

28 August 2020

Malaysian Resources Corp

1HFY20 Below Expectations

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2QFY20 CNL of RM17m dragged 1HFY20 to a CNL of RM1m. This is within consensus but below ours as we do not foresee 2HFY20 achieving our initial profit target of RM65m given the lockdowns in Melbourne would impede further settlement for 1060 Melbourne Carnegie. Hence, reducing FY20/21E earnings by 25%/7%. Nonetheless, we continue to like the name for their status as the largest Bumiputera contractor and prime land banks. Maintain OP with an unchanged SoP derived TP of RM0.75.

Below ours but within consensus. 2QFY20 core net loss (CNL) of RM17m dragged 1HFY20 to a slight loss of RM1m – within consensus profit estimate of RM42m but below our RM65m target. We deem the results below ours as we believe 2HFY20 may no longer be strong enough to achieve our profit target. This is because our previous 2HFY20 assumption hinges strongly on the settlement of 1060 Melbourne Carnegie units which have encountered some hiccups as the worsening Covid-19 situation there led to a second lockdown beginning 7th July 20. This has caused some withdrawal in sales and could also impede settlement for the project. No dividends as expected.

We derive our core net loss figure after stripping off RM202.5m worth of impairments on trade receivables. A majority of this impairment (RM197m) is derived from a construction client in the hospitality sector which MRCB feels may not have the capacity to pay back for the completed hotel project built. Management assures no more impairments moving forward.

Highlights. QoQ, 2QFY20 dipped into a core net loss of RM17m (from RM16m profit) stemming from the longer MCO lockdown of 2 months' vs 2 weeks. 2QFY20 also saw less unit settlement of 1060 Carnegie – with only 20 units settled compared to 59 units in 1QFY20. Meanwhile, 1HFY20 actually improved to a CNL position of RM1m from a CNL position of RM40m despite the lockdowns as: (i) 1HFY20 had a lump sum recognition from 1060 Carnegie which was completed in Dec 2019 and (ii) 1HFY20's construction segment did not suffer any cost overruns seen in 1HFY19.

Outlook. In 1HFY20, MRCB has racked up property sales worth RM86m. 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.

Post results, we defer some settlements of 1060 Melbourne Carnegie to FY21 and also dial back on the margins to cater for additional marketing costs required to sell the units which sales were withdrawn. Consequently, **reduce FY20/21E estimates by 25% and 7% respectively.**

Maintain OUTPERFORM with unchanged SoP-derived TP of RM0.75. Despite this quarters set back, we continue to 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 matured areas.

OUTPERFORM ↔

Price : RM0.520
Target Price : RM0.750 ↔

Share Price Performance



KLCI	1,554.78
YTD KLCI chg	-2.1%
YTD stock price chg	-28.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	2,294.3
Shares Outstanding	4,412.0
52-week range (H)	0.82
52-week range (L)	0.28
3-mth avg daily vol:	11,617,160
Free Float	37%
Beta	1.7

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	1057.5	1438.0
EBIT	92.0	101.5	130.5
PBT	53.0	63.1	126.5
Net Profit	18.7	48.6	103.3
Core PATAMI	-31.3	48.6	103.3
Consensus (NP)	n.a.	42.9	65.5
Earnings Revision	n.a.	-25%	-7%
Core EPS (sen)	-0.7	1.1	2.3
Core EPS growth (%)	-599	-255	113
NDPS (sen)	1.0	0.2	0.5
NTA per Share (RM)	1.0	1.1	1.1
PER (x)	-73.4	47.2	22.2
Price to NTA (x)	0.5	0.5	0.5
Net Gearing (x)	0.3	0.4	0.4
Return on Asset (%)	-0.4	0.6	1.2
Return on Equity (%)	0.4	1.0	2.1
Net Div. Yield (%)	1.9	0.4	0.9

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

Result Highlight								
FYE Dec (RM'm)	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Revenue	167	426	-61%	241	-31%	593	475	25%
Expenses	-389	-398	-2%	-286	36%	-786	-513	53%
Other operating income	10	8	31%	66	-84%	18	78	-77%
Operating Profit	-211	36	-688%	21	-1100%	-175	40	-538%
Interest costs	-13	-13	4%	-13	5%	-26	-25	3%
Associate	4	3	7%	2	77%	7	5	42%
JV	-1	0	-1334%	-1	82%	-1	-2	-26%
PBT	-222	27	-926%	10	-2360%	-195	18	-1170%
Income Tax	3	-11	123%	-2	218%	-9	-9	-4%
PAT	-219	16	-1503%	8	-2967%	-204	9	-2314%
MI	0	0	2517%	-3	104%	0	-6	102%
PATAMI	-220	16	-1504%	11	-2086%	-204	15	-1443%
Exceptional Items	-203	0	n.a.	55	-468%	-203	55	-468%
Core PATAMI	-17	16	-209%	-44	-61%	-1	-40	-96%
DPS (sen)	0	0	n.a.	0	n.a.	0	0	n.a.
EBIT margin	-126%	8%		9%		-30%	8%	
Pretax margin	-133%	6%		4%		-33%	4%	
CNP margin	-10%	4%		-18%		0%	-8%	
Effective tax	-1%	-42%		-22%		4%	-50%	

