

22 November 2017

Property | Real Estate

## Malaysian Resources Corp

**Buy** (Maintained)

### Discussions On EDL Still Ongoing

Target Price: MYR1.23  
 Price: MYR0.98  
 Market Cap: USD1,033m  
 Bloomberg Ticker: MRC MK

**MRC's 3Q17 results were within our expectations. The property and construction divisions were healthy with unbilled sales of MYR1.64bn and orderbook of MYR5.34bn respectively. Meanwhile, discussions with the Government on EDL are still ongoing. This, together with the Bukit Jalil land to be received as well as future plans to dispose of some buildings should help it to de-gear. Maintain BUY with TP of MYR1.23 (26% upside).**

**Within expectations.** Malaysian Resources Corp's (MRC) 3Q17 results were in line with our forecast but below market expectations. While revenue growth was largely driven by the construction division (contributing 81% of 3Q17 revenue) due to recognition of the Bukit Jalil project, its margin was rather minimal. Contribution from the property development division fell, as Sentral Residences and Easton Burwood were completed in 1H17, while other new projects are still at the early stages of construction.

**Property division.** New property sales achieved MYR213m (2Q17: MYR416m), bringing 9M17 total to MYR1.16bn. This year, MRC launched three new projects – 1060 Carnegie (GDV: AUD110m), Kalista Park Homes (GDV: MYR101m) and Sentral Suites (GDV: MYR1.6bn). Among these three new projects and all the other existing projects, Sentral Suites and 1060 Carnegie were the biggest contributors, recording take-up rates of 68% and 53% respectively. On the approval freeze in KL, we understand that the development order has been obtained for the Bukit Jalil and MX1 land in Kwasa Damansara.

**Construction division.** MRC has replenished MYR468m worth of orderbook this year. Its current tenderbook, which stands at MYR2.9bn, is mainly in civil engineering works and long-term fee-based management projects. During the briefing, management indicated that the company is going to participate in the tender for the project delivery partner (PDP) high-speed rail project.

**De-gearing plan.** Management also guided on its de-gearing plan yesterday. Post rights issue, the company's net gearing is estimated to decline to 0.35x, from the current 1.10x. It would likely receive the 76-acre land in Bukit Jalil in 1Q18, and by then, its net gearing would fall further to 0.11x. MRC also plans to monetise Menara Celcom and Ascott next year. As for the Eastern Dispersal Link (EDL), management indicated that it is in discussions with the Government. In the event both parties are unable to reach a conclusion by end-2017, the company should receive compensation from the Government while negotiations are still ongoing.

**Forecasts.** We make no changes to our forecasts. Unbilled sales remained steady at MYR1.64bn vs MYR1.56bn as at 2Q17, while outstanding construction orderbook stood at MYR5.34bn, vs MYR5.46bn as at 2Q17.

**Maintain BUY.** We are also maintaining our TP of MYR1.23, based on an unchanged 25% discount to RNAV. We believe the stock would regain investors' interest after the recent sell-down in property stocks as a result of a slew of negative news flow affecting the sector. MRC is an election play, and the outcome on the EDL as well as contract wins should re-rate the stock.

#### Share Data

Avg Daily Turnover (MYR/USD) 9.94m/2.35m  
 52-wk Price low/high (MYR) 0.88 - 1.55  
 Free Float (%) 40  
 Shares outstanding (m) 2,280  
 Estimated Return 26%

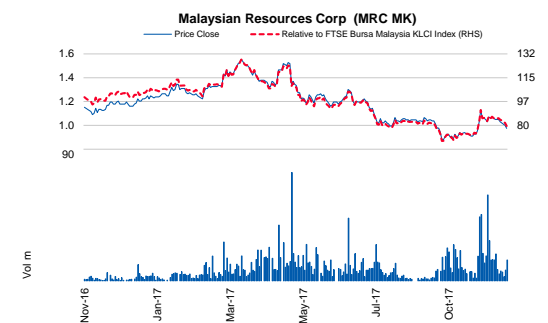
#### Shareholders (%)

