

HLIB Research

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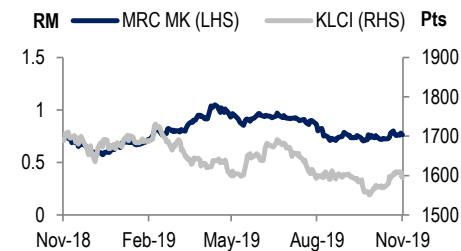
HOLD (Maintain)

Target Price: **RM0.78**
Previously: **RM0.80**
Current Price: **RM0.76**

Capital upside	2.6%
Dividend yield	0.2%
Expected total return	2.8%

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	0.0%	-12.1%	4.0%
Relative	-1.7%	-11.5%	10.2%

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4,412
Market capitalisation (RM m)	3,353
3-mth average volume ('000)	5,234
SC Shariah compliant	Yes

Major shareholders

EPF	35.9%
Gapuma	15.5%
LTH	6.2%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	23	22	48
EPS - core (sen)	0.5	0.5	1.1
P/E (x)	146.3	154.8	69.9

Malaysian Resources Corporation

A lost year

MRCB's 9MFY19 bottom-line remains at a core loss of -RM37.3m 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 slightly in and back to full swing in FY20. Cut FY19-21 earnings forecast by 11-50%. Maintain HOLD with lower TP of RM0.78 (from RM0.80) after earnings forecast adjustment.

Below expectations. MRCB reported 3QFY19 results with revenue of RM372.7m (+55% QoQ, +9% YoY) and core PATMI of RM2.5m (against core loss both QoQ and YoY). This brings 9MFY19 core loss to -RM37.3m (against RM22.4m core PATMI in 9MFY18), which is significantly below our and consensus expectations.

Deviations. The lower than expected performance is mainly due to lower revenue contribution from its construction and property segments as well as continued delay in LRT3 package (equity accounted) due to ongoing cost optimisation. Management shared that progress for LRT3 project will pick up slightly in 4QFY19 and back to full swing in FY20.

QoQ/ YoY. Bottom-line turned to core profit (against core loss recorded both QoQ and YoY) mainly due to higher revenue contribution from property segment.

YTD. Bottom-line remains in core losses due to lower revenue contribution from construction and property segments compounded by lower earnings contribution of RM1.2m (against RM20.7m in 9M18) from MRCB-Gkent JV due to continued sluggishness of progress billings for LRT3.

Construction. MRCB's outstanding orderbook stands at c.RM15bn (excluding LRT3 as it is equity accounted), translating to a tremendous 20.1x cover on FY18 construction revenue. Recall that Bukit Jalil Sentral (RM10.9b) is recognised as external orderbook post-disposal of the project to EPF. 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 are yet to materially contribute to earnings.

Property. 9MFY19 revenue from property segment declined 58% 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. Unbilled sales from these key projects amount to c.RM1.5b. YTD property sales stands at RM398m and current unbilled sales stand at c.RM1.7bn implying a healthy cover of 2.6x on FY18 property revenue.

Forecast. Cut FY19-21 earnings by -50.8%, -30.6% and -11.1% respectively after adjusting construction progress billings, LRT3 progress and property unbilled sales recognition assumptions.

Maintain HOLD, TP: RM0.78. Maintain HOLD with lower SOP-driven TP of RM0.78 (from RM0.80) after earnings forecast adjustment and revision of MQREIT's (HOLD, TP: RM1.10) target price. FY20-21 implied PE of our TP are 71.4x and 52.5x respectively (FY19: >100x given low profit base from 9M losses).

Figure #1 Quarterly results comparison

FYE Dec	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	340.8	241.0	372.7	55	9	1,109.0	847.8	(24)
EBIT	4.7	(36.9)	25.2	(168)	433	51.6	7.2	(86)
Finance cost	(15.1)	(12.6)	(13.7)	9	(9)	(36.1)	(38.6)	7
Share of JVs and associates	13.2	1.3	2.7	111	(80)	29.7	5.9	(80)
PBT	2.9	(48.2)	14.3	(130)	395	45.2	(25.5)	(156)
PAT	(10.1)	(47.3)	2.2	(105)	(121)	24.0	(43.6)	(282)
Core PATMI	(8.8)	(43.9)	2.5	(106)	(129)	22.4	(37.3)	(266)
Reported PATMI	19.8	11.1	2.5	(77)	(87)	74.8	17.7	(76)
Core EPS (sen)	(0.2)	(1.0)	0.1	(106)	(129)	0.5	(0.8)	(266)
EBIT margin (%)	1.4	(15.3)	6.8			4.7	0.9	
PBT margin (%)	0.8	(20.0)	3.8			4.1	(3.0)	

