

Malaysian Resources Corp

Eastern Dispersal Link Settled

By Adrian Ng | adrian.ng@kenanga.com.my

We are neutral on the news regarding the termination and settlement agreement of EDL amounting to RM1.3b which transpired per our expectation. However, the conclusion of the deal is long-term positive for MRCB as it further lightens its balance sheet, bringing down net gearing to 0.44x from 0.70x (2Q18). No changes to earnings. Maintain MP with an unchanged TP of RM0.800.

News. Yesterday, MRCB announced that they have entered into a termination and settlement agreement with the Government of Malaysia regarding their concession agreement on Eastern Dispersal Link highway ("EDL") for a total consideration of RM1.3b. The termination agreement is effective from 1st January 2018.

A long-term positive. We are neutral as we have been expecting the EDL deal to conclude this year. However, we are relieved as the long delayed termination and settlement (due to various reasons) had finally concluded despite the change of government. The settlement agreement of RM1.3b would be a long-term positive for MRCB, as the funds could be used to settle a huge chunk of its debt, which will further lighten its balance sheet bringing net gearing to 0.44x from 0.70x (2Q18).

Outlook. In the mid-to-near-term, we believe that MRCB will focus on the execution of their remaining external construction order-book that stands at c.RM5.1b; coupled with c.RM1.7b of unbilled property sales, these numbers will provide the group 3-4 years of earnings visibility. For now, we are keeping sales target of RM1.0b for FY18 backed by its previous launches, i.e. Sentral Residences and 9 Seputeh, as we expect property sales to pick up in 2H18 and we expect to see a ramp-up in marketing activities as well. However, should the group fail to achieve at least 65% of our full-year target by 3Q18, we will look to trim our estimates.

Earnings review. No changes to our FY18-19E earnings as we have factored in the interest cost savings arising from the settlement agreement. To recap, previously EDL had not been profitable since operations and it was a main drag to their earnings in the past.

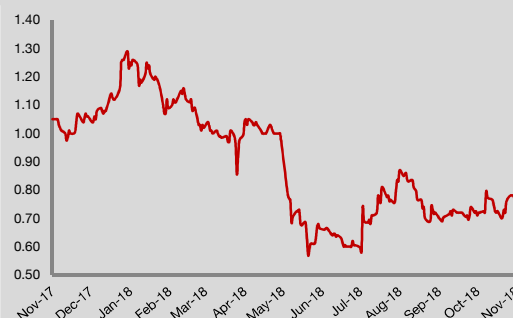
Maintain MARKET PERFORM. We maintain MARKET PERFORM, with an unchanged Target Price of RM0.800 as we have already factored the settlement of EDL into our SoP valuation. Our TP implies 0.8x PBV on FY18E BV/share of RM1.01, which is trading close to trough levels.

Downside risks include: (i) weaker-than-expected property sales, (ii) higher-than-expected administrative cost, (iii) negative real estate policies, and (iv) tighter lending environment.

MARKET PERFORM ↔

Price : **RM0.775**
Target Price : **RM0.800** ↔

Share Price Performance



KLCI	1,696.14
YTD KLCI chg	-5.6%
YTD stock price chg	-30.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,406.2
Shares Outstanding	4,395.1
52-week range (H)	1.31
52-week range (L)	0.55
3-mth avg daily vol:	23,299,190
Free Float	41%
Beta	1.5

Major Shareholders

Employees Provident Fund Board	35.5%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.0%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2,823.7	2,651.5	2,893.0
EBIT	338.4	159.1	159.1
PBT	247.3	194.0	206.8
Net Profit (NP)	167.6	134.3	143.2
Core Net Profit	101.3	134.3	143.2
Consensus (NP)	n.a.	119.3	157.6
Earnings Revision	n.a.	n.a.	n.a.
Core FD EPS (sen)	2.1	2.8	3.0
EPS growth (%)	-235.7	32.6	6.6
NDPS (sen)	1.8	1.8	1.8
NTA/Share (RM)	0.95	0.96	0.96
FD PER (x)	22.3	27.8	26.1
Core PER (x)	36.9	27.8	26.1
Price/NTA (x)	0.81	0.81	0.80
Net Gearing (x)	0.6	0.4	0.4
Dividend Yield (%)	2.3	2.3	2.3

