

4 January 2018

Property | Real Estate

## Malaysian Resources Corp

### Not At Peak Valuations Yet

We raise our TP to MYR1.51 (from MYR1.23, 21% upside) and reiterate our BUY rating. We think the rally still has legs, as current valuations are still below their peak during the previous 2013 General Election. Sentiment on the stock ought to remain buoyant, mainly driven by the EDL's outcome, potential PDP role in the HSR project, monetisation of the Bukit Jalil land, and potentially more contract wins in this election year.

**Up TP to MYR1.51 (from MYR1.23).** As 2018 is an election year, the local equity market saw pre-election rally this week. Malaysian Resources Corp's (MRCB) share price – as an election play – has surged by ~11% over the last few trading days. We reiterate our BUY call with a higher MYR1.51 TP based on a lower 5% discount to RNAV (from 25%). We think the rally still has legs, as there are a few potential catalysts that could re-rate this stock further. MRCB is currently trading at a 22% discount to RNAV. We still see more upside potential, given that the counter was trading at 3-5% discounts to RNAV during its peak in Jun 2013, a month after the previous general election took place.

**Eastern Dispersal Link (EDL) talks still ongoing.** At end-Dec 2017, the Works Ministry issued a letter that invited MRCB to commence negotiations on the terms of a mutual termination agreement for the EDL highway concession. We view this positively, as it suggests that both sides would like to conclude the settlement as soon as possible. In addition, given that it is also a "mutual termination", we believe the EDL would most likely be removed from the balance sheet eventually when both parties agree on price. This is the best case, in our view. Management would also strive for a consideration that should be enough to offset all outstanding debt and shareholders' advances – we estimate the total amount to be ~MYR1.3bn. Net gearing is estimated to fall to ~0.13x (post rights issue) from 1.1x (0.35x post rights issue), as at 9M17.

**High chance for the Kuala Lumpur-Singapore high-speed rail (HSR) project delivery partner (PDP) role.** We think the Gamuda (GAM MK, BUY, TP: MYR5.80)-MRCB consortium stands a good chance to win the PDP role in the HSR project, given their experiences in railway infrastructure. Compared with other competing parties, both parties are already the PDP for the ongoing mass rapid transit (MRT) and light rail transit (LRT) projects. We understand that the PDP scope for the HSR's infrastructure could be worth ~MYR30-35bn, ie by far much larger than the PDP scope for MRT Line 1, MRT Line 2 (excluding the tunnelling portion), and LRT Line 3. Assuming a 6% PDP fee, the potential earnings contribution to MRCB would amount to ~MYR1bn. This is ~MYR100-130m pa over a period of 8-9 years starting from FY19. The PDP award is likely to be announced in mid-2018.

**More to come.** Given that the country is to have a total of MYR165bn worth of rail projects this year, we believe MRCB would be actively bidding for some of the main ones. Its orderbook replenishment could well exceed last year's MYR468m. Meanwhile, we are also positive on its move to reduce its stake in the Setapak project, as cash flow would then be better deployed.

**Buy (Maintained)**

Target Price:	MYR1.51
Price:	MYR1.25
Market Cap:	USD1,366m
Bloomberg Ticker:	MRC MK

#### Share Data

Avg Daily Turnover (MYR/USD)	13.8m/3.33m
52-wk Price low/high (MYR)	0.88 - 1.55
Free Float (%)	40
Shares outstanding (m)	2,280
Estimated Return	21%

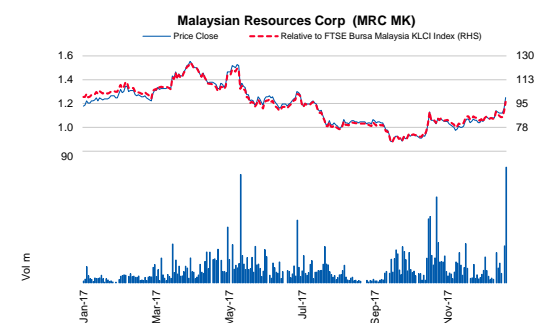
#### Shareholders (%)

