

Malaysian Resources Corp

9M18 Below Expectations

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

9M18 CNP of RM74.8m came in below expectations, making up 56%/69% of our/consensus full-year estimates. Property sales of RM356.0m are also lagging behind both our and management's target of RM0.80b each. No dividends declared as expected. Post results, we slashed our FY18-19E CNPs by 36% and 33%, respectively. Maintain MP with a lower TP of RM0.750 (previously, TP: RM0.800).

Below expectations. 9M18 Core Net Profit (CNP) of RM74.8m came in below our and consensus expectations, accounting for 56%/69% of our/consensus full-year estimates. Note that this would be the second disappointment for the year. The negative variances are mainly due to: (i) slower-than-expected construction billings and (ii) lower-than-expected property development margins as some of their major development projects were still at sub-structure progress levels. Property sales of RM356.0m are lagging behind both our/management's target of RM0.8b each. No dividends, as expected.

Results highlights. 9M18 CNP improved by 33%YoY, despite revenue declining by 38% attributable to: (i) sharp reduction in net interest cost by 68% as management had ceased accounting for EDL, (ii) better contribution from associates and joint-venture (+109%) arising from the contribution of LRT3 PDP fees, (iii) lower minority contribution (-90%), and (iv) better construction margins of 8% (+3ppt). **QoQ**, 3Q18 CNP declined 41% albeit registering revenue growth of 64% due to: (i) sharp decline in construction margins from 13% to 2% due to higher progress of lower margin projects while property margins also declined to 7% (-9ppt), and (ii) higher effective tax rate of 54% (2Q18: 25%).

Conference call key takes. Going forward, management revised down their property sales target of RM0.8b to RM0.5b due to the challenging sales environment in the property sector. That aside, they are hopeful of recognising billings from LRT3 in 1Q19 as construction works resume. In terms of land sale, management indicated that there might be no major land sales in 2019, except for the disposal of its Bukit Jalil land to EPF at cost.

Outlook. In the mid-to-near-term, MRCB's remaining external construction order-book stands at c.RM10.5b which will provide them a steady stream of jobs for the next 5 years due to the nature of the job as some of the projects would only commence a few years later depending on the development timeline of their client. As for property division, unbilled sales of c.RM1.6b will provide the group 3-4 years of earnings visibility. In view of its weak sales and challenging outlook for the property sector, we reduced our FY18 sales target from RM0.80b to RM0.45b, while management revised their sales target to RM0.50b.

Earnings review. Post results, we slashed our FY18-19E earnings by 36% and 33%, respectively after (i) we revised our FY18 sales target lower to RM0.45m from RM0.80b, (ii) adjusted the progress timeline for LRT3, and (iii) lowered margin assumptions for its construction and development projects to better reflect existing margins.

Maintain MARKET PERFORM with a lower SoP-driven TP of RM0.750 (from RM0.800), post revision in earnings. Our TP implies price to book of 0.75x which is close to its trough levels. We opine that the long-term outlook for the company is relatively stable compared to other contractors or developers due to their massive outstanding order-book and transit-oriented-developments. However, we note that management would need to step up in increasing efficiency by further lowering their operating costs to remain competitive and improve overall profitability as margin erosions have been evident.

Risks include: (i) weaker/stronger-than-expected property sales, (ii) higher/lower-than-expected administrative cost, (iii) positive/negative real estate policies, and (iv) changes in lending environment.

