

1 March 2018

Property | Real Estate

## Malaysian Resources Corp

**Buy** (Maintained)

### Disposal Of EDL Still Pending

**MRCB's 4Q17 earnings came in above expectations, due mainly to a capital gain. New sales were at MYR1.4bn, and management has set a prudent target of MYR1bn for 2018. Going forward, we expect earnings in 1Q18 to be negatively affected, as the disposal of EDL is still unresolved. As such, we lower our TP to MYR1.34 (from MYR1.51, 24% upside). Maintain BUY. The sale of EDL, monetisation of its land in Bukit Jalil, as well as potential job wins, are still the key catalysts for the stock.**

**Above expectations.** Malaysian Resources Corp's (MRCB) 4Q17 results beat our estimates. Its outperformance was mainly due to the recognition of a capital gain totalling MYR60.8m during the quarter, which arose from the sale of its equity interest in the Semarak City project. Despite the decent topline growth, FY17 net profit declined from the disposal gains in Menara Shell, Sooka, The Grid, and Ekovest-MRCB JV being recognised in FY16.

FY17 property development revenue declined by 35.4% YoY, as a few new projects are still in the early stages of construction. Earnings from the construction division increased materially, as the pace of construction works picked up. In the meantime, the project delivery partner (PDP) fees from the Light Rail Transit Line 3 (LRT3) project also kicked in, amounting to MYR15.2m in after-tax profit in FY17. After its rights issue exercise in 4Q17, net gearing eased to 0.55x, from 1.1x in 3Q17. A final DPS of MYR0.0175 was declared (FY16: MYR0.0275).

**Reclassification of EDL sukuk.** In 4Q17, MRCB reclassified its Eastern Dispersal Link (EDL) sukuk under current liabilities (while the concession asset was parked under receivables – current assets). This is to reflect the upcoming sale of EDL, which management is still negotiating with the Government. As the disposal is still not resolved, we expect MRCB's 1Q18 earnings to be negatively affected by the interest cost associated with the concession asset.

**Achieved MYR1.4bn sales in 2017.** New sales achieved MYR1.4bn in 2017, compared with MYR1.2bn in 2016. The amount was largely contributed by Sentral Suites (MYR886m), Carnegie in Melbourne (MYR220m), and 9 Seputeh (MYR172m). The take-up rate for Sentral Suites is at 58% (73% for the first two towers), while Kalista Homes is 55%-sold. For 2018, management has set a sales target of MYR1bn, and will focus on selling the remaining unsold units in all its ongoing projects.

**Forecasts.** We make minimal changes to our FY18-19 earnings forecasts. The PDP fees from LRT3 are expected to contribute more materially this year. Earnings would be backed by MYR1.71bn in unbilled sales (from MYR1.64bn as at 3Q17), and its outstanding orderbook of MYR5.15bn (from MYR5.34bn in 3Q17). MRCB's tenderbook currently stands at MYR2.755bn, and mainly focuses on infrastructure jobs and long-term fee-based management projects.

**Maintain BUY.** We, however, lower our TP to MYR1.34 (from MYR1.51), based on a larger discount to RNAV of 15% (from 5%), given the delay in the disposal of the EDL and, hence, the potential impact on its earnings.

Target Price:	MYR1.34
Price:	MYR1.08
Market Cap:	USD1,213m
Bloomberg Ticker:	MRC MK

#### Share Data

Avg Daily Turnover (MYR/USD)	13.1m/3.31m
52-wk Price low/high (MYR)	0.88 - 1.55
Free Float (%)	40
Shares outstanding (m)	2,280
Estimated Return	24%

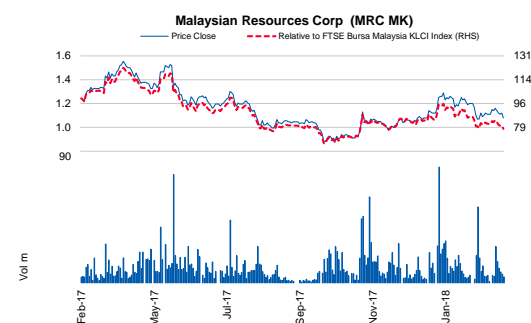
#### Shareholders (%)

