

**HLIB Research**

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**HOLD** (Maintain)

**Target Price: RM0.71**

**Previously: RM0.78**

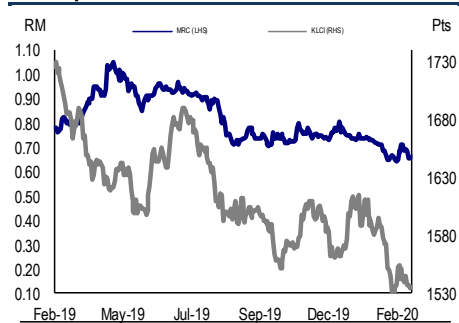
**Current Price: RM0.66**

Capital upside	7.6%
Dividend yield	0.3%
Expected total return	7.9%

**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	-7.7	-12.0	-17.5
Relative	-3.4	-7.3	-5.7

**Stock information**

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	2912
3-mth average volume ('000)	5973
SC Shariah compliant	Yes

**Major shareholders**

EPF	35.9%
Gapurna	15.5%
LTH	6.0%

**Earnings summary**

FYE (Dec)	FY19	FY19f	FY20f
PATMI - core (RM m)	-31	27	39
EPS - core (sen)	-0.0	0.6	0.9
P/E (x)	NA	103.8	73.8

# Malaysian Resources Corporation

## Slight pick-up but still insufficient

MRCB's FY19 bottom-line remains at a core loss of -RM31.3m which is significantly below both ours and consensus expectations. YTD core loss was due to lower revenue contribution from construction and property segments as well as lower contribution from MRCB-Gkent JV due to continued delay of LRT3. Progress for LRT3 project is expected to pick-up in FY20. Cut FY20-21 earnings forecast by 34-40%. Maintain HOLD with lower TP of RM0.71 (from RM0.78) after earnings forecast adjustment.

**Below expectations.** MRCB reported 4QFY19 results with revenue of RM471.6m (+27% QoQ, +26% YoY) and core PATMI of RM6.0m (+139% YoY, against marginal profit in 4QFY18). This brings FY19 core loss to -RM31.3m (against RM22.6m core PATMI in FY18), which is significantly below our and consensus expectations.

**Deviations.** The poorer than expected performance is mainly due to lower margins from its construction and property segments as well as delay in LRT3 package (equity accounted) due to cost optimisation exercise. Management shared that progress for LRT3 project will pick up in FY20.

**Dividends.** DPS of 1 sen (going ex. on 29 April-20) was declared during the quarter (FY19: 1sen, FY18: 1.75 sen).

**QoQ/ YoY.** Core PATAMI increased by 139% QoQ and spiked YoY (due to marginal profit in 4QFY18) due to stringer contribution from construction segment due to higher progress billings from MRT2, Kwasa Utama C8 as well as DASH and SUKE packages.

**YTD.** Bottom-line remains in core losses due to lower revenue contribution from construction and property segments compounded by lower earnings contribution of RM0.6m (against RM14.6m in 9M18) from MRCB-Gkent JV due to continued sluggishness of progress billings for LRT3.

**Construction.** MRCB's outstanding orderbook stands at c.RM16bn (excluding LRT3 as it is equity accounted), translating to a tremendous c.24x cover on FY19 construction revenue. Orderbook is inflated by the disposal of Bukit Jalil Sentral (RM10.9b) to EPF resulting in its recognition as external orderbook. 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. Based on our estimation, c.65% of outstanding orderbook have yet to materially contribute to earnings.

**Property.** FY19 revenue from property segment declined 13% YoY hampered by (i) no revenue being booked from the sales of completed units which had yet to reach sales and purchase completion and (ii) key high rise residential development projects (Sentral Suites, 1060 Carnegie and 9 Seputeh) currently being in the early phase of construction where revenue recognition is minimal. Encouragingly, 1060 Carnegie has achieved 100% completion and profit recognition should commence upon handover slated to commence in 1Q20. Unbilled sales from these key projects amount to c.RM1.5b. FY19 property sales stands at RM537m and current unbilled sales stand at c.RM1.6bn implying a healthy cover of 2.9x on FY19 property revenue.

