

18 October 2018 | Corporate Update

Malaysian Resources Corporation Berhad

Full Steam Ahead for LRT3

INVESTMENT HIGHLIGHTS

- Approval granted to continue with the LRT3 project
- Total project cost reduced to RM16.6b
- Net profit margin likely to be lower
- Earnings forecasts adjusted downward
- Maintain BUY with adjusted TP of RM1.07

According to announcement made on Bursa yesterday, we take note of the approval granted by the Government of Malaysia to continue with the LRT3 project. As outlined in July this year, the project will proceed until completion at a cost of RM16.6b. This was following the cost reduction exercise as instructed by the new federal administration.

What comes with the revised cost? In totality, the new cost coverage is expected to include all project costs, including but not limited to work package contracts, land acquisition, project management, consultancy fees, operational and overhead costs as well as interests during construction. Although the announcement did not reveal the cost-cutting details, we refer to MoF's earlier statements as a benchmark to the current costs. Accordingly, some of the notable measures taken to adjust cost include:

1. Reducing the order of 42 sets of six-car trains to 22 sets of three-car train.
2. Reducing the construction size of the LRT train depot.
3. Streamlining the size and design of the LRT stations based on existing LRT line standards.
4. Extending the timeline to complete LRT3 project from 2020 to 2024.

Our view. All things considered, we opine the continuation of LRT3 emits positive tone on the prospect of MRCB George Kent JV Co. While the project's costs have been significantly reduced, we are comforted that the cost-savings approach prioritized by the new government did not result to the loss of earnings opportunity for the JV Co. However, the cost structure has been materially altered. Taking this into consideration along with the new fixed price model, we estimate that net profit margin to be adjusted lower.

Maintain BUY
Adjusted Target Price (TP): RM1.07
(from RM1.09)

| RETURN STATS | |
|------------------------------|---------------|
| Price (17 October 2018) | RM0.80 |
| Target Price | RM1.07 |
| Expected Share Price Return | +33.7% |
| Expected Dividend Yield | +1.6% |
| Expected Total Return | +35.3% |

| STOCK INFO | |
|------------------------|---------------------|
| KLCI | 1,740.59 |
| Bursa / Bloomberg | 1651/ MRC MK |
| Board / Sector | Main / Construction |
| Syariah Compliant | Yes |
| Issued shares (mil) | 4,395.0 |
| Market cap. (RM'm) | 3,494.0 |
| Price over NA | 0.75 |
| 52-wk price Range | RM0.55-RM1.31 |
| Beta (against KLCI) | 1.51 |
| 3-mth Avg Daily Vol | 32.6m |
| 3-mth Avg Daily Value | RM24.9m |
| Major Shareholders (%) | |
| EPF | 35.5 |
| Gapurna Sdn. Bhd. | 16.6 |
| LTH | 7.0 |
| Bank Kerjasama Rakyat | 3.9 |

Impact on earnings. We believe that adjustment to our earnings forecast is reasonable. This is taking into consideration the final earnings contribution and the extension of project deadline from 2020 to 2024. To reflect changes, we are adjusting our forecasts lower by -11.0% and -8.0% for FY18 and FY19 respectively.

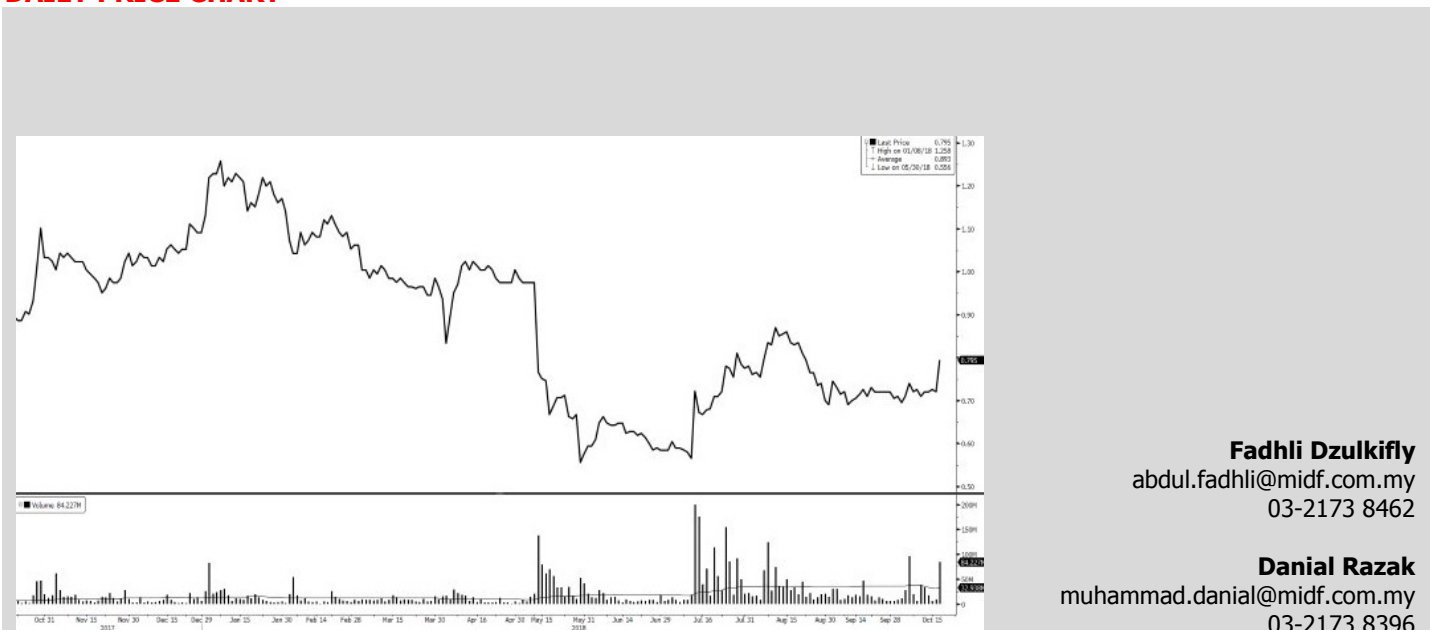
Recommendation. Accordingly, we arrived at a **TP of RM1.07** per share driven by our SOP valuation.

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. | 32.9 | 4.3 | 5.8 | 12.2 | 30.0 | 26.4 |
| Dividend (sen) | 1.0 | 2.5 | 2.5 | 3.7 | 4.3 | 1.3 | 1.3 |
| Dividend yield (%) | 1.3 | 3.1 | 3.1 | 4.6 | 5.4 | 1.6 | 1.6 |

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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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. |