

HLIB Research

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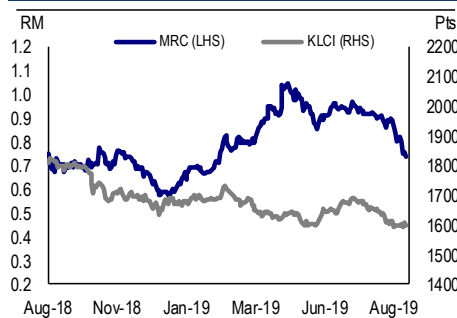
HOLD (Maintain)

Target Price: **RM0.80**
Previously: **RM0.86**
Current Price: **RM0.74**

Capital upside	8.1%
Dividend yield	0.4%
Expected total return	8.5%

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	-19.1	-16.9	-3.3
Relative	-16.7	-17.0	9.3

Stock information

Bloomberg ticker	MRCB MK
Bursa code	1651
Issued shares (m)	4,412
Market capitalisation (RM m)	3,265
3-mth average volume ('000)	6,691
SC Shariah compliant	Yes

Major shareholders

EPF	35.9%
Gapuma SB	15.5%
LTH	6.2%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	23	44	69
EPS - core (sen)	0.5	1.0	1.6
P/E (x)	179.1	93.2	59.4

Malaysian Resources Corporation

Casualty of slow property market and LRT3

MRCB's 1HFY19 bottom-line turned to core loss of RM43.9m which was way below both ours and consensus expectations. YTD bottom-line turned to core loss due to lower revenue contribution from all segments and lower contribution from MRCB-GKent JV due to continued delay of LRT3 which will only resume in 4QFY19 (as opposed to previous expectations of mid-2019) and back to full swing in FY20. Cut FY19-21 earnings forecast by 5-30%. Maintain HOLD with lower TP of RM0.80 (from RM0.86) after earnings forecast adjustment and revision of MQREIT's TP.

Below expectations. MRCB reported 2QFY19 results with revenue of RM241m (+3% QoQ, -29% YoY) and core loss of RM43.9m (against core profit both QoQ and YoY). This brings 1HFY19 core loss to RM39.8m (against RM31.2m core profit in 1HFY18), which is way below expectations. Core loss is adjusted for RM55m gain resulting from disposal of 30% in St Regis.

Deviations. The lower than expected performance was mainly due to lower revenue contribution from all segments and continued delay in LRT3 package due to ongoing cost optimisation. LRT3 project will only resume in 4QFY19 (as opposed to previous expectations of mid-2019) and back to full swing in FY20.

QoQ/ YoY. Bottom-line turned to core loss (against core profit recorded both QoQ and YoY) mainly due to lower revenue contribution from all segments.

YTD. Bottom-line turned to core loss due to lower revenue contribution from all segments and lower contribution from MRCB-GKent JV due to continued delay of LRT3.

Construction. MRCB's orderbook stands at c.RM16bn (excluding LRT3 orderbook as it is equity accounted), translating to a tremendous 20.7x cover on FY18 construction revenue. This is mainly due to recognition of Bukit Jalil Sentral contract as an external orderbook after disposing of the project to EPF. 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.

Property. 1H19 revenue from property segment declined 62% YoY due to (i) no revenue being recognised from the sale of completed unsold units which had yet to achieve sales and purchase completion and (ii) the company's key high rise residential development projects currently being in the early phase of construction where revenue recognition is minimal. YTD property sales stands at RM244m and current unbilled sales stand at c.RM1.8bn which implies a healthy cover of 2.7x on FY18 property revenue.

Forecast. Cut FY19-21 earnings by 30.2%, 5.6% and 5.3% respectively after adjusting LRT3 progress and property unbilled sales recognition assumptions.

Maintain HOLD, TP: RM0.80. Maintain HOLD with lower SOP-driven TP of RM0.80 (from RM0.86) after earnings forecast adjustment and revision of MQREIT's (HOLD, TP: RM1.09) target price.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	340.7	234.1	241.0	3	(29)	768.3	475.0	(38)
EBIT	22.7	18.9	(36.9)	(295)	(262)	46.9	(18.0)	(138)
Finance cost	(16.8)	(12.4)	(12.6)	1	(25)	(21.0)	(25.0)	19
Share of JVs and associates	5.8	1.9	1.3	(34)	(78)	16.5	3.2	(80)
PBT	11.7	8.4	(48.2)	(672)	(511)	42.3	(39.8)	(194)
PAT	8.5	1.6	(47.3)	(3,147)	(658)	34.1	(45.8)	(234)
Core PATMI	9.7	4.1	(43.9)	(1,163)	(555)	31.2	(39.8)	(228)
Reported PATMI	33.4	4.1	11.1	167	(67)	55.0	15.2	(72)
Core EPS (sen)	0.2	0.1	(1.0)	(1,163)	(555)	0.7	(0.9)	(228)
EBIT margin (%)	6.7	8.1	(15.3)			6.1	(3.8)	
PBT margin (%)	3.4	3.6	(20.0)			5.5	(8.4)	
PATMI margin (%)	2.8	1.8	(18.2)			4.1	(8.4)	

