

25 August 2014 | 2QFY14 Results Review

Malaysia Resources Corporation Bhd

Stronger quarters ahead

Maintain BUY

Adjusted Target Price (TP): RM2.59
(previously RM2.16)

INVESTMENT HIGHLIGHTS

- 1HFY14 earnings came in above ours and consensus expectations.
- Higher PATAMI was due to an improved pace of work in progress for its on-going property development projects.
- We are optimistic on MRCB's prospects and have revised upwards our FY14 and FY15 earnings forecast.
- Reaffirm our BUY recommendation with a higher TP of RM2.59.

1HFY14 numbers outpaced expectations. 1HFY14's numbers were higher with PATAMI accounting for 58% and 54% of ours and street estimates for full FY14 net profit forecast respectively. Stripping out the gain from the divestment of its stake in DUKE of RM94.9m, 1HFY14 normalized earnings were RM35.6m (>100%yoy) while PATAMI margins improved to 6.2% from 2.5% in 1HFY13.

Higher PATAMI was due to an improved pace of work in progress for its on-going property development projects. We noted that the encouraging 1HFY14 numbers was mainly on account of higher revenue contributed by its property development division. We understand the higher earnings figure was particularly contributed by the improved pace of its on-going property development projects comprising of Q Sentral Office and The Sentral Residences. Work forces for the construction of these projects are already in full strength. Thus, we reckon that the former is on track to be completed by end-of next year while the latter project will probably be completed in 2016 after moving into advance execution stages of construction works early this year.

Expecting stronger quarters ahead. Although 1HFY14 results were better-than-expected, we are not surprised with the numbers as we had anticipated enhancement of the Group's earnings to achieve a recovery this year and to regain its upward trajectory from FY15 onwards. With the Group completed several acquisitions i.e. the balance 51% equity interest in Penang Sentral Sdn Bhd and 40% in Excellent Bonanza Sdn Bhd, it has now paved way for MRCB to meet our projections. We expect the additional earnings to start to contribute from 3QFY14 onwards.

Earnings adjusted upwards. In addition, the resolution on and remaining 30% stakes acquisition in P.J Sentral has resulted in the Group having greater earnings visibility moving forward. As such, we have revised upwards our FY14 and FY15 earnings by 35% and 46% respectively.

RETURN STATS	
Price (22 nd August 2014)	RM1.68
Target Price	RM2.59
Expected Share Price Return	54.2%
Expected Dividend Yield	1.2%
Expected Total Return	55.4%

STOCK INFO	
KLCI	1,870.99
Bursa / Bloomberg	1651 / MRC MK
Board / Sector	Main / Property
Syariah Compliant	Yes
Issued shares (mil)	1,760.1
Par Value (RM)	1.00
Market cap. (RM'm)	2,957.0
Price over NTA	1.98x
52-wk price Range	RM1.23–RM1.23
Beta (against KLCI)	1.22x
3-mth Avg Daily Vol	2.01m
3-mth Avg Daily Value	RM3.40m
Major Shareholders	
EPF	36.47%
Gapurna Sdn Bhd	15.45%
Lembaga Tabung Haji	9.32%

INVESTMENT STATISTICS

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	1,226.7	1,283.2	940.9	1,042.4	1,749.3
Pretax profit (RM'm)	123.3	134.0	-110.4	110.7	232.7
PATAMI (RM'm)	93.5	60.1	-109.1	83.0	176.9
PATAMI margin	7.6	4.7	-11.6	8.0	10.1
EPS (sen)	6.8	4.3	-7.4	4.7	10.0
EPS Growth (%)	30.3	-35.7	-270.0	163.9	113.1
PER(x)	24.9	38.7	0.0	35.6	16.7
Dividend(sen)	1.1	2.0	1.0	1.4	2.0
Dividend yield (%)	0.7	1.2	0.6	0.8	1.2

Source: Company, forecasts by MIDFR

VALUATION AND RECOMMENDATION

Maintain BUY. Premised on the above, we reaffirm our BUY recommendation with a higher TP of RM2.59 per share, following several completions of acquisitions and the entering of the Definitive Agreement with Kwasa Land for the development of MX-1 Land. The upward revision reflects its exciting FY15 earnings prospect and attractive valuation.



SUM-OF-PARTS VALUATION

	Basis	Market Value (RM'm)
Engineering & construction	FY15 PER of 14x	732.3
Properties		
Property development	DCF of net profit	2,725.8
Property investment	RNAV	2,156.8
Building services	FY15 PER of 9x	65.7
Gain from Platinum Sentral		240.0
EDL	DCF	1,508.6
Quill Capita Trust	Assets value of RM1.6b @ 32% stake	512.0
Total Assets Value		7,941.2
Net debt		-3,023.4
Total SOP		4,917.8
Enlarged share base (mil)		1,900.4
SOP per share (RM)		2.59