Employees Provident Fund 34.7  
 Gapurna SB 16.6  
 Lembaga Tabung Haji 7.4

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.0)	7.1	(5.3)	(28.8)	(15.4)
Relative	(20.8)	8.3	(2.4)	(26.1)	(21.1)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	1,697	2,408	2,483	2,605	3,012
Reported net profit (MYRm)	326	267	88	125	151
Recurring net profit (MYRm)	221	267	88	125	151
Recurring net profit growth (%)	436.1	20.8	(67.1)	42.6	20.5
Recurring EPS (MYR)	0.12	0.14	0.03	0.03	0.03
DPS (MYR)	0.03	0.03	0.01	0.01	0.01
Recurring P/E (x)	7.8	7.2	38.4	37.2	30.8
P/B (x)	0.77	0.71	0.88	0.87	0.86
P/CF (x)	1.9	4.2	na	6.7	18.4
Dividend Yield (%)	2.6	2.8	1.0	1.0	1.3
EV/EBITDA (x)	7.8	6.7	13.2	12.8	12.7
Return on average equity (%)	15.3	10.3	2.1	2.4	2.8
Net debt to equity (%)	123.8	73.1	29.1	19.9	31.4
Our vs consensus EPS (adjusted) (%)			(31.3)	(32.7)	(29.7)

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on : 2017-11-21

Asia	<b>Financial summary</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Malaysia	Recurring EPS (MYR)	0.12	0.14	0.03	0.03	0.03
Property	EPS (MYR)	0.18	0.14	0.03	0.03	0.03
<b>Malaysian Resources Corp</b>	DPS (MYR)	0.03	0.03	0.01	0.01	0.01
Bloomberg MRC MK	BVPS (MYR)	1.27	1.36	1.10	1.12	1.14
<b>Buy</b>	Weighted avg adjusted shares (m)	1,773	1,965	3,460	4,776	4,776
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
25% discount to RNAV	Recurring P/E (x)	7.8	7.2	38.4	37.2	30.8
<b>Key drivers</b>	P/E (x)	5.3	7.2	38.4	37.2	30.8
i. New property sales;	P/B (x)	0.77	0.71	0.88	0.87	0.86
ii. Asset disposals;	FCF Yield (%)	(87.3)	13.0	(47.8)	5.6	(11.8)
iii. New construction contracts.	Dividend Yield (%)	2.6	2.8	1.0	1.0	1.3
<b>Key risks</b>	EV/EBITDA (x)	7.8	6.7	13.2	12.8	12.7
Weaker-than-expected market conditions	EV/EBIT (x)	8.4	7.5	17.1	16.0	15.8
<b>Company Profile</b>	<b>Income statement (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Malaysian Resources Corp (MRC) 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	1,697	2,408	2,483	2,605	3,012
	Gross profit	160	236	92	216	225
	EBITDA	590	593	347	457	518
	Depreciation and amortisation	(43)	(57)	(80)	(91)	(102)
	Operating profit	547	536	267	366	416
	Net interest	(185)	(176)	(155)	(193)	(202)
	Income from associates & JVs	8	33	34	36	38
	Pre-tax profit	370	393	146	209	252
	Taxation	(6)	(74)	(37)	(52)	(63)
	Minority interests	(38)	(52)	(22)	(31)	(38)
	Recurring net profit	221	267	88	125	151
	<b>Cash flow (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Change in working capital	493	115	(976)	484	(1)
	Cash flow from operations	893	459	(820)	695	253
	Capex	(2,402)	(210)	(791)	(433)	(802)
	Cash flow from investing activities	(2,774)	(256)	(791)	(562)	(802)
	Proceeds from issue of shares	(7)	457	0	0	0
	Dividends paid	(45)	(44)	(59)	(19)	(28)
	Cash flow from financing activities	(355)	(37)	(59)	(19)	(28)
	Cash at beginning of period	661	522	722	2,569	3,238
	Net change in cash	(2,236)	165	(1,670)	114	(577)
	Ending balance cash	(1,576)	687	(948)	2,682	2,662
	<b>Balance sheet (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Total cash and equivalents	524	724	2,571	3,241	2,668
	Tangible fixed assets	3,748	3,900	4,611	4,953	5,652
	Intangible assets	317	253	253	253	253
	Total investments	5	34	34	34	34
	Total other assets	325	399	468	254	358
	Total assets	7,090	7,752	11,109	11,489	11,944
	Short-term debt	1,042	806	706	706	706
	Total long-term debt	2,345	2,131	3,431	3,631	3,731
	Other liabilities	146	161	201	201	201
	Total liabilities	4,777	4,727	5,721	5,989	6,311
	Shareholders' equity	2,260	2,926	5,266	5,348	5,442
	Minority interests	53	99	121	153	190
	Total equity	2,313	3,025	5,387	5,500	5,632
	Net debt	2,863	2,213	1,566	1,096	1,769
	Total liabilities & equity	7,090	7,752	11,109	11,489	11,944
	<b>Key metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Revenue growth (%)	12.0	41.9	3.1	4.9	15.6
	Recurrent EPS growth (%)	415.6	9.0	(81.3)	3.3	20.5
	Gross margin (%)	9.4	9.8	3.7	8.3	7.5
	Operating EBITDA margin (%)	34.8	24.6	14.0	17.6	17.2
	Net profit margin (%)	19.2	11.1	3.5	4.8	5.0
	Dividend payout ratio (%)	13.5	22.1	22.1	22.1	22.1
	Capex/sales (%)	141.6	8.7	31.9	16.6	26.6
	Interest cover (x)	2.44	2.49	1.37	1.57	1.72