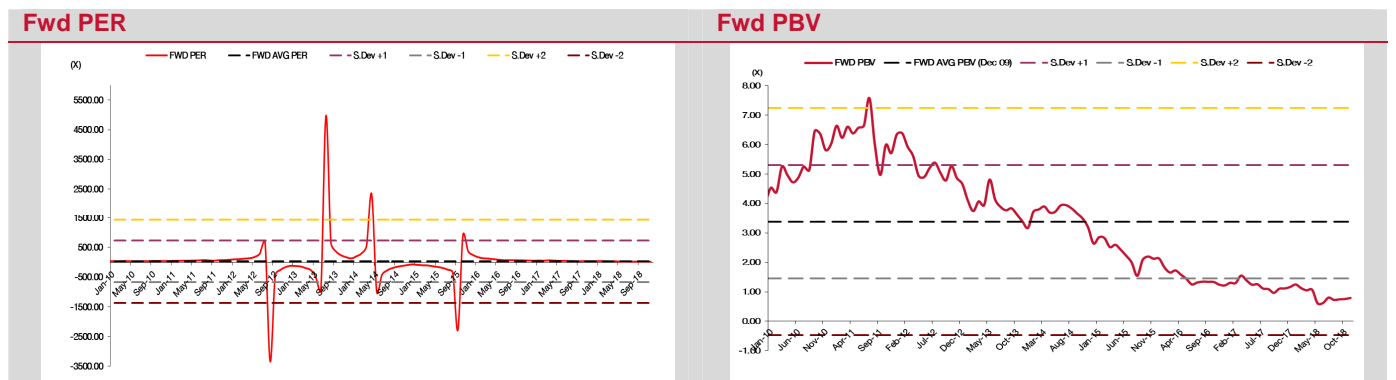
SOP Valuations			
SOP Valuation	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%)	2,488.3
Property Investment	Various	Book Value	2,053.6
Construction	Various	FY19` PER of 8x	210.0
Building Services	100%	FY18 PER of 7x	58.4
Quill Capital REITs	28%	Based on MQREIT TP of RM1.1	327.8
Sub Total			5,138.0
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
Total SOP/share			1.54
Property RNAV discount/share		70%	-0.66
SOP/share after RNAV discount			0.88
No of FD shares			4,825.5
Holding Co. Discount			10%
Implied SOP discount			48%
TP (RM)			0.800

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	1,696.7	2,408.1	2,823.7	2,651.5	2,893.0	Growth (%)					
EBITDA	547.1	535.9	338.4	159.4	173.9	Turnover	12.0	41.9	17.3	-6.1	9.1
Depreciation	0.0	0.0	0.0	-14.6	-14.8	EBITDA	54.4	-2.0	-36.8	-52.9	9.1
Operating Profit	547.1	535.9	338.4	144.8	159.1	Operating Profit	73.3	-2.0	-36.8	-57.2	9.9
Int Income	0.0	0.0	0.0	0.0	0.0	PBT	67.8	6.1	-37.0	-21.6	6.6
Interest Exp	-184.8	-175.9	-116.1	-10.0	-12.0	CNP	-279.5	-129.4	361.2	32.6	6.6
Associate	16.0	26.3	9.3	45.0	60.0	Profitability (%)					
Jointly Controlled Entity	-8.1	6.3	15.8	-0.9	-0.9	EBITDA Margin	32.2	22.3	12.0	6.0	6.0
PBT	370.1	392.6	247.3	194.0	206.8	Operating Margin	32.2	22.3	12.0	5.5	5.5
Taxation	-6.1	-73.5	-65.5	-48.5	-51.7	PBT Margin	21.8	16.3	8.8	7.3	7.1
Minority Interest	-33.6	-51.7	-14.2	-11.2	-11.9	Core Net Margin	-4.4	0.9	3.6	5.1	4.9
Net Profit	330.4	267.4	167.6	134.3	143.2	Effective Tax					
Core Net Profit	-74.6	22.0	101.3	134.3	143.2	Rate	1.6	18.7	26.5	25.0	25.0
						ROE	-3.30	0.77	2.10	2.77	2.93
						ROA	-1.05	0.29	0.98	1.26	1.28
						DuPont Analysis					
						Net Margin (%)	-4.4	0.9	3.6	5.1	4.9
						Assets Turnover					
						(x)	0.2	0.3	0.3	0.2	0.3
						Leverage Factor					
						(x)	3.1	2.7	2.1	2.2	2.3
						ROE (%)	-3.30	0.77	2.10	2.77	2.93
						Leverage					
						Debt/Asset (x)	0.5	0.4	0.3	0.4	0.4
						Debt/Equity (x)	1.5	1.0	0.7	0.8	0.9
						N.Debt/Equity (x)	1.3	0.8	0.6	0.4	0.4
						Valuations					
						EPS (sen)	6.8	5.5	3.5	2.8	3.0
						Core EPS (sen)	-1.5	0.5	2.1	2.8	3.0
						NDPS (sen)	0.0	2.8	1.8	1.8	1.8
						NTA/share (RM)	0.40	0.52	0.95	0.96	0.96
						PER (x)	11.3	14.0	22.3	27.8	26.1
						Core PER (x)	-50.1	170.3	36.9	27.8	26.1
						Net Div. Yield (%)	0.0	3.5	2.3	2.3	2.3
						P/NTA (x)	1.92	1.48	0.81	0.81	0.80