Source: Forecasts by MIDFR

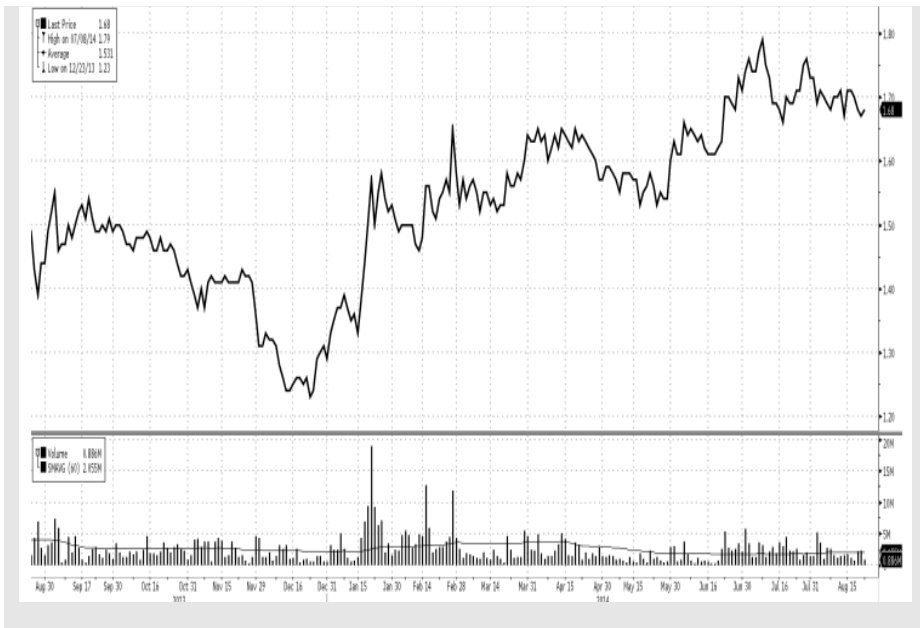
2QFY14 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	2Q14	YoY	QoQ	6M14	YoY	
Revenue	325.7	75.4%	59.1%	530.3	18.4%	Higher revenue contribution by on-going property development works
Operating expenses	-312.2	86.9%	77.5%	-488.0	16.7%	
Other operating income	175.0	>100%	>100%	214.3	>100%	The completion of the disposal of investment of DUKE with a gain of RM94.9m
Profit from operations	188.5	>100%	176.8%	256.6	>100%	
Finance Cost	-47.1	17.5%	22.7%	-85.5	5.8%	
Associates	5.1	79.7%	>100%	5.7	84.4%	
JV	-7.7	>100%	19.0%	-14.2	>100%	
PBT	138.8	>100%	>100%	162.7	>100%	
Taxation	-15.4	>100%	46.6%	-26.0	>100%	
PATAMI	118.5	>100%	>100%	130.5	>100%	Normalised cumulative earnings stood at RM35.6m
EPS (sen)	7.2	>100%	>100%	7.9	>100%	
	2Q14	+/- ppts	+/- ppts	6M14	+/- ppts	
EBIT margin	57.9%	30.6	24.6	48.4%	26.8	
PBT margin	42.6%	35.5	30.9	30.7%	26.6	
PATAMI margin	36.4%	33.3	30.5	24.6%	22.1	
Effective tax rate	11.1%	-27.1	55.2	16.0%	-19.6	Lower effective taxation was mainly due to non-taxable income of capital gain of RM94.9m.

Segmental Breakdown						Comments
Revenue	2Q14	YoY	QoQ	6M14	YoY	
Engineering & construction	147.4	>100%	>100%	184.5	-14.6%	
Property development & investment	160.1	35.9%	5.8%	311.5	64.9%	
Infrastructure	0.0	-100.0%	-	0.0	-100.0%	
Building services	18.1	10.6%	12.8%	34.2	3.0%	
Investment holdings & others	0.1	-	>100%	0.1	>100%	
TOTAL	325.7	75.4%	59.1%	530.3	18.4%	
PBT	2Q14	YoY	QoQ	6M14	YoY	
Engineering & construction	9.2	>100%	70.9%	14.6	56.6%	
Property development & investment	30.7	6.6%	-12.6%	65.8	49.0%	
Infrastructure	1.5	>-100%	>-100%	0.4	>-100%	
Building services	-1.1	>-100%	-128.0%	2.8	-8.3%	
Investment holdings & others	110.8	>-100%	-1061.9%	99.3	>-100%	
Interim payment from government	27.1	-	-	53.4	-	
Net finance	-36.8	3.8%	30.3%	-65.1	-8.0%	
Share of results of JV & associates	-2.7	>-100%	-54.2%	-8.46	>-100%	
TOTAL	138.8	>-100%	>100%	162.7	>-100%	
PBT margin	2Q14	+/- ppts	+/- ppts	6M14	+/- ppts	
Engineering & construction	6.2%	0.6	-8.3	7.9%	3.6	
Property development & investment	19.2%	-5.3	-4.0	21.1%	-2.3	
Infrastructure and environmental	-	-	-	-	-	
Building services	-5.9%	-7.6	-29.7	8.1%	-1.0	
Investment holdings & others	-	-	-	-	-	

Source: Company, MIDFR

DAILY PRICE CHART



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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, by -15% or more, 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.