Source: Company data, RHB

Figure 1: Quarterly results

FYE Dec (MYRm)	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	9M16	9M17	YoY (%)	Comments
<b>Revenue</b>	<b>551.2</b>	<b>756.5</b>	<b>1,134.1</b>	<b>49.9</b>	<b>105.7</b>	<b>1,376.4</b>	<b>2,415.5</b>	<b>75.5</b>	Mainly contributed by the construction division arising from billings for the Bukit Jalil project.
<b>EBITDA</b>	93.8	69.8	90.2	<b>29.3</b>	<b>(3.8)</b>	277.9	232.5	<b>(16.3)</b>	
<i>EBITDA Margin (%)</i>	17.0	9.2	8.0			20.2	9.6		
Depreciation	(5.0)	(5.0)	(5.0)	0.0	0.0	(15.0)	(17.0)	13.3	
<b>EBIT</b>	<b>88.8</b>	<b>64.8</b>	<b>85.2</b>	<b>31.5</b>	<b>(4.1)</b>	<b>262.9</b>	<b>215.5</b>	<b>(18.0)</b>	3Q16 EBIT included MYR44.4m gain on disposal of Sooka
<i>EBIT Margin (%)</i>	16.1	8.6	7.5			19.1	8.9		
Interest expense	(42.0)	(37.4)	<b>(41.4)</b>	10.9	(1.2)	(133.1)	<b>(114.0)</b>	(14.3)	
Interest income	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
Associates	(0.2)	6.8	<b>8.6</b>	nm	nm	24.2	<b>32.7</b>	n.m.	
EI/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	n.m.	
<b>Pretax profit</b>	<b>61.6</b>	<b>34.2</b>	<b>52.3</b>	<b>53.1</b>	nm	<b>154.0</b>	<b>115.8</b>	<b>(24.8)</b>	
<i>Pretax Margin (%)</i>	11.2	4.5	4.6			11.2	4.8		
Tax	(22.0)	(8.1)	<b>(21.8)</b>	168.7	(0.9)	(43.9)	<b>(38.8)</b>	(11.6)	
<i>Effective tax rate (%)</i>	35.7	23.7	41.7			28.5	33.5		Higher effective tax rate was due to the non-availability of losses in certain subsidiaries that can be used to set-off against the taxable profits of certain subsidiaries, and certain expenses being non-tax deductible.
Minority Interest	(10.2)	(2.7)	<b>(2.4)</b>	(10.3)	(76.3)	(30.8)	(15.0)	(51.2)	
<b>Net Profit</b>	<b>29.4</b>	<b>23.4</b>	<b>28.1</b>	<b>20.2</b>	<b>(4.4)</b>	<b>79.3</b>	<b>61.9</b>	<b>(21.9)</b>	
<b>Core Profit</b>	<b>29.4</b>	<b>23.4</b>	<b>28.1</b>	<b>20.2</b>	<b>(4.4)</b>	<b>79.3</b>	<b>61.9</b>	<b>(21.9)</b>	Within our expectations
<i>Net Margin (%)</i>	5.3	3.1	2.5			5.8	2.6		