Employees Provident Fund	34.7
Gapurna SB	16.6
Lembaga Tabung Haji	7.4

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.6)	(10.8)	6.9	3.2	(12.8)
Relative	(6.9)	(10.9)	(1.4)	(1.7)	(22.4)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (MYRm)	2,408	2,824	2,485	2,438	2,706
Reported net profit (MYRm)	267	168	152	189	222
Recurring net profit (MYRm)	267	168	152	189	222
Recurring net profit growth (%)	20.8	(37.3)	(9.4)	24.4	17.4
Recurring EPS (MYR)	0.14	0.05	0.03	0.04	0.05
DPS (MYR)	0.03	0.02	0.02	0.02	0.03
Recurring P/E (x)	7.9	20.8	30.9	25.1	21.4
P/B (x)	0.79	0.96	0.95	0.94	0.92
P/CF (x)	4.6	na	3.3	18.0	24.9
Dividend Yield (%)	2.5	1.6	1.9	2.0	2.3
EV/EBITDA (x)	7.1	13.9	16.3	15.3	13.9
Return on average equity (%)	10.3	4.3	3.1	3.8	4.3
Net debt to equity (%)	73.1	53.9	34.7	35.4	36.6
Our vs consensus EPS (adjusted) (%)			12.6	(14.0)	0.0

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on : 2018-02-28.

Asia	<b>Financial summary</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Malaysia	Recurring EPS (MYR)	0.14	0.05	0.03	0.04	0.05
Property	EPS (MYR)	0.14	0.05	0.03	0.04	0.05
<b>Malaysian Resources Corp</b>	DPS (MYR)	0.03	0.02	0.02	0.02	0.03
Bloomberg MRC MK	BVPS (MYR)	1.36	1.12	1.13	1.15	1.18
<b>Buy</b>	Weighted avg adjusted shares (m)	1,965	3,227	4,352	4,395	4,395
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
15% discount to RNAV	Recurring P/E (x)	7.9	20.8	30.9	25.1	21.4
<b>Key drivers</b>	P/E (x)	7.9	20.8	30.9	25.1	21.4
i. New property sales;	P/B (x)	0.79	0.96	0.95	0.94	0.92
ii. Asset disposals;	FCF Yield (%)	11.7	(77.8)	17.8	1.6	1.4
iii. New construction contracts	Dividend Yield (%)	2.5	1.6	1.9	2.0	2.3
<b>Key risks</b>	EV/EBITDA (x)	7.1	13.9	16.3	15.3	13.9
Weaker-than-expected market conditions	EV/EBIT (x)	7.9	16.3	19.7	18.6	16.5
<b>Company Profile</b>	<b>Income statement (MYRm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Malaysian Resources Corp is engaged in construction (niche strength in environmental projects), property development and investment and toll road operations. It is known for its transit-oriented developments, eg KL Sentral, Bukit Jalil City, Kwasa Damansara and Penang Sentral.	Total turnover	2,408	2,824	2,485	2,438	2,706
	Gross profit	236	209	244	288	313
	EBITDA	593	399	404	441	501
	Depreciation and amortisation	(57)	(60)	(70)	(77)	(80)
	Operating profit	536	338	334	364	421
	Net interest	(176)	(116)	(110)	(92)	(97)
	Income from associates & JVs	33	25	29	43	45
	Pre-tax profit	393	247	253	315	370
	Taxation	(74)	(66)	(63)	(79)	(92)
	Minority interests	(52)	(14)	(38)	(47)	(55)
	Recurring net profit	267	168	152	189	222
	<b>Cash flow (MYRm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Change in working capital	115	(2,927)	1,190	(6)	(121)
	Cash flow from operations	459	(2,710)	1,421	264	191
	Capex	(210)	0	(584)	(187)	(126)
	Cash flow from investing activities	(256)	229	(514)	(187)	(126)
	Proceeds from issue of shares	457	1,775	0	0	0
	Dividends paid	(44)	(59)	(45)	(41)	(50)
	Cash flow from financing activities	(37)	2,161	(45)	(41)	(50)
	Cash at beginning of period	522	722	724	803	821
	Net change in cash	165	(319)	863	36	14
	Ending balance cash	687	403	1,587	839	836
	<b>Balance sheet (MYRm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Total cash and equivalents	724	726	805	823	795
	Tangible fixed assets	3,900	3,383	3,897	4,007	4,054
	Intangible assets	253	226	226	226	226
	Total investments	34	34	34	34	34
	Total other assets	399	696	681	786	915
	Total assets	7,752	10,301	9,536	9,754	10,144
	Short-term debt	806	2,491	1,491	1,491	1,491
	Total long-term debt	2,131	891	1,091	1,191	1,291
	Other liabilities	161	493	493	493	493
	Total liabilities	4,727	5,372	4,419	4,498	4,719
	Shareholders' equity	2,926	4,824	4,974	5,066	5,179
	Minority interests	99	104	142	190	245
	Total equity	3,025	4,929	5,117	5,256	5,425
	Net debt	2,213	2,656	1,777	1,859	1,987
	Total liabilities & equity	7,752	10,301	9,536	9,754	10,144
	<b>Key metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Revenue growth (%)	41.9	17.3	(12.0)	(1.9)	11.0
	Recurrent EPS growth (%)	9.0	(61.8)	(32.8)	23.2	17.4
	Gross margin (%)	9.8	7.4	9.8	11.8	11.6
	Operating EBITDA margin (%)	24.6	14.1	16.3	18.1	18.5
	Net profit margin (%)	11.1	5.9	6.1	7.8	8.2
	Dividend payout ratio (%)	22.1	26.7	26.7	26.7	26.7
	Capex/sales (%)	8.7	0.0	23.5	7.7	4.7
	Interest cover (x)	2.49	2.17	2.24	2.77	3.09

