

Malaysian Resources Corp

A Knack for Prime Land

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MRCB announced that its 51%-owned subsidiary METRO is acquiring three parcels of land in Jalan Putra measuring c.10.06 acres for a total consideration of RM335.5m from DBKL. We are long-term positive on the acquisitions due to their close vicinity to KL City Centre. No changes to FY17-18E core earnings. Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.32 (cum-rights TP, RM1.65).

Surprise! Yesterday, MRCB surprised us with an announcement where their 51%-owned subsidiary i.e. Metro Spectacular Sdn Bhd (METRO) is acquiring three parcels of land measuring 10.06 acres in Jalan Putra for a total consideration of RM335.5m. While we are not certain on the exact location, we believe that they are just a throw stone away from Sunway Putra Mall given that these lands are still within the locality of Jalan Putra, Kuala Lumpur. (Kindly refer overleaf for more land details).

Cash is king! We believe that their recent corporate proposal of raising RM2.8b through rights issuance and also the divestment of its Bukit Jalil land to EPF for RM1.1b, which would turn their existing net gearing of 0.94x (as of 1Q17) to a strong net cash position gives them room to acquire these three parcels of land. After concluding the Kwasa land deal and this latest acquisition, we expect them to maintain net cash position of -0.01x. The acquisition price for the three parcels of land translates to RM765.4psf representing 27.5% premium over the last transacted price of RM600.0psf in 2014 for commercial land within Jalan Putra locality. Based on a conservative land cost to GDV ratio assumption of 20%-25%, we believe that this particular land could generate a potential GDV of between of RM1.3b and RM1.7b.

Outlook. Moving into FY17, management are maintaining their sales target at RM1.2b, banking on their planned launches of Sentral Suites (GDV: RM1.4b), 9 Seputeh Phase 2 (GDV: >RM900.0m), Bukit Rahman Putra (GDV: RM100.0m) and Bandar Sri Iskandar (GDV: RM16.0m). MRCB's remaining external construction order-book stands at c.RM7.0b. Coupled with c.RM1.5b unbilled property sales, these numbers will provide the group with at least four years of earnings visibility.

Earnings unchanged. We make no changes to our FY17-18E numbers as we believe it would take at least another 2-3 years for projects on these three parcels of land to be launched as they are still required to reapply for a higher plot ratio from its existing plot ratio of 3.0x.

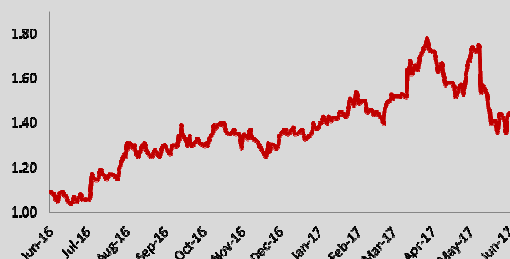
MARKET PERFORM maintained. We reiterate our MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.32 (cum-rights TP, RM1.65), as we have yet to factor in any GDV replenishments into our RNAV due to the lack of details from management on the development plans for these three parcels of land. However, we deem that even if we were to input RM1.3b-RM1.7b GDV replenishment into our RNAV, the impact is immaterial to our TP of RM1.32.

Downside risks to our call 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 ↔

Cum/Ex-Price: RM1.44/RM1.22
Cum/Ex-Target Price: RM1.65/RM1.32 ↔

Share Price Performance



KLCI	1,790.01
YTD KLCI chg	9.0%
YTD stock price chg	8.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,156.7
Issued shares	2,192.2
52-week range (H)	1.80
52-week range (L)	1.03
3-mth avg daily vol:	11,418,950
Free Float	42%
Beta	1.0

Major Shareholders

Employees Provident Fund	33.3%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.9%

Summary Earnings Table

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	2,408.1	2,408.6	2,714.6
EBIT	547.1	535.9	313.1
PBT	392.6	185.1	232.0
Net Profit (NP)	267.4	76.0	97.2
Core Net Profit	244.1	76.0	97.2
Consensus (NP)	n.a.	126.1	148.7
Earnings Revision	n.a.	n.a.	n.a.
*Core EPS (sen)	4.3	1.3	1.7
EPS growth (%)	-427.1	-68.9	28.0
NDPS (sen)	2.8	0.2	0.3
NAV/Share (RM)	0.44	1.23	1.24
*PER (x)	26.1	91.7	71.7
*Core PER (x)	28.6	91.7	71.7
Price/NAV (x)	2.76	1.00	0.98
Gearing (x)	0.8	-0.2	-0.3
Dividend Yield (%)	2.3	0.2	0.2

*On a post rights issuance basis.



