

03 September 2018

Malaysian Resources Corp

1H18 Broadly In Line

By Adrian Ng | adrian.ng@kenanga.com.my

1H18 Core Net Profit (CNP) of RM55.0m accounts for 41%/33% of our/consensus full-year estimates, which we deemed at broadly in line as we are expecting a stronger 2H18, but below consensus. Property sales of RM261.0m are lagging behind our and management's target of RM0.8b/RM1.0b. Maintain estimates for now. No dividends declared as expected. Maintain MP with an unchanged TP of RM0.700.

Broadly inline. 1H18 Core Net Profit (CNP) of RM55.0m accounts for 41%/33% of our/consensus full-year estimates. However, we deem it as broadly in line as we are expecting a stronger 2H18 driven by further improvements in construction division, billings from property development coupled with more land sale recognition. However, it fell short of consensus full-year estimates as we believe the consensus could be too aggressive on its construction and property billing recognition. Property sales of RM261.0m are lagging behind both our/management's target of RM0.8b/RM1.0b each. No dividends declared as expected.

Results highlight. 1H18 CNP improved by 94% YoY, despite revenue declining by 35% attributable to; (i) sharp reduction in net interest cost by 71% as management has ceased accounting for EDL, (ii) better contribution from associates and joint-venture, and (iii) improvements in construction margins by 9ppt to 11%. We opine that MRCB could deliver a better performance if it was not dragged down by its property division where margins came off by 3ppt to 13% coupled with a lower property revenue (-15%) due to the absence of project handover. **QoQ**, 2Q18 CNP improved 54%, driven by the improvement in both construction (+5ppt) through cost savings and value engineering initiative, and property margins (+5ppt) due to the recognition of land sale in Penang.

Conference call key takes. Management remains hopeful given that negotiation on the cost saving initiative on LRT3 is progressing well and disposal of EDL highway is also on-track. Going forward, management remains focused in its core businesses, i.e. property development and construction, while exploring more opportunities in unlocking its land value through land sales.

Outlook. In the mid-to-near-term, MRCB's remaining external construction order-book stands at c.RM5.1b, and coupled with c.RM1.7b of unbilled property sales, these numbers will provide the group 3-4 years of earnings visibility. For now, we are keeping sales target of RM1.0b for FY18 backed by its previous launches, i.e. Sentral Residences and 9 Seputeh as we expect property sales to pick up in 2H18 as we expect to see a ramp-up in marketing activities. However, if the group has not achieved at least 65% of our full-year target by 3Q18, we will look to trim our estimates.

Earnings review. Post results, there are no changes to our FY18-19E earnings.

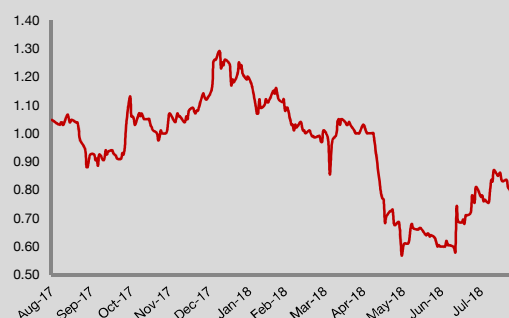
Maintain MARKET PERFORM. We maintain MARKET PERFORM, with an unchanged Target Price of RM0.700. However, we might look to upgrade our Target Price and recommendation should more positive development on EDL and LRT3 emerges. Our TP implies 0.7x PBV on FY18E BV/share of RM1.01 which is at trough levels.

Downside risks include: (i) weaker-than-expected property sales, (ii) higher-than-expected administrative cost, (iii) negative real estate policies, and (iv) tighter lending environment.

MARKET PERFORM ↔

Price : RM0.700
Target Price : RM0.700 ↔

Share Price Performance



KLCI 1,819.66
YTD KLCI chg 1.3%
YTD stock price chg -37.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,073.5
Shares Outstanding	4,390.8
52-week range (H)	1.31
52-week range (L)	0.55
3-mth avg daily vol:	34,112,960
Free Float	41%
Beta	1.6

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2,823.7	2,651.5	2,893.0
EBIT	338.4	159.1	159.1
PBT	247.3	194.0	206.8
Net Profit (NP)	167.6	134.3	143.2
Core Net Profit	101.3	134.3	143.2
Consensus (NP)	n.a.	165.0	200.7
Earnings Revision	n.a.	0%	0%
Core FD EPS (sen)	2.1	2.8	3.0
EPS growth (%)	-235.7	32.6	6.6
NDPS (sen)	1.8	1.8	1.8
NTA/Share (RM)	0.95	0.96	0.96
FD PER (x)	20.2	25.1	23.6
Core PER (x)	33.4	25.1	23.6
Price/NTA (x)	0.73	0.73	0.73
Net Gearing (x)	0.6	0.4	0.4
Dividend Yield (%)	2.5	2.5	2.5