Source: Company data, RHB

Figure 1: Quarterly results

FYE Dec (MYRm)	4 QFY16	3 QFY17	4 QFY17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	Comments
Revenue	1,031.7	1,134.1	408.2	(64.0)	(60.4)	2,408.1	2,823.7	17.3	Mainly driven by the growth in the construction division, and partly offset by the lower revenue in property development.
EBITDA	278.0	90.2	127.9	41.8	(54.0)	550.9	355.4	(35.5)	
EBITDA Margin (%)	26.9	8.0	31.3			22.9	12.6		
Depreciation	(5.0)	(5.0)	(5.0)	0.0	0.0	(15.0)	(17.0)	13.3	
EBIT	273.0	85.2	122.9	44.3	(55.0)	535.9	338.4	(36.8)	
EBIT Margin (%)	26.5	7.5	30.1			22.3	12.0		
Interest expense	(42.8)	(41.4)	(2.1)	(94.9)	(95.1)	(175.9)	(116.1)	(34.0)	The drop in interest expense was due to the capitalisation of interest cost in relation to some land acquisitions and property development projects.
Interest income	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Associates	(0.2)	8.6	10.8	nm	nm	32.7	32.7	n.m.	
El/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Pretax profit	238.6	52.3	131.6	151.5	nm	392.6	247.3	(37.0)	
Pretax Margin (%)	23.1	4.6	32.2			16.3	8.8		
Tax	(29.6)	(21.8)	(26.7)	22.6	(9.8)	(73.5)	(65.5)	(10.9)	
Effective tax rate (%)	12.4	41.7	20.3			18.7	26.5		
Minority Interest	(20.9)	(2.4)	0.8	(133.7)	(103.9)	(51.7)	(14.2)	(72.5)	
Net Profit	188.1	28.1	105.7	276.1	(43.8)	267.4	167.6	(37.3)	Net profit dropped in FY17, as there were more disposal gains being recognised in FY16.
Core Profit	188.1	28.1	105.7	276.1	(43.8)	267.4	167.6	(37.3)	Above expectations
Net Margin (%)	18.2	2.5	25.9			11.1	5.9		

