

HLIB Research

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Research Team
Research@hlib.hongleong.com.my

(603) 2083 1723

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my

(603) 2083 1716

HOLD (Maintain)

Target Price: RM0.50
Previously: RM0.44
Current Price: RM0.47

Capital upside	6.4%
Dividend yield	0.0%
Expected total return	6.4%

Sector coverage: Construction

Company description: MRCB is primarily involved in property development (with a niche in TODs) and construction.

Share price


Historical return (%)	1M	3M	12M
Absolute	-9.3	60.7	-49.0
Relative	-14.0	30.4	-43.4

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	2912
3-mth average volume ('000)	5973
SC Shariah compliant	Yes

Major shareholders

EPF	35.9%
Gapurna	15.5%
LTH	6.0%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	-31	44	668
EPS - core (sen)	-0.0	1.0	1.5
P/E (x)	NA	47.1	30.6

Malaysian Resources Corporation

Property earnings coming through

MRCB's 1QFY20 core earnings of RM16m were above both ours and consensus expectations. Core earnings were driven by completion and handing over of 1060 Carnegie. MRCB's outstanding orderbook stands at c.RM16.8bn translating to a tremendous c.24x cover. Unbilled sales amount to RM1.3b representing 2.3x cover on FY19 property revenue. Progress for LRT3 project is at 30% completion with target of 40% by year end. Increase FY20 earnings by 17.9%. Maintain HOLD with higher TP of RM0.50 (from RM0.44) after rolling over earnings to FY21. Our TP implies a FY20/21/22 P/E multiple of 50.1x/32.5x/23.4x.

Above expectations. MRCB reported 1QFY20 results with revenue of RM426.8m (-10% QoQ, +82% YoY) and core PATMI of RM15.6m (+159% QoQ, +278% YoY). The results were above ours and consensus expectations accounting for 42% of our full year forecast (consensus: 30%).

Deviations. The stronger than expected performance was mainly due to increase contribution from the property segment.

Dividends. No dividends were declared for the quarter (1QFY19: nil).

QoQ. Core PATAMI increased by 159% QoQ despite a 10% decline in overall revenue (construction revenue down 32% QoQ due to MCO) offset by stronger contribution from its higher margin property segment (property revenue up 21% QoQ) which was driven by the completion and handing over of 1060 Carnegie.

YoY. Core earnings increased by 278% YoY driven by higher contributions from property development segment as 1060 Carnegie project was completed and handed over (takeup rate of 88%). YoY increase was compounded by low base effect in 1QFY19 as most development projects were at their initial stages of construction leading to minimal revenue recognised.

Construction. MRCB's outstanding orderbook stands at c.RM16.8bn (excluding LRT3 as it is equity accounted), translating to a tremendous c.24x cover on FY19 construction revenue. Orderbook is inflated by the disposal of Bukit Jalil Sentral (RM10.9b) to EPF resulting in its recognition as external orderbook. Despite the sizable cover ratio, we note that some of the development contracts are very long term in nature which will not translate to near term revenue. Based on our estimation, c.65% of outstanding orderbook have yet to materially contribute to earnings. LRT3 has achieved a completion rate of c.30% with 40% completion targeted by end 2020.

Property. 1QFY20 revenue from property segment nearly tripled on lumpy recognition of its 1060 Carnegie project upon completion and handover. Unbilled sales amount to RM1.3b representing 2.3x cover on FY19 property revenue. 1QFY20 sales amount to RM36m impacted by the movement restriction. Current completion rate for Sentral Suites is 35% with a target to achieve 45% by year end (takeup rate :82%).

Forecast. Increase FY20 earnings by 17.9% after adjusting for property segment progressive billings assumptions.

Maintain HOLD, TP: RM0.50. Maintain HOLD with higher SOP-driven TP of RM0.50 (from RM0.44) after rolling over valuations to FY21 to reflect a normalised earnings base for the company and revision of MQREIT's (BUY, TP: RM0.79) target price. Our TP implies a FY20/21/22 P/E multiple of 50.1x/32.5x/23.4x.