OTHER POINTS

Land Bank Details			
Details	Land 1	Land 2	Land 3
Land size	5.06	0.55	4.45
Category of land use	Building Leasehold of 99 years till 26th May 2080	Building Leasehold of 99 years till 29th Nov 2109	Building
Tenure			Freehold

Source: Kenanga Research

SOP Valuations			
Property Development	Various	NPV of profits (WACC: 11%) after 50% discount	1,581.61
Property Investment	Various	Book Value	2,595.39
Construction	Various	FY17 PER of 8x	100.49
Building Services	100%	FY17 PER of 7x	58.37
Quill Capital REITs	31%	Estimate Market Cap of Quill	453.02
Concession			
EDL	100%	DCF (WACC: 7%)	889.75
Sub Total			5,678.64
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant conversion			262.00
Proceeds from rights			2,856.70
Total			8,876.14
No of FD shares			5,713.44
SoP (RM)			1.55
Holding Co. Discount			15%
TP (RM)			1.32

Source: Kenanga Research

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Peer Comparison

NAME	Price (15/6/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.12	11,673	18.0	14.6	14.5	3.4%	4.1%	4.2%	0.62	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*	3.81	10,877	13.5	14.3	17.5	4.9%	9.7%	8.0%	1.31	808.0	761.3	620.6	-5.8%	-18.5%	3.86	OUTPERFORM
UEM SUNRISE BHD*	1.27	5,763	39.1	24.7	35.7	0.0%	2.2%	3.4%	0.90	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD*^	1.72	8,170	15.1	15.7	15.1	5.2%	7.3%	6.7%	0.45	541.6	521.7	542.6	-3.7%	4.0%	1.66	MARKET PERFORM
MAH SING GROUP BHD^	1.58	3,807	11.0	11.2	11.6	4.1%	10.1%	10.0%	1.10	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.71	5,035	38.9	44.6	20.2	0.0%	3.7%	4.4%	1.33	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.56	4,176	11.2	11.0	10.7	5.9%	19.4%	9.8%	1.06	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.22	3,157	12.9	41.5	32.5	0.2%	8.6%	2.4%	2.77	244.1	76.0	97.2	-69%	27.9%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.25	1,287	6.3	7.4	7.3	0.0%	8.8%	6.9%	0.48	204.6	173.7	177.1	-15.1%	2.0%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.75	1,599	8.5	7.1	6.7	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.39	1,110	30.3	11.3	7.1	2.2%	6.9%	13.3%	1.40	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.68	382	13.2	11.4	11.0	2.9%	2.2%	8.0%	0.50	28.9	33.6	34.6	16.4%	3.0%	1.70	MARKET PERFORM
HUA YANG BHD	1.07	377	6.2	6.1	5.2	1.7%	21.9%	12.2%	0.58	61.0	62.0	72.0	1.6%	16.1%	1.24	MARKET PERFORM
A&M REALTY BHD	1.58	577	28.7	21.6	16.7	0.0%	3.3%	4.2%	0.88	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.52	505	64.0	77.7	45.9	0.4%	7.4%	1.1%	1.25	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.88	3,845	12.9	12.5	16.0	3.1%	6.7%	6.4%	0.78	298.0	307.0	240.3	3.0%	-21.7%	3.00	NEUTRAL
GLOMAC BHD	0.69	495	6.1	11.0	5.9	5.4%	12.7%	7.8%	0.50	80.9	44.8	84.6	-44.6%	88.7%	0.74	SELL
PARAMOUNT CORP BHD	1.81	768	10.2	9.5	9.1	5.0%	8.0%	8.3%	0.79	75.0	80.6	84.9	7.5%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.43	619	5.5	6.7	7.2	6.2%	21.5%	14.0%	1.03	112.2	92.3	86.6	-17.8%	-6.1%	1.58	NEUTRAL
LBS BINA GROUP BHD	2.03	1,363	16.0	12.2	9.6	4.7%	8.4%	9.1%	1.09	85.3	111.4	142.3	30.6%	27.7%	2.30	BUY

* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

MRCB's prices are of ex-rights

Source: Kenanga Research

16 June 2017

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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