

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

3Q20: Missed Expectations; A Devastating Year

MRCB's 9M20 core earnings came in below expectations as the MCO ruling hampered progress billings at its construction and property divisions, coupled with the delay in unit transfer of its Australia property into 2021. We slash our 2020 net profit forecast and lower our target price to RM0.42. Maintain HOLD. Entry price: RM0.38.

3Q20 RESULTS

Year to 31 Dec (RMm)	3Q20	2Q20	qoq % chg	yoy % chg	9M20	yoy % chg
Revenue	297.6	167.2	78.0	(20.2)	890.6	5.0
Construction	131.7	56.7	132.5	(4.1)	363.2	(13.7)
Property Development	153.0	100.0	53.1	(28.8)	489.4	31.8
Others	12.9	10.5	22.0	(36.8)	37.9	(31.7)
EBIT	15.6	(210.4)	n.a.	(44.3)	(158.7)	n.a.
Engineering & Construction	(3.0)	(208.2)	(98.6)	(269.4)	(198.7)	n.a.
Property Development	11.8	2.0	475.5	(48.6)	34.3	(50.8)
Associates & JV	3.5	2.2	56.1	(138.3)	(23.3)	(6.1)
PBT	7.6	(222.0)	n.a.	183.2	9.3	56.9
Net Profit	0.9	(219.3)	n.a.	(93.6)	(202.7)	n.a.
Core Net Profit	0.9	(16.8)	n.a.	(63.5)	(0.2)	n.a.
EBIT Margin (%)	%	%	ppt chg	ppt chg		ppt chg
Construction	(2.3)	(367.5)	365.2	(3.6)	(54.7)	(55.5)
Property	7.7	2.0	5.6	(2.9)	7.0	(11.8)
Core Net Margin	0.3	(10.1)	10.4	(0.4)	(0.0)	(2.1)

Source: MRCB, UOB Kay Hian

RESULTS

• **3Q20: Missed expectations.** Malaysian Resources Corporation (MRCB) reported 3Q20 core net profit of RM0.9m (-17% qoq) and revenue of RM298m (+78% qoq, -20% yoy). 9M20 core net loss was RM0.2m, missing our and consensus estimates, dragged by lower property and construction project billings and lower margins amid the Movement Control Order (MCO) impact. Also, the later-than-expected unit transfer at its Australia property worsened 9M20 earnings.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	1,871	1,319	575	1,060	925
EBITDA	117	28	98	144	132
Operating profit	92	(9)	52	101	88
Net profit (rep./act.)	75	24	3	50	56
Net profit (adj.)	101	34	3	50	56
EPS (sen)	2.3	0.8	0.1	1.1	1.3
PE (x)	20.2	60.4	629.8	41.1	36.2
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	31.8	135.7	38.2	26.0	28.4
Dividend yield (%)	4.3	4.3	0.0	2.2	3.2
Net margin (%)	4.0	1.8	0.6	4.7	6.1
Net debt/(cash) to equity (%)	26.7	35.3	34.5	34.2	34.2
Interest cover (x)	2.7	0.6	1.7	2.5	2.3
ROE (%)	1.6	0.5	0.1	1.0	1.2
Consensus net profit	-	-	32	64	83
UOBKH/Consensus (x)	-	-	0.10	0.78	0.68

Source: MRCB, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.47
Target Price	RM0.42
Upside	-10.5%
(Previous TP)	RM0.48

COMPANY DESCRIPTION

MRCB is a 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):	2,051.6
Market cap (US\$m):	501.5
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

52-week high/low	RM0.805/RM0.305			
1mth	3mth	6mth	1yr	YTD
17.7	(11.4)	(12.3)	(37.6)	(36.3)

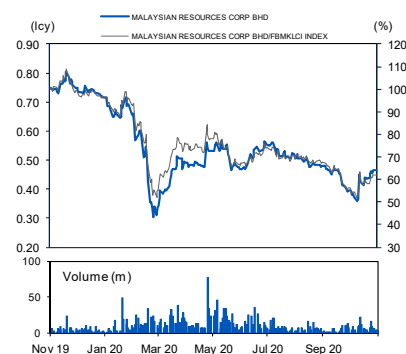
Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1

FY20 NAV/Share (RM) 1.09

FY20 Net Debt/Share (RM) 0.38

PRICE CHART



Source: Bloomberg

ANALYST(S)

Farhan Ridzwan
+603 2147 1989
farhanridzwan@uobkayhian.com

• **Property development: The only saviour.** The division contributed 9M20 operating profit of RM34m (-51% yoy). Profit was dragged by: a) a high base (one-off disposal gains of RM59m recognised in 9M19); b) the MCO ruling which hampered progress billings for local property projects and yielded lower margins; and c) the delay of unit transfer at 1060 Carnegie in Australia to 2021. MRCB reported new sales of RM126m as of Sep 20, driven by Sentral Suites (take-up: 84%) and Vivo 9 Seputeh (take-up: 80%). Management guided earnings should pick up gradually from 4Q20 on accelerated billings of sales of RM1.2b and delivery of 37 units at 1060 Carnegie beginning 1Q21.

• **Construction: A washout year.** Excluding impairment loss of RM197m, the division reported 9M20 core EBIT loss of RM2.0m, dragged by lower revenue of RM363m (-14% yoy) and overhead costs during the MCO period. Accordingly, core PBT margin eased 1.1ppt yoy to -0.3%. Management guided one-off impairment from a RM600m project in Johor and does not expect new impairment in the future. Separately, MRCB reported higher LRT3 profit of RM1.6m in 9M20 (9M19: RM1.2m). LRT3 progress billings are expected to pick up gradually from 1Q21 while negotiations with work package contractors are ongoing. To-date, the LRT3 progress stands at 39% and is on track to achieve 40% completion by end-20.

