

23 February 2016 | 12MFY15 Results Update

## Malaysian Resources Corporation Berhad

### Promising Year Ahead

**Maintain BUY**

**Maintain Target Price (TP): RM2.21**  
(*Ex-placement ≈ RM1.70*)

#### INVESTMENT HIGHLIGHTS

- **MRCB's 12MFY15 results in line with our expectation**
- **Results underpinned by contribution from higher operating profit through project completion and property sales**
- **Earnings prospects for FY16/FY17 remain positive**
- **Altogether, we reiterate our BUY recommendation with an unchanged TP of RM2.21 per share**

**12MFY15 results met our expectation.** MRCB's 12MFY15 earnings of RM364.9 (+167.4%YoY) came in line with our expectation but above consensus' accounting for 101% and 121% of full year estimates respectively.

**Higher earnings driven by increased operating profit and other operating income...** Operating profit rose to RM547m (+31.5%YoY) as we believe the increase was endogenous through the completion of Q Sentral, Platinum Sentral, and the sale of 51% stake in Nu Sentral for RM119m and Sooka Sentral for RM90.8m.

**...despite bigger operating expenses.** Meanwhile, operating expenses were higher at RM1.59b (+17.7%YoY) as we reckon the increase was partly related to the commencement of land development and construction cost of Kwasa Damansara.

**Margin expanded.** It is also notable that MRCB recorded tremendous improvement in earnings margin for FY15 at +21.5% from +9% in FY14. We believe the current trend of positive operating profit would persist in FY16/FY17 as MRCB is undertaking group-wide deleveraging to unlock its asset value through disposals and equity carve-outs.

**Earnings outlook.** We remain sanguine on the earnings prospect of MRCB for FY16/FY17. Its total construction orderbook stands at RM840m and we are estimating another round of replenishment through LRT3 packages for segmental box girders and station facilities amounting to RM800m.

**Key risk.** The pivotal key risk is margin erosion though property development charges should the sales of new launches, such as Sentral Residences and 9 Seputeh, hit a snag due to insipid property sentiment.

**Recommendation.** We maintain our **BUY** call with an unchanged SOP-based TP of RM2.21. Our TP reflects the DCF of toll concession, RNAV of property development projects, book value of investment properties and earnings multiples over recurring businesses.



RETURN STATS	
Price (22 Feb 2016)	RM1.21
Target Price	RM2.21
Expected Share Price Return	+82.6%
Expected Dividend Yield	+2.1%
<b>Expected Total Return</b>	<b>84.7%</b>

STOCK INFO	
KLCI	1,674.6
Bursa / Bloomberg	1651/MRC MK
Board / Sector	Main / Property
Syariah Compliant	Yes
Issued shares (mil)	1786.6
Par Value (RM)	1.00
Market cap. (RM'm)	2161.7
Price over NA	0.95
52-wk price Range	RM0.79– RM1.52
Beta (against KLCI)	1.009
3-mth Avg Daily Vol	2.49m
3-mth Avg Daily Value	RM3.11m
Major Shareholders (%)	
EPF	38.3
Gapurna	16.7
LTH	10.0
Dimensional Fund	2.41

## SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share (RM)
<b>(a) Property Developments</b>			
KL Sentral Development	DCF of future profit	408.0	0.21
Project MX-1		650.5	0.34
PJ Sentral Garden City (Phase 1)		191.9	0.10
9 Seputeh, Old Klang		240.7	0.13
Penang Sentral		221.0	0.12
Kia Peng, The Grid		46.9	0.02
Kajang Utama, 3 Residences		28.1	0.01
Semarak City, Setapak		230.8	0.12
Lot 2C4: Putrajaya, Office Tower		42.6	0.02
Lot 349: Serviced Apartments		134.7	0.07
Suria Subang Jaya		40.9	0.02
Selborn 2 - Shah Alam		14.6	0.01
Batu Feringghi land, Penang		33.1	0.02
Seri Iskandar (Phase 2)		25.7	0.01
Seri Iskandar (Phase 3)		21.8	0.01
Bukit Rahman Putra, Sungai Buloh		134.6	0.07
Burwood (Australia)		21.2	0.01
Jalan Kia Peng		158.1	0.08
<b>Sub-total (a)</b>			<b>2,645.1</b>
<b>(b) Property Investments</b>			
Book value		1,187.0	0.62
<b>(c) Engineering &amp; Construction</b>			
FY15/16 average earnings	PER 14x	674.0	0.35
<b>(d) Toll Concessions</b>			
Eastern Dispersal Link, JB (EDL)	DCF (WACC: 8%)	1,399.1	0.74
<b>(e) Building &amp; Car Park Services</b>			
FY15/16 average earnings	PER 6x	38.9	0.02
<b>Total Sum-of-Parts (SOP)</b>		<b>5,944.1</b>	<b>3.13</b>
<b>Less:</b>			
Borrowings		-3,147.4	-1.66
<b>Add:</b>			
Cash		692.6	0.36
Gain on Platinum Sentral		220.5	0.12
Quill Capita Trust: Combined REIT assets valued at RM1.57b		489.8	0.26
<b>Estimated SOP</b>			<b>2.21</b>
Enlarged share cap			1,900.4

