

Company Note

Malaysia

ADD (no change)

Consensus ratings*: Buy 7 Hold 3 Sell 0

Current price:	RM1.16
Target price:	RM1.31
Previous target:	RM1.19
Up/downside:	12.9%
CIMB / Consensus:	15.1%

Reuters:	MYRS.KL
Bloomberg:	MRC MK
Market cap:	US\$1,266m
	RM5,089m
Average daily turnover:	US\$3.01m
	RM12.56m
Current shares o/s:	4,346m
Free float:	42.1%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.4	25.4	-0.1
Relative (%)	4.6	23.8	-8.7

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

Turning the corner

- We are more upbeat on MRCB's infra and highway divestment prospects this year.
- A mutual termination of the EDL concession appears under way. Although the pricing is still unknown, the termination would reduce debt significantly, by some 25%.
- The group's RM2.9bn jobs in tender remain understated, in our view. FY19-20F EPS could almost double if it secures the HSR PDP scope via Gamuda-MRCB JV (50:50).
- Rail contracts newsflow in 1H18 could lift sentiment and further catalyse the stock.
- Remains an Add with a higher target price (10% RNAV discount).

Turning the corner

With 2018 being an "election year", along with a massive pipeline of infrastructure projects (driven by rail), we are turning more upbeat on MRCB. The group's infrastructure outlook is shaping up to be more rail-focused (HSR, ECRL), especially for the Gamuda-MRCB JV which will be gunning for the project delivery partner (PDP) scope of the KL-Singapore high speed rail (HSR) project. Supported by Gamuda's rail credentials, MRCB could land its second, but much larger-scaled, PDP contract after LRT 3's RM9bn.

EDL toll collection abolished effective 1 Jan 2018

Toll collection for the 100%-owned Eastern Dispersal Link (EDL) was abolished on 1 Jan 2018. This is part of the government's initiative under Budget 2018, whereby toll collections for three highways, namely 1) Batu Tiga, Shah Alam and Sungai Rasau in Selangor, 2) Bukit Kayu Hitam in Kedah, and 3) EDL, will be discontinued. The expected annual toll compensation is RM70m as reported by the press which quoted the Second Finance Minister.

Divestment of the EDL under way?

The Edge Markets reported recently that MRCB has been invited by the Works Ministry to commence negotiations on terms of the "mutual termination agreement" for the EDL's concession. We view this development positively as it would bring MRCB closer to concluding the delayed EDL deal, carve RM1.1bn of the EDL sukuk (25% of total debt) off its balance sheet, and remove a big overhang on the share price. With an EDL sale, its end-Sep 17 net gearing of 1.1x would drop to 0.75x, by our estimates.

A dark horse for the HSR project

We believe MRCB's construction prospects would be enhanced by potential new rail tenders. MRCB and Gamuda (GAM MK, ADD) will be collectively bidding for the Project Delivery Partner (PDP) role of the Kuala Lumpur-Singapore High-Speed Rail's (HSR) infrastructure construction on the Malaysian side. Based on our calculation and an assumed 6% PDP fee, FY19-20F EPS could nearly double with the HSR PDP scope.

The worst is over for the share price

We believe the worst is over for its share price, having fallen 3.5% in 2017. The stock trades at a 20% discount to its FD RNAV of RM1.45. This is unjustified, in our view, given the renewed infra/order replenishment outlook and revival of the EDL divestment angle which is long overdue. We think the group's RM2.9bn total value of jobs in tender has more upside in 2018. Our assumed RM800m job wins p.a. could be exceeded if it achieves higher-than-expected success rates for its rail tenders.

Maintain Add; target price raised to RM1.31

We believe rail contract newsflow in 1H18 could revive sentiment on the stock. We retain Add, in view of the likely positive construction newsflow in the months ahead. Our target price is raised as we revise the value of selected land banks (unchanged 10% RNAV discount). We expect more details on the HSR PDP tenders in the next 2-3 months. Potential PDP award is likely by mid-2018F. Key downside risk is weak job wins.

