

Outthink. Outperform.

Supported by land sale gains

Malaysian Resources Corp Bhd's (MRCB) 9M18 result fell below market and our expectations. Net profit grew 17% yoy to RM74m in 9M18, mainly driven by a net gain of about RM52m (70% of net profit) from land sales. We cut our core EPS forecasts by 9-58% in FY18-20E to reflect lower property and construction earnings. We believe MRCB's earnings growth prospects and financial position will improve in FY19E. Maintain BUY with a RM0.90 target price, based on 40% discount to RNAV.

Below expectations

Core net profit of RM22m (-62% yoy) in 9M18 was only 20-21% of consensus and our full-year forecasts of RM103-109m. This was mainly due to low progress billings and high operating costs for its new property development projects such as Sentral Suites and TRIA, 9 Seputeh. There were also delays in the implementation of the LRT Line 3 (LRT3) project due to the ongoing review to reduce cost by the government.

Land sale gains

MRCB realised PBT of RM69m from land sales. The sale of the German Embassy land to SOCSO contributed revenue of RM323m and PBT of RM37.6m, which was recognised in 3Q18. In 2Q18, MRCB realised a RM31.3m gain from the disposal of land in Penang. However, property development earnings fell 21% yoy to RM89m due to the completion of the Easton Burwood project boosted earnings last year, while most of its new projects are still at early stages of construction.

Lower construction earnings

Construction earnings eased 4% yoy to RM45m in 9M18. The LRT3 project contributed RM20.7m as its share of joint venture (JV) earnings in 9M18 compared to just RM7.2m in 9M17. EBIT margin improved to 8% in 9M18 from 2.9% in 9M17. We cut our core EPS forecasts by 9-58% in FY18-20E to reflect lower construction and property development earnings due to the slow progress billings.

BUY with TP of RM0.90

We reiterate our BUY call on MRCB with TP of RM0.90, based on the same 40% discount to RNAV. The lower construction and property valuation was offset by the positive impact from rolling forward our DCF base year to FY19E. The clearing of uncertainties on the EDL and LRT3 projects will improve its financial position and sustain earnings.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	2,408.1	2,823.7	1,933.3	1,701.0	1,868.3
EBITDA (RMm)	288.1	261.4	144.0	199.6	243.2
Pretax profit (RMm)	392.6	247.3	124.8	175.8	256.4
Net profit (RMm)	267.4	167.6	95.5	130.2	182.8
EPS (sen)	13.8	6.6	2.2	3.0	4.2
PER (x)	5.7	11.9	35.8	26.3	18.7
Core net profit (RMm)	22.0	117.2	43.2	106.2	182.8
Core EPS (sen)	0.6	4.6	1.0	2.4	4.2
Core EPS growth (%)	56.8	282.6	(58.2)	52.9	42.1
Core PER (x)	120.1	17.0	79.2	32.2	18.7
Net DPS (sen)	2.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	3.5	2.2	2.2	2.2	2.2
EV/EBITDA (x)	20.6	17.4	16.5	18.9	14.3
Chg in EPS (%)			(57.9)	(30.2)	(8.5)
Affin/Consensus (x)			0.9	0.9	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

MRCB

MRC MK

Sector: Construction & Infrastructure

RM0.78 @ 12 November 2018

BUY (maintain)

Upside 15%

Price Target: RM0.90

Previous Target: RM0.90



	1M	3M	12M
Absolute	7.6%	-10.9%	-26.2%
Rel to KLCI	9.8%	-5.2%	-24.2%

Stock Data

Issued shares (m)	4,395.1
Mkt cap (RMm)/(US\$m)	3,406.2/813.2
Avg daily vol - 6mth (m)	30.6
52-wk range (RM)	0.55-1.31
Est free float	37%
BV per share (RM)	1.1
P/BV (x)	0.7
Net cash/ (debt) (RMm) (3Q18)	(2,454)
ROE (2018E)	3.3%
Derivatives	Yes
Warrant 2017/27 (RM0.235, EP: RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	35.5%
Gapurna Sdn Bhd	16.6%
Bank Kerjasama Rakyat	7.0%

Source: Affin Hwang, Bloomberg

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EDL deal clears the air of uncertainty

MRCB has agreed to terminate its Eastern Dispersal Link Expressway (EDL) concession for a cash compensation of RM1,325.8m from the government. We view this long-awaited deal positively as it will lead to interest cost savings, a one-off gain of RM24m and reduce net gearing to 0.46x from 0.71x as at end-3Q17. Recall that the government stopped toll collection on the EDL in December 2017 and was negotiating the compensation for concession termination. But the change in government led to some uncertainties on the deal, which have since been cleared with the signing of the agreement on 12 November 2018.

LRT3 contract terms revised

MRCB–George Kent Joint Venture received a Letter of Appointment from Prasarana for the LRT Line 3 (LRT3) for a fixed contract value of RM11,856m (includes contingency sum of RM400m) on 2 November 2018. The date of completion is 28 February 2024. The change in role to a turnkey contract rather than Project Delivery Partner (PDP) increases execution risk due to the fixed contract value. However, the JV could reap a higher profit margin than the fixed PDP fee at 6% of project value if there are any cost savings.

Key risks

Key upside/downside risks are stronger/weaker property sales and higher/lower construction margins.