Source: RHB, Company data

Figure 2: MRC's indicative de-gearing plan

RM mil	FYE 2013	30.09.17	After Rights Issue	EPF to subscribe in the Bkt Jalil Project	Acquire Kwasa	Dispose Celcom	Dispose Ascott	Dispose EDL
<b>Bank Borrowings</b>	2,226	3,124	2,357	2,357	3,094	2,863	2,863	2,863
<b>EDL Financing</b>	1,277	1,059	1,059	1,059	1,059	1,059	1,059	-
<b>Loan Stock</b>	7	-	-	-	-	-	-	-
<b>Total Borrowings</b>	3,510	4,183	3,416	3,416	4,153	3,922	3,922	2,863
<b>Cash &amp; Bank Balances</b>	(603)	(780)	(1,745)	(2,885)	(2,885)	(2,946)	(3,076)	(3,076)
<b>Net Borrowings/(Cash)</b>	2,907	3,403	1,671	531	1,268	976	846	-213
<b>Total Equity</b>	<b>1,737</b>	<b>3,106</b>	<b>4,838</b>	<b>4,838</b>	<b>4,838</b>	<b>4,838</b>	<b>4,838</b>	<b>4,838</b>
<b>Net Gearing (times)</b>	1.67	1.10	0.35	0.11	0.26	0.20	0.17	(0.04)
<b>Cumulative Reduction</b>		<b>0.57</b>	<b>1.32</b>	<b>1.56</b>	<b>1.41</b>	<b>1.47</b>	<b>1.50</b>	<b>NA</b>

