

HLIB Research

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HOLD (Maintain)

Target Price: RM0.86
Previously: RM0.72
Current Price: RM0.93

Capital upside	-8.6%
Dividend yield	0.4%
Expected total return	-8.2%

Sector coverage: Construction

Company description: MRCB is primarily involved in property development (with a niche in TODs) and construction.

Share price


	1M	3M	12M
Absolute	-9.7	19.2	63.2
Relative	-9.4	24.4	71.4

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,400
Market capitalisation (RM m)	4,092
3-mth average volume ('000)	16,301
SC Shariah compliant	Yes

Major shareholders

EPF	36.0%
Gapurna SB	16.1%
LTH	6.7%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	23	63	73
EPS - core (sen)	0.5	1.4	1.7
P/E (x)	179.1	65.0	56.1

Malaysian Resources Corporation

Expect stronger subsequent quarters

MRCB reported 1QFY19 earnings of RM4m (+1682% QoQ, -81% YoY), made up 6% of our full year forecast (consensus: 7%). We deem the results inline as we expect higher recognition of property unbilled sales in subsequent quarters and higher contribution from LRT3 JV in 2H. 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. YTD property sales stands at RM75m, mainly from Sentral Suites project (69% of sales). Management is aiming for RM800m sales target in FY19. Maintain forecast and HOLD rating with higher SOP-driven TP of RM0.86 (from RM0.72) as we raised PE multiple ascribed to construction division to 15x (from 12x) in view of improved domestic construction outlook and updated model after release of annual report.

Deem within expectations. MRCB reported 1QFY19 results with revenue of RM234.1m (-37% QoQ, -45% YoY) and core earnings of RM4.1m (>100% QoQ, -81% YoY). The latter made up only 6% of our full year forecast (consensus: 7%). While this may appear to be a shortfall, we regard this as inline in anticipation of (i) higher recognition of property unbilled sales in subsequent quarters and (ii) higher contribution from LRT3 JV in 2H when work recommences.

QoQ. Core PATAMI increased significantly to RM4.1m (from RM0.2) mainly due to lower share of losses from JVs attributable to RM0.5m profit earned from LRT3 PDP JV (against losses recorded in 4Q18).

YoY. Core PATAMI decreased -81% mainly due to lower contribution from property segment. This is due to construction completion of 2 significant property projects, namely VIVO in 9 Seputeh and Kalista Park Homes in Bukit Rahman Putra, which resulted in revenue from sales in these projects no longer being progressively recognised. Remaining development profits from these projects will only be recognised upon completion of SPA which we expect to happen in subsequent quarters.

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 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. YTD property sales stands at RM75m, mainly from Sentral Suites project (69% of sales). Management is aiming for RM800m sales target in FY19 with RM100m from clearing completed inventories and the rest from launching new projects. Current unbilled sales stand at c.RM1.6bn which implies a healthy cover of 2.4x on FY18 property revenue.

Forecast. Maintain forecast as we deem results inline. We introduce our FY21 earnings forecast of RM77.0m.

Maintain HOLD, TP: RM0.86. Maintain HOLD with higher SOP-driven TP of RM0.86 (from RM0.72) as we raised PE multiple ascribed to construction division to 15x (from 12x) in view of improved domestic construction outlook and updated model after release of annual report. FY19-21 implied PE of our TP are 59.2x, 51.0x and 48.3x respectively.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	427.6	374.1	234.1	(37)	(45)
EBIT	24.2	19.1	18.9	(1)	(22)
Finance cost	(4.3)	(7.2)	(12.4)	71	190
Share of JVs and associates	10.7	(4.2)	1.9	(146)	(82)
PBT	30.6	7.7	8.4	9	(72)
PAT	25.6	0.3	1.6	390	(94)
Core PATMI	21.5	0.2	4.1	1,682	(81)
Reported PATMI	21.5	26.2	4.1	(84)	(81)
Core EPS (sen)	0.5	0.0	0.1	1,682	(81)
EBIT margin (%)	5.7	5.1	8.1		
PBT margin (%)	7.1	2.1	3.6		
Core PATMI margin (%)	5.0	0.1	1.8		

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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	15	793	0.16
LRT3 PDP fees - annual average	17	10	166	0.03
Property development - NPV of profits		8%	1,920	0.40
Property investment - book value			1,314	0.27
Stake in MRCB-Quill REIT at RM1.16 TP	1,243	28%	347	0.07
Firm value			4,539	0.94
Cash proceeds from Warrants B			548	0.11
Less: Net debt			(948)	(0.20)
Target price			4,140	0.86

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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	805	795	773
Receivables	3,214	1,926	1,275	1,459	1,686
Inventories	154	95	95	111	131
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	7,910	8,197	8,520
Debits	3,382	1,491	1,591	1,691	1,791
Payables	1,255	1,190	835	976	1,151
Others	735	761	544	544	544
Liabilities	5,372	3,442	2,970	3,211	3,487
Shareholder's equity	4,824	4,832	4,876	4,927	4,981
Minority interest	104	68	63	58	52
Equity	4,929	4,900	4,940	4,986	5,034

Cash Flow Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Profit before taxation	183	75	81	93	99
Depreciation & amortisation	25	37	30	32	34
Changes in working capital	(1,867)	1,143	13	(59)	(71)
Taxation	(66)	(85)	(13)	(15)	(17)
Others	597	(183)	-	-	-
CFO	(1,127)	988	110	52	46
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)	(19)	(22)
Others	(137)	(36)	-	-	-
CFF	2,041	(1,994)	23	81	78
Net cash flow	(129)	6	28	53	44
Forex	-	-	-	-	-
Others	185	82	-	-	-
Beginning cash	722	464	552	805	795
Ending cash	778	552	805	795	773

Income Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,824	1,792	1,688	1,968	2,313
EBITDA	274	68	130	142	154
EBIT	248	43	100	109	120
Net finance cost	(91)	(23)	(56)	(60)	(65)
Associates & JV	25	25	37	44	44
Profit before tax	183	45	81	93	99
Tax	(66)	(46)	(13)	(15)	(17)
Net profit	117	24	67	78	83
Minority interest	(14)	(1)	(5)	(5)	(6)
PATMI (core)	103	23	63	73	77
Exceptionals	65	78	-	-	-
PATMI (reported)	168	101	63	73	77
Consensus - PATMI			113	148	215
HLIB/ Consensus			55.5%	49.1%	35.9%

Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Core EPS (sen)	2.3	0.5	1.4	1.7	1.8
P/E (x)	39.7	179.1	65.0	56.1	53.0
EV/EBITDA (x)	18.8	75.1	39.4	36.2	33.4
DPS (sen)	1.8	1.8	0.4	0.5	0.5
Dividend yield	1.9%	1.9%	0.5%	0.5%	0.6%
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%	7.7%	7.2%	6.7%
EBIT margin	8.8%	2.4%	5.9%	5.6%	5.2%
PBT margin	6.5%	2.5%	4.8%	4.7%	4.3%
Net margin	3.6%	1.3%	3.7%	3.7%	3.3%
ROE	2.7%	0.5%	1.3%	1.5%	1.6%
ROA	1.1%	0.2%	0.8%	0.9%	0.9%
Net gearing	54.0%	19.4%	16.1%	18.2%	20.4%

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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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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