

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

3Q17: No Surprises

MRCB's 3Q17 net profit was RM28.1m, lifting 9M17 net profit to RM61.9m. The recent rights issue raised RM1.7b and lowered gearing to 0.2x. A key catalyst for the stock would be the potential sale of the EDL, which could turn the group into net cash position. Nevertheless, valuation remains lofty at 29x 2018F PE. However, during GE periods, the stock could trade at +2SD above its long-term mean. Maintain HOLD. Target price: RM1.01. A good entry price is RM0.90.

3Q17 RESULTS

Year to 31 Dec (RMm)	3Q17	2Q17	qoq % chg	yoy % chg	9M17	yoy % chg
Revenue	1,134.1	756.5	49.9	105.7	2,415.5	75.5
- Construction	915.5	467.6	95.8	523.2	1,614.4	236.7
- Property Development	174.3	243.9	(28.5)	(50.8)	660.7	(9.6)
- Infrastructure	29.0	28.6	1.5	2.9	86.1	0.8
EBIT	79.4	67.4	17.8	(11.9)	214.8	(22.5)
- Construction	31.3	14.0	122.9	345.0	46.5	365.7
- Property Development	32.7	29.7	10.2	(53.6)	112.5	(50.7)
- Infrastructure	12.7	11.5	10.3	(7.4)	41.7	(10.1)
Net Finance Cost	(57.8)	(32.2)	79.2	47.9	(118.3)	(5.8)
Associates & JV	8.6	6.8	26.1	(41.9)	14.2	(41.2)
PBT	52.3	34.2	53.1	(15.1)	115.8	(24.8)
Net Profit	28.1	23.4	20.2	(4.4)	61.9	(21.9)
Core Net Profit	28.1	23.4	20.2	(4.4)	61.9	78.6

EBIT Margin (%)	qoq ppt chg	yoy ppt chg	yoy ppt chg
Construction	3.4	3.0	0.4 (1.4)
Property	18.8	12.2	6.6 (1.1)
Core Net Margin	2.5	3.1	(0.6) (2.9)

Source: MRCB, UOB Kay Hian

RESULTS

• **Within expectations.** Malaysian Resources Corporation (MRCB) reported 3Q17 net profit of RM28.1m (+20.2% qoq, -4.4% yoy) and revenue of RM1.1b (+49.9 qoq, +>100.0% yoy). Key earnings driver was the construction division, which contributed to 81% of total revenue. 9M17 core net profit of RM61.9m (+78.6% yoy, represented 76% of our and 57% of consensus full-year estimates respectively. Earnings growth in 9M17 was largely due to low base effect.

KEY FINANCIALS

Year to 31 Dec (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	1,697	2,408	2,709	2,240	2,397
EBITDA	542	530	285	303	319
Operating profit	529	510	259	277	293
Net profit (rep./act.)	365	296	81	147	159
Net profit (adj.)	2	116	81	147	159
EPS (sen)	0.1	7.0	1.9	3.4	3.6
PE (x)	667.8	13.9	52.5	29.0	26.8
P/B (x)	0.7	0.6	0.9	0.9	0.9
EV/EBITDA (x)	9.4	9.6	17.8	16.8	15.9
Dividend yield (%)	2.1	2.1	2.1	2.1	2.1
Net margin (%)	21.5	12.3	2.9	6.6	6.6
Net debt/(cash) to equity (%)	127.5	76.3	15.1	15.5	15.1
Interest cover (x)	3.6	3.5	1.9	3.7	3.9
ROE (%)	17.2	11.4	2.1	3.1	3.3
Consensus net profit	-	-	109	151	203
UOBKH/Consensus (x)	-	-	0.75	0.98	0.78

Source: MRCB, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.975
Target Price	RM1.01
Upside	+3.6%
(Previous TP)	RM1.25)

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world-class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,386.7
Market cap (RMm):	4,277.1
Market cap (US\$m):	1,033.1
3-mth avg daily t'over (US\$m):	2.6