03 September 2018

Result Highlight								
FYE Dec (RM'm)	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
Turnover	405.2	427.6	-5%	756.5	-46%	832.8	1,281.4	-35%
EBIT	54.0	24.2	124%	59.3	-9%	78.2	124.8	-37%
Interest inc/(exp)	-16.8	-4.3	292%	-37.4	-55%	-21.0	-72.6	-71%
Associates/JV	5.8	10.7	-46%	6.8	-15%	16.5	5.7	191%
Exceptional items	0.0	0.0	n.m.	5.5	-100%	0.0	5.5	-100%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	43.0	30.6	41%	34.2	26%	73.6	63.4	16%
Taxation	-10.8	-4.9	118%	-8.1	33%	-15.7	-17.0	-8%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	32.3	25.6	26%	26.1	24%	57.9	46.5	25%
Minority interest	1.1	-4.0	-127%	-2.7	-140%	-2.9	-12.6	-77%
PATAMI	33.4	21.6	54%	23.4	43%	55.0	33.8	62%
Core PATAMI	33.4	21.6	54%	17.9	87%	55.0	28.3	94%
DPS (sen)	0.00	0.00		0.00		0.00	0.00	
EBIT margin	13%	6%		8%		9%	10%	
Pretax margin	11%	7%		5%		9%	5%	
NP margin	11%	7%		5%		9%	5%	
CNP margin	8%	5%		2%		7%	2%	
EPS (sen)	0.8	0.5		1.1		1.3	1.6	
Core EPS(sen)	0.8	0.5		0.8		1.3	1.3	
BV/share (RM)	1.11	1.10		1.40		1.11	1.40	
Net gearing (x)	0.70	0.61		0.99		0.70	0.99	
Effective tax	25%	16%		24%		21%	27%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
External Revenue								
Property Development	193.4	220.4	-12%	243.9	-21%	413.9	486.5	-15%
Construction	192.8	191.1	1%	467.6	-59%	383.9	698.9	-45%
Infra	0.7	0.7	-3%	28.6	-98%	1.4	57.1	-97%
Facilities management	13.1	13.0	0%	12.7	3%	26.1	29.6	-12%
Others	5.3	2.3	124%	3.7	43%	7.6	9.4	-19%
EBIT Segmentation								
Property Development	30.9	24.1	28%	29.7	4%	55.1	79.8	-31%
Construction	25.0	16.0	56%	14.0	78%	41.0	15.3	168%
Infra	-1.7	-1.3	30%	11.5	-115%	-3.0	29.0	-110%
Facilities management	0.7	0.2	316%	7.1	-90%	0.9	10.8	-92%
Others	2.8	-11.6	n.m.	5.1	-44%	-8.7	0.5	n.m.
EBIT margins								
Property Development	16%	11%		12%		13%	16%	
Construction	13%	8%		3%		11%	2%	
Infra	-241%	-180%		40%		-210%	51%	
Facilities management	5%	1%		56%		3%	37%	
Others	54%	-494%		138%		-115%	6%	

Source: Company, Kenanga Research

SOP Valuations			
SOP Valuation	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%)	2,488.3
Property Investment	Various	Book Value	2,053.6
Construction	Various	FY19' PER of 8x	210.0
Building Services	100%	FY18 PER of 7x	58.4
Quill Capital REITs	28%	Based on MQREIT TP of RM1.1	327.8
Concession			
EDL	100%	Book Value	117.9
Sub Total			5,255.8
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
Total SOP/share			1.56
Property RNAV discount/share		70%	-0.66
SOP/share after RNAV discount			0.90
No of FD shares			4,825.5
Holding Co. Discount			20%
Implied SOP discount			55%
TP (RM)			0.700

