COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

1Q20: In Line, Property Is Back!

MRCB's 1Q20 results were in line, thanks to improvements in its property segment's performance. The 1060 Carnegie property delivery and higher billings on its Sentral Suite residence project contributed positively to 1Q20 performance. However, earnings should pick up gradually in 2H20 (hoh) (post-MCO), driven by billings from unbilled sales and construction orderbook, while LRT3 renegotiations should be finalised as soon as end-3Q20. Maintain HOLD. Target price: RM0.50. Entry price: RM0.42.

1Q20 RESULTS

Year to 31 Dec (RMm)	1Q20 (RMm)	4Q19 (RMm)	qoq chg %	yoy chg %	Remarks
Revenue	425.8	471.6	(9.7)	81.9	
Construction	174.8	258.7	(32.4)	31.7	Construction billings affected due to MCO
Property Development	236.4	195.3	21.0	177.8	
Others	14.5	17.6	(17.7)	(10.5)	
EBIT	36.0	26.5	36.2	74.0	
Engineering & Construction	12.6	19.8	(36.5)	(24.8)	
Property Development	20.6	7.0	194.8	585.1	Delivered 59 units of its Australian property
Associates & JV	3.6	0.7	437.1	84.5	
PBT	26.9	20.4	31.5	219.3	
PATMI	15.6	6.0	159.5	278.4	
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EBIT Margin	%	%	ppt chg	ppt chg	
Construction	7.2	7.6	(0.5)	(5.4)	
Property	8.7	3.6	5.1	5.2	
CORE PATMI Margin	3.7	1.3	2.4	1.9	

Source: Malaysian Resources Corporation Brhd, UOB Kay Hian

RESULTS

- **1Q20: In line.** Malaysian Resources Corporation (MRCB) reported a 1Q20 core net profit of RM16m (+139% qoq, +278% yoy) on revenue of RM426m (-10% qoq, +82% yoy). MRCB's 1Q20 net profit was in line at 38% of our full-year estimate, driven by billings recognised on unbilled property sales and its construction orderbook, coupled with the delivery of its 1060 Carnegie property project in Australia. The results are in line as MRCB is expected to report lower profits in 2Q20 with the severe impact from the movement control order (MCO). Meanwhile, post-MCO, we expect earnings to gradually pick up from mid-3Q20 onwards from billings recognitions on both unbilled sales and its construction orderbook.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	1,871	1,319	818	1,289	1,038
EBITDA	117	28	135	171	148
Operating profit	92	(9)	90	126	104
Net profit (rep./act.)	75	24	41	84	82
Net profit (adj.)	101	34	41	84	82
EPS (sen)	2.3	0.8	0.9	1.9	1.9
PE (x)	20.4	61.1	50.8	24.5	25.1
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	32.0	136.4	27.7	22.0	25.3
Dividend yield (%)	4.3	4.3	1.1	2.1	3.2
Net margin (%)	4.0	1.8	5.0	6.5	7.9
Net debt/(cash) to equity (%)	26.7	35.3	34.4	33.2	32.5
Interest cover (x)	2.7	0.6	2.4	3.1	2.7
ROE (%)	1.6	0.5	0.8	1.7	1.7
Consensus net profit	-	-	45	67	82
UOBKH/Consensus (x)	-	-	0.89	1.26	1.00

Source: Malaysian Resources Corporation Berhad, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.47
Target Price	RM0.50
Upside	+6.3%

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,412.0
Market cap (RMm):	2,073.7
Market cap (US$m):	483.3
3-mth avg daily t'over (US$m):	1.9

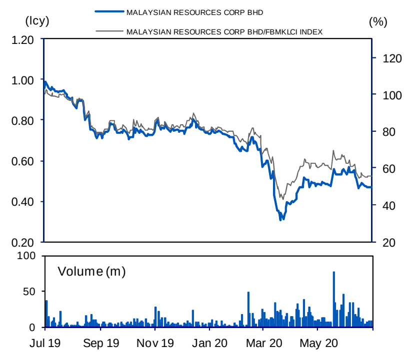
Price Performance (%)

52-week high/low RM0.990/RM0.305

1mth	3mth	6mth	1yr	YTD
(11.3)	27.0	(36.5)	(50.3)	(35.6)

Major Shareholders	**%**
Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1
FY20 NAV/Share (RM)	1.10
FY20 Net Debt/Share (RM)	0.38

