

13 November 2018 | Corporate Update

Malaysian Resources Corporation Berhad Agreement to terminate EDL concession

Maintain BUY
Unchanged Target Price (TP): RM1.07

INVESTMENT HIGHLIGHTS

- Termination and settlement agreement entered
- Compensation carried a total settlement sum of RM1.3b
- Proceeds will be utilized mainly for sukuk repayment
- Impact on earnings
- Maintain BUY with TP of RM1.07

Termination and settlement agreement entered. The group on 12th November 2018, entered a termination and settlement agreement with the Government of Malaysia ("GOM") in relation to its EDL concession. It outlined a settlement sum of RM1.3b payable to MRCB Lingkaran Selatan Sdn Bhd ("MLSSB") by GOM.

Budget 2019. The agreement finalized was pursuant to the amount allocated in Budget 2019, announced in early November this year. The divestment value should be able to cover MRCB's cost for the abolishment of toll collection and the termination of EDL Concession Agreement (CA), which was effective in December 2017.

Utilization of proceeds. Bulk of the amount received totalling RM1.1b will be utilised for repayment of Senior Sukuk and Junior Sukuk within one month from the date of receipt. We understand that the amount was arrived to sufficiently compensate for the carrying value. As of 2017, we noted that the service concession asset carried an amount worth RM1.1b. The remaining proceeds will be put to use for repayment of share advances, working capital and other expenses. Overall the agreement is expected to complete by 1QFY19, as per our previous expectation.

Impact on earnings. We believe the direct impact to revenue is largely muted, given that EDL has turned into non-revenue asset since December 2017. However, the disposal of EDL means that gearing ratio could fall from 0.69x to 0.47x, as guided by management. Accordingly, the monetisation of EDL means that the group's financial position will significantly improve.

Our view. Our TP of RM1.07 is maintained for now, pending full completion of the mutual termination agreement. All in, we believe the slew of positive news on MRCB should be able to lend support to its share price, which currently plagued by sector-wide negative sentiment. The group's outstanding orderbook remains resilient at RM5.1b, providing stable underlying base to prospective revenue. This is coupled with of RM1.7b of unbilled property sales, which cumulatively will provide the group 3-4 years of earnings visibility.

RETURN STATS	
Price (12 November 2018)	RM0.78
Target Price	RM1.07
Expected Share Price Return	+37.2%
Expected Dividend Yield	+8.1%
Expected Total Return	+45.3%

STOCK INFO	
KLCI	1,696.14
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,395.1
Market cap. (RM'm)	3,406.2
Price over NA	0.70
52-wk price Range	RM0.55-RM1.31
Beta (against KLCI)	1.55
3-mth Avg Daily Vol	23.2m
3-mth Avg Daily Value	RM17.7m
Major Shareholders (%)	
EPF	35.5
Gapurna Sdn. Bhd.	16.6
LTH	7.0
Bank Kerjasama Rakyat	3.9

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	940.9	1,514.8	1,696.7	2,408.0	2,823.6	1,439.3	1,508.8
EBIT (RM'm)	9.0	321.2	352.5	357.4	358.6	556.7	713.9
Pre-tax profit (RM'm)	-110.4	125.7	370.1	392.6	338.4	252.0	264.3
Normalised PATAMI (RM'm)	-109.1	41.6	331.3	266.0	167.5	129.6	150.9
FD EPS (sen)	-7.4	2.4	18.5	13.8	6.6	2.7	3.0
EPS Growth (%)	-270.0	-133.0	660.6	-25.4	-52.5	-59.3	13.7
PER(x)	N.A.	32.1	4.2	5.7	11.9	29.2	25.7
Dividend (sen)	1.0	2.5	2.5	3.7	4.3	1.3	1.3
Dividend yield (%)	1.3	3.2	3.2	4.7	5.6	1.7	1.7

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Danial Razak
 muhammad.danial@midf.com.my
 03-2173 8396

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.