

23 June 2014 | Corporate Update

## Malaysia Resources Corporation Bhd

*PJ Sentral no longer a dampener, clear road ahead*

**Maintain BUY**

**Unchanged Target Price (TP): RM2.16**

### INVESTMENT HIGHLIGHTS

- **MRCB entered into Settlement Agreement (SA) with PKNS to resolve all disputes over the P.J Sentral ownership.**
- **Also it entered Sale and Purchase Agreement of Shares (SPA) with ASEANA to expand recurring income.**
- **Earnings unchanged pending the deal completion.**
- **Reaffirm our BUY recommendation with a higher TP of RM2.16.**

**Dispute over PJ Sentral ownership resolved.** After a prolonged dispute, MRCB has finally entered into a SA with PKNS to resolve all disputes over the ownership of 70% stake in P.J Sentral. In conjunction with the SA, MRCB has also entered into a share sale agreement (SSA) with PKNS for the acquisition of the 30% equity interest in P.J Sentral held by PKNS for a cash consideration of RM85.3m. The completion of both acquisition would be executed in the following manner:

- The 70% equity interest in P.J Sentral held by Nusa Gapurna Development (NGD) shall be transferred to MRCB and MRCB shall proceed with the entry of the PKNS SSA for the proposed acquisition of 30% of P.J Sentral. The proposed acquisition is targeted to be completed on 25<sup>th</sup> September 2014.
- Simultaneously, PKNS and P.J Sentral to enter into the Development Agreement granting the Development Rights to PKNS to carry out the development of the office tower known as 'Tower 2' based on the approved NFA of 80,130 square metres at an agreed value of RM91.1m. The total development cost would be borne by PKNS.
- The basis of RM91.1m was arrived at based on 80,130 square metres over the total NFA for Lot 12 of 250,012 square metres and multiplied by the total acquisition price to be incurred by MRCB for a 100% equity stake in P.J Sentral amounting to approximately RM284.3m.
- Meanwhile, a sum of RM85.3m shall be paid under PKNS SSA comprising of: (1) RM1.7m to MRCB's solicitor and (2) RM83.6m to P.J Sentral arising from PKNS's obligation to pay the sum of RM91.1m in the Development Agreement. The balance thereof RM7.5 shall be paid directly by PKNS to P.J Sentral.

| RETURN STATS                       |              |
|------------------------------------|--------------|
| Price (20 <sup>th</sup> June 2014) | RM1.63       |
| Target Price                       | RM2.16       |
| Expected Share Price Return        | 32.5%        |
| Expected Dividend Yield            | 1.2%         |
| <b>Expected Total Return</b>       | <b>33.7%</b> |

| STOCK INFO            |                     |
|-----------------------|---------------------|
| KLCI                  | 1,885.72            |
| Bursa / Bloomberg     | 1651 / MRC MK       |
| Board / Sector        | Main / Construction |
| Syariah Compliant     | Yes                 |
| Issued shares (mil)   | 1,651.3             |
| Par Value (RM)        | 1.00                |
| Market cap. (RM'm)    | 2,619.6             |
| Price over NTA        | 1.96x               |
| 52-wk price Range     | RM1.23–RM1.68       |
| Beta (against KLCI)   | 1.26x               |
| 3-mth Avg Daily Vol   | 1.75m               |
| 3-mth Avg Daily Value | RM2.81m             |
| Major Shareholders    |                     |
| EPF                   | 38.87%              |
| Gapurna Sdn Bhd       | 12.51%              |
| Lembaga Tabung Haji   | 8.90%               |

**INVESTMENT STATISTICS**

| <b>FYE Dec</b>       | <b>FY11</b> | <b>FY12</b> | <b>FY13</b> | <b>FY14F</b> | <b>FY15F</b> |
|----------------------|-------------|-------------|-------------|--------------|--------------|
| Revenue (RM'm)       | 1,226.7     | 1,283.2     | 940.9       | 1,021.3      | 1,686.4      |
| Pretax profit (RM'm) | 123.3       | 134.0       | -110.4      | 97.0         | 202.0        |
| Net profit (RM'm)    | 93.5        | 60.1        | -109.1      | 61.3         | 121.2        |
| Net profit margin    | 7.6         | 4.7         | -11.6       | 6.0          | 7.2          |
| EPS (sen)            | 6.8         | 4.3         | -7.4        | 3.7          | 7.3          |
| EPS Growth (%)       | 30.3        | -35.7       | -270.0      | 150.3        | 115.9        |
| PER(x)               | 22.7        | 35.3        | 0.0         | 44.0         | 22.3         |
| Dividend(sen)        | 1.1         | 2.0         | 1.0         | 1.4          | 2.0          |
| Dividend yield (%)   | 0.7         | 1.3         | 0.7         | 0.9          | 1.2          |

