

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: **RM0.50**
Current Price: **RM0.52**

Capital upside	-3.8%
Dividend yield	0.4%
Expected total return	-3.4%

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	-8.1	-3.8	-32.5
Relative	-6.6	-11.6	-30.5

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%
Gapuma	15.5%
LTH	5.9%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	-31	43	66
EPS - core (sen)	-0.0	1.0	1.5
P/E (x)	NA	53.0	34.7

Malaysian Resources Corporation

Big impairment losses

MRCB's 1HFY20 core loss of -RM1.5m were within both ours and consensus expectations. Core earnings were driven by completion and handing over of 1060 Carnegie. MRCB's outstanding orderbook stands at c.RM16.9bn translating to a tremendous c.24x but a large chunk is long dated jobs. Unbilled sales amounts to RM1.3bn representing 2.3x cover on FY19 property revenue. Cut FY20-22 earnings by 2-3%. Maintain HOLD with unchanged TP of RM0.50. Our TP implies a FY20/21/22 P/E multiple of 51.4x/33.6x/24.1x.

Within expectations. MRCB reported 2QFY20 results with revenue of RM167.2m (-61% QoQ, -31% YoY) and core loss of -RM17.1m (against core earnings of RM15.6m in 1QFY20 and core loss of -RM43.9m in 2QFY20). This brings 1HFY20 to a near breakeven (-RM1.5m) vs core loss of -RM39.8m in 1HFY19. We deem the results largely within expectations as we anticipate stronger 2H showing (we projected FY20 core earnings of RM43.8m; while consensus projected core earnings of RM44.1m). Note that figures have been adjusted for receivables and contract asset impairment of RM202.5m.

Dividends. No dividends were declared for the quarter (1HFY20: nil; 1HFY19: nil).

QoQ. 2QFY20 turned into core loss of -RM17.1m (vs. core PATAMI of RM15.6m in 1QFY20). Main contributor for the loss was imposition of MCO where revenue decline by -61% led by construction (-68%), property (-58%) followed by facilities management (-25%) segments. While the others managed to stay marginally profitable, construction segment went into losses of -RM10.8m at EBIT level. 1QFY20 was also buoyed by handover of 1060 Carnegie project which substantially slowed due to lockdowns in Melbourne.

YoY. Core loss narrowed from -RM43.9m in 2QFY19 mainly due to much leaner operating expenses (impairment adjusted) which fell by -35% resulting from better cost management initiatives.

YTD. Core loss narrowed from -RM39.8m in 1HFY19 resulting from topline growth of 25%, anchored by doubling of revenue contribution from the property segment. This was due to handover of 1060 Carnegie project where 79 units achieved financial close (1QFY20: 59 units; 2QFY20: 20 units). Property contribution in 1HFY19 was also exceptionally depressed resulting from suboptimal construction stage for its projects.

Construction. MRCB's outstanding orderbook stands at c.RM16.9bn (excluding LRT3 as it is equity accounted), translating to a sizable c.24x cover on FY19 construction revenue. 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. LRT3 has achieved a completion rate of c.30% with 40% completion targeted by end 2020. During the quarter, MRCB impaired contract asset of RM197m for a recently completed hospitality project as client looks to be severely impacted by lockdowns.

Property. Unbilled sales amounted to RM1.3b representing 2.3x cover on FY19 property revenue. 1HFY20 sales amount to RM84m impacted by the movement restriction. Things are recovering with RM102m sales achieved by end-July. Management is confident of achieving its RM250m-300m target backed by bookings of RM160m. Barring any further lockdowns, we expect rebound into 2HFY20 backed by Carnegie project.

Forecast. Cut FY20-22 earnings by 1.7/2.6/2.2% as we take the lower end of management's sales guidance.

Maintain HOLD, TP: RM0.50. Maintain HOLD with unchanged SOP-driven TP of RM0.50. Despite the earnings cut, our TP remains unchanged after updating for MQREIT TP of RM0.85. Our TP implies a FY20/21/22 P/E multiple of 51.4x/33.6x/24.1x.

