

Malaysian Resources Corp

Below Expectations

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1H17 CNP of RM28.3m came below expectations as it only makes up 37% and 22% of our and streets' full-year estimates, respectively. The performance was short of our and streets' expectations due to lower-than-expected margins from construction and property division. No dividends were declared as expected. Reduced FY17-18E CNPs by 29%-25%, respectively. Maintain **OUTPERFORM** with a lower SoP-driven ex-all Target Price of RM1.23.

Below expectations. 1H17 CNP of RM28.3m came below expectations as it only makes up 37% and 22% of our and streets' full-year estimates, respectively. Its performance was short of our and streets' expectations due to lower-than-expected margins from construction and property division. No dividends were declared as expected. In terms of property sales, MRCB recorded RM942.0m sales in 1H17 which is on track to meet our and management's target of RM1.1b and RM1.2b, respectively, as we are expecting its sales momentum to slow down as we do not expect any more major new launches.

Results highlight. YoY, 1H17 CNP grew by 6% underpinned by a strong revenue growth of 55%. The revenue growth is mainly driven by its construction and property divisions, which grew by 49% and 28%, respectively. Apart from revenue growth, it also saw a sharp reduction of 20% in financing costs as a result of its de-gearing exercise back in 2016. In terms of margins performance, its construction margin saw an improvement of 1ppt to 2%, while its property development saw a major decline of 25ppt to 16% due to the lack of asset sale.

QoQ, 2Q17 CNP grew 71% backed by 44% growth in revenue that was mainly driven by its construction that registered 129% growth in construction revenue coupled with improvements in construction margins (+2ppt). That said, the improvement in associate and joint-ventures contribution (+718%) also helped in cushioning the poor performance by its property and infrastructure divisions.

Outlook. For FY17, management is on track to meet its sales target of RM1.2b, backed by its recent launches of Sentral Suites (GDV: RM1.5b), 1060 Carnegie (GDV: RM305.0m), Bukit Rahman Putra (GDV: RM100.0m). MRCB's remaining external construction order-book stands at c.RM5.5b. Coupled with c.RM1.5b unbilled property sales, these numbers will provide the group with at least four years of earnings visibility.

Downward revision in earnings. Post results, we slashed our FY17-18E CNPs by 29% and 25% to RM54.1m and RM72.6m respectively, as we lowered our margin assumptions for its construction and property divisions as our earlier assumptions are slightly optimistic. However, we raised our FY17 sales target of RM1.1b to match management's RM1.2b target for the year.

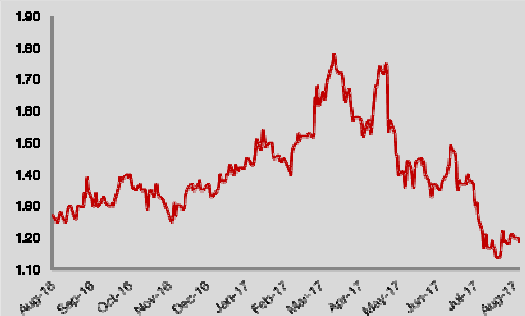
Maintain OUTPERFORM with a lower ex-TP of RM1.23. We have lowered our SoP-driven Target Price to RM1.23 (cum-rights TP, RM1.45), from RM1.32 (cum-rights TP, RM1.65) on lower construction earnings while we lower property margins assumption for our property RNAV given the significant margin compressions observed during this earnings season. Nonetheless, investors may look beyond the current earnings momentum and train their attention on the promising structural changes through its de-gearing exercise via the rights issuance exercise which would bring the company into net cash position from its current net gearing level of 0.96xcoupled with the potential sale of EDL in the future.

Downside risks to our call include: (i) weaker-than-expected property sales, (ii) margin risks, (iii) negative real estate policies, and (iv) tighter lending environment.