Source: Company, forecasts by MIDFR

**Benefit to MRCB.** We are positive on this resolution and the proposed acquisition of the remaining 30% of P.J Sentral:

1. It will pave the way for MRCB to fully control and consolidate the future income from the 40-acre P.J Sentral. We expect the future earnings from the RM2.5b remaining GDV of PJ Sentral Garden City (Lot 12 - 9.9-acre) to start to contribute from FY15 onwards. Assuming the project's duration of 10 years and a net margin of 15%, the project could fetch an average annual net profit of RM37m until 2024.
2. It will receive net proceeds amounting to approximately RM5.8m arising from the granting of Development Rights, representing the differential amount between the PKNS Consideration (RM85.3m) and the Development Rights Consideration (RM91.1m). The cash proceeds will largely be used to to finance the working capital requirements.
3. Based on our FY14 estimates, our net gearing assumption of 1.5x would be reduced to approximately 1.3-1.4x following the increase in shareholders fund after taking into consideration the 108.8m MRCB new Shares and 31.1m warrants to be issued pursuant to the acquisition of 70% of P.J Sentral.

**Dilution to earnings.** Post-transaction, our consolidated future earnings per share (EPS) is expected to be diluted as a result of the increase in the number of MRCB shares, i.e. FY15 EPS would approximately be diluted 5%. However, the dilution will be compensated with accretive future returns to be derived from P.J Sentral.

**Acquiring remaining stake in EBSB.** In a separate announcement, MRCB had entered into a Sale and Purchase Agreement of Shares (SPA) with ASPL M3A Limited (ASEANA) for the acquisition of the remaining 40% equity interest in Excellent Bonanza Sdn Bhd (EBSB) for a total cash consideration of RM16.96m. EBSB is generally a subsidiary of MRCB engages in property development of Nu Towers. We view this as a positive deal as it could manage the operations of EBSB as well as improve the efficiency through a single management structure thus enhancing the Group's future recurring income. We expect the acquisition to contribute total revenue and net profit of approximately RM73m and RM54m per annum respectively.

**Earnings unchanged.** We maintain our FY14 and FY15 earnings forecast at this juncture pending the completion of the deals.

**Maintain BUY.** We reaffirm our BUY recommendation with an unchanged TP to RM2.16 per share based on FY15 sum-of-parts valuation. We are bullish on MRCB for its exciting FY15 earnings prospect and attractive valuation.



## SUM-OF-PARTS VALUATION

|                              | Basis                              | Market Value   |
|------------------------------|------------------------------------|----------------|
| Construction & Environmental | 15x FY15 earnings                  | 784.6          |
| <b>Properties</b>            |                                    |                |
| Property development         | NPV of net profit                  | 1,271.1        |
| Property investment          | RNAV                               | 2,156.8        |
| Building services            | 9x FY15 earnings                   | 65.7           |
| Duke                         | Take-over price                    | 228.0          |
| Gain from Platinum Sentral   |                                    | 240.0          |
| EDL                          | DCF                                | 1,508.6        |
| Quill Capita Trust           | Assets value of RM1.6b @ 32% stake | 512.0          |
| <b>Sum-Of-Parts (SOP)</b>    |                                    | <b>6,766.8</b> |
| Net debt                     |                                    | -2,653.9       |
| <b>Total SOP</b>             |                                    | <b>4,113.0</b> |
| Enlarged share base          |                                    | 1,900.4        |
| <b>SOP per share</b>         |                                    | <b>2.16</b>    |

Source: Forecasts by MIDFR

## DAILY PRICE CHART



Source: Bloomberg

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**APPENDIX**

Proforma effects on the NA per MRCB Share and gearing of the Group

|                                    | Audited as at<br>31 December 2013<br>(RM'000) | After the Acquisition of<br>70% of P.J Sentral, the<br>Proposed Acquisition of<br>30% of P.J Sentral and the<br>granting of Development<br>Rights<br>(RM'000) |
|------------------------------------|---|---|
| Share capital                      | 1,651,311                                     | 1,760,118 <sup>(1)</sup>  |
| Share premium                      | 247,780                                       | 279,334 <sup>(2)</sup>  |
| Accumulated losses                 | (275,056)                                     | (276,597) <sup>(3)</sup>  |
| Other reserves                     | 51,381  | 58,376 <sup>(1)(2)</sup>  |
| Shareholders' funds/NA             | 1,675,416                                     | 1,821,231   |
| No. of MRCB Shares in issue ('000) | 1,651,311                                     | 1,760,118   |
| NA per MRCB Share (RM)             | 1.01  | 1.03  |
| Total borrowings (RM'000)          | 3,510,591                                     | 3,510,591   |
| Gearing (times) <sup>(4)</sup>     | 2.10  | 1.93  |

Source: Company, MIDFR

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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. |