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)	34.72	18.85	52.91	42.27	39.05
DPS (RM)	0.013	0.015	0.015	0.015	0.015
Dividend Yield	1.08%	1.29%	1.29%	1.29%	1.29%
EV/EBITDA (x)	48.24	22.55	20.61	17.56	16.34
P/FCFE (x)	5.74	NA	NA	9.87	19.18
Net Gearing	155%	73%	11%	16%	13%
P/BV (x)	2.81	1.72	1.11	1.18	1.17
ROE	8.6%	11.3%	2.7%	3.0%	3.3%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.92	0.97	0.65

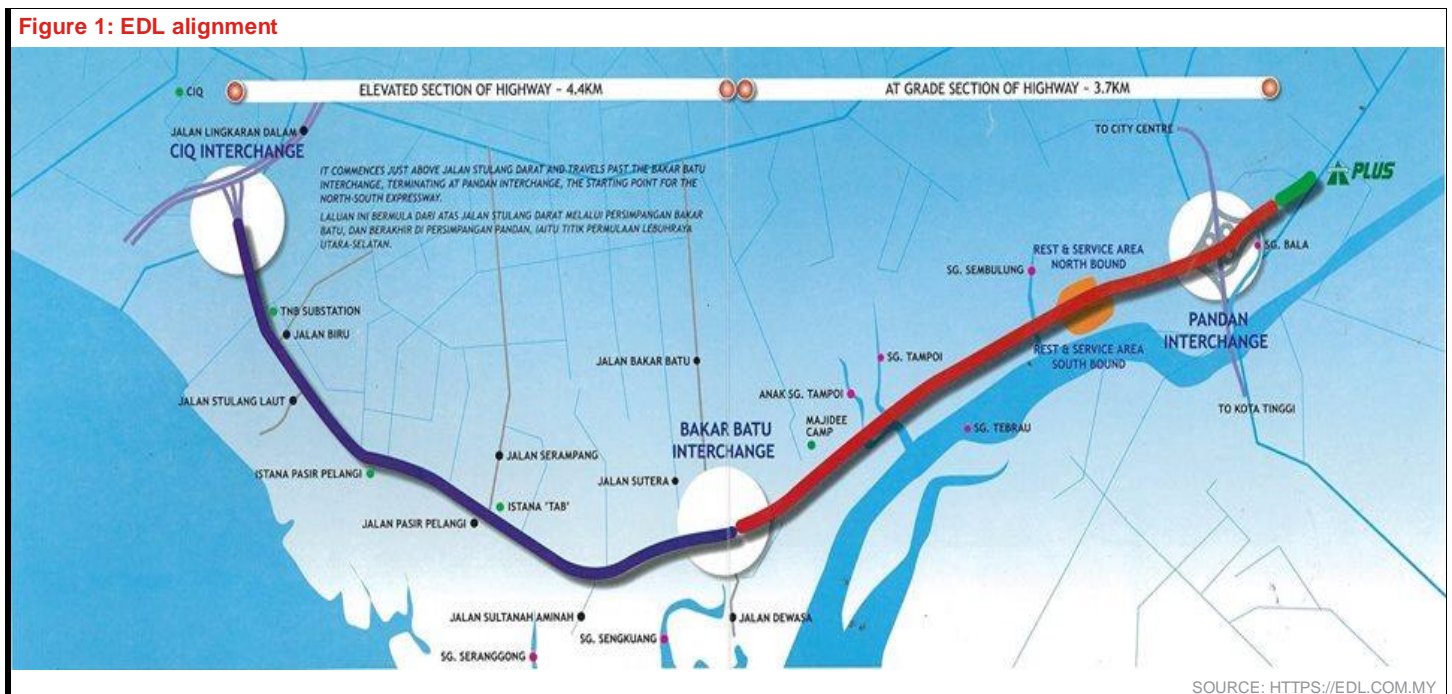
SOURCE: COMPANY DATA, CIMB FORECASTS

Turning the corner

EDL's Sukuk accounts for 25% of total debt ►

As at end-Sep 17, MRCB's total borrowings stood at RM4.2bn. Some 25% of the total debt of RM1.1bn is made up of the Eastern Dispersal Link's (EDL, 8.1km, 30-year concession ending in 2042) sukuk bonds. This comprises RM845m secured senior sukuk (2008/2025) and RM199m junior sukuk (2008/2027). Including the c.RM270m equity value of the EDL, total development cost of the highway works out to RM1.3bn. A divestment of the EDL would carve the sukuk off MRCB's balance sheet, and result in a drop in its end-Sep 17's net gearing of 1.1x to 0.75x, by our estimates. The 8.1km highway was constructed to provide a direct link between the customs and quarantine complexes at Tanjung Puteri in Johor Baru, and the North-South Expressway via the new Pandan Interchange. EDL commenced operations on 1 April 2012.