Source: Company, Kenanga Research

Segmental breakdown								
External Revenue	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Prop Dev & Investment	100	236	-58%	71	40%	336	156	115%
Construction	57	175	-68%	151	-62%	231	284	-18%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	10	13	-25%	13	-25%	22	26	-14%
Others	1	2	-47%	6	-84%	3	9	-69%
	167	426	-61%	241	-31%	593	475	25%
Operating Profit								
Prop Dev & Investment	2	21	-90%	44	-95%	28	47	-40%
Construction	-208	13	-1757%	-15	1270%	1	2	-13%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	1	2	-64%	0	91%	3	0	4162%
Others	-5	1	-1053%	-2	116%	-5	-1	363%
	-210	36	-684%	27	-882%	-174	48	-466%
Unallocated Corp Expense	-4	-4	10%	-10	-59%	-8	-17	-54%
Finance Income	3	4	-6%	4	-19%	7	9	-25%
Operating Profit	-211	36	-688%	21	-1100%	-175	40	-538%
OP Margins								
Prop Dev & Investment	2%	9%		62%		8%	30%	
Construction	-368%	7%		-10%		1%	1%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	9%	19%		4%		15%	0%	
Others	-509%	29%		-38%		-159%	-11%	
Total	-126%	8%		11%		-29%	10%	

Source: Company, Kenanga Research

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Sum of Parts					
MRCB SoP	Stake	PAT/Gross RNAV/NBV (RMm)	Valuation Method	Valuations Multiple	Value (RMm)
Property Development	100%	5758	PBV	0.35x	2015
Engineering and Construction	100%	55	PER	12x	657
Facilities Management	100%	61	PBV	1x	61
MQREIT	27.9%	n.a.	In-House TP	RM0.80	209
Investment Properties	100%	358	PBV	1x	358
Sum					3301
Number of Shares (m)					4395
RNAV/share (RM)					0.75
FD number of shares (m)					4834
FD RNAV/share (RM)					0.68
Target Price (RM/share)					0.75
FY21E Earnings (m)					103
Implied Fwd PER (x)					31.9

Source: Company, Kenanga Research

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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.		
STOCKS UNDER COVERAGE													
ECO WORLD DEVELOPMENT GROUP	0.420	1,236.6	Y	10/2020	6.2	7.9	6.7	0.3	0.3	3.4%	1.9%	0.440	MP
IOI PROPERTIES GROUP BHD	0.895	4,928.0	Y	06/2020	7.5	9.2	7.2	0.3	0.3	2.9%	3.4%	1.29	OP
LBS BINA GROUP BHD	0.475	763.4	Y	12/2020	10.9	17.7	10.8	0.5	0.5	3.1%	1.7%	0.330	UP
MAGNA PRIMA BHD	0.770	256.1	Y	12/2020	N.A.	N.A.	N.A.	0.5	0.6	-5.2%	0.0%	0.520	N.R
MAH SING GROUP BHD	0.760	1,845.0	Y	12/2020	16.9	31.7	14.9	0.5	0.5	1.7%	3.9%	0.570	MP
MALAYSIAN RESOURCES CORP BHD	0.520	2,294.3	Y	12/2020	N.A.	47.3	22.6	0.5	0.5	1.0%	0.4%	0.750	OP
SIME DARBY PROPERTY BHD	0.655	4,454.5	Y	12/2019	6.3	10.9	9.0	0.5	0.5	4.3%	2.7%	0.800	OP
SP SETIA BHD	0.810	3,285.9	Y	12/2020	12.9	38.6	8.4	0.2	0.2	0.6%	0.7%	0.680	UP
SUNWAY BHD	1.39	6,812.9	Y	12/2020	10.7	16.3	11.3	0.7	0.7	4.4%	3.1%	1.68	OP
UEM SUNRISE BHD	0.405	1,837.7	Y	12/2020	5.9	6.5	7.5	0.2	0.2	0.8%	0.0%	0.555	OP
UOA DEVELOPMENT BHD	1.64	3,483.0	Y	12/2020	8.9	9.1	8.0	0.6	0.6	7.0%	8.5%	1.82	MP
					9.6	19.5	10.6	0.5	0.4	2.2%	2.4%		

Source: Bloomberg, Kenanga Research

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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.**

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