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Property development: In the driver's seat.** The property arm reported stronger 1Q20 earnings of RM21m (+2x qoq, +5x yoy) driven by: a) the delivery of 59 units (from 151 units sold) of the RM300m 1060 Carnegie property project in Australia, b) stronger billings of the RM1.5b Sentral Suites project (where MRCB is now beginning to recognise higher billings as it enters advanced phases of construction); and c) supported by property sales from the 9 Seputeh development in 1Q20. While the COVID-19 outbreak hampered MRCB's progress billings on unbilled sales in the 2Q20 period, we expect billings of unbilled sales to gradually pick up from mid-3Q20 onwards. Also, the progress of its property delivery in Australia will continue throughout the remaining quarters in 2020.
- **Construction: Billings to pick up gradually in 2H20.** MRCB's construction division reported profit of RM13m (-37% qoq, -25% yoy) in 1Q20. Lower billings recognition of RM426m in 1Q20 (-10% qoq) had resulted in its construction EBIT declining to RM13m (-37% qoq), while construction margins had eased by 5.4ppt to 7.2% due to the building projects completed in 1Q19. Positively, MRCB has reported higher LRT3 profits of RM1.2m in 1Q20 (vs RM0.5m n 1Q19). LRT3 project progress billings are expected to pick up gradually from 2H20 onwards while renegotiations with the respective work package contractors are to be finalised as soon as end-3Q20. To-date, the LRT3 project's progress stands at 29%.

STOCK IMPACT

- **Construction: LRT3 shows positive progress.** From our recent engagement with MRCB, the MRCB:GKENT JV has been actively engaging with the respective work package contractors (WPC) to conclude the scope of works under the revised contract sum (followed on with the signing of the supplemental agreement with each WPC). From our checks, contractors such as TRC Synergy had signed the supplemental agreement with the turnkey contractor (MRCB:GKENT JV) after the contract sum had been slashed by 30% to RM537m. Also, we expect the MRCB:GKENT JV to sign supplemental agreements with other WPCs on the revised scope of works and we expect an overall cost reduction of 30-40% per package.
- **Financial strength.** From our z-score estimates, MRCB's score lies in the "distress zone" (ie, <1.8) with a score of 1.01. However, we reckon it is at low risk as its short-term debts are tied to property developments and MRCB has been able to pare down debts (associated with property projects) with billings recognitions. As of Mar 20, net gearing stood at 0.29x (1Q19; 0.23x) while the ratio of its cash to short-term debt is at 0.55x (1Q19; 0.63x). Net gearing inched up largely due to funding for its working capital and capex. Separately, MRCB highlighted that it had deferred some of its short-term debts by 3-6 months in efforts to sustain cash flow. Also, MRCB also announced its plans to issue perpetual sukuk to raise new funds of up to RM5b to fund general working capital, capex and other general corporate purposes.
- **Key beneficiary of roll-out of mega projects.** Being one of the largest bumi contractors in Malaysia, we expect MRCB to benefit from the revival of shelved mega projects in the near term. Projects such as the East Coast Rail Link (ECRL), MRT3 and potential high-speed rail (HSR) may go ahead in the near term. Recall that MRCB had won the HSR northern package with its 50% JV partner Gamuda with contract value estimated at RM30b prior to the GE14 and the project was shelved post GE14. At present, both the Malaysia and Singapore governments are in talks of reducing overall development costs; the project's fate is expected to be announced by end-20.
- **New sales target.** The effect of the MCO extension coupled with the sluggish outlook in the property market have led MRCB to revise down its property sales target to <RM300m (from RM500m) for the year. Future sales are to be supported by sales of completed inventory worth RM430m, future launches in Kwasa Sentral with GDV of RM295m and sales bookings of RM70m (yet to be converted into sales). Ytd, MRCB has booked property sales of RM36m.

EARNINGS REVISION/RISK

- We make no changes to our earnings forecasts as we expect a weak 1H20, followed by a gradual improvement in 2H20. Our earnings forecasts have conservatively factored: a) billings on unbilled sales and outstanding construction orderbook gradually improving from 2H20; and b) property sales of RM200m. Meanwhile, we are still maintaining our annual construction orderbook replenishment projection of RM500m for 2020.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM0.50.** Our target price is based on a 20% discount to our SOTP valuation of RM0.62/share, implying 54x 2020F PE (+2SD to its 5-year average forward PE of 29x). The ascribed discount to its SOTP is justified, given the sluggish property outlook which may affect future property sales. We continue to expect good trading opportunities from this counter: a) should the revival of mega projects materialise (ie ECRL, Pan Borneo Sabah, HSR); b) on the sooner-than-expected kick-start of LRT3 works; and c) improvement in overall sentiment in the construction sector.

