

HLIB Research

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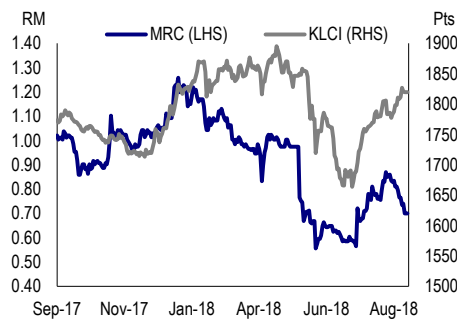
HOLD (Maintain)

Target Price: RM0.60
Previously: RM0.65
Current Price: RM0.70

Capital upside	-14.3%
Dividend yield	0.7%
Expected total return	-13.6%

Sector coverage: Construction

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

Share price


	1M	3M	12M
Historical return (%)	-8.5	14.8	-33.1
Absolute	-8.5	14.8	-33.1
Relative	-10.3	9.8	-34.9

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,391
Market capitalisation (RM m)	3,074
3-mth average volume ('000)	34,113
SC Shariah compliant	Yes

Major shareholders

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

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	103	75	108
EPS - core (sen)	2.3	1.7	2.5
P/E (x)	29.9	41.0	28.4

Malaysian Resources Corporation

2Q results dragged by property

MRCB's 1HFY18 earnings of RM31.2m (+18% YoY) were below both our and consensus expectations due to lower than expected contribution from property development division. YTD core PATAMI increased by 18% due to higher construction margin. We understand that the new LRT3 model will be structured as design & build contract with MRCB-Gkent JV remaining as the single point of responsibility to the government and a fixed lump sum contract value is determined. The contract value is estimated to be at an amount between RM9bn to RM16bn. Cut both FY18 earnings forecast by 13% after taking into account slower property revenue recognition. Maintain HOLD rating with lower TP of RM0.60 (from RM0.65) following earnings cut and roll forward of valuation horizon from FY18 to FY19.

Below expectations. MRCB reported 2QFY18 results with adjusted revenue of RM340.7m (-20% QoQ, -55% YoY) and core earnings of RM9.7m (-55% QoQ, -46% YoY). This brings 1HFY18 core earnings to RM31.2m, increasing by 18% YoY. 1H core earnings accounted for 36% of our and 19% of consensus forecast respectively which is below expectation. Revenue and core earnings are adjusted for Penang land disposal amounting to c.RM65m and c.RM24m 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. QoQ and YoY core PATAMI decreased by 55% and 46% respectively mainly due to lower property margin, partially offset by higher construction margin.

YTD. YTD core PATAMI increased by 18% mainly because of higher construction margin, partially offset by lower revenue from property development division.

LRT3. The potential new model of LRT3 contract was the main discussion topic during the conference call. We understand that the new LRT3 model will be structured as design & build contract with MRCB-Gkent JV remaining as the single point of responsibility to the government and a fixed lump sum contract value is determined. The contract value is estimated to be at an amount between RM9bn to RM16bn. We opine that the major difference between old PDP and new fixed priced model is 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.

Property. YTD property revenue and EBIT fell by 28% and 70% 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 RM261m. Nonetheless, unbilled sales of RM1.7bn implies a healthy cover of 2.2x on FY17 property revenue.

Forecast. Cut FY18 earnings forecast by 13.0% after taking into account slower revenue recognition from property development division.