Employees Provident Fund	34.7
Gapurna SB	16.6
Lembaga Tabung Haji	7.4

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.6	16.8	38.1	2.3	6.1
Relative	11.8	12.4	36.2	0.9	(3.5)

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)	10.0	9.2	49.2	47.6	39.5
P/B (x)	0.99	0.92	1.13	1.12	1.10
P/CF (x)	2.5	5.4	na	8.6	23.6
Dividend Yield (%)	2.0	2.2	0.8	0.8	1.0
EV/EBITDA (x)	8.7	7.7	15.9	15.7	15.2
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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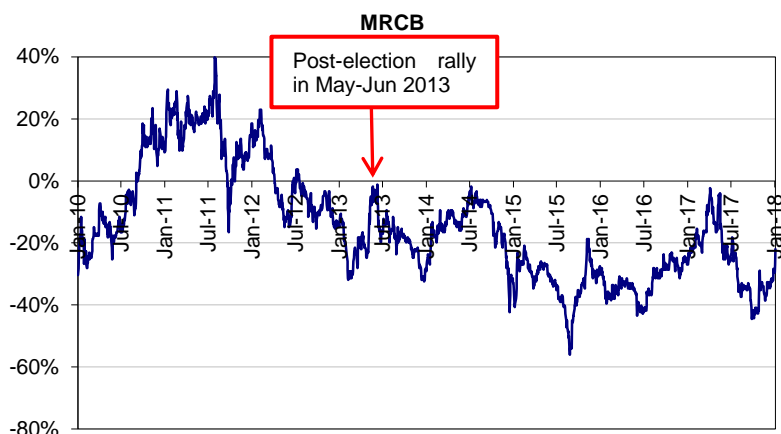

## Financial Exhibits

Financial model updated on: 2018-01-03.

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>
5% discount to RNAV.	Recurring P/E (x)	10.0	9.2	49.2	47.6	39.5
<b>Key drivers</b>	P/E (x)	6.8	9.2	49.2	47.6	39.5
i. New property sales;	P/B (x)	0.99	0.92	1.13	1.12	1.10
ii. Asset disposals;	FCF Yield (%)	(68.1)	10.1	(37.2)	4.4	(9.2)
iii. New construction contracts	Dividend Yield (%)	2.0	2.2	0.8	0.8	1.0
<b>Key risks</b>	EV/EBITDA (x)	8.7	7.7	15.9	15.7	15.2
Weaker-than-expected market conditions.	EV/EBIT (x)	9.3	8.5	20.7	19.6	19.0
<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 (MRCB) 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 Kuala Lumpur 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: Historical discount to RNAV trends for MRCB



Source: Bloomberg, RHB

Figure 2: MRCB's RNAV estimate

Ongoing Development	Acres	GDV (MYR m)	Stake	NPV @ 11%
Q Sentral Office Tower	1.9	1,228	66%	22.4
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%	19.4
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%	35.2
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%	5.1
Rahman Putra - Phase 2	4.1	175	100%	9.6
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
Canegie, Melbourne	1.0	305	100%	22.3
<b>Subtotal</b>		<b>54,911</b>		<b>1,252.0</b>