OUTPERFORM ↔

Cum/Ex-Price : RM1.19/RM1.10
Cum/Ex-Target Price : RM1.45/RM1.23 ↓

Share Price Performance



KLCI	1,761.14
YTD KLCI chg	7.3%
YTD stock price chg	-10.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,609.2
Issued shares	2,192.6
52-week range (H)	1.80
52-week range (L)	1.13
3-mth avg daily vol:	8,129,919
Free Float	41%
Beta	1.1

Major Shareholders

Employees Provident Fund	34.7%
Gapurna Sdn Bhd	16.6%
Bank Kerjasama Rakyat Malaysia Bhd	7.8%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	2,408.1	2,408.6	2,714.6
EBIT	547.1	535.9	257.9
PBT	392.6	129.9	169.8
Net Profit (NP)	267.4	54.1	72.6
Core NP	244.1	54.1	72.6
Consensus (CNP)	n.a.	126.7	149.4
Earnings Revision	n.a.	-29%	-25%
*Core EPS (sen)	4.3	0.9	1.3
Core EPS growth(%)	-427.1	-77.8	34.1
NDPS (sen)	2.8	1.0	1.0
NAV/Share (RM)	0.44	1.21	1.22
*PER (x)	23.3	115.1	85.8
*Core PER (x)	25.5	115.1	85.8
Price/NAV (x)	2.46	0.90	0.90
Net Gearing (x)	0.8	-0.2	-0.2
Dividend Yield (%)	2.5	1.0	0.9

*On a post rights issuance basis.

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Result Highlight								
Y/E : Dec (RM mn)	2Q17	1Q17	QoQ chg	2Q16	YoY chg	1H17	1H16	YoY chg
Turnover	756.5	524.9	44%	389.2	94%	1,281.4	825.2	55%
EBIT	59.3	65.6	-10%	109.5	-46%	124.8	143.1	-13%
Interest expense	-37.4	-35.2	6%	-44.4	-16%	-72.6	-91.1	-20%
Associates	4.2	-2.4	-273%	6.7	-37%	1.8	7.0	-75%
Joint-ventures	2.6	1.3	99%	2.0	31%	3.9	2.4	61%
Pretax profit	34.2	29.3	17%	73.8	-54%	63.4	92.4	-31%
Taxation	-8.1	-8.9	-8%	-16.7	-51%	-17.0	-21.9	-22%
Minority Interest	2.7	9.9	-73%	11.6	-77%	12.6	20.6	-39%
Net Profit	23.4	10.5	123%	45.5	-49%	33.8	49.9	-32%
Core net profit	17.9	10.5	71%	45.5	-61%	28.3	26.6	6%
EPS (sen)	0.8	0.5		2.4		1.3	1.4	
EBIT margin	8%	12%		28%		10%	17%	
Pretax margin	5%	6%		19%		5%	11%	
Effective tax rate	24%	30%		23%		27%	24%	

Source: Company, Kenanga Research

Segmental Breakdown								
Y/E : Dec (RM mn)	2Q17	1Q17	QoQchg	2Q16	YoY chg	1H17	1H16	YoY chg
Revenue								
-Engineering and Construction	560.1	244.3	129%	183.5	205%	880.9	590.3	49%
-Property development	245.4	320.8	-24%	227.0	8%	489.7	382.7	28%
-Infrastructure / environmental	28.6	28.5	0%	31.1	-8%	57.1	59.3	-4%
-Building services	13.1	20.9	-37%	27.5	-52%	34.0	50.1	-32%
-Investment holding and Others	32.8	20.9	57%	42.8	-23%	53.7	71.5	-25%
-Elimination	-123.4	-110.5	12%	-122.7	1%	-233.9	-328.7	-29%
Group Revenue	196.5	204.0	-4%	389.2	-50%	1,281.4	825.2	55%
Segment Profit								
-Engineering and Construction	14.0	1.3	1019%	1.8	666%	15.3	3.0	415%
-Property development	29.7	50.1	-41%	121.4	-76%	79.8	157.8	-49%
-Infrastructure / environmental	11.5	17.5	-34%	19.5	-41%	29.0	32.7	-11%
-Building services	7.1	3.7	89%	4.6	53%	10.8	12.0	-10%
-Investment holding and Others	5.1	-4.5	-211%	-1.2	-515%	0.5	-18.5	-103%
Elimination	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Group EBIT	67.4	68.1	-1%	146.2	-54%	135.5	187.0	-28%
Segment Margin								
-Engineering and Construction	3%	1%		1%		2%	1%	
-Property development	12%	16%		54%		16%	41%	
-Infrastructure / environmental	40%	61%		63%		51%	55%	
-Building services	54%	18%		17%		32%	24%	
-Investment holding and Others	15%	-22%		-3%		1%	-26%	