Figure 1: EDL alignment



Toll collection abolished, negotiating EDL deal ►

The abolishment of the EDL toll collection as initiated by the government has taken effect from 1 Jan 2018, with a potential compensation of RM70m p.a. as reported by The Star newspaper in Nov 17, quoting Second Finance Minister Johari Abdul Ghani. With the abolishment of the EDL toll collection, motorists no longer have to pay RM6.80 for Class 1 vehicles, RM10.20 (Class 2), RM13.60 (Class 3), RM3.40 (Class 4) and RM5.50 (Class 5). It was also recently reported that MRCB has been invited by the Works Ministry to commence negotiations on terms of the "mutual termination agreement" for the EDL's concession. We view these developments positively, as they would bring MRCB closer to concluding the delayed EDL deal, and remove a big overhang on its share price.

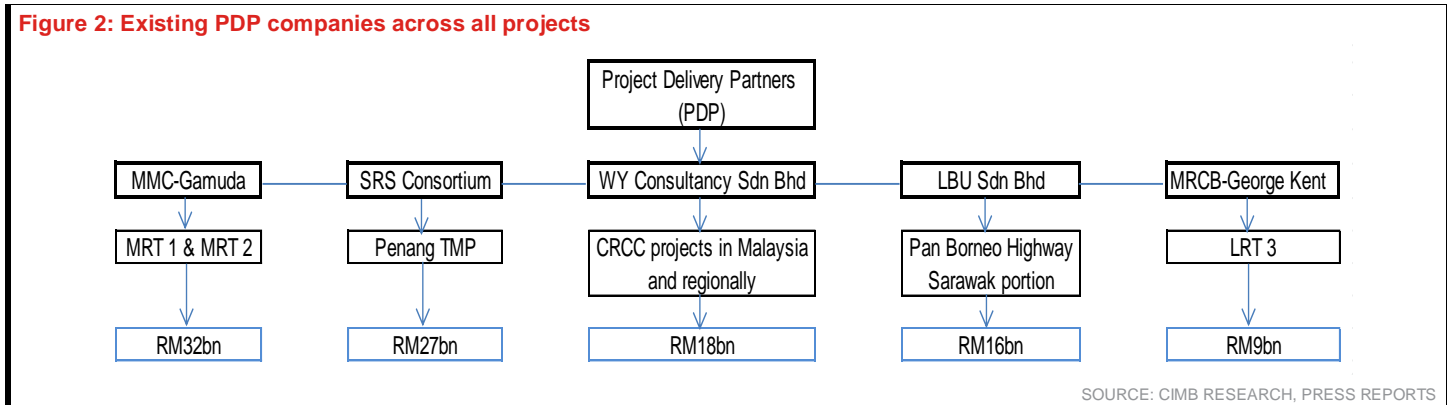
Gunning for higher-profile rail contracts ►

We believe MRCB's construction prospects would be enhanced by potential new rail tenders in 2018. MRCB and Gamuda (GAM MK, ADD) will collectively bid for the Project Delivery Partner (PDP) role of the KL-Singapore HSR civil works on the Malaysian side. The two groups would jointly bid under a 50:50 joint venture (JV). Supported by Gamuda's rail credentials, MRCB could land its second but much larger-scaled PDP contract after LRT 3's RM9bn.

In 2017, MRCB secured RM498m worth of new contracts, including a RM369m package from Dash highway. This raised the group’s external outstanding order book to RM5.3bn. MRCB’s current value of jobs in tender, excluding new rail contracts, is RM2.9bn. For 2018, the group has set its eyes on securing more civil engineering and long-term fee-based contracts. Our assumed RM800m job wins p.a. could be exceeded if it achieves higher-than-expected success rates for its rail tenders.

Five major PDP players including MRCB-George Kent JV

We think that in terms of technical qualification and PDP track record, MRCB qualifies as a PDP contender given that the group is currently the PDP for the RM9bn LRT 3 (Bandar Utama-Klang) which has largely completed its civil works awards. MRCB-George Kent JV is also among the five major PDP players across all major projects including MRT 1 (SBK line), MRT 2 (SSP line), and Pan Borneo Highway (Sabah).



HSR PDP scope could be worth RM25bn-40bn?

The PDP will be responsible for developing the detailed designs for HSR's infrastructure works, which include the stations and alignment structures (i.e. bridges, tunnels and embankments). As widely reported in the press, the total estimated value of the KL-Singapore HSR ranges from RM50bn to RM60bn. Based on our back-of-the-envelope calculation, and going by the 50-60% PDP portion for MRT 1 and 2, the PDP scope for HSR could be worth a minimum of RM25bn-40bn.