Source: MIDFR

## RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q15	4Q14	3Q15	YoY	QoQ	12M15	12M14	YoY
<b>Revenue</b>	<b>388.2</b>	<b>487.2</b>	<b>374.0</b>	<b>-20%</b>	<b>4%</b>	<b>1,696.0</b>	<b>1,514.8</b>	<b>12.0%</b>
Operating expenses	-420.2	-425.7	-323.6	-1%	30%	-1,596.0	-1,356.1	17.7%
Other operating income	83.3	10.3	11.6	711%	618%	387.1	257.4	50.4%
<b>Profit from operations</b>	<b>51.2</b>	<b>71.7</b>	<b>62.0</b>	<b>-29%</b>	<b>-17%</b>	<b>547.0</b>	<b>416.1</b>	<b>31.5%</b>
Finance Cost	-50.7	-45.5	-44.4	12%	14%	-184.0	-171.2	7.5%
Associates	-0.8	4.3	7.7	-82%	-110%	16.0	12.3	30.6%
JV	0.6	-14.0	0.0	-104%	-3629%	-8.0	-36.6	-78.1%
<b>PBT</b>	<b>0.3</b>	<b>16.6</b>	<b>25.3</b>	<b>-98%</b>	<b>-99%</b>	<b>370.0</b>	<b>220.6</b>	<b>67.7%</b>
Taxation	38.0	-18.0	-18.7	-311%	-303%	-6.0	-53.3	-88.7%
<b>PATAMI</b>	<b>33.1</b>	<b>-13.5</b>	<b>6.5</b>	<b>-345%</b>	<b>409%</b>	<b>364.9</b>	<b>136.5</b>	<b>167.4%</b>
EPS (sen)	1.5	-0.8	0.3	95%	369%	18.5	8.0	131.6%
	<b>4Q15</b>	<b>4Q14</b>	<b>3Q15</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>12M15</b>	<b>12M14</b>	<b>+/- ppts</b>
EBIT margin	13.2%	14.7%	16.6%	-1.5	-3.4	32.3%	27.5%	4.8
PBT margin	0.1%	3.4%	6.8%	-3.3	-6.7	21.8%	14.6%	7.3
PATAMI margin	8.5%	-2.8%	1.7%	11.3	6.8	21.5%	9.0%	12.5
Effective tax rate	-12666.7%	108.1%	73.9%	-12774.8	-12740.6	1.6%	24.1%	-22.5

Source: MIDFR

## INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	940.9	1,514.8	2,235.1	2,134.3	2,122.4
EBIT (RM'm)	9.0	321.2	352.5	357.4	358.6
Pre-tax profit (RM'm)	-110.4	125.7	183.2	195.2	225.2
Normalised PATAMI (RM'm)	-109.1	41.6	86.4	116.1	137.5
FD EPS (sen)	-7.4	2.4	4.5	6.1	7.2
EPS Growth (%)	-270.0	-133.0	87.0	34.3	18.5
PER(x)	N.A.	50.2	26.6	19.8	16.7
Dividend (sen)	1.0	2.5	2.5	3.7	4.3
Dividend yield (%)	0.8	2.0	2.1	3.0	3.6

Source: MIDFR

## DAILY PRICE CHART



Syed Muhammed Kifni  
Fadhli Dzulkifly  
abdul.fadhli@midf.com.my  
03-2772 8462

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.