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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 - FY19 earnings	53	14	740	0.15
LRT3 PDP fees - annual average	16	10	157	0.03
Property development - NPV of profits		8%	1,725	0.36
Property investment - book value			1,314	0.27
Stake in MRCB-Quill REIT at RM1.09 TP	1,168	28%	326	0.07
Firm value			4,262	0.88
Cash proceeds from Warrants B			548	0.11
Less: Net debt			(948)	(0.20)
Target price			3,862	0.80

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Cash	778	552	847	799	776
Receivables	3,214	1,926	1,126	1,410	1,636
Inventories	154	95	83	107	127
PPE	614	665	716	740	762
Investment properties	1,211	1,314	1,338	1,362	1,386
Others	4,519	3,791	3,680	3,730	3,782
Assets	10,492	8,342	7,790	8,148	8,469
Debits	3,382	1,491	1,591	1,691	1,791
Payables	1,255	1,190	727	940	1,115
Others	735	761	544	544	544
Liabilities	5,372	3,442	2,862	3,175	3,451
Shareholder's equity	4,824	4,832	4,863	4,911	4,962
Minority interest	104	68	66	61	56
Equity	4,929	4,900	4,929	4,972	5,018

Cash Flow Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Profit before taxation	183	75	53	86	93
Depreciation & amortisation	25	37	30	32	34
Changes in working capital	(1,867)	1,143	66	(94)	(71)
Taxation	(66)	(85)	(7)	(13)	(15)
Others	597	(183)	-	-	-
CFO	(1,127)	988	143	11	41
Net capex	(195)	(71)	(105)	(80)	(80)
Others	(847)	1,083	-	-	-
CFI	(1,042)	1,012	(105)	(80)	(80)
Changes in borrowings	445	(1,890)	100	100	100
Issuance of shares	1,793	9	-	-	-
Dividends paid	(60)	(77)	(77)	(13)	(21)
Others	(137)	(36)	-	-	-
CFF	2,041	(1,994)	23	87	79
Net cash flow	(129)	6	61	18	40
Forex	-	-	-	-	-
Others	185	82	-	-	-
Beginning cash	722	464	552	847	799
Ending cash	778	552	847	799	776

Income Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,824	1,792	1,462	1,893	2,237
EBITDA	274	68	110	135	147
EBIT	248	43	79	103	113
Net finance cost	(91)	(23)	(56)	(60)	(65)
Associates & JV	25	25	30	44	44
Profit before tax	183	45	53	86	93
Tax	(66)	(46)	(7)	(13)	(15)
Net profit	117	24	46	73	78
Minority interest	(14)	(1)	(2)	(4)	(5)
PATMI (core)	103	23	44	69	73
Exceptionals	65	78	-	-	-
PATMI (reported)	168	101	44	69	73
Consensus - PATMI			109	128	175
HLIB/ Consensus			40.3%	53.6%	41.7%

Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Core EPS (sen)	2.3	0.5	1.0	1.6	1.7
P/E (x)	39.7	179.1	93.2	59.4	56.0
EV/EBITDA (x)	18.8	75.1	46.8	38.1	34.9
DPS (sen)	1.8	1.8	0.3	0.5	0.5
Dividend yield	1.9%	1.9%	0.3%	0.5%	0.5%
BVPS (RM)	1.10	1.10	1.11	1.12	1.13
P/B (x)	0.8	0.8	0.8	0.8	0.8
EBITDA margin	9.7%	3.8%	7.5%	7.1%	6.6%
EBIT margin	8.8%	2.4%	5.4%	5.4%	5.1%
PBT margin	6.5%	2.5%	3.6%	4.5%	4.1%
Net margin	3.6%	1.3%	3.0%	3.6%	3.3%
ROE	2.7%	0.5%	0.9%	1.4%	1.5%
ROA	1.1%	0.2%	0.5%	0.9%	0.9%
Net gearing	54.0%	19.4%	15.3%	18.2%	20.5%

Assumptions

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Contracts secured	468	250	250	500	500
Property sales	1,424	457	500	500	500

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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.

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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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