Figure #1 Quarterly results comparison

FYE Dec	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	241.0	425.8	167.2	(61)	(31)	475.0	592.9	25
EBIT	(36.9)	35.9	(8.6)	(124)	(77)	(18.0)	27.3	(251)
Finance cost	(12.6)	(12.6)	(13.1)	4	5	(25.0)	(25.7)	3
Share of JVs and associates	1.3	3.6	2.2	(38)	74	3.2	5.8	81
PBT	(48.2)	26.9	(19.5)	(173)	(59)	(39.8)	7.3	(118)
PAT	(47.3)	15.6	(17.0)	(208)	(64)	(45.8)	(1.3)	(97)
Core PATMI	(43.9)	15.6	(17.1)	(209)	(61)	(39.8)	(1.5)	(96)
Reported PATMI	11.1	15.6	(219.6)	(1,504)	(2,086)	15.2	(204.0)	(1,443)
Core EPS (sen)	(1.0)	0.4	(0.4)	(209)	(61)	(0.9)	(0.0)	(96)
EBIT margin (%)	(15.3)	8.4	(5.1)			(3.8)	4.6	
PBT margin (%)	(20.0)	6.3	(11.7)			(8.4)	1.2	

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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 - FY21 earnings	43	13	554	0.11
LRT3 JV - annual average	18	10	178	0.04
Property development - NPV of profits		8%	1,440	0.30
Property investment - book value			1,418	0.29
Stake in MRCB-Quill REIT at RM0.85 TP	911	28%	254	0.05
Firm value			3,844	0.80
Less: Net debt			(1,411)	(0.29)
Target price			2,433	0.50

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Cash	552	517	1,534	1,568	1,573
Receivables	1,926	2,049	1,217	1,345	1,613
Inventories	95	436	88	98	121
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	8,066	8,298	8,654
Debits	1,491	1,828	1,928	2,028	2,128
Payables	1,190	1,011	772	862	1,063
Others	761	818	510	510	510
Liabilities	3,442	3,658	3,210	3,400	3,700
Shareholder's equity	4,832	4,792	4,826	4,872	4,936
Minority interest	68	32	30	26	17
Equity	4,900	4,823	4,856	4,897	4,953

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Profit before taxation	75	(2)	48	85	-
Depreciation & amortisation	37	69	53	47	-
Changes in working capital	1,143	(628)	643	(47)	-
Taxation	(85)	(34)	(4)	(14)	-
Others	(183)	349	-	-	-
CFO	988	(246)	741	71	-
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)	(9)	-
Others	(36)	(202)	-	-	-
CFF	(1,994)	72	23	91	-
Net cash flow	6	(35)	684	83	-
Forex	-	-	-	-	-
Others	82	-	-	-	-
Beginning cash	464	552	517	1,534	-
Ending cash	552	517	1,534	1,568	-

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,792	1,319	1,601	1,794	2,202
EBITDA	68	74	90	120	157
EBIT	43	17	37	73	108
Net finance cost	(23)	(26)	(24)	(26)	(28)
Associates & JV	25	7	35	38	44
Profit before tax	45	(2)	48	85	124
Tax	(46)	(34)	(4)	(14)	(24)
Net profit	24	(36)	44	71	100
Minority interest	(1)	5	(1)	(5)	(8)
PATMI (core)	23	(31)	43	66	92
Exceptionals	78	55	-	-	-
PATMI (reported)	101	24	43	66	92
Consensus - PATMI	-	-	44	71	93
HLIB/ Consensus	-	-	97.6%	93.1%	99.0%

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Core EPS (sen)	0.5	(0.7)	1.0	1.5	2.1
P/E (x)	100.1	n.m.	53.0	34.7	24.9
EV/EBITDA (x)	54.6	50.3	41.3	31.0	23.7
DPS (sen)	1.8	1.8	0.2	0.4	0.6
Dividend yield	3.4%	3.4%	0.4%	0.9%	1.2%
BVPS (RM)	1.10	1.09	1.10	1.11	1.12
P/B (x)	0.47	0.48	0.47	0.47	0.46
EBITDA margin	3.8%	5.6%	5.6%	6.7%	7.1%
EBIT margin	2.4%	1.3%	2.3%	4.1%	4.9%
PBT margin	2.5%	-0.2%	3.0%	4.7%	5.6%
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	FY19	FY20F	FY21F	FY22F
Contracts secured	-	-	500	500	500
Property sales	457	537	250	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

Stock rating guide

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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