Source: Company, Kenanga Research

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SOP Valuations			
Property Development	Various	NPV of profits (WACC: 11%) after 50% discount	1,477.41
Property Investment	Various	Book Value	1,975.55
Construction	Various	FY18` PER of 8x	210.00
Building Services	100%	FY18 PER of 7x	58.37
Quill Capital REITs	31%	Estimate Market Cap of Quill	453.02
Concession			
EDL	100%	DCF (WACC: 7%)	889.75
Sub Total			5,064.12
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant conversion			262.00
Proceeds from rights			2,856.70
Total			8,261.62
No of FD shares			5,713.44
SoP (RM)			1.45
Holding Co. Discount			15%
TP (RM)			1.23

Source: Kenanga Research

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Peer Comparison

NAME	Price (29/8/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.01	11,067	12.2	11.9	11.6	3.6%	4.1%	4.2%	0.59	910.6	928.6	951.9	2.0%	2.5%	2.30	OUTPERFORM
S P SETIA BHD*#	3.41	10,392	12.9	13.7	15.9	3.9%	9.7%	8.0%	1.39	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.16	5,263	35.7	22.5	32.6	0.0%	2.2%	3.4%	0.82	147.3	233.5	161.3	58.5%	-30.9%	1.33	OUTPERFORM
SUNWAY BHD^	1.86	8,934	16.5	17.1	16.5	4.8%	7.3%	6.7%	0.49	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD	1.49	3,597	10.4	10.6	11.0	4.3%	10.1%	10.0%	1.03	346.8	338.9	327.6	-2.3%	-3.3%	1.70	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.56	4,593	35.5	40.7	18.5	0.0%	3.7%	4.4%	1.22	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.54	4,402	11.8	11.6	11.2	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.10	2,609	10.7	48.2	35.9	0.2%	8.6%	2.4%	0.89	244.1	54.1	72.6	-78%	34.2%	1.23	OUTPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.75	1,613	8.6	7.2	6.8	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.43	1,142	31.1	13.6	10.2	1.8%	6.9%	11.6%	1.49	36.7	84.2	111.9	129.5%	32.9%	1.55	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.48	337	11.7	11.0	10.7	3.0%	2.2%	8.0%	0.44	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	0.85	297	4.9	6.9	5.9	1.4%	21.9%	12.2%	0.47	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.41	515	25.6	19.3	14.9	0.0%	3.3%	4.2%	0.80	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.43	476	60.2	73.2	43.2	0.4%	7.4%	1.1%	1.17	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.86	3,818	12.8	11.9	15.9	3.5%	8.6%	6.4%	0.77	298.0	320.4	240.3	7.5%	-25.0%	3.00	NEUTRAL
GLOMAC BHD	0.65	466	4.2	8.2	6.6	4.7%	10.7%	5.3%	0.42	110.4	57.1	70.8	-48.3%	24.1%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.80	764	10.2	12.0	9.5	9.4%	7.0%	14.7%	0.83	75.0	63.6	80.6	-15.2%	26.7%	2.37	BUY
TAMBUN INDAH LAND BHD	1.21	524	4.7	6.0	6.6	6.6%	20.0%	14.6%	0.88	112.2	87.5	79.7	-22.0%	-8.9%	1.41	NEUTRAL
LBS BINA GROUP BHD	1.90	1,288	15.1	11.4	9.0	5.1%	8.4%	9.1%	1.02	85.3	112.6	143.7	31.9%	27.7%	2.30	BUY

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

MRCB and SPSETIA is of ex-rights

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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