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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 - FY20 earnings	51	13	662	0.14
LRT3 PDP fees - 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 RM1.10 TP	1,179	28%	329	0.07
Firm value			4,146	0.86
Cash proceeds from Warrants B			548	0.11
Less: Net debt			(948)	(0.20)
Target price			3,746	0.78

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Cash	778	552	921	869	782
Receivables	3,214	1,926	873	1,121	1,536
Inventories	154	95	61	82	119
PPE	614	665	716	740	762
Investment properties	1,211	1,314	1,338	1,362	1,386
Others	4,519	3,791	3,680	3,730	3,782
Assets	10,492	8,342	7,590	7,905	8,368
Debits	3,382	1,491	1,591	1,691	1,791
Payables	1,255	1,190	539	722	1,043
Others	735	761	544	544	544
Liabilities	5,372	3,442	2,674	2,957	3,378
Shareholder's equity	4,824	4,832	4,848	4,881	4,926
Minority interest	104	68	68	67	63
Equity	4,929	4,900	4,916	4,947	4,989

Cash Flow Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Profit before taxation	183	75	21	55	79
Depreciation & amortisation	25	37	30	32	34
Changes in working capital	(1,867)	1,143	152	(86)	(130)
Taxation	(66)	(85)	-	(6)	(10)
Others	597	(183)	-	-	-
CFO	(1,127)	988	204	(4)	(28)
Net capex	(195)	(71)	(105)	(80)	(80)
Others	(847)	1,083	-	-	-
CFI	(1,042)	1,012	(105)	(80)	(80)
Changes in borrowings	445	(1,890)	100	100	100
Issuance of shares	1,793	9	-	-	-
Dividends paid	(60)	(77)	(77)	(6)	(14)
Others	(137)	(36)	-	-	-
CFF	2,041	(1,994)	23	94	86
Net cash flow	(129)	6	122	10	(22)
Forex	-	-	-	-	-
Others	185	82	-	-	-
Beginning cash	722	464	552	921	869
Ending cash	778	552	921	869	782

Income Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,824	1,792	1,077	1,454	2,086
EBITDA	274	68	83	111	133
EBIT	248	43	53	79	100
Net finance cost	(91)	(23)	(56)	(60)	(65)
Associates & JV	25	25	24	37	44
Profit before tax	183	45	21	55	79
Tax	(66)	(46)	-	(6)	(10)
Net profit	117	24	21	50	69
Minority interest	(14)	(1)	0	(2)	(4)
PATMI (core)	103	23	22	48	65
Exceptionals	65	78	-	-	-
PATMI (reported)	168	101	22	48	65
Consensus - PATMI			71	115	154
HLIB/ Consensus			30.5%	41.6%	42.0%

Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Core EPS (sen)	2.3	0.5	0.5	1.1	1.5
P/E (x)	32.4	146.3	154.8	69.9	51.5
EV/EBITDA (x)	16.0	64.2	52.9	39.5	32.9
DPS (sen)	1.8	1.8	0.1	0.3	0.4
Dividend yield	2.3%	2.3%	0.2%	0.4%	0.6%
BVPS (RM)	1.10	1.10	1.10	1.11	1.12
P/B (x)	0.7	0.7	0.7	0.7	0.7
EBITDA margin	9.7%	3.8%	7.7%	7.6%	6.4%
EBIT margin	8.8%	2.4%	4.9%	5.4%	4.8%
PBT margin	6.5%	2.5%	2.0%	3.8%	3.8%
Net margin	3.6%	1.3%	2.0%	3.3%	3.1%
ROE	2.7%	0.5%	0.4%	1.0%	1.3%
ROA	1.1%	0.2%	0.3%	0.6%	0.8%
Net gearing	54.0%	19.4%	13.8%	16.8%	20.5%

Assumptions

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Contracts secured	468	250	250	500	500
Property sales	1,424	457	500	500	500

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

Sector rating guide

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.

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