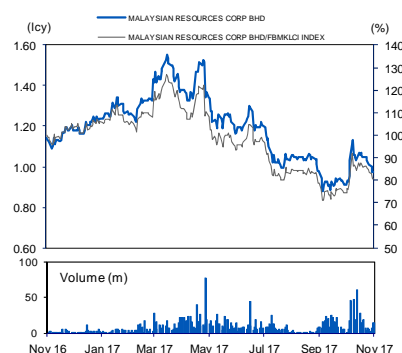
Price Performance (%)

52-week high/low	RM1.55/RM0.881			
1mth	3mth	6mth	1yr	YTD
7.1	(5.3)	(28.8)	(15.4)	(16.0)

Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1
FY17 NAV/Share (RM)	1.07
FY17 Net Debt/Share (RM)	0.16

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ridhwan Effendy
 +603 2147 1989
 ridhwaneffendy@uobkayhian.com

- **Property development; earnings within expectations.** In 3Q17, the segment recorded revenue of RM174.3m (-28.5% qoq, -50.8% yoy) and EBIT of RM32.7m (+10.2% qoq, -53.6% yoy). Earnings growth was volatile due to one-off gains in 3Q16. EBIT margin was flat at 18.8% (-1.1ppt yoy).

- **Construction: Low margins due to Bukit Jalil project.** The division recorded revenue of RM915.5m (+95.8% qoq, +>100% yoy) and EBIT of RM31.3m (+>100% qoq, +>100% yoy). EBIT margin was low due to the zero margin assumed for the Bukit Jalil stadium construction project, which is paid for in kind with lands by the government. Nevertheless, we expect margins to begin trending up from here.

STOCK IMPACT

- **Construction orderbook stood at about RM5.3b as of 3Q17**, or 6.2x 2016 construction revenue. Ytd, the group has secured about RM468m worth of new construction jobs which included a package for DASH (RM369m) and two other smaller construction jobs totaling RM99m. These projects would enhance earnings visibility for the division for the next 2-3 years.

- **Property development sales stood at RM416m in 3Q17**, lifting 9M17 property development sales to RM1.2b, hitting the company's target. Unbilled sales represented 1.2x 2016 property development revenue and should cushion earnings visibility for the next two years. Sales were mainly driven by Sentral Suites (RM805m) and Carnegie Melbourne (RM206m).

- **Gearing should come off to 0.2x post rights issue.** The group recently completed a 1-for-1 rights issue which was sweetened by free warrants. The rights issue raised about RM1.7b and we estimate gearing would trend down towards 0.2x. Also, there would be interest savings of about RM40m as a portion of the rights proceeds would be used to pare down borrowings.

- **Monetisation of EDL is a potential catalyst.** Recall that during the Budget 2018 announcement, the government announced that toll collections for the Eastern Dispersal Link would be abolished from 1 Jan 18. Hence, we expect the government to buy out the expressway or compensate MRCB based on traffic flows on the highway. If the government chooses the first option, MRCB would be able to shelve about RM1b in borrowings, turning it into net cash position. On top of that, there would be about RM40m earnings flowing to bottom line from savings in interest and operating costs.

EARNINGS REVISION/RISK

- Our earnings forecasts have now taken into account potential interest savings from the reduction in borrowings from 4Q17.
- Key risks include: a) cost overruns or delay in completion of the LRT Line 3, b) increase in raw material costs, c) delay in site possession to kick start construction jobs, and d) a slowdown in the property sector

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.01**, based on a 25% discount to our SOTP valuation of RM1.35/share. Note that during general election periods, the stock could trade up to +2SD above its long-term mean. A good entry price is RM0.90.

SHARE PRICE CATALYST

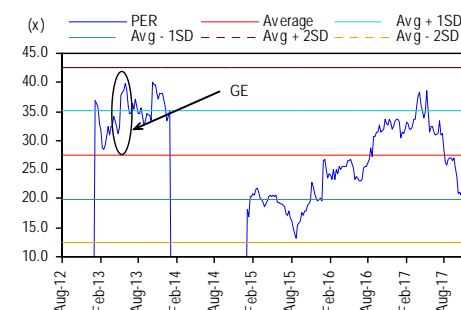
- Positive newsflow on the EDL.