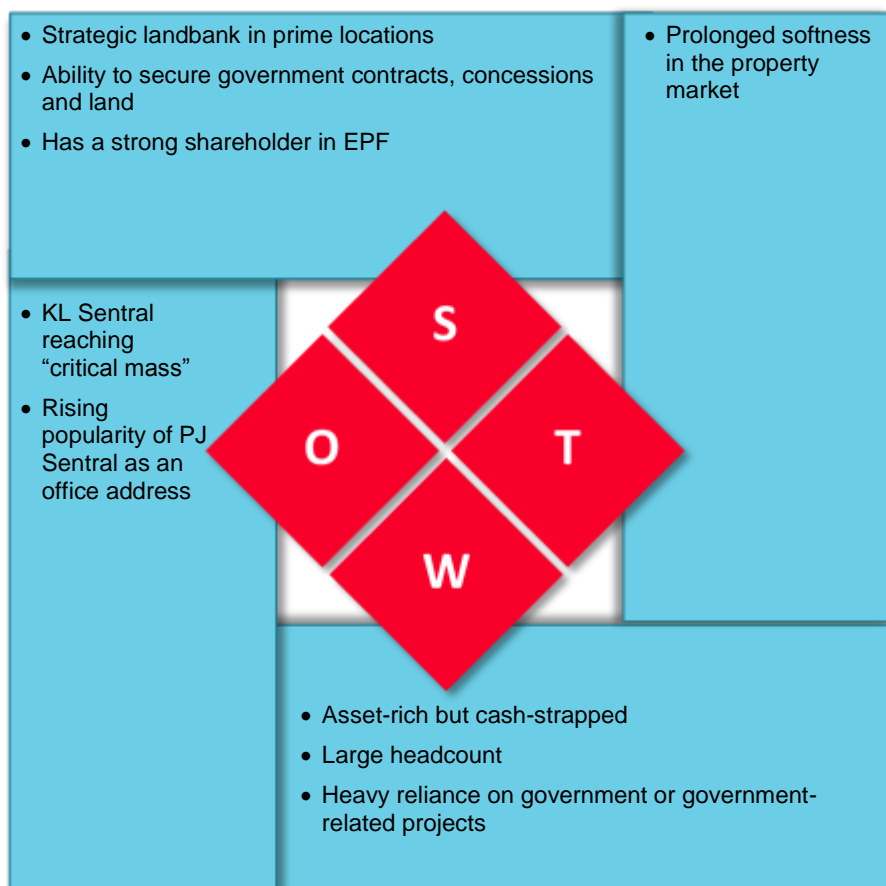
Source: Company data

Figure 3: RNAV estimate

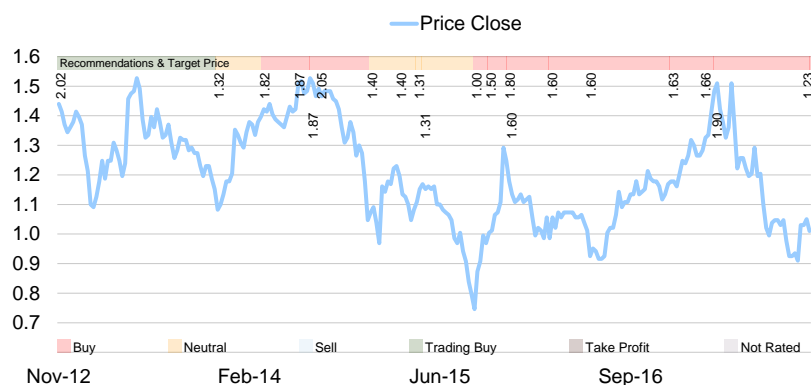
Ongoing Development	Acres	GDV (MYR m)	Stake	NPV @ 11%
Q Sentral Office Tower	1.9	1,228	66%	20.7
Seri Iskandar - Phase 2	245.0	321	70%	5.1
PJ Sentral - Celcom Tower	2.3	428	100%	21.2
9 Seputeh, Old Klang Road	8.0	795	100%	20.7
Penang Sentral Phase 1-2	6.0	590	100%	37.1
Penang Sentral Phase 3-7	16.7	2,100	70%	86.1
KL Sentral - Lot F	5.7	2,993	100%	259.7
Semarak City, Setapak	27.4	2,977	100%	126.4
Lot 349, KL Sentral (service apartments)	4.9	1,413	100%	104.2
Suria Subang	3.2	401	100%	21.1
Selbourne 2, Shah Alam	2.4	198	100%	10.9
PJ Sentral - Tower 1	-	700	100%	43.8
PJ Sentral - Tower 5	-	455	100%	28.5
Seri Iskandar - Phase 3	159.0	350	70%	11.7
Rahman Putra - Phase 1	5.5	84	100%	5.1
Rahman Putra - Phase 2	4.1	175	100%	9.6
Rahman Putra - Phase 3	4.6	307	100%	15.3
Kwasa Sentral	64.1	8,606	70%	178.5
Lot 94 Jalan Kia Peng	1.9	1,012	100%	41.2
Pulai, Johor	67.5	770	100%	25.9
Cyberjaya City	113.3	5,350	70%	82.3
Bukit Jalil KL Sports City	76.1	20,700	17%	98.8
PJ Sentral - Nilaitera	7.8	1,656	100%	88.1
Canegie, Melbourne	1.0	305	100%	22.4
<b>Subtotal</b>		<b>54,911</b>		<b>1,364.3</b>
<b>Investment / For Sale properties</b>	<b>Location</b>	<b>Mkt value (MYR m)</b>	<b>BV (MYR m)</b>	<b>Net surplus (MYR m)</b>
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>
<b>Others</b>		<b>FV based on RHB's TP (MYRm)</b>	<b>BV (MYR m)</b>	<b>Equity value/surplus (MYRm)</b>
Construction (16x 1-year forward earnings)				580.4
31% MQ REIT		402.3	264.0	138.3
LRT 3 PDP (based on DCF)				206.2
Kwasa Damansara PDP for infra works				79.1
Shareholders Funds (excl. construction)				2,835.82
Proceeds from rights issue				1,732.15
Total RNAV				7,135.57
Share base				4,365.45
<b>RNAV per share</b>				<b>1.63</b>
Discount				25%
<b>Target Price (MYR)</b>				<b>1.23</b>

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2016-02-23	Buy	1.60	1.04
2015-12-04	Buy	1.60	1.11

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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