Cover	1.42	1.21	0.87	1.09	1.12
Effective Tax Rate	18.7%	26.5%	17.0%	17.2%	18.0%
Net Dividend Payout Ratio	7.9%	12.6%	16.1%	14.9%	14.6%
Accounts Receivables Days	203.3	299.0	372.6	340.4	317.9
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 (%)	5.97%	3.06%	2.26%	2.80%	2.84%
ROCE (%)	5.54%	3.78%	3.30%	3.78%	3.85%
Return On Average Assets	6.05%	1.87%	1.83%	1.91%	1.93%

Key Drivers

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Outstanding Orderbook	3,705	3,995	3,985	3,975	3,965
Order Book Depletion	510	510	510	510	510
Orderbook Replenishment	800	800	500	500	500
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

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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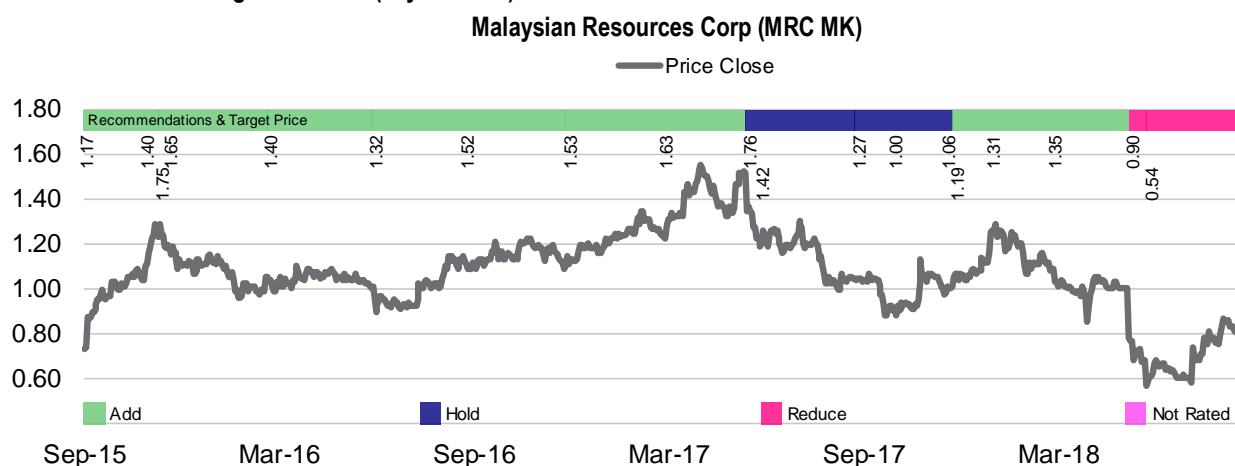
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Spitzer Chart for stock being researched (2 year data)



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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Definition:

- 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.