

HLIB Research

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HOLD (Maintain)

Target Price: RM0.65
Previously: RM0.71
Current Price: RM0.73

Capital upside -11.0%
Dividend yield 0.4%
Expected total return -10.5%

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	-4.6	-9.9	-25.9
Relative	-3.1	-4.4	-24.7

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,395
Market capitalisation (RM m)	3,208
3-mth average volume ('000)	21,330
SC Shariah compliant	Yes

Major shareholders

Employees Provident Fund	35.5%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.0%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	103	42	75
EPS - core (sen)	2.3	1.0	1.7
P/E (x)	31.2	76.2	42.6

Malaysian Resources Corporation

Results dragged by property

MRCB's 9MFY18 earnings of RM22.4m (-59% YoY) were below both our and consensus expectations due to lower than expected contribution from property development division. We understand that MRCB-Gkent JV would not recognise any revenue from LRT3 contract in 4Q18 until signing of new contract which is expected in December 2018. Property sales target revised downwards to RM500m after disappointing sales performance. Cut FY18-20 earnings forecast by 33-44% after taking into account lower property development margin and lower property sales target. Maintain HOLD rating with lower TP of RM0.65 (from RM0.71) following earnings forecast adjustment.

Below expectations. MRCB reported 3QFY18 results with adjusted revenue of RM340.8m (flat QoQ, -70% YoY) and core loss of RM8.8m against core profit both QoQ and YoY. This brings 9MFY18 core earnings to RM22.4m, decreasing by 59% YoY. 9M core earnings accounted for 30% of our and 21% of consensus forecast respectively which is below expectations. 9M revenue and core earnings are adjusted for Penang and Kia Peng lands disposal amounting to c.RM388m and c.RM69m respectively.

Deviation. Results were below expectations mainly due to lower than expected contribution from property development division due to completion of Easton Burwood while most of its other ongoing developments are still at the early stage of construction.

QoQ/ YoY. Bottom-line turned to core loss mainly due to lower revenue contribution from both property and construction segments.

YTD. YTD core PATAMI decreased by 59% mainly due to lower revenue contribution from both property and construction segments.

LRT3. Management provided further clarification on the new LRT3 contract model which is in-line with our earlier expectation as we opine that the major difference between old PDP and new fixed priced model is that the contract value will be fixed in the new model to prevent any incentive for the project manager (which is the PDP in this case) to inflate the project costs. We understand that MRCB-Gkent JV would not recognise any revenue from LRT3 contract in 4Q18 until signing of new contract which is expected in December 2018.

Property. YTD property revenue and EBIT (excluded impact from land disposal) fell by 25% and 82% YoY due to completion of Easton Burwood while most of its other ongoing developments are still at the early stage of construction. YTD property sales only amounted to RM356m which caused management to revise sales target to c.RM500m (from RM700m) Nonetheless, unbilled sales of RM1.6bn implies a healthy cover of 2.2x on FY17 property revenue.

Forecast. Cut FY18-20 earnings forecast by 43.9%, 37.8% and 33.3% respectively after taking into account lower property development margin and lower property sales target.

Maintain HOLD, TP: RM0.65. Maintain HOLD rating with lower SOP-driven TP of RM0.65 (from RM0.71) following earnings forecast adjustment. Our TP is pegged to a 20% discount to SOP value (RM0.81). FY18-20 implied PE of our TP is expensive 67.9x, 38.0x and 30.8x respectively.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	1,134.1	340.7	340.8	0	(70)	2,410.5	1,109.0	(54)
EBIT	85.2	22.7	4.7	(79)	(94)	207.7	51.6	(75)
Finance cost	(41.4)	(16.8)	(15.1)	(10)	(64)	(114.0)	(36.1)	(68)
Share of JVs and associates	8.6	5.8	13.2	129	54	14.2	29.7	109
PBT	52.3	11.7	2.9	(75)	(94)	108.0	45.2	(58)
PAT	30.5	8.5	(10.1)	(219)	(133)	69.6	24.0	(66)
Core PATMI	28.1	9.7	(8.8)	(191)	(131)	54.6	22.4	(59)
Reported PATMI	28.1	33.4	19.8	(41)	(30)	60.1	74.8	24
Core EPS (sen)	0.6	0.2	(0.2)	(191)	(131)	1.2	0.5	(59)
EBIT margin (%)	7.5	6.7	1.4			8.6	4.7	
PBT margin (%)	4.6	3.4	0.8			4.5	4.1	
Core PATMI margin (%)	2.5	2.8	(2.6)			2.3	2.0	