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Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q17	2Q18	3Q18	QoQ % chg	YoY % chg	9M17	9M18	YoY % chg	Comment
Revenue	1,129.8	405.2	663.8	63.8	(41.3)	2,374.9	1,496.6	(37.0)	9M18: Lower construction (-65% yoy), infrastructure (-97%) and building services (-6%) revenue. Higher property revenue (+34%) due to land sales.
Op costs	(1,034.2)	(353.5)	(622.5)	76.1	(39.8)	(2,147.8)	(1,466.6)	(31.7)	
EBITDA	95.6	51.8	41.3	(20.3)	(56.8)	227.2	30.0	(86.8)	
EBITDA margin (%)	8.5	12.8	6.2	(6.6ppt)	4.3ppt	9.6	2.0	(7.6ppt)	
Depreciation	(17.0)	(8.8)	(8.8)	0.0	(48.1)	(52.4)	(15.3)	(70.8)	
EBIT	78.5	42.9	32.4	(24.5)	(58.7)	174.8	14.7	(91.6)	
Int expense	(41.4)	(16.8)	(15.1)	(10.0)	(63.6)	(114.0)	(36.1)	(68.3)	Repayment of debt led to lower interest expense.
Int and other inc	7.9	(20.2)	(27.7)	36.9	NA	34.8	36.9	6.0	
Associates	8.6	5.8	13.2	128.7	54.3	14.8	29.7	100.9	Higher contribution from LRT3 JV project.
Exceptional items	0.0	31.3	37.6	20.1	100.0	5.4	68.9	1,175.9	Land sale gains in 2Q18 and 3Q18.
Pretax profit	53.6	43.0	40.5	(5.9)	(24.5)	115.8	114.1	(1.5)	
Core pretax profit	53.6	11.7	2.9	(75.4)	(94.6)	110.4	45.2	(59.1)	All divisions saw lower operating profits.
Tax	(20.7)	(10.8)	(22.0)	104.8	6.7	(37.0)	(37.7)	2.1	
Tax rate (%)	45.9	28.9	80.8	52.0ppt	(17.0ppt)	36.6	44.7	8.1ppt	
Minority interests	(2.4)	1.2	1.3	14.2	(156.8)	(14.8)	(1.6)	(89.4)	
Net profit	30.6	33.4	19.8	(40.8)	(35.3)	64.0	74.8	16.8	Below expectations.
EPS (sen)	1.4	0.8	0.5	(40.8)	(67.6)	2.9	1.7	(41.6)	
Core net profit	30.6	9.7	(8.8)	(190.9)	(128.7)	58.6	22.4	(61.8)	Exclude one-off gains.

Source: Affin Hwang estimates, company

Fig 2: Segmental operating profit breakdown

FYE 31 Dec (RMm)	3Q17	4Q17	1Q18	2Q18	3Q18	QoQ % chg	YoY % chg	9M17	9M18	YoY % chg
Engineering & construction	31.3	46.1	16.0	25.0	3.8	(84.7)	(87.8)	46.5	44.8	(3.7)
Property devt & invt	34.6	63.5	24.1	30.9	33.8	9.3	(2.2)	112.5	88.9	(21.0)
Infrastructure	12.7	13.5	(1.3)	(1.7)	(4.8)	185.6	(138.1)	41.7	(7.8)	(118.8)
Building services	0.3	0.3	0.2	0.7	4.8	594.3	1,336.7	11.2	5.6	(49.7)
Investment holding & others	2.4	(0.8)	(11.6)	2.8	2.8	(0.5)	18.5	2.9	(5.9)	(304.8)
Total	81.3	122.6	27.4	57.7	40.4	(30.0)	(50.3)	214.8	125.5	(41.6)

Source: Affin Hwang estimates, company

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	3Q17	4Q17	1Q18	2Q18	3Q18	QoQ ppt	YoY ppt	9M17	9M18	YoY ppt
Engineering & construction	3.4	28.9	8.4	13.0	2.2	(10.8)	(1.3)	2.9	8.0	5.1
Property devt & invt	16.4	32.1	11.0	16.0	7.2	(8.8)	(9.2)	17.0	10.1	(7.0)
Infrastructure	43.9	46.7	(179.7)	(240.6)	(635.6)	(395.0)	(679.4)	48.5	(357.8)	(406.2)
Building services	2.7	1.9	1.3	5.3	34.9	29.7	32.3	26.6	14.1	(12.4)
Total	6.9	30.0	6.4	14.2	6.1	(8.2)	(0.9)	8.9	8.4	(0.5)

Source: Affin Hwang estimates, company



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Fig 4: RNAV and target price assumptions

Segment	New value (RMm)
Property development	4,912
Property investment	1,557
Construction	958
Concession	0
Car Park & REIT	530
Total	7,957
Net cash/(debt)	(1,373)
RNAV	6,584
No. of shares	4,385
RNAV / share	1.50
Target price @ 40% discount	0.90

Source: Affin Hwang estimates

Fig 4: Impact of corporate exercises and disposals on net gearing

RM million	3Q FY2018	Post			
		EDL Concession Termination	EPF's subscription in Bkt Jalil Sentral	Disposal of Ascott	Disposal of Celcom
Bank Borrowings	2,738	2,738	1,600	1,600	1,600
EDL Financing	1,023	-	-	-	-
Total Borrowings	3,761	2,738	1,600	1,600	1,600
Cash & Bank Balances	(282)	(509)*	(509)	(639)	(703)
Net Borrowings/(Cash)	3,479	2,229	1,091	961	897
Total Equity	4,887	4,887	4,887	4,887	4,887
Net Gearing (times)	0.71	0.46	0.22	0.20	0.18

*Additional of RM227 million to the cash & bank balances upon the completion of the EDL termination.

Source: Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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