Source: Kenanga Research



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13 November 2018

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	0.950	346.8	Y	12/2018	-8.4%	-6.0%	-28.7%	-0.7%	14.3	20.0	20.1	0.5	0.5	2.7%	0.0%	1.00	MP
CRESCENDO CORPORATION BHD	1.27	354.9	Y	01/2019	12.2%	1.6%	-10.4%	3.7%	10.2	11.4	11.0	0.4	0.3	3.5%	4.7%	1.30	MP
ECO WORLD DEVELOPMENT GROUP	1.05	3,091.6	Y	10/2018	-1.7%	-0.3%	45.7%	55.7%	27.3	18.8	12.1	0.9	0.8	3.8%	0.0%	1.15	MP
HUA YANG BHD	0.370	130.2	Y	03/2019	-3.2%	2.2%	48.0%	20.5%	29.5	19.9	16.6	0.2	0.2	1.1%	0.0%	0.410	MP
IOI PROPERTIES GROUP BHD	1.45	7,983.9	Y	06/2019	-15.0%	-6.0%	-5.3%	-2.7%	12.1	12.8	13.1	0.4	0.4	3.4%	3.4%	1.65	OP
MAGNA PRIMA BHD	0.940	312.7	Y	12/2018	37.8%	0.4%	73.3%	2.6%	58.8	39.9	38.9	0.8	0.7	1.9%	1.2%	0.955	MP
MAH SING GROUP BHD	1.03	2,500.5	Y	12/2018	-0.8%	-0.3%	-23.7%	0.7%	9.8	12.8	12.7	0.7	0.7	6.5%	5.3%	1.10	OP
MALAYSIAN RESOURCES CORP BHD	0.775	3,406.2	Y	12/2018	-6.1%	9.1%	32.6%	6.6%	36.9	27.8	26.1	0.8	0.8	2.8%	2.3%	0.800	MP
SIME DARBY PROPERTY BHD	0.995	6,766.8	Y	12/2018	13.3%	17.6%	14.4%	44.5%	18.4	16.1	11.2	0.7	0.7	4.2%	2.5%	1.10	OP
SP SETIA BHD	2.08	8,230.4	Y	12/2018	-16.4%	7.6%	-53.4%	30.5%	10.5	22.5	17.2	0.7	0.6	5.4%	7.5%	2.60	OP
SUNSURIA BHD	0.835	667.0	Y	09/2018	10.9%	11.4%	5.7%	16.8%	7.3	7.0	6.0	0.9	0.8	11.7%	0.0%	0.860	MP
SUNWAY BHD	1.44	6,988.6	Y	12/2018	-2.6%	4.6%	-3.8%	8.1%	12.5	13.0	12.0	0.9	0.9	6.9%	4.8%	1.55	OP
UEM SUNRISE BHD	0.760	3,448.5	Y	12/2018	-2.8%	28.0%	23.3%	6.8%	12.7	10.3	9.6	0.5	0.5	4.7%	1.3%	0.850	OP
UOA DEVELOPMENT BHD	2.04	3,761.2	Y	12/2018	5.0%	8.9%	-17.0%	10.9%	9.0	10.9	9.8	0.8	0.8	7.7%	6.9%	2.15	OP
Simple Average					1.6%	5.6%	7.2%	14.6%	19.2	17.4	15.4	0.7	0.6	4.7%	2.9%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.405	318.5	Y	04/2019	-35.7%	42.0%	-60.5%	103.6%	10.2	25.8	12.7	0.3	N.A.	1.2%	2.5%	0.410	NEUTRAL
LBS BINA GROUP BHD	0.700	1,091.3	Y	12/2018	-4.1%	15.5%	6.8%	12.3%	10.6	9.9	8.8	0.9	0.7	7.2%	4.7%	1.17	BUY
MATRIX CONCEPTS HOLDINGS BHD	1.90	1,430.3	Y	03/2019	22.9%	14.2%	9.1%	11.6%	6.7	6.1	5.5	1.2	1.0	18.0%	7.0%	2.37	BUY
PARAMOUNT CORP BHD	2.10	899.4	Y	12/2018	8.2%	5.0%	-33.7%	4.0%	6.7	10.2	9.8	0.8	0.8	7.0%	4.3%	2.40	BUY
TAMBUN INDAH LAND BHD	0.825	357.5	Y	12/2018	-29.3%	-1.4%	-36.1%	0.9%	4.3	6.7	6.6	0.6	0.6	8.2%	5.8%	1.00	BUY
TITIJAYA LAND BHD	0.325	430.0	Y	06/2019	1.9%	5.5%	5.4%	6.4%	5.9	5.6	5.3	0.4	0.3	5.7%	39.4%	0.445	BUY
YONG TAI BHD	0.610	296.2	Y	06/2019	146.7%	40.4%	62.6%	93.8%	19.1	11.8	6.1	0.8	0.7	4.4%	0.0%	0.855	NEUTRAL

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
 Head of Research