STOCK IMPACT

• **Key beneficiary from roll-out of mega projects.** As one of the largest bumi contractors in Malaysia, we expect MRCB to benefit from the revival of shelved mega projects in the near term, including the East Coast Rail Link (ECRL), MRT3 and the potential high-speed rail (HSR). MRCB had won the HSR northern package with its JV partner Gamuda with contract value estimated at RM30b but the project has been shelved. At present, both the Malaysia and Singapore governments are in talks to reduce the HSR development costs and a decision is expected by end-20.

EARNINGS REVISION/RISK

• The worse-than-expected MCO impact to MRCB's 2020F bottom line leads us to slash our 2020 net profit forecast by 87%. We cut our property sales estimate and orderbook replenishment target (refer RHS), revise down our margins amid the MCO impact and factor in the delivery of 1060 Carnegie in 2021. We also cut 2021-22 net profit forecasts by 33% each, factoring in conservative margins for construction and property billings.

VALUATION/RECOMMENDATION

• **Maintain HOLD with lower target price of RM0.42** (from RM0.48). Our target price is based on a 20% discount to our SOTP valuation of RM0.52/share, and implies 37x 2021F PE, or +1SD to its 5-year average forward PE of 29). Our ascribed discount is justified, given the sluggish property outlook. We continue to expect good trading opportunities for the stock: a) should the revival of mega projects (ECRL, Pan Borneo Sabah, HSR) materialise; b) on a sooner-than-expected kick-start of LRT3 works; and c) on an improvement in sentiment in the construction sector. Entry price is RM0.38.

SOTP VALUATION

	RMm
Property	2,364
Construction	46
DCF of LRT3 PDP fees	120
Investment Properties	651
Net Debt	(1,311)
QCT 33% stake	412
Total RNAV	2,281
Sharebase (m)	4,385
SOTP/share (RM)	0.52
Discount	20%
Target Price (RM)	0.42

Source: UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF SEP 20

Projects	(RMm)
Construction Projects	
Bukit Jalil	10,116
LRT3 (50% JV stake)	3,468
Kwasa Utama C8	2,30
MRT2	97
PR1MA Brickfield	295
SUKE	172
Others	234
Sub Total	16,510
Fee-based Contracts	
KWASA UTAMA - Management Fee for C8	177
PDP to Develop Kwasa Damansara township	155
Bukit Jalil Sentral	841
Semarak City Phase 1	27
Sub Total	1,199
Grand Total	17,710

Source: UOB Kay Hian

EBIT FORECASTS BREAKDOWN



Source: UOB Kay Hian

FORECASTS ASSUMPTIONS

RMm		2020F	2021F	2022F
Orderbook	Old	500	1,000	1,000
replenishment	New	0	500	1,000
Property sales	Old	200	350	400
target	New	150	300	350

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	1,319	575	1,060	925
EBITDA	28	98	144	132
Deprec. & amort.	36	45	43	44
EBIT	(9)	52	101	88
Total other non-operating income	101	n.a.	n.a.	n.a.
Associate contributions	7	4	19	40
Net interest income/(expense)	(46)	(56)	(57)	(57)
Pre-tax profit	53	0	62	71
Tax	(34)	0	(16)	(18)
Minorities	5	3	3	3
Net profit	24	3	50	56
Net profit (adj.)	34	3	50	56

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	755	720	727	733
Other LT assets	4,499	4,499	4,499	4,499
Cash/ST investment	517	553	560	558
Other current assets	2,734	2,734	2,734	2,734
Total assets	8,505	8,505	8,519	8,524
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	4,795	4,812	4,820
Minority interest	32	29	26	23
Total liabilities & equity	8,505	8,505	8,519	8,524

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	(345)	46	90	97
Pre-tax profit	53	0	62	71
Tax	14	0	(16)	(18)
Deprec. & amort.	36	45	43	44
Associates	0	0	0	0
Working capital changes	(9)	0	0	0
Other operating cashflows	(440)	0	0	0
Investing	158	(10)	(50)	(50)
Capex (growth)	0	(10)	(50)	(50)
Investments	0	0	0	0
Proceeds from sale of assets	122	0	0	0
Others	36	0	0	0
Financing	19	0	(32)	(49)
Dividend payments	(108)	0	(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	5	0	0	0
Net cash inflow (outflow)	47	36	7	(2)
Beginning cash & cash equivalent	470	517	553	560
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	517	553	560	558

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	2.1	17.0	13.6	14.2
Pre-tax margin	4.0	0.1	5.9	7.7
Net margin	1.8	0.6	4.7	6.1
ROA	0.3	0.0	0.6	0.7
ROE	0.5	0.1	1.0	1.2
Growth				
Turnover	(29.5)	(56.4)	84.5	(12.8)
EBITDA	(76.5)	255.0	47.1	(8.4)
Pre-tax profit	(56.9)	(99.4)	19,525.8	14.2
Net profit	(68.5)	(86.4)	1,433.7	13.4
Net profit (adj.)	(66.7)	(90.4)	1,433.7	13.4
EPS	(66.7)	(90.4)	1,433.7	13.4
Leverage				
Debt to total capital	31.4	31.4	31.3	31.3
Debt to equity	46.1	46.0	45.9	45.8
Net debt/(cash) to equity	35.3	34.5	34.2	34.2
Interest cover (x)	0.6	1.7	2.5	2.3

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2020, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W