

29 June 2020

# Malaysian Resources Corp

## 1QFY20 Within Expectations

By Lum Joe Shen | [lumjs@kenanga.com.my](mailto:lumjs@kenanga.com.my)

**1QFY20 CNP of RM16m came within our (at 25%), but above consensus expectations (at 35%). Consensus might have underestimated the maiden earnings contribution from their Australian project – 1060 Carnegie Melbourne. We continue to like the name for their status as the largest Bumiputera contractor and prime land banks. Maintain OP with an unchanged TP of RM0.75.**

**Within our but above consensus. 1QFY20** core net profit (CNP) of RM16m came within our estimate at 25% but above consensus' at 35% as they might have underestimated the maiden earnings contribution from 1060 Carnegie Melbourne which is due for handover\* (and recognition) this year. Despite expecting a weak 2QFY20 from the MCO, we believe our FY20 earnings forecast of RM65m would be supported by more unit handovers at Melbourne (worth a remainder of c.RM150m after handing over 59/151 units in 1QFY20) and better profit recognition from LRT3 in 2H 2020 when it picks up pace. No dividends as expected.

*\*For properties in Australia, revenues and profits are only recognised upon handover of units to the buyers. This is unlike Malaysian properties which are recognised progressively along with construction progress of development.*

**Highlights.** 1QFY20 CNP was up 159% QoQ on higher operating profit (+34%) especially from its property segment OP which increased 195% led by higher revenue recognition and better margins (+5ppt) due to the maiden recognitions in 1060 Carnegie Melbourne which has better overall margins compared to its Malaysian developments. Similarly, 1QFY20 CNP was up by 278% YoY, also attributed to the strong performance from its property division.

**Outlook.** In 1QFY20, MRCB has racked up weaker property sale worth RM36m (-52% YoY) due to Covid-19 and the absence of new launches. Due to the unprecedented crisis, management is deferring launches and reducing their property sales target to RM250-300m (from RM500m).

**Current unbilled sales** remain healthy at RM1.3b (1.5x cover) while outstanding construction order-book stood at RM21b. While the order book might seem huge, we note that 70% of it (or RM14b) is idling projects from Bukit Jalil Sentral and Kwasa Utama.

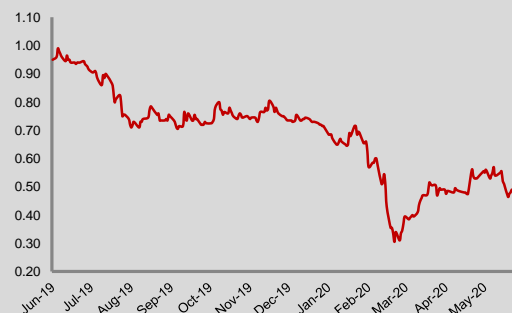
**No change in earnings** post 1QFY20 results.

**Maintain OUTPERFORM with unchanged SoP-derived TP of RM0.75.** We like MRCB for their status as the largest Bumiputera contractor and the fact that market has built in little expectations on them – providing good odds of outperformance. We also highlight that the undeveloped lands within their balance sheet are “gold plots” - easily monetise-able given their prime locality in already developed/matured areas. Most of these lands are also within transit oriented developments (TODs).

# OUTPERFORM ↔

Price : **RM0.470**  
Target Price : **RM0.750** ↔

### Share Price Performance



KLCI	1,488.14
YTD KLCI chg	-6.3%
YTD stock price chg	-35.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	2,073.7
Shares Outstanding	4,412.0
52-week range (H)	1.01
52-week range (L)	0.28
3-mth avg daily vol:	16,611,950
Free Float	34%
Beta	1.8

### Major Shareholders

Employees Provident Fund Board	35.9%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.9%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1319.4	1011.1	1445.0
EBIT	92.0	125.1	142.1
PBT	53.0	86.8	138.2
<b>Net Profit</b>	<b>18.7</b>	<b>65.1</b>	<b>111.4</b>
<b>Core PATAMI</b>	<b>-31.3</b>	<b>65.1</b>	<b>111.4</b>
Consensus (NP)	n.a.	45.4	66.6
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	-0.7	1.5	2.5
Core EPS growth (%)	-599%	n.m.	71%
NDPS (sen)	1.0	0.3	0.5
NTA per Share (RM)	1.1	1.1	1.1
PER (x)	-66.3	31.8	18.6
Price to NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.3	0.3	0.4
Return on Asset (%)	-0.4%	0.7%	1.2%
Return on Equity (%)	0.4%	1.3%	2.2%
Net Div. Yield (%)	2.1%	0.6%	1.1%

29 June 2020

**Risks to our call** include: (i) lower-than-expected property sales, (ii) snap elections, (iii) resurgence of Covid-19, and (iv) tighter lending environment.