Figure #1 Quarterly results comparison

FYE Dec	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	3MFY19	3MFY20	YoY (%)
Revenue	234.1	471.6	425.8	(10)	82	234.1	425.8	82
EBIT	18.9	26.8	35.9	34	90	18.9	35.9	90
Finance cost	(12.4)	(7.0)	(12.6)	80	2	(12.4)	(12.6)	2
Share of JVs and associates	1.9	0.7	3.6	437	84	1.9	3.6	84
PBT	8.4	20.4	26.9	31	219	8.4	26.9	219
PAT	1.6	7.3	15.6	114	906	1.6	15.6	906
Core PATMI	4.1	6.0	15.6	159	278	4.1	15.6	278
Reported PATMI	4.1	6.0	15.6	159	278	4.1	15.6	278
Core EPS (sen)	0.1	0.1	0.4	159	278	0.1	0.4	278
EBIT margin (%)	8.1	5.7	8.4			8.1	8.4	
PBT margin (%)	3.6	4.3	6.3			3.6	6.3	

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Figure #2 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY20 earnings	43	13	554	0.11
LRT3 JV - annual average	16	10	156	0.03
Property development - NPV of profits		8%	1,466	0.30
Property investment - book value			1,314	0.27
Stake in MRCB-Quill REIT at RM0.79 TP	847	28%	236	0.05
Firm value			3,726	0.77
Less: Net debt			(1,311)	(0.27)
Target price			2,415	0.50

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19F	FY20F	FY21F	FY22F
Cash	552	517	1,533	1,567	1,573
Receivables	1,926	2,049	1,250	1,377	1,646
Inventories	95	436	90	101	123
PPE	665	678	629	655	681
Investment properties	1,314	1,420	1,418	1,424	1,430
Others	3,791	3,383	3,180	3,207	3,236
Assets	8,342	8,481	8,100	8,332	8,689
Debits	1,491	1,828	1,928	2,028	2,128
Payables	1,190	1,011	796	886	1,086
Others	761	818	510	510	510
Liabilities	3,442	3,658	3,234	3,424	3,724
Shareholder's equity	4,832	4,792	4,835	4,883	4,948
Minority interest	68	32	30	25	16
Equity	4,900	4,823	4,866	4,908	4,965

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19F	FY20F	FY21F	FY22F
Profit before taxation	75	(2)	50	88	-
Depreciation & amortisation	37	69	53	47	-
Changes in working capital	1,143	(628)	632	(47)	-
Taxation	(85)	(34)	(4)	(15)	-
Others	(183)	349	-	-	-
CFO	988	(246)	731	73	-
Net capex	(71)	(34)	(80)	(80)	-
Others	1,083	174	-	-	-
CFI	1,012	140	(80)	(80)	-
Changes in borrowings	(1,890)	337	100	100	-
Issuance of shares	9	13	-	-	-
Dividends paid	(77)	(77)	(77)	-	-
Others	(36)	(202)	-	-	-
CFF	(1,994)	72	23	100	-
Net cash flow	6	(35)	673	93	-
Forex	-	-	-	-	-
Others	82	-	-	-	-
Beginning cash	464	552	517	1,533	-
Ending cash	552	517	1,533	1,567	-

Income Statement

FYE Dec (RM m)	FY18	FY19F	FY20F	FY21F	FY22F
Revenue	1,792	1,319	1,651	1,844	2,252
EBITDA	68	74	92	123	161
EBIT	43	17	38	76	111
Net finance cost	(23)	(26)	(24)	(26)	(28)
Associates & JV	25	7	35	38	44
Profit before tax	45	(2)	50	88	128
Tax	(46)	(34)	(4)	(15)	(25)
Net profit	24	(36)	45	73	103
Minority interest	(1)	5	(2)	(5)	(9)
PATMI (core)	23	(31)	44	68	94
Exceptionals	78	55	-	-	-
PATMI (reported)	101	24	44	68	94
Consensus - PATMI	-	-	53	79	110
HLIB/ Consensus	-	-	82.7%	85.0%	85.1%

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19F	FY20F	FY21F	FY22F
Core EPS (sen)	0.5	(0.7)	1.0	1.5	2.1
P/E (x)	90.5	n.m.	47.1	30.6	22.0
EV/EBITDA (x)	49.9	46.0	37.2	27.7	21.2
DPS (sen)	1.8	1.8	-	0.5	0.6
Dividend yield	3.7%	3.7%	0.0%	1.0%	1.4%
BVPS (RM)	1.10	1.09	1.10	1.11	1.13
P/B (x)	0.4	0.4	0.4	0.4	0.4
EBITDA margin	3.8%	5.6%	5.5%	6.7%	7.1%
EBIT margin	2.4%	1.3%	2.3%	4.1%	4.9%
PBT margin	2.5%	-0.2%	3.0%	4.8%	5.7%
Net margin	1.3%	-2.4%	2.7%	3.7%	4.2%
ROE	0.5%	-0.6%	0.9%	1.4%	1.9%
ROA	0.2%	-0.4%	0.5%	0.8%	1.1%
Net gearing	19.4%	27.4%	8.2%	9.4%	11.2%

Assumptions

FYE Dec (RM m)	FY18	FY19F	FY20F	FY21F	FY22F
Contracts secured	-	-	500	500	-
Property sales	457	537	550	500	500

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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