

07 November 2018 | Corporate Update

## Malaysian Resources Corporation Berhad *LRT3 to continue by year end*

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

### INVESTMENT HIGHLIGHTS

- **The JV Co accepted LOA for the construction of LRT3**
- **6% margin no longer guaranteed**
- **Earnings forecasts maintained pending further details**
- **Maintain BUY with unchanged TP of RM1.07**

**LRT3.** The group has accepted a letter of appointment (LOA) from Prasarana Malaysia Berhad ("Prasarana") for the construction of the Light Rail Transit Line 3 from Bandar Utama to Johan Setia. A revised sum of RM11.9bn was confirmed, which includes contingency/provisional sum of RM400mil.

**47% reduction in total project cost.** The LOA was consequent to 47.0% cost reduction in the total project cost from RM31.7bn to RM16.6bn. According to MoF, the revised aggregate comprised all project costs, including but not limited to Work Package Contracts (WPC), land acquisition, project management, consultancy fees, operational and overhead costs, as well as interest during construction. Recall that the major cost revision was arrived following the renegotiation amongst key stakeholders, namely Prasarana, MRCB-George Kent joint venture (MRCB-GK JV) and Land Public Transportation Commission (SPAD).

**Further cost reduction?** Effectively, the LOA will carry an amount worth RM11.9bn. The detail on cost breakdown is still scarce, but we believe that the sum is likely referring to construction cost. Assuming that is true, the amount is higher than previously awarded of RM9.0bn in CY15. While the sum is possibly higher, the shift to fixed-price contract means that any future risks of cost overrun will be borne by MRCB-GK JV. In addition, the 6% fee initially guaranteed to PDP is no longer valid, implying that the final margin of the project will depend on the remaining execution works. Moving ahead, management is likely to knuckle down on cost management, with previous PDP margin set as benchmark.

**Impact.** Earnings forecasts are maintained, pending further details by management. This is on the account that negotiations on the fixed price contract are likely to continue. The project is slated to commence by year-end with the date of completion set on 28 February 2024. Based on 63 months of contract duration, our base-case estimates arrived at 8.0%-11.0% impact on MRCB's Average 2-year PBT.

RETURN STATS	
Price (5 November 2018)	RM0.78
Target Price	RM1.07
Expected Share Price Return	+37.2%
Expected Dividend Yield	+8.1%
<b>Expected Total Return</b>	<b>+45.3%</b>

STOCK INFO	
KLCI	1,708.80
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,395.0
Market cap. (RM'm)	3,428.1
Price over NA	0.74
52-wk price Range	RM0.55-RM1.31
Beta (against KLCI)	1.55
3-mth Avg Daily Vol	26.1m
3-mth Avg Daily Value	RM20.1m
Major Shareholders (%)	
EPF	35.5
Gapurna Sdn. Bhd.	16.6
LTH	7.0
Bank Kerjasama Rakyat	3.9

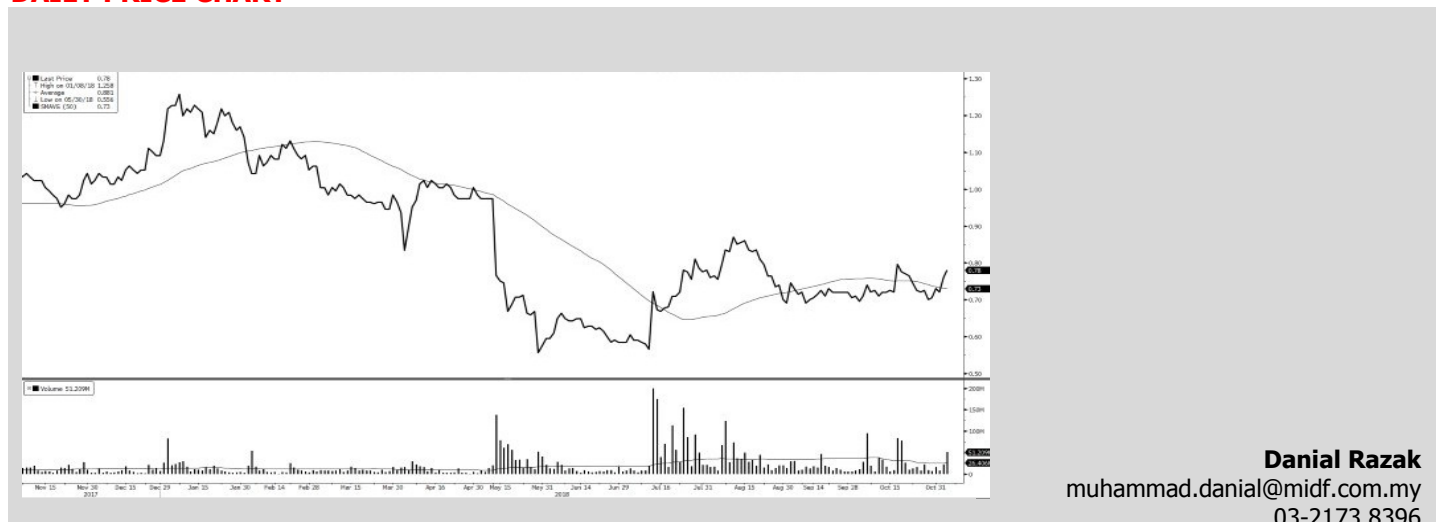
**Our view.** All things considered, we opine the continuation of LRT3 denotes positive tone on the prospect of MRCB George Kent JV Co. While the project's costs have been significantly reduced, we are comforted that the cost-savings action did not result in the loss of earnings opportunity for the JV Co. A greater clarity on the project seems to be the needed positive light for MRCB. Moving forward, we are comforted that the project continuation will contribute positively to earnings. Another positive catalyst to the stock includes the disposal of EDL, which is expected to complete in CY19. At this juncture, TP is maintained at **RM1.07 (BUY)**. We believe the weakness in current share price presents a good opportunity for investors to accumulate.

## 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



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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.