Maintain HOLD, TP: RM0.60. Maintain HOLD rating with lower SOP-driven TP of RM0.60 (from RM0.65) following earnings cut and roll forward of valuation horizon from FY18 to FY19. FY18-20 implied PE of our TP are 35.4x, 24.5x and 23.3x respectively.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	756.5	427.6	340.7	(20)	(55)	1,276.4	768.3	(40)
EBIT	59.3	24.2	22.7	(6)	(62)	122.6	46.9	(62)
Finance cost	(37.4)	(4.3)	(16.8)	292	(55)	(72.6)	(21.0)	(71)
Share of JVs and associates	6.8	10.7	5.8	(46)	(15)	5.7	16.5	191
PBT	28.7	30.6	11.7	(62)	(59)	55.7	42.3	(24)
PAT	20.6	25.6	8.5	(67)	(59)	39.1	34.1	(13)
Core PATMI	17.9	21.5	9.7	(55)	(46)	26.5	31.2	18
Reported PATMI	23.4	21.5	33.1	54	42	32.0	54.7	71
Core EPS (sen)	0.4	0.5	0.2	(55)	(46)	0.6	0.7	18
EBIT margin (%)	7.8	5.7	6.7			9.6	6.1	
PBT margin (%)	3.8	7.1	3.4			4.4	5.5	
PATMI margin (%)	2.4	5.0	2.8			2.1	4.1	

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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	171	0.03
Property development - NPV of profits		10%	2,105	0.37
Property investment - cap rate		7%	720	0.13
Eastern Dispersal Link - asset value		10%	1,135	0.20
Stake in MRCB-Quill REIT at RM1.29 TP	1,383	28%	386	0.07
Firm value			4,892	0.87
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			4,849	0.86
Discount applied		30%	(1,455)	(0.26)
Target price			3,395	0.60

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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	1,203	1,174	1,170
Receivables	1,389	3,214	1,180	1,287	1,354
Inventories	58	154	48	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	8,795	9,068	9,303
Debits	2,937	3,382	2,382	2,482	2,582
Payables	1,315	1,255	702	797	850
Others	230	735	735	735	735
Liabilities	4,482	5,372	3,819	4,015	4,168
Shareholder's equity	2,926	4,824	4,877	4,952	5,032
Minority interest	99	104	100	101	103
Equity	3,025	4,929	4,976	5,054	5,135

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Profit before taxation	203	183	103	155	160
Depreciation & amortisation	25	25	32	35	37
Changes in working capital	(98)	(1,867)	1,587	(18)	(18)
Taxation	(74)	(66)	(20)	(35)	(34)
Others	100	597	-	-	-
CFO	157	(1,127)	1,702	138	146
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)	(23)	(33)
Others	531	(137)	-	-	-
CFF	438	2,041	(1,077)	77	67
Net cash flow	254	(129)	414	(28)	(5)
Forex	-	-	-	-	-
Others	(53)	185	-	-	-
Beginning cash	522	722	778	1,203	1,174
Ending cash	722	778	1,203	1,174	1,170

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	189	222	224
EBIT	323	248	157	186	187
Net finance cost	(152)	(91)	(89)	(70)	(73)
Associates & JV	33	25	35	39	47
Profit before tax	203	183	103	155	160
Tax	(74)	(66)	(20)	(35)	(34)
Net profit	130	117	82	121	126
Minority interest	(52)	(14)	(7)	(12)	(12)
PATMI (core)	78	103	75	108	114
Exceptionals	189	65	-	-	-
PATMI (reported)	267	168	75	108	114
Consensus - PATMI			165	201	239
HLIB/ Consensus			45.5%	54.0%	47.7%

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Core EPS (sen)	1.8	2.3	1.7	2.5	2.6
P/E (x)	39.3	29.9	41.0	28.4	26.9
EV/EBITDA (x)	17.4	22.1	32.1	27.3	27.0
DPS (sen)	1.4	1.8	0.5	0.7	0.8
Dividend yield	2.0%	2.5%	0.7%	1.1%	1.1%
BVPS (RM)	0.67	1.10	1.11	1.13	1.15
P/B (x)	1.1	0.6	0.6	0.6	0.6
EBITDA margin	14.5%	9.7%	12.8%	13.0%	12.4%
EBIT margin	13.4%	8.8%	10.6%	11.0%	10.4%
PBT margin	8.4%	6.5%	6.9%	9.1%	8.9%
Net margin	3.2%	3.6%	5.1%	6.4%	6.3%
ROE	3.0%	2.7%	1.5%	2.2%	2.3%
ROA	1.1%	1.2%	0.8%	1.2%	1.2%
Net gearing	75.7%	54.0%	24.2%	26.4%	28.0%

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.
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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.