16 June 2017

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 SoPdriven 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.



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



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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.



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OTHER POINTS

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

Source: Kenanga Research

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

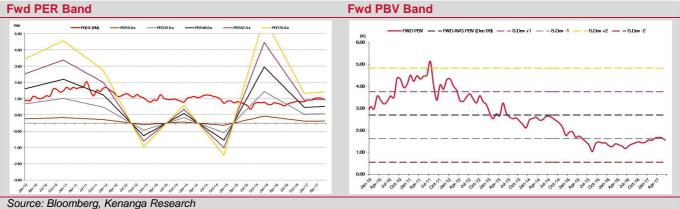
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Income Stateme	ent					Financial Data &	Ratios				
FY Dec (RM							. Halloo				
m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	1,514.5	1,696.7	2,408.1	2,390.5	2,454.8	Growth	20144	LUIUA	LUIUA	LUITE	LUIUL
EBITDA	354.4	547.1	535.9	311.2	339.7	Turnover (%)	_	12.0	41.9	-0.7	2.7
Depreciation	-38.8	0.0	0.0	-16.3	-15.8	EBITDA (%)		54.4	-2.0	-41.9	9.1
O. Profit	315.6	547.1	535.9	294.9	323.8	OP(%)		73.3	-2.0	-45.0	9.8
Int Income	38.4	0.0	0.0	19.2	13.5	PBT (%)	_	67.8	6.1	-43.0	5.0 6.4
Interest Exp	-171.2	-184.8	-175.9	-156.5	-176.5	CNP (%)		-279.5	-427.1	-71.8	10.0
Associate	12.3	16.0	26.3	2.6	2.6			-21 5.5	-427.1	-71.0	10.0
JCE	-36.6	-8.1	6.3	-0.9	-0.9	Profitability (%)					
PBT	220.6	370.1	392.6	166.9	-0.9 177.6	• • • •	22.4	32.2	22.3	13.0	12.0
						EBITDA Margin	23.4				13.8
Taxation	-53.3	-6.1	-73.5	-41.7	-44.4	Oper. Margin	20.8	32.2	22.3	12.3	13.2
Minority	20.0	22.6	E1 7	FC 4	57 F	DDT Margin	14.6	24.0	16.0	7.0	7.0
Interest	-30.9	-33.6	-51.7	-56.4	-57.5	PBT Margin	14.6	21.8	16.3	7.0	7.2
Net Profit	136.5	330.4	267.4	68.8	75.7	CNP margin	2.7	-4.4	10.1	2.9	3.1
CNP	41.6	-74.6	244.1	68.8	75.7	ETR	24.1	1.6	18.7	25.0	25.0
						ROE	2.09	-3.30	8.58	2.37	2.55
Balance Sheet						ROA	0.59	-1.05	3.23	0.85	0.88
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E						
Fixed Assets Intangible	2,083.5	2,537.9	1,249.8	1,667.9	1,574.0	DuPont Analysis	5				
Assets	271.8	317.1	317.1	317.1	317.1	Not Margin (9/)	2.7	-4.4	10.1	2.9	3.1
Other FA						Net Margin (%)	0.2			0.3	
	1,694.0	2,336.6	2,523.1	2,564.6	2,614.5	Assets T/O (x)		0.2	0.3		0.3
Inventories	874.2	551.7	962.9	952.8	990.0	Leverage f. (x)	3.5	3.1	2.7	2.8	2.9
Receivables	748.3	1,095.1	1,248.0	1,240.8	1,267.2	ROE (%)	2.09	-3.30	8.58	2.37	2.55
Other CA	978.0	45.5	978.0	978.0	978.0	U					
Cash	660.7	520.7	598.4	663.3	1,193.1	Leverage	0.5	0.5	0.4	0.0	0.0
Total Assets	7,041.9	7,089.8	7,562.5	8,069.8	8,619.2	Debt/Asset (x)	0.5	0.5	0.4	0.3	0.3
						Debt/Equity (x)	1.9	1.5	1.0	0.5	0.5
Payables	652.6	1,188.4	1,494.4	1,486.8	1,514.5	Net debt/eq (x)	1.5	1.3	0.8	-0.2	-0.3
ST loans	1,390.5	1,042.1	1,042.1	1,042.1	1,042.1						
Other ST Lia	527.4	54.8	54.8	54.8	54.8						
LT Borrowings	2,300.1	2,345.2	1,887.2	2,287.2	2,687.2	Valuations					
Other LT Liab.	106.8	135.2	135.2	135.2	135.2	EPS (sen)	2.7	5.8	4.7	1.3	1.7
Minorities Int.	79.3	52.6	104.4	160.8	218.3	Core EPS (sen)	0.7	-1.3	4.3	1.3	1.7
Net Assets	1,985.3	2,260.1	2,844.4	2,902.7	2,967.0	NDPS (sen)	0.8	0.0	2.8	0.2	0.3
						NTA/sh. (RM)	0.30	0.34	0.44	1.23	1.24
Share Capital	2,111.2	2,114.5	2,471.9	2,471.9	2,471.9	PER (x)	45.7	21.1	26.1	91.7	71.7
Reserves	28.9	62.5	62.5	62.5	62.5	Core PER (x)	167.7	-93.4	28.6	91.7	71.7
Equity	1,985.3	2,260.1	2,844.4	2,902.7	2,967.0	N. Div. Yld (%)	0.6	0.0	2.3	0.2	0.2
						P/NTA (x)	4.07	3.59	2.76	1.00	0.98
Cashflow Stater	ment										
FY Dec (RM											
m)	2014A	2015A	2016A	2017E	2018E						
Operating CF	360.9	1,055.0	-718.9	288.5	254.5						
Investing CF	-42.5	-825.1	1,101.5	-475.9	-15.8						
Financing CF	162.3	-472.7	-317.1	252.3	-174.5						
Change In											
Cash	480.8	-242.9	65.6	64.9	64.2						
Free CF	245.4	606.7	642.7	-104.1	283.1						
Source: Kenanga	a Research										



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NAME	Price (15/6/17)	Mkt Cap		PER (x)		Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Ne	t Profit (RN	lm)	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																
OI 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
JEM 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 PERFOR
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 PERFOR
JOA 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 PERFOR
MALAYSIAN RESOURCES CORP BHD# {SL HOLDINGS BHD	1.22 1.25	3,157 1.287	12.9 6.3	41.5 7.4	32.5 7.3	0.2%	8.6% 8.8%	2.4% 6.9%	2.77 0.48	244.1 204.6	76.0 173.7	97.2 177.1	-69% -15.1%	27.9% 2.0%	1.32 1.30	MARKET PERFOR
MATRIX CONCEPTS HOLDINGS BHD	2.75	1,207	8.5	7.4	6.7	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFOR
SUNSURIA BERHAD	1.39	1,599	30.3	11.3	7.1	2.2%	6.9%	13.3%	1.40	36.7	98.0	238.0 157.0	19.1%	60.1%	2.05	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.68	382	13.2	11.4	11.0	2.2%	2.2%	8.0%	0.50	28.9	98.0 33.6	34.6	16.4%	3.0%	1.70	MARKET PERFOR
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 PERFOR
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 PERFOR
CONSENSUS NUMBERS																
GB 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
FAMBUN 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
BS 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

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

MRCB's prices are of ex-rights

Source: Kenanga Research



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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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