SOTP VALUATION

	(RMm)
Property	2,353.1
Construction	594.0
LRT3 PDP Fees	203.3
Investment Properties	1,536.6
Concession	1,458.8
Net Debt	-690.0
OCT 33% stake	443.9
Total RNAV	5,899.6
Sharebase	4,385.2
RNAV/share	1.35
Discount	25%
Target Price (RM)	1.01

Source: UOB Kay Hian

PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Net turnover	2,408	2,709	2,240	2,397
EBITDA	530	285	303	319
Deprec. & amort.	20	26	26	26
EBIT	510	259	277	293
Total other non-operating income	(20)	(26)	(26)	(26)
Associate contributions	33	26	26	26
Net interest income/(expense)	(152)	(150)	(81)	(82)
Pre-tax profit	370	108	195	211
Tax	(74)	(26)	(47)	(51)
Minorities	(1)	(1)	(1)	(1)
Net profit	296	81	147	159
Net profit (adj.)	116	81	147	159

BALANCE SHEET

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Fixed assets	438	438	438	438
Other LT assets	4,149	4,237	4,330	4,427
Cash/ST investment	722	2,247	2,220	2,225
Other current assets	2,443	2,327	2,423	2,539
Total assets	7,752	9,249	9,410	9,629
ST debt	806	806	806	806
Other current liabilities	1,629	1,278	1,358	1,453
LT debt	2,149	2,149	2,149	2,149
Other LT liabilities	143	241	240	267
Shareholders' equity	2,926	4,674	4,757	4,851
Minority interest	99	100	101	102
Total liabilities & equity	7,752	9,249	9,410	9,628

CASH FLOW

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Operating	(141)	159	280	312
Pre-tax profit	370	108	195	211
Tax	(90)	(26)	(47)	(51)
Deprec. & amort.	(20)	(26)	(26)	(26)
Associates	(101)	0	0	0
Working capital changes	52	268	284	304
Other operating cashflows	(353)	(164)	(126)	(126)
Investing	643	(30)	(100)	(100)
Capex (growth)	0	(30)	(100)	(100)
Investments	(101)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	744	0	0	0
Financing	(248)	1,525	(207)	(207)
Dividend payments	(77)	(65)	(65)	(65)
Issue of shares	402	1,732	0	0
Proceeds from borrowings	(431)	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(142)	(142)	(142)	(142)
Net cash inflow (outflow)	254	1,654	(27)	5
Beginning cash & cash equivalent	339	593	2,247	2,220
Changes due to forex impact	129	0	0	0
Ending cash & cash equivalent	722	2,247	2,220	2,225

KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	22.0	10.5	13.5	13.3
Pre-tax margin	15.4	4.0	8.7	8.8
Net margin	12.3	2.9	6.6	6.6
ROA	4.0	1.0	1.6	1.7
ROE	11.4	2.1	3.1	3.3
Growth				
Turnover	41.9	12.5	6.2	7.0
EBITDA	(2.2)	(46.3)	6.3	5.4
Pre-tax profit	0.0	(70.7)	79.9	8.1
Net profit	(19.0)	(72.5)	80.9	8.2
Net profit (adj.)	4,696.1	(29.6)	80.9	8.2
EPS	4,696.1	(73.5)	80.9	8.2
Leverage				
Debt to total capital	49.4	38.2	37.8	37.4
Debt to equity	101.0	63.2	62.1	60.9
Net debt/(cash) to equity	76.3	15.1	15.5	15.1
Interest cover (x)	3.5	1.9	3.7	3.9

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Securities (M) Sdn. Bhd. ("UOBKHM") which is a licensed corporation providing investment advisory services in Malaysia.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKHM. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKHM may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKHM and its associated persons (as defined in the Capital Market Services Act 2007) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKHM to be reliable. However, UOBKHM makes no representation as to the accuracy or completeness of such sources or the Information and UOBKHM accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKHM and its associate may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKHM and its connected persons are subject to change without notice. UOBKHM reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKHM, its associated persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKHM, its associated persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKHM may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKHM may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report is prepared by UOBKHM, a company authorized, as noted above, to engage in investment advisory in Malaysia. UOBKHM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKHM (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKHM by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKHM.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKHM who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKHM or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKHM's total revenues, a portion of which are generated from UOBKHM's business of investment advisory.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia. Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ("U.S.")	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2017, UOB Kay Hian Securities (M) Sdn. Bhd. All rights reserved.

<http://www.utrade.com.my>