SOTP VALUATION

	RMm
Property	2,597
Construction	271
DCF of LRT3 PDP fees	120
Investment Properties	651
Net Debt	(1,311)
QCT 33% stake	412
Total RNAV	2,739
Sharebase (m)	4,385
SOTP/share (RM)	0.62
Discount	20%
Target Price (RM)	0.50

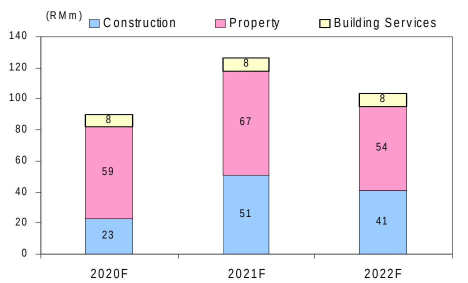
Source: UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF MAR 20

Projects	(RMm)
Construction Projects	
Bukit Jalil	10,116
LRT3 (50% JV stake)	3,980
Kwasa Utama C8	1,509
MRT2	111
PR1MA Brickfield	298
SUKE	219
Others	2,091
Sub Total	16,715
Fee-based Contracts	
KWASA UTAMA - Management Fee for C8	153
PDP to Develop Kwasa Damansara township	155
Bukit Jalil Sentral	841
Semarak City Phase 1	27
Sub Total	1,021
Grand Total	17,736

Source: UOB Kay Hian

EBIT FORECASTS BREAKDOWN



Source: UOB Kay Hian

FORECASTS ASSUMPTIONS

RMm	2020	2021	2022
Orderbook replenishment	500	1,000	1,000
Property sales target	200	350	400

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	1,319	818	1,289	1,038
EBITDA	28	132	167	145
Deprec. & amort.	36	42	41	41
EBIT	(9)	90	126	104
Total other non-operating income	101	n.a.	n.a.	n.a.
Associate contributions	7	15	35	53
Net interest income/(expense)	(46)	(58)	(56)	(55)
Pre-tax profit	53	47	105	102
Tax	(34)	(12)	(26)	(26)
Minorities	5	5	5	5
Net profit	24	40	84	82
Net profit (adj.)	34	40	84	82

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	755	744	753	761
Other LT assets	4,499	4,499	4,499	4,499
Cash/ST investment	517	548	585	604
Other current assets	2,734	2,734	2,734	2,734
Total assets	8,505	8,524	8,571	8,598
ST debt	825	825	825	825
Other current liabilities	1,046	1,046	1,046	1,046
LT debt	1,383	1,383	1,383	1,383
Other LT liabilities	428	428	428	428
Shareholders' equity	4,792	4,816	4,867	4,900
Minority interest	32	27	22	17
Total liabilities & equity	8,505	8,524	8,571	8,598

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	(345)	67	109	106
Pre-tax profit	53	47	105	102
Tax	14	(12)	(26)	(26)
Deprec. & amort.	36	42	41	41
Associates	0	0	0	0
Working capital changes	(9)	(10)	(11)	(12)
Other operating cashflows	(440)	0	0	0
Investing	158	(24)	(44)	(43)
Capex (growth)	0	(30)	(50)	(50)
Investments	0	0	0	0
Proceeds from sale of assets	122	0	0	0
Others	36	6	6	7
Financing	19	(12)	(28)	(44)
Dividend payments	(108)	(16)	(32)	(49)
Issue of shares	0	0	0	0
Proceeds from borrowings	338	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(211)	4	4	5
Net cash inflow (outflow)	(169)	31	37	19
Beginning cash & cash equivalent	470	517	548	585
Changes due to forex impact	216	0	0	0
Ending cash & cash equivalent	517	548	585	604

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	2.1	16.1	13.0	14.0
Pre-tax margin	4.0	5.8	8.2	9.8
Net margin	1.8	4.9	6.5	7.9
ROA	0.3	0.5	1.0	1.0
ROE	0.5	0.8	1.7	1.7
Growth				
Turnover	(29.5)	(38.0)	57.5	(19.4)
EBITDA	(76.5)	378.3	27.0	(13.2)
Pre-tax profit	(56.9)	(10.8)	122.6	(2.9)
Net profit	(68.5)	70.5	107.3	(2.7)
Net profit (adj.)	(66.7)	19.9	107.3	(2.7)
EPS	(66.7)	19.9	107.3	(2.7)
Leverage				
Debt to total capital	31.4	31.3	31.1	31.0
Debt to equity	46.1	45.8	45.4	45.0
Net debt/(cash) to equity	35.3	34.5	33.3	32.7
Interest cover (x)	0.6	2.3	3.0	2.6