

HLIB Research
PP 9484/12/2012 (031413)

Malaysian Resources Corporation

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BUY (Maintain)

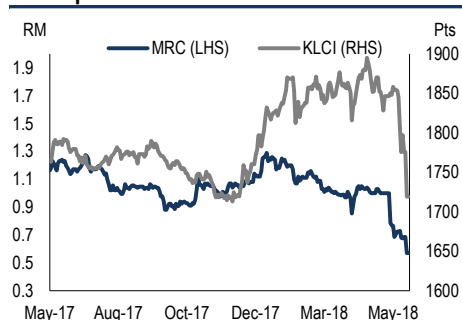
Target Price: RM0.68
Previously: RM1.31
Current Price: RM0.57

Capital upside	19.3%
Dividend yield	1.2%
Expected total return	20.5%

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	-44.7	-47.2	-52.0
Relative	-40.0	-43.0	-50.7

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,391
Market capitalisation (RM m)	2,503
3-mth average volume ('000)	17,444
SC Shariah compliant	Yes

Major shareholders

Employees Provident Fund	35.3%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.0%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	102.9	104.0	135.7
EPS - core (sen)	2.3	2.4	3.1
P/E (x)	24.3	24.1	18.4

Decent recover but slower-than-expected

1Q18 earnings of RM22m (-52% QoQ, +150% YoY) were below ours and consensus expectations due to lower-than-expected property margin. While the HSR has been cancelled, management expects the LRT3 (10% progress) to go on. MRCB is still awaiting details on the EDL compensation from the new government. YTD property sales of RM101m is arguably slow but unbilled sales of RM1.6bn implies a strong cover of 2.1x. Cut FY18 earnings by 10% and lower SOP based TP from RM1.31 to RM0.68. Maintain BUY as share price has fallen 49% YTD.

Below expectations. MRCB reported 1Q18 results with revenue of RM427.6m (+5% QoQ, -18% YoY) and core earnings of RM21.5m (-52% QoQ, +150% YoY). This made up 19% of our full year core earnings forecast (consensus: 13%) which is below expectations. The result disappointment mainly stemmed from lower-than-expected property margin.

Construction margin recovers but... Despite flattish construction revenue, PBT jumped 10-fold YoY due to the low base effect last year (from legacy projects). Construction PBT margin came in at 7.3%, a healthy recovery from the 0.5% witnessed in 1Q last year.

...weaker job flows ahead. On the HSR cancellation (where the MRCB-Gamuda JV was appointed PDP for the northern section), management said that work has not started and no significant cost has been incurred. For LRT3 (MRCB-GKent JV is the PDP) management does not foresee cancellation as work is ongoing (10% progress) with most of the major contracts already dished out. Following the change in administration post GE14, management is cautious on the government contract flow outlook and will be focusing more on private sector and EPF related jobs.

Weak start for property sales. Property revenue and PBT fell by 20% and 50% YoY due to completion of Easton Burwood while most of its other ongoing developments are still at the early stage of constructions. YTD property sales only amounted to RM101m (FY17: RM1.4bn). Nonetheless, unbilled sales of RM1.6bn implies a healthy cover of 2.1x on FY17 property revenue.

Still awaiting decision on EDL. MRCB has ceased tolling on the EDL on 1 Jan and has since handed over the highway to the federal government. Management guides that the only cost incurred on the highway is finance charges. The next payment on its Sukuk will be due in June where management indicates that it will still be able to meet the payment. MRCB has met up with the new administration post GE14 to discuss on the EDL's compensation but is still waiting on a decision.

Forecast. In view of the lower-than-expected results, we cut FY18 earnings by 10% on lower property margin.

Maintain BUY, TP: RM0.68. Apart from the earnings cut, we also amend our SOP based valuation, namely: (i) assume that the compensation from EDL will equal to its BV, (ii) lower construction P/E target from 16x to 10x to reflect the uncertain job flow outlook and (iii) ascribe a 30% SOP discount. All in all, our TP is reduced from RM1.32 to RM0.68.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Cash	722	778	1,192	1,214	1,235
Receivables	1,389	3,214	1,255	1,287	1,354
Inventories	58	154	51	54	58
PPE	438	614	688	733	751
Investment properties	520	1,211	1,236	1,260	1,285
Others	4,380	4,329	4,441	4,560	4,684
Assets	7,507	10,301	8,864	9,108	9,367
Debits	2,937	3,382	2,382	2,482	2,582
Payables	1,315	1,255	750	797	850
Others	230	735	735	735	735
Liabilities	4,482	5,372	3,867	4,015	4,168
Shareholder's equity	2,926	4,824	4,897	4,992	5,096
Minority interest	99	104	100	102	104
Equity	3,025	4,929	4,997	5,094	5,200