**Forecast.** Cut FY20-21 earnings by -34.1% and -40.4% respectively after adjusting construction progress billings and margins for construction and property segments.

**Maintain HOLD, TP: RM0.71.** Maintain HOLD with lower SOP-driven TP of RM0.71 (from RM0.78) after earnings forecast adjustment and revision of MQREIT's (HOLD, TP: RM1.05) target price. FY21 implied PE of our TP is 79.3x (FY20: >100x given low profit base as the company recovers from core loss in FY19).

**Figure #1** Quarterly results comparison

FYE Dec	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	374.1	372.7	471.6	27	26	1,483.1	1,319.4	(11)
EBIT	19.1	25.2	26.8	6	40	70.7	34.0	(52)
Finance cost	(7.2)	(13.7)	(7.0)	(49)	(4)	(43.3)	(45.6)	5
Share of JVs and associates	(4.2)	2.7	0.7	(75)	(116)	25.5	6.6	(74)
PBT	7.7	14.3	20.4	43	165	52.9	(5.0)	(110)
PAT	0.3	2.2	7.3	237	2,208	24.3	(36.3)	(249)
Core PATMI	0.2	2.5	6.0	139	2,499	22.6	(31.3)	(238)
Reported PATMI	26.2	2.5	6.0	139	(77)	101.0	23.7	(76)
Core EPS (sen)	0.0	0.1	0.1	139	2,499	0.5	(0.7)	(238)
EBIT margin (%)	5.1	6.8	5.7			4.8	2.6	
PBT margin (%)	2.1	3.8	4.3			3.6	(0.4)	

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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 - FY20 earnings	28	13	358	0.07
LRT3 JV - annual average	15	10	150	0.03
Property development - NPV of profits		8%	1,690	0.35
Property investment - book value			1,314	0.27
Stake in MRCB-Quill REIT at RM1.05 TP	1,125	28%	314	0.06
<b>Firm value</b>			<b>3,826</b>	<b>0.79</b>
Cash proceeds from Warrants B			548	0.11
Less: Net debt			(948)	(0.20)
<b>Target price</b>			<b>3,427</b>	<b>0.71</b>

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**Figure #1** Financial forecast summary

FYE Dec (RM m)	FY16	FY17	FY18	FY19	FY20f	FY21f
Revenue	2,408.1	2,823.7	1,483.1	1,319.4	1,421.9	2,217.2
EBITDA	348.0	273.6	101.7	95.7	82.1	92.8
EBIT	323.2	248.2	70.7	34.0	49.8	59.0
PBT	203.4	182.6	52.9	(5.0)	26.4	38.4
PAT	129.9	117.1	24.3	(36.3)	26.4	38.4
PATMI – Core	78.1	102.9	22.6	(31.3)	27.9	39.3
PATMI – Reported	267.4	167.6	101.0	23.7	27.9	39.3
% change YoY – Core PATMI		32%	-78%	-238%	-189%	41%
HLIB/ Consensus (%) – Core PATMI				-57%	-49%	0%
Core EPS (sen)	1.8	2.3	0.5	(0.0)	0.6	0.9
P/E (x)	37.1	28.2	132.0	141.0	103.8	73.8
EV/EBITDA (x)	11.3	14.4	38.8	48.3	48.1	42.5
DPS (sen)	1.4	1.8	1.8	0.1	0.2	0.3
Yield (%)	2.1%	2.7%	2.7%	0.2%	0.3%	0.4%
BVPS (RM/share)	0.7	1.1	1.1	1.1	1.1	1.1
P/B (x)	1.0	0.6	0.6	0.6	0.6	0.6
ROE (%)	3.0%	2.7%	0.5%	0.4%	0.6%	0.8%
Net Gearing (%)	75.7%	54.0%	19.0%	13.7%	16.7%	21.2%

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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