Source: Kenanga Research

03 September 2018

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.02	372.4	Y	12/2018	-8.4%	-6.0%	-28.7%	-0.7%	15.3	21.5	21.6	0.6	0.6	2.7%	0.0%	1.00	UP	
CRESCENDO CORPORATION BHD	1.33	302.5	Y	01/2019	12.2%	1.6%	-10.4%	3.7%	10.7	11.9	11.5	0.4	0.4	3.5%	4.5%	1.30	MP	
ECO WORLD DEVELOPMENT GROUP	1.25	3,680.5	Y	10/2018	-1.7%	-0.3%	45.7%	55.7%	32.6	22.3	14.3	1.0	1.0	3.8%	0.0%	1.30	MP	
HUA YANG BHD	0.470	165.4	Y	03/2019	-3.2%	2.2%	119.0%	10.0%	37.5	17.1	15.6	0.3	0.3	1.6%	0.0%	0.465	MP	
IOI PROPERTIES GROUP BHD	1.75	9,635.8	Y	06/2019	-15.0%	-6.0%	-5.3%	-2.7%	14.6	15.4	15.8	0.5	0.5	3.4%	2.9%	1.70	MP	
MAGNA PRIMA BHD	0.970	322.6	Y	12/2018	37.8%	0.4%	73.3%	2.6%	60.6	41.2	40.1	0.8	0.8	1.9%	1.1%	0.955	MP	
MAH SING GROUP BHD	1.18	2,864.7	Y	12/2018	-0.8%	-0.3%	-23.7%	0.7%	11.2	14.6	14.5	0.8	0.8	6.5%	4.7%	1.10	MP	
MALAYSIAN RESOURCES CORP BHD	0.700	3,073.5	Y	12/2018	-6.1%	9.1%	32.6%	6.6%	33.4	25.1	23.6	0.7	0.7	2.8%	2.5%	0.700	MP	
SP SETIA BHD	2.63	10,259.9	Y	12/2018	-16.4%	7.6%	-53.4%	30.5%	13.2	28.4	21.8	0.8	0.7	5.4%	5.9%	3.50	OP	
SUNSURIA BHD	0.930	742.9	Y	09/2018	10.9%	11.4%	5.7%	16.8%	8.2	7.8	6.6	1.0	0.8	11.7%	0.0%	1.10	OP	
SUNWAY BHD	1.56	7,591.9	Y	12/2018	-2.6%	4.6%	-3.8%	8.1%	13.5	14.1	13.0	1.0	1.0	6.9%	4.5%	1.55	MP	
UEM SUNRISE BHD	0.900	4,083.7	Y	12/2018	-2.8%	28.0%	23.3%	6.8%	15.0	12.2	11.4	0.6	0.6	4.7%	1.1%	0.970	MP	
UOA DEVELOPMENT BHD	2.43	4,480.3	Y	12/2018	5.0%	8.9%	-17.0%	10.9%	10.7	12.9	11.7	1.0	1.0	7.7%	5.8%	2.30	MP	
Simple Average					0.7%	4.7%	13.3%	11.4%	21.3	18.7	17.0	0.7	0.7	4.8%	2.5%			
CONSENSUS NUMBERS																		
GLOMAC BHD	0.420	332.7	Y	04/2019	-17.5%	27.5%	-26.1%	46.8%	10.8	14.6	9.9	0.3	N.A.	1.8%	3.1%	0.530	NEUTRAL	
LBS BINA GROUP BHD	0.885	1,378.8	Y	12/2018	-1.5%	15.5%	8.9%	12.6%	13.3	12.2	10.9	1.2	1.0	7.6%	3.7%	1.22	BUY	
MATRIX CONCEPTS HOLDINGS BHD	2.11	1,587.5	Y	03/2019	22.9%	14.2%	9.1%	11.6%	7.4	6.8	6.1	1.3	1.1	18.0%	6.3%	2.37	BUY	
PARAMOUNT CORP BHD	2.13	912.2	Y	12/2018	8.2%	5.0%	-33.3%	3.4%	6.8	10.2	9.9	0.9	0.8	8.3%	4.2%	2.40	BUY	
SIME DARBY PROPERTY BHD	1.26	8,569.1	Y	12/2018	8.5%	9.0%	-25.8%	22.4%	13.4	18.0	14.7	0.9	0.9	4.9%	2.3%	1.56	BUY	
TAMBUN INDAH LAND BHD	0.930	403.0	Y	12/2018	-29.3%	-1.4%	-36.1%	0.9%	4.8	7.6	7.5	0.7	0.7	8.2%	5.2%	1.00	BUY	
TITIJAYA LAND BHD	0.345	463.7	Y	06/2019	5.3%	11.7%	19.9%	1.3%	6.4	5.3	5.2	0.4	0.4	10.8%	6.7%	0.570	BUY	
YONG TAI BHD	0.865	420.1	Y	06/2019	258.5%	30.3%	418.5%	36.6%	27.1	5.2	3.8	1.1	1.0	14.8%	0.0%	1.50	BUY	

Source: Kenanga Research

03 September 2018

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
 Head of Research