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Profit before taxation	203	183	139	183	194
Depreciation & amortisation	25	25	32	35	37
Changes in working capital	(98)	(1,867)	1,556	13	(18)
Taxation	(74)	(66)	(26)	(35)	(34)
Others	100	597	-	-	-
CFO	157	(1,127)	1,701	196	180
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)	100	100
Issuance of shares	402	1,793	-	-	-
Dividends paid	(45)	(60)	(77)	(31)	(41)
Others	531	(137)	-	-	-
CFF	438	2,041	(1,077)	69	59
Net cash flow	254	(129)	414	22	21
Forex	-	-	-	-	-
Others	(53)	185	-	-	-
Beginning cash	522	722	778	1,192	1,214
Ending cash	722	778	1,192	1,214	1,235

Income Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	2,408	2,824	1,587	1,701	1,803
EBITDA	348	274	208	222	224
EBIT	323	248	176	186	187
Net finance cost	(152)	(91)	(89)	(70)	(73)
Associates & JV	33	25	52	67	81
Profit before tax	203	183	139	183	194
Tax	(74)	(66)	(26)	(35)	(34)
Net profit	130	117	113	148	160
Minority interest	(52)	(14)	(9)	(12)	(12)
PATMI (core)	78	103	104	136	148
Exceptionals	189	65	-	-	-
PATMI (reported)	267	168	104	136	148
Consensus - PATMI			168	216	273
HLIB/ Consensus			61.8%	62.8%	54.4%

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Core EPS (sen)	1.8	2.3	2.4	3.1	3.4
P/E (x)	32.0	24.3	24.1	18.4	16.9
EV/EBITDA (x)	15.8	20.0	26.4	24.7	24.5
DPS (sen)	1.4	1.8	0.7	0.9	1.0
Dividend yield	2.4%	3.1%	1.2%	1.6%	1.8%
BVPS (RM)	0.67	1.10	1.12	1.14	1.16
P/B (x)	0.9	0.5	0.5	0.5	0.5
EBITDA margin	14.5%	9.7%	13.1%	13.0%	12.4%
EBIT margin	13.4%	8.8%	11.1%	11.0%	10.4%
PBT margin	8.4%	6.5%	8.8%	10.7%	10.8%
Net margin	3.2%	3.6%	6.6%	8.0%	8.2%
ROE	3.0%	2.7%	2.1%	2.7%	2.9%
ROA	1.1%	1.2%	1.1%	1.5%	1.6%
Net gearing	75.7%	54.0%	24.3%	25.4%	26.4%

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

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)
Revenue	519.8	408.2	427.6	5	(18)
EBIT	63.3	62.1	24.2	(61)	(62)
Finance cost	(35.2)	(2.1)	(4.3)	102	(88)
Share of JVs and associates	(1.1)	10.8	10.7	(1)	(1,037)
PBT	27.0	70.8	30.6	(57)	13
PAT	18.6	44.0	25.6	(42)	38
Core PATMI	8.6	44.9	21.5	(52)	150
Reported PATMI	8.6	105.7	21.5	(80)	150
Core EPS (sen)	0.2	1.0	0.5		
EBIT margin (%)	12.2	15.2	5.7		
PBT margin (%)	5.2	17.3	7.1		
PATMI margin (%)	1.7	11.0	5.0		

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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 - FY18 earnings	39	10	387	0.07
LRT3 PDP fees - annual average	46	10	456	0.08
Property development - NPV of profits		10%	2,391	0.43
Property investment - cap rate		7%	720	0.13
Eastern Dispersal Link - asset value		10%	1,135	0.20
Stake in MRCB-Quill REIT at RM1.48 TP	1,500	28%	418	0.07
Firm value			5,508	0.98
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			(2,879)	(0.51)
Equity value			5,465	0.97
Discount applied		30%	(1,640)	(0.29)
Target price			3,826	0.68

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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.

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