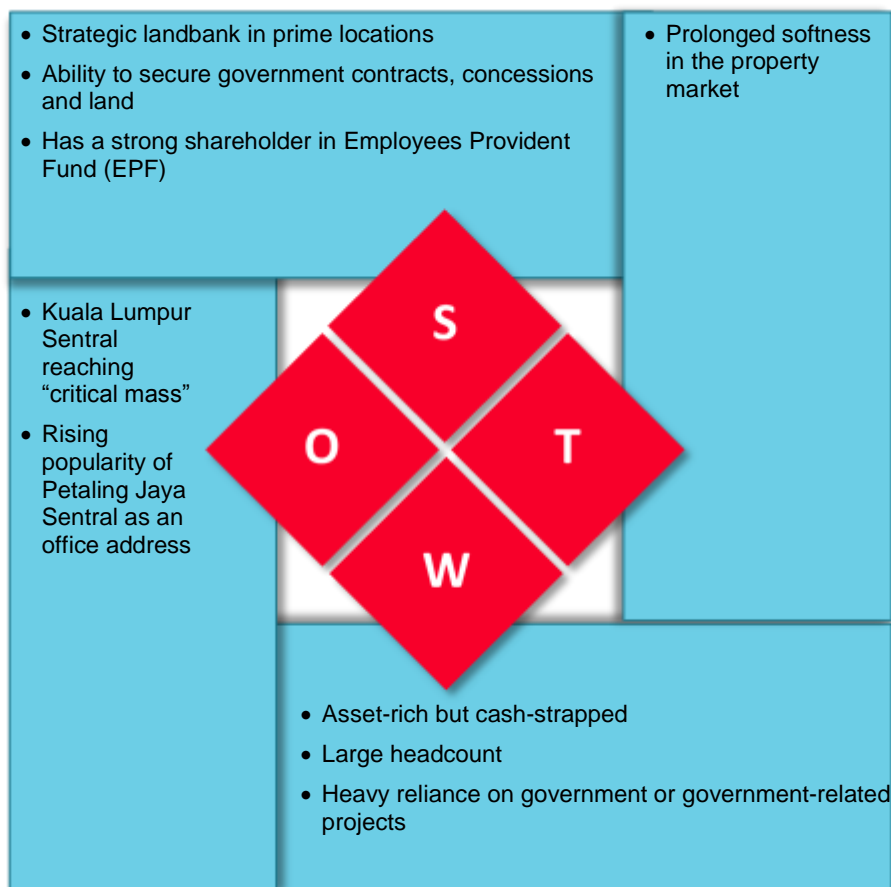
Investment / For Sale properties	Location	Mkt value (MYR m)	BV (MYR m)	Net surplus (MYR m)
Ascott Residences	KL Sentral	268.0	96.8	128.4
Plaza Alam Sentral	KL Sentral	147.0	74.3	54.6
Kompleks Sentral	Segambut	52.0	30.1	16.4
<b>Subtotal</b>				<b>199.3</b>

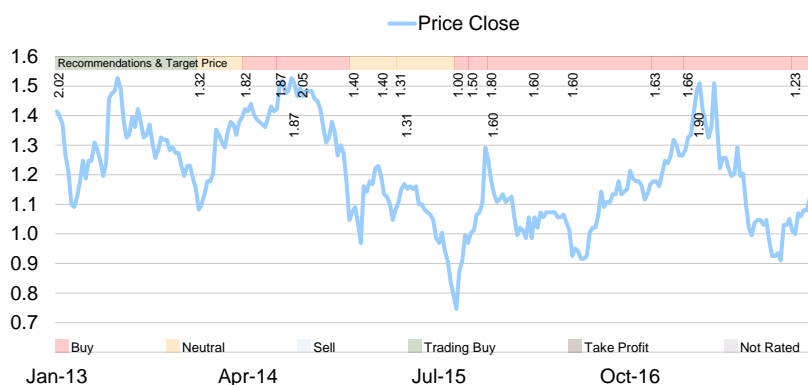
Others	FV based on RHB's TP (MYRm)	BV (MYR m)	Equity value/surplus (MYRm)
Construction (16x 1-year forward earnings)			580.4
31% MQ REIT	402.3	264.0	138.3
LRT 3 PDP (based on DCF)			234.3
Kwasa Damansara PDP for infra works			79.1
Net gain from Setapak JV			58.0
Shareholders Funds (excl. construction)			2,835.82
Proceeds from rights issue			1,732.15
Proceeds from Warrants B @ MYR1.25			548.15
Total RNAV			7,657.49
Share base			4,803.97
<b>RNAV per share</b>			<b>1.59</b>
Discount			5%
<b>Target Price (MYR)</b>			<b>1.51</b>

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2016-02-23	Buy	1.60	1.04

Source: RHB, Bloomberg

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