

Malaysian Resources Corp Bhd

Our top GLC construction pick

TRADING BUY

Maintained

RM1.25

Target: RM2.00

Mkt.Cap: RM1,134m/US\$322m

Construction

Notes from Invest Malaysia 2009

More than 100 fund managers and buy-side analysts were present at MRCB's session at the Invest Malaysia conference. Group MD Shahril Ridza Ridzuan gave a good rundown of the group's operations and outlook.

Highlights

Earnings quality is set to improve. Earnings are set for a recovery over the next few years, driven by a turnaround for the engineering and construction division which was mainly responsible for RM60m-70m provisions in FY08. Land write-downs accounted for RM27m of the provisions and the balance came from construction. MRCB targets recurring income to make up 20-30% of operating profit over the long run as its DUKE and EDL highways come onstream. KL Sentral's remaining four plots of land will continue to support overall earnings over the next few years.

Project update. MRCB foresees good prospects for its environmental division. It is currently undertaking the biggest river rehabilitation project at Sungai Pahang worth ~RM250m. The project does not end there and additional works of at least RM800m are expected to be awarded gradually. This project generates lucrative pretax margins of at least 20%. The RM136m traffic dispersal project at KL Sentral, which was one of the jobs highlighted in the 2nd stimulus package, is expected to take off soon and will take two years to complete. The DUKE highway opened to traffic on 1 May 09 while the EDL highway in Johor has achieved 60% land acquisition progress. The group's order book now stands at RM2bn.

Potential overseas jobs. MRCB is looking at potential new jobs outside Malaysia but they may not materialise soon. Among the projects it is exploring are an integrated urban development in Vietnam and a transportation hub in Saudi Arabia. It is also exporting its environment rehabilitation expertise outside Malaysia. It is too premature to estimate the potential values.

FIC relaxation is positive. MRCB views the relaxation of foreign investment rules as positive, especially for commercial property developers. This will substantially improve process/approval time as foreign buyers used to have to wait four months before they get FIC approval. This will also open up the property market over the medium- to long-term. MRCB's property arm is looking at expanding its landbank by acquiring small urban plots and converting them into integrated developments. The company has identified one potential target.

MRCB's take on pump-priming and industry outlook. MRCB is optimistic about the prospects of the construction sector and believes that pump-priming is set to take off in a big way in 2H09. One of the major projects with the highest probability of getting off the ground in 2H09 is the LRT upgrade/extension in the Klang Valley. This is because the design concept was completed over a year ago and it only needs to finalise land acquisitions before calling for tenders. Land acquisition is likely to delay the entire process, but not substantially. Another project whose progress could surprise is the Bakun power transmission line. It is imperative that the government implement this mega job sooner rather than later as the Bakun dam will be ready as early as 2010.

Comments

Positive all around. There were no major surprises. However, we left the presentation feeling even more optimistic about MRCB's prospects and ability to clinch major infrastructure projects. In our 1 July 09 sector report, we outlined the positive industry fundamentals and featured MRCB as one of the key winners of pump-priming and our top GLC construction pick. MRCB's positive stance reinforces our view on the group's good chance of being one of the contractors of the RM7bn-10bn Klang Valley LRT upgrade/extension and the main winner of the RM3bn overland portion of the Bakun power transmission project.

Valuation and recommendation

Maintain TRADING BUY and RM2.00 target price. Our earnings forecasts are unchanged, as is our RNAV-based target price of RM2.00, pegged to an unchanged 30% discount to RNAV. In addition to the LRT upgrade/extension in the Klang Valley, positive surprises that could emerge in 2H09 relate to the progress of the RM9bn Bakun power transmission project. MRCB is vying for as much as RM3bn worth of works for the overland portion. These potential jobs remain the stock's main potential re-rating catalyst, apart from pump-priming newsflow in 2H09. This GLC construction play remains firmly a TRADING BUY.

Figure 1: RNAV

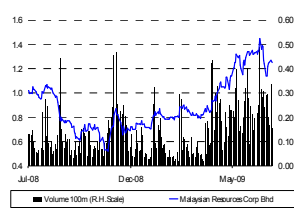
Asset	Area (sf)	Market value RM/psf	RM'm
KL Sentral (64.4% owned)	1.53m	1600.0	1,619.5
Alam Sentral Plaza	0.73m	260.0	190.9
Menara MRCB	0.28m	250.0	69.0
Seri Iskandar Township (70% JV stake)	174.2m	2.0	243.9
UDA (25% stake)@ RM3.00 VGO price			264.0
Cash from land disposal of Lot A, KL Sentral			100.0
Eastern Dispersal Link (EDL), 13% IRR, 11.6% discount rate			410.6
Duta Ulu Kelang Expressway (DUKE), 12% IRR, 11% discount rate			93.2
Proceeds from Private placement			132.2
Market value			3,123.3
Construction Net profit (FY09) at 15x P/E			111.0
Net debt (1QFY09)			(642.2)
RNAV			2,592.1
No. of shares (m)			908.0
RNAV/share			2.85
Discount to RNAV			30%
Target price			2.00

Source: Company, CIMB/CIMB-GK Research

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	863.9	788.6	957.9	1,017.5	1,128.5
EBITDA (RM m)	158.6	3.8	90.3	96.7	107.9
EBITDA margins (%)	18.4%	0.5%	9.4%	9.5%	9.6%
Pretax profit (RM m)	95.6	(42.1)	21.3	26.8	39.0
Net profit (RM m)	61.8	(56.6)	4.8	9.8	18.9
EPS (sen)	6.8	(6.2)	0.5	1.1	2.1
EPS growth (%)	156.4%	(191.6%)	108.4%	107.0%	91.6%
P/E (x)	18.4	nm	238.7	115.3	60.2
Core EPS (sen)	6.8	(3.4)	0.5	1.1	2.1
Core EPS growth (%)	156.4%	(149.5%)	115.5%	107.0%	91.6%
Core P/E (x)	18.4	nm	238.7	115.3	60.2
Gross DPS (sen)	0.0	0.0	1.1	1.4	1.5
Dividend yield (%)	0.0%	0.0%	0.9%	1.1%	1.2%
P/BV (x)	1.6	1.7	1.7	1.6	1.6
ROE (%)	9.2%	(8.2%)	0.7%	1.4%	2.7%
Net gearing (%)	50.0%	39.3%	40.6%	36.8%	29.6%
P/FCFE (x)	4.2	9.2	16.8	9.8	7.9
EV/EBITDA (x)	8.4	323.7	13.8	12.6	10.8
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.35	0.31	0.43

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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RECOMMENDATION FRAMEWORK #2 **

STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

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UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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