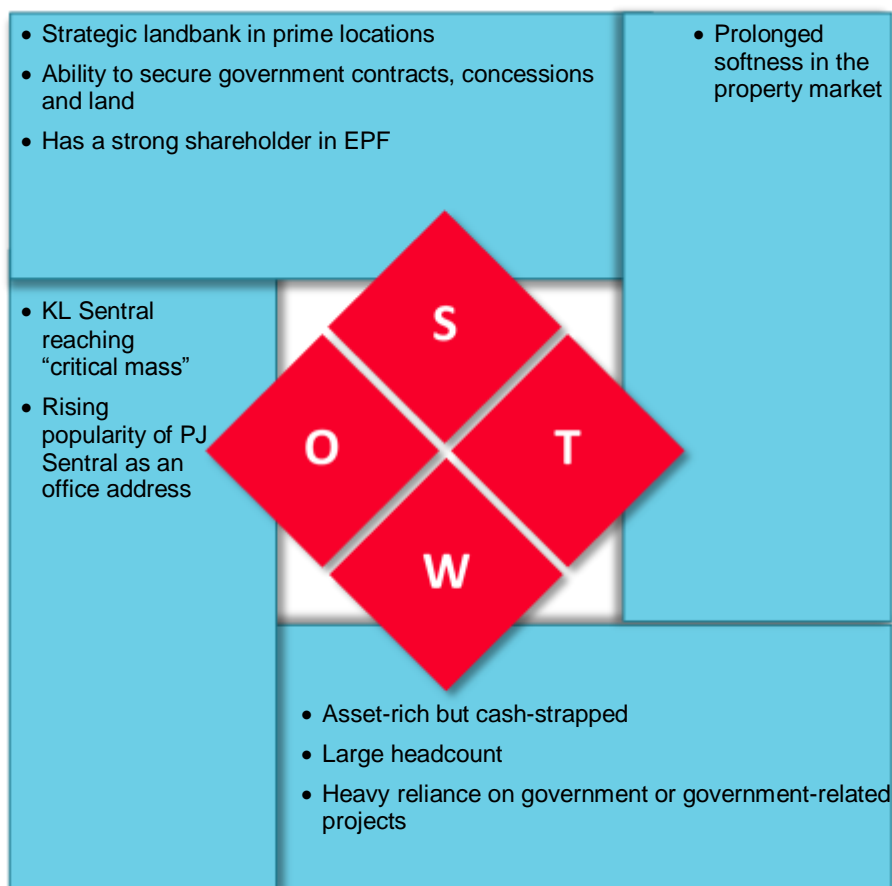
Source: RHB

Figure 2: RNAV estimate

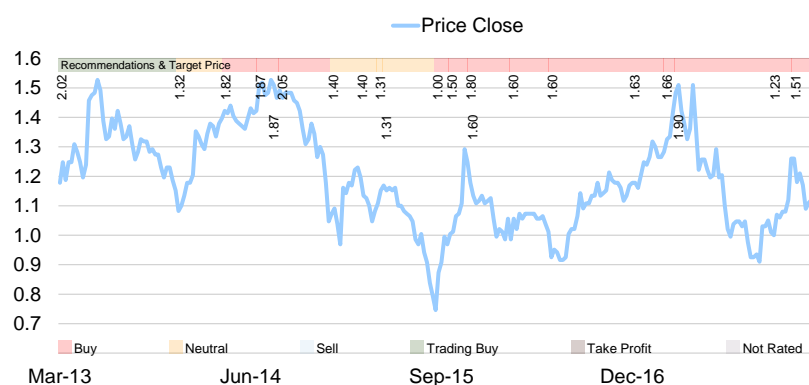
Ongoing Development	Acres	GDV (MYR m)	Stake	NPV @ 11%
Q Sentral Office Tower	1.9	1,228	66%	0.0
Seri Iskandar - Phase 2	245.0	321	70%	5.1
PJ Sentral - Celcom Tower	2.3	428	100%	19.3
9 Seputeh, Old Klang Road	8.0	795	100%	13.6
Penang Sentral Phase 1-2	6.0	590	100%	37.0
Penang Sentral Phase 3-7	16.7	2,100	70%	85.5
KL Sentral - Lot F	5.7	2,993	100%	258.6
Semarak City, Setapak	27.4	2,977	30%	33.4
Lot 349, KL Sentral (service apartments)	4.9	1,413	100%	103.8
Suria Subang	3.2	401	100%	21.0
Selbourne 2, Shah Alam	2.4	198	100%	10.9
PJ Sentral - Tower 1	-	700	100%	39.6
PJ Sentral - Tower 5	-	455	100%	25.7
Seri Iskandar - Phase 3	159.0	350	70%	11.6
Rahman Putra - Phase 1	5.5	84	100%	3.6
Rahman Putra - Phase 2	4.1	175	100%	7.5
Rahman Putra - Phase 3	4.6	307	100%	15.2
Kwasa Sentral	64.1	8,606	70%	189.6
Lot 94 Jalan Kia Peng	1.9	1,012	100%	40.9
Pulai, Johor	67.5	770	100%	25.7
Cyberjaya City	113.3	5,350	70%	81.3
Bukit Jalil KL Sports City	76.1	20,700	17%	92.2
PJ Sentral - Nilaitera	7.8	1,656	100%	74.9
Canegje, Melbourne	1.0	305	100%	15.7
<b>Subtotal</b>		<b>54,911</b>		<b>1,211.6</b>
Investment / For Sale properties	Location	Mkt value (MYR m)	BV (MYR m)	Net surplus (MYR m)
Ascott Residences	KL Sentral	268.0	96.8	128.4
Plaza Alam Sentral	KL Sentral	147.0	74.3	54.6
Kompleks Sentral	Segambut	52.0	30.1	16.4
<b>Subtotal</b>				<b>199.3</b>
Others		FV based on RHB's TP (MYRm)	BV (MYR m)	Equity value/surplus (MYRm)
Construction (16x 1-year forward earnings)				426.9
31% MQ REIT		402.3	264.0	138.3
LRT 3 PDP (based on DCF)				230.7
Kwasa Damansara PDP for infra works				77.4
Shareholders Funds (excl. construction)				4,734.09
Proceeds from rights issue				1,732.15
Proceeds from Warrants B @ MYR1.25				548.15
Total RNAV				7,566.37
Share base				4,803.97
<b>RNAV per share</b>				<b>1.58</b>
Discount				15%
<b>Target Price (MYR)</b>				<b>1.34</b>

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-01-04	Buy	1.51	1.26
2017-11-22	Buy	1.23	0.99
2017-11-15	Buy	1.23	1.03
2017-03-27	Buy	1.90	1.45
2017-02-28	Buy	1.66	1.24
2016-12-12	Buy	1.63	1.17
2016-12-01	Buy	1.60	1.11
2016-08-26	Buy	1.60	1.11
2016-05-31	Buy	1.60	1.01
2016-05-27	Buy	1.60	1.01

Source: RHB, Bloomberg

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