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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	38	10	375	0.07
LRT3 PDP fees - annual average	17	10	166	0.03
Property development - NPV of profits		10%	1,684	0.30
Property investment - book value			1,236	0.22
Eastern Dispersal Link - asset value		10%	1,326	0.24
Stake in MRCB-Quill REIT at RM1.29 TP	1,383	28%	386	0.07
Firm value			5,173	0.92
Sale of Bkt Jalil development to EPF			960	0.17
Cash proceeds from Warrants A			1,328	0.24
Cash proceeds from Warrants B			548	0.10
Less: Net debt			(3,436)	(0.61)
Equity value			4,573	0.81
Discount applied		20%	(915)	(0.16)
Target price			3,658	0.65

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Cash	722	778	1,057	1,244	1,226
Receivables	1,389	3,214	1,180	1,287	1,354
Inventories	58	154	53	57	61
PPE	438	614	688	733	751
Investment properties	520	1,211	1,236	1,260	1,285
Others	4,380	4,519	4,632	3,425	3,549
Assets	7,507	10,492	8,845	8,007	8,226
Debits	2,937	3,382	2,382	1,423	1,523
Payables	1,315	1,255	775	841	895
Others	230	735	735	735	735
Liabilities	4,482	5,372	3,892	3,000	3,154
Shareholder's equity	2,926	4,824	4,854	4,906	4,971
Minority interest	99	104	99	100	101
Equity	3,025	4,929	4,953	5,006	5,073

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Profit before taxation	203	183	43	100	125
Depreciation & amortisation	25	25	32	35	37
Changes in working capital	(98)	(1,867)	1,655	(45)	(17)
Taxation	(74)	(66)	(0)	(18)	(24)
Others	100	597	-	-	-
CFO	157	(1,127)	1,730	72	121
Net capex	(128)	(195)	(130)	(105)	(80)
Others	(213)	(847)	(81)	(138)	(138)
CFI	(341)	(1,042)	(211)	(243)	(218)
Changes in borrowings	(450)	445	(1,000)	(959)	100
Issuance of shares	402	1,793	-	-	-
Dividends paid	(45)	(60)	(77)	(13)	(23)
Others	531	(137)	-	-	-
CFF	438	2,041	(1,077)	(971)	77
Net cash flow	254	(129)	442	(1,143)	(19)
Forex	-	-	-	-	-
Others	(53)	185	-	-	-
Beginning cash	522	722	778	1,057	1,244
Ending cash	722	778	1,057	1,244	1,226

Income Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	2,408	2,824	1,476	1,701	1,803
EBITDA	348	274	68	149	150
EBIT	323	248	36	113	113
Net finance cost	(152)	(91)	(35)	(52)	(35)
Associates & JV	33	25	41	39	46
Profit before tax	203	183	43	100	125
Tax	(74)	(66)	(0)	(18)	(24)
Net profit	130	117	42	82	101
Minority interest	(52)	(14)	(0)	(6)	(8)
PATMI (core)	78	103	42	75	93
Exceptionals	189	65	-	-	-
PATMI (reported)	267	168	42	75	93
Consensus - PATMI			109	144	173
HLIB/ Consensus			38.6%	52.2%	53.8%

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Core EPS (sen)	1.8	2.3	1.0	1.7	2.1
P/E (x)	41.0	31.2	76.2	42.6	34.5
EV/EBITDA (x)	19.4	24.6	99.6	45.4	44.8
DPS (sen)	1.4	1.8	0.3	0.5	0.6
Dividend yield	1.9%	2.4%	0.4%	0.7%	0.9%
BVPS (RM)	0.67	1.10	1.11	1.12	1.13
P/B (x)	1.1	0.7	0.7	0.7	0.6
EBITDA margin	14.5%	9.7%	4.6%	8.7%	8.3%
EBIT margin	13.4%	8.8%	2.4%	6.7%	6.3%
PBT margin	8.4%	6.5%	2.9%	5.9%	6.9%
Net margin	3.2%	3.6%	2.9%	4.4%	5.1%
ROE	3.0%	2.7%	0.9%	1.5%	1.9%
ROA	1.1%	1.1%	0.4%	0.9%	1.1%
Net gearing	75.7%	54.0%	27.3%	3.7%	6.0%

Assumptions

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Contracts secured	893	468	250	500	500
Property sales	192	1,424	500	700	800

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% 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 to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

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.