<b>Result Highlight</b>					
<b>FYE Dec (RM m)</b>	<b>1Q20</b>	<b>4Q19</b>	<b>QoQ</b>	<b>1Q19</b>	<b>YoY</b>
Revenue	426	472	-10%	234	82%
Expenses	-398	-457	-13%	-227	75%
Other operating income	8	12	-37%	12	-32%
<b>Operating Profit</b>	<b>36</b>	<b>27</b>	<b>34%</b>	<b>19</b>	<b>90%</b>
Interest costs	-13	-7	80%	-12	2%
Associate	3	3	37%	3	17%
JV	0	-2	106%	-1	112%
<b>PBT</b>	<b>27</b>	<b>20</b>	<b>31%</b>	<b>8</b>	<b>219%</b>
Income Tax	-11	-13	-14%	-7	64%
<b>PAT</b>	<b>16</b>	<b>7</b>	<b>114%</b>	<b>2</b>	<b>906%</b>
MI	0	1	-100%	-3	-100%
<b>PATAMI</b>	<b>16</b>	<b>6</b>	<b>159%</b>	<b>4</b>	<b>278%</b>
Exceptional Items	0	0	n.a.	0	n.a.
<b>Core PATAMI</b>	<b>16</b>	<b>6</b>	<b>159%</b>	<b>4</b>	<b>278%</b>
DPS (sen)	0	0	n.a.	0	n.a.
EBIT margin	8%	6%		8%	
Pretax margin	6%	4%		4%	
CNP margin	4%	1%		2%	
Effective tax	42%	64%		82%	

Source: Company, Kenanga Research

<b>Segmental breakdown</b>					
<b>External Revenue</b>	<b>1Q20</b>	<b>4Q19</b>	<b>QoQ</b>	<b>1Q19</b>	<b>YoY</b>
Prop Dev & Investment	236	195	21%	85	178%
Construction	175	259	-32%	133	32%
Infra concession	0	0	n.a.	0	n.a.
FM & Parking	13	14	-11%	13	-4%
Others	2	3	-45%	3	-40%
	<b>426</b>	<b>472</b>	<b>-10%</b>	<b>234</b>	<b>82%</b>
<b>Operating Profit</b>					
Prop Dev & Investment	21	7	195%	3	585%
Construction	13	20	-36%	17	-25%
Infra concession	0	0	n.a.	0	n.a.
FM & Parking	2	2	3%	0	736%
Others	1	-3	120%	1	-61%
	<b>36</b>	<b>26</b>	<b>36%</b>	<b>21</b>	<b>74%</b>
Unallocated Corp Expense	-4	-5	-33%	-7	-47%
Finance Income	4	6	-39%	5	-31%
<b>Operating Profit</b>	<b>36</b>	<b>27</b>	<b>34%</b>	<b>19</b>	<b>90%</b>
<b>OP Margins</b>					
Prop Dev & Investment	9%	4%		4%	
Construction	7%	8%		13%	
Infra concession	n.a.	n.a.		n.a.	
FM & Parking	19%	16%		-3%	
Others	29%	-77%		44%	
<b>Total</b>	<b>8%</b>	<b>6%</b>		<b>9%</b>	

Source: Company, Kenanga Research

29 June 2020

<b>Sum of Parts</b>					
<b>MRCB SoP</b>	<b>Stake</b>	<b>PAT/Gross RNAV/NBV</b>	<b>Valuation Method</b>	<b>Valuations Multiple</b>	<b>Value (RMm)</b>
Property Development	100%	5758	PBV	0.35	2015
Engineering and Construction	100%	55	PER	12	657
Facilities Management	100%	61	PBV	1	61
MQREIT	27.9%	n.a.	In-House TP	RM0.70	209
Investment Properties	100%	358	PBV	1	358
<b>Sum</b>					<b>3301</b>
Number of Shares (m)					4395
RNAV/share (RM)					0.75
FD number of shares (m)					4834
FD RNAV/share (RM)					0.68
<b>Target Price (RM/share)</b>					<b>0.75</b>
FY21E Earnings (m)					111
Implied Fwd PER (x)					29.6

Source: Company, Kenanga Research

*This section is intentionally left blank*

29 June 2020

### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>														
GAMUDA BHD	3.44	8,646.5	Y	07/2020	11.7	17.5	12.6	1.0	1.0	5.6%	1.7%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.625	330.8	Y	01/2020	8.3	10.1	6.6	0.7	0.6	6.7%	2.6%	0.510	UP	
HOCK SENG LEE BERHAD	1.08	593.5	Y	12/2020	10.7	20.4	9.6	0.7	0.7	3.5%	0.9%	1.25	OP	
IJM CORP BHD	1.80	6,533.0	Y	03/2021	14.9	34.0	28.6	0.7	0.7	2.3%	1.7%	2.00	MP	
KERJAYA PROSPEK GROUP BHD	1.05	1,288.9	Y	12/2020	8.7	12.4	8.5	1.3	1.2	10.2%	3.0%	1.45	OP	
KIMLUN CORP BHD	0.725	246.4	Y	12/2020	4.0	9.3	5.1	0.4	0.3	3.8%	6.5%	1.00	OP	
MITRAJAYA HOLDINGS BHD	0.195	163.1	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.2	-3.9%	0.0%	0.200	MP	
MUHIBBAH ENGINEERING (M) BHD	0.940	454.4	Y	12/2020	11.9	16.5	6.1	0.4	0.4	2.3%	1.1%	1.15	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.91	2,462.7	Y	12/2020	18.7	35.4	15.4	4.0	3.7	10.9%	1.3%	2.45	OP	
WCT HOLDINGS BHD	0.495	690.9	Y	12/2020	4.5	N.A.	16.0	0.2	0.2	-0.2%	0.0%	0.460	UP	
<b>Simple Average</b>					<b>10.4</b>	<b>19.4</b>	<b>12.1</b>	<b>1.0</b>	<b>0.9</b>	<b>4.1%</b>	<b>1.9%</b>			

Source: Bloomberg, Kenanga Research

29 June 2020

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

