

HLIB Research

PP 9484/12/2012 (031413)

Yip Kah Ming
kmyip@hlib.hongleong.com.my

(603) 2083 1723

HOLD (Maintain)

Target Price: **RM0.72**
Previously: **RM0.65**
Current Price: **RM0.80**

Capital upside	-11.1%
Dividend yield	2.3%
Expected total return	-8.8%

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	14.3	11.9	-27.9
Relative	13.1	10.8	-22.0

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,400
Market capitalisation (RM m)	3,520
3-mth average volume ('000)	12,332
SC Shariah compliant	Yes

Major shareholders

Employees Provident Fund	36.0%
Gapuma Sdn Bhd	16.1%
Lembaga Tabung Haji	7.0%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	22.6	69.7	87.4
EPS - core (sen)	0.5	1.6	2.0
P/E (x)	160.0	50.4	40.2

Malaysian Resources Corporation

Core earnings missed

MRCB's FY18 earnings of RM22.6m (-77% YoY) were below both our and consensus expectations due to higher than expected tax expenses. MRCB unbilled orderbook stands at c.RM17bn (exclude LRT3 orderbook as it is equity accounted), translating to a tremendous 22.4x cover on FY18 construction revenue. Management is aiming for RM800m sales target in FY19 with RM100m from clearing completed inventories and the rest from launching new projects. Cut FY19-20 earnings forecast by 7.4% and 5.9% respectively after taking into account lower property development margin and lower property sales target. **Maintain HOLD rating with higher TP of RM0.72 (from RM0.65).**

Below expectations. MRCB reported 4QFY18 results with revenue of RM374.1m (+10% QoQ, -8% YoY) and core profit of RM0.2m (against core loss QoQ, -99% YoY). This brings FY18 core earnings to RM22.6m, decreasing by 77% YoY. FY18 core earnings accounted for 54% of our and 23% of consensus forecast respectively which is below expectations. 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 higher than expected tax expenses.

QoQ. Bottom-line was slightly above breakeven point at RM0.2m against core loss recorded in 3Q mainly due to improved performance from both construction and property segment.

YoY. Core PATAMI plunged and barely broke even mainly due to weaker performance from construction division, partially offset by improved property segment.

YTD. Core PATAMI decreased by 77% mainly due to lower revenue contribution from both property and construction segments.

Construction. MRCB's orderbook stands at c.RM17bn (excluding LRT3 orderbook as it is equity accounted), translating to a tremendous 22.4x 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 long term in nature. Current tenderbook stands at RM2.9bn with 10% from infrastructure jobs and the rest from private sector building jobs.

Property. YTD property revenue and EBIT (excluding land disposal) fell by 24% and 74% 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 RM470m, still short of its revised sales target of RM500m. 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. Cut FY19-20 earnings forecast by 7.4% and 5.9% respectively after taking into account lower property development margin and lower property sales target.

Maintain HOLD, TP: RM0.72. Maintain HOLD rating with higher SOP-driven TP of RM0.72 (from RM0.65) after we remove the SOP discount as we deem this is no longer warranted given its much improved balance sheet (net gearing: 0.19x) and eased risk from the LRT3 contract. FY19-20 implied PE of our TP are 44.4x and 35.4x respectively.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	408.2	340.8	374.1	10	(8)	2,818.6	1,483.1	(47)
EBIT	62.1	4.7	19.1	304	(69)	269.8	70.7	(74)
Finance cost	(2.1)	(15.1)	(7.2)	(52)	242	(116.1)	(43.3)	(63)
Share of JVs and associates	10.8	13.2	(4.2)	(132)	(139)	25.0	25.5	2
PBT	70.8	2.9	7.7	167	(89)	178.7	52.9	(70)
PAT	44.0	(10.1)	0.3	(103)	(99)	113.7	24.3	(79)
Core PATMI	44.9	(8.8)	0.2	(103)	(99)	99.4	22.6	(77)
Reported PATMI	105.7	19.8	26.2	33	(75)	165.7	101.0	(39)
Core EPS (sen)	1.0	(0.2)	0.0	(103)	(99)	2.3	0.5	(77)
EBIT margin (%)	15.2	1.4	5.1			9.6	4.8	
PBT margin (%)	17.3	0.8	2.1			6.3	3.6	
Core PATMI margin (%)	11.0	(2.6)	0.1			3.5	1.5	

Bursa, HLIB Research

Figure #2 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY19 earnings	35	12	421	0.09
LRT3 PDP fees - annual average	17	10	166	0.03
Property development - NPV of profits		10%	1,684	0.35
Property investment - book value			1,236	0.26
Stake in MRCB-Quill REIT at RM1.23 TP	1,318	28%	368	0.08
Firm value			3,874	0.80
Cash proceeds from Warrants B			548	0.11
Less: Net debt			(948)	(0.20)
Target price			3,475	0.72

HLIB Research

Figure #3 Financial forecast summary

FYE Dec (RM m)	FY16	FY17	FY18	FY19f	FY20f
Revenue	2,408.1	2,823.7	1,483.1	1,660.2	1,803.1
EBITDA	348.0	273.6	101.7	139.2	141.1
EBIT	323.2	248.2	70.7	104.1	103.7
PBT	203.4	182.6	52.9	90.6	115.4
PAT	129.9	117.1	24.3	75.1	94.6
PATMI – Core	78.1	102.9	22.6	69.7	87.4
PATMI – Reported	267.4	167.6	101.0	69.7	87.4
% change YoY – Core PATMI		32%	-78%	208%	25%
HLIB/ Consensus (%) – Core PATMI				-8%	-6%
Core EPS (sen)	1.8	2.3	0.5	1.6	2.0
P/E (x)	45.0	34.1	160.0	50.4	40.2
EV/EBITDA (x)	13.1	16.7	44.8	32.8	32.3
DPS (sen)	1.4	1.8	1.8	0.5	0.6
Yield (%)	1.7%	2.2%	2.2%	0.6%	0.7%
BVPS (RM/share)	0.7	1.1	1.1	1.1	1.1
P/B (x)	1.2	0.7	0.7	0.7	0.7
ROE (%)	3.0%	2.7%	0.5%	1.4%	1.8%
Net Gearing (%)	75.7%	54.0%	19.0%	3.5%	6.1%

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 27 February 2019, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 27 February 2019, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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.