HSR PDP earnings are 1.6x more than LRT 3 PDP’s profits

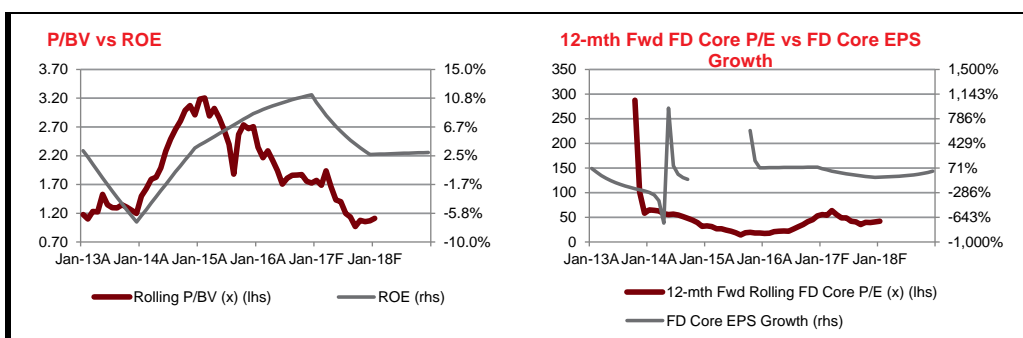
If the Gamuda-MRCB JV succeeds in securing the PDP portion of the HSR contract, we roughly calculate that the potential earnings contributions p.a. based on the RM25bn-40bn PDP scope (benchmarked on MRT’s PDP proportion) and a 6% PDP fee (seven-year construction period) would be RM107m-171m (based on MRCB’s 50% JV share). This is 1.6x more than MRCB’s existing RM68m p.a. PDP earnings share for the RM9bn LRT 3 contract undertaken by the MRCB-George Kent JV (50:50), and would almost double our FY18-19F net profit forecasts of RM131m-142m.

Figure 3: 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%	350.0	684.1
Cyberjaya City	113.3	4.9	5,350.0	70%	500.0	1,727.4
KL Sentral - Lot F	5.7	0.2	2,993.0	100%	1,100.0	273.1
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%	1,100.0	234.8
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			4,211.5
				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)						4,537.3
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)						7,786.1
FD RNAV/share (RM)						1.45
Discount to RNAV (%)						10%
Target price (RM/share)						1.31

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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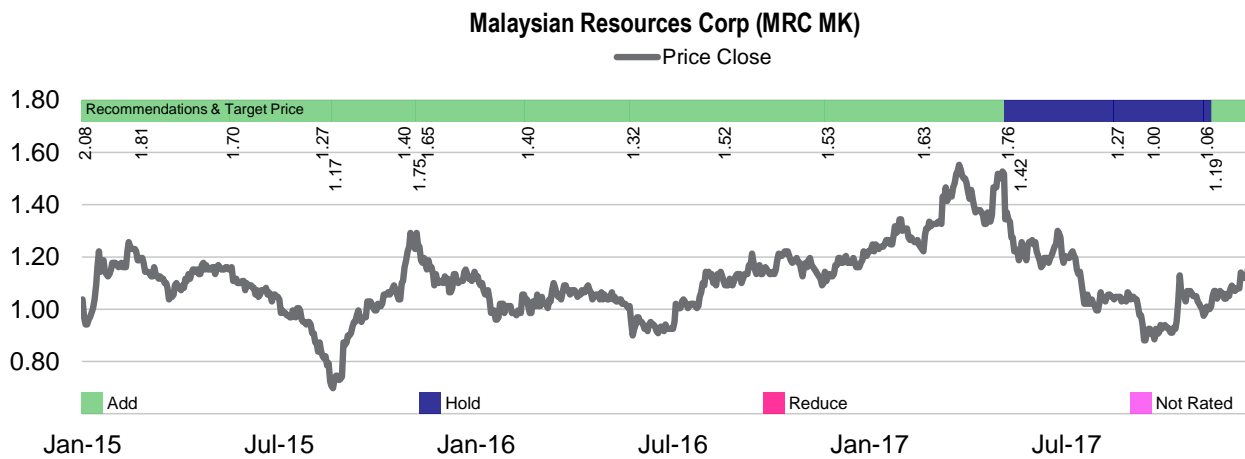
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Spitzer Chart for stock being researched (2 year data)



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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- 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.