MARKET PERFORM ↔

Price : **RM0.730**
Target Price : **RM0.750** ↓

Share Price Performance



KLCI	1,695.62
YTD KLCI chg	-5.6%
YTD stock price chg	-34.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,208.4
Shares Outstanding	4,395.1
52-week range (H)	1.31
52-week range (L)	0.55
3-mth avg daily vol:	21,330,410
Free Float	41%
Beta	1.6

Major Shareholders

Employees Provident Fund Board	35.5%
GapurnaSdnBhd	16.6%
LembagaTabung Haji	7.0%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2,823.7	1,784.5	2,009.2
EBIT	338.4	130.8	130.8
PBT	247.3	124.4	138.6
Net Profit (NP)	167.6	86.1	96.0
Core Net Profit	101.3	86.1	96.0
Consensus (NP)	n.a	109.0	144.2
Earnings Revision	n.a.	-36%	-33%
Core FD EPS (sen)	2.1	1.8	2.0
EPS growth (%)	-235.7	-15.0	11.4
NDPS (sen)	1.8	0.0	0.0
NTA/Share (RM)	0.95	0.96	0.96
FD PER (x)	21.0	40.9	36.7
Core PER (x)	34.8	40.9	36.7
Price/NTA (x)	0.77	0.76	0.76
Net Gearing (x)	0.6	0.4	0.3
Dividend Yield (%)	2.4	0.0	0.0

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Result Highlight								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
FYE Dec (RM'm)								
Turnover	662.8	405.2	64%	1,134.1	-42%	1,495.6	2,415.5	-38%
EBITDA	42.3	54.0	-22%	85.2	-50%	120.5	210.0	-43%
Depreciation	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
EBIT	42.3	54.0	-22%	85.2	-50%	120.5	210.0	-43%
Interest inc/(exp)	-15.1	-16.8	-10%	-41.4	-64%	-36.1	-114.0	-68%
Associates/JV	13.2	5.8	129%	8.6	54%	29.7	14.2	109%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	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	40.5	43.0	-6%	52.3	-23%	114.1	115.8	-1%
Taxation	-22.0	-10.8	105%	-21.8	1%	-37.7	-38.8	-3%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	18.4	32.3	-43%	30.5	-40%	76.3	77.0	-1%
Minority interest	1.3	1.1	24%	-2.4	-156%	-1.6	-15.0	-90%
PATAMI	19.8	33.4	-41%	28.1	-30%	74.8	61.9	21%
Core PATAMI	19.8	33.4	-41%	28.1	-30%	74.8	56.4	33%
DPS (sen)	0.00	0.00		0.00		0.00	0.00	
EBIT margin	6%	13%		8%		8%	9%	
Pretax margin	6%	11%		5%		8%	5%	
NP margin	6%	11%		5%		8%	5%	
CNP margin	3%	8%		2%		5%	2%	
EPS (sen)	0.5	0.8		1.3		1.7	2.9	
Core EPS(sen)	0.5	0.8		1.3		1.7	2.6	
BV/share (RM)	1.09	1.11		1.38		1.09	1.38	
Net gearing (x)	0.80	0.70		1.14		0.80	1.14	
Effective tax	54%	25%		42%		33%	34%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
External Revenue								
Property Development	469.1	193.4	143%	174.3	169%	882.9	660.7	34%
Construction	177.3	192.8	-8%	915.5	-81%	561.2	1,614.4	-65%
Infra	0.8	0.7	8%	29.0	-97%	2.2	86.1	-97%
Facilities management	13.7	13.1	4%	12.4	10%	39.7	42.0	-5%
Others	2.9	5.3	-44%	2.9	1%	10.5	12.3	-14%
EBIT Segmentation								
Property Development	33.8	30.9	9%	32.7	3%	88.9	112.5	-21%
Construction	3.8	25.0	-85%	31.3	-88%	44.8	46.5	-4%
Infra	-4.8	-1.7	186%	12.7	-138%	-7.8	41.7	-119%
Facilities management	4.8	0.7	594%	0.3	1337%	5.6	11.2	-50%
Others	2.8	2.8	0%	2.4	19%	-5.9	2.9	-305%
EBIT margins								
Property Development	7%	16%		19%		10%	17%	
Construction	2%	13%		3%		8%	3%	
Infra	-636%	-241%		44%		-358%	48%	
Facilities management	35%	5%		3%		14%	27%	
Others	96%	54%		82%		-56%	24%	

Source: Company, Kenanga Research

SOP Valuations			
SOP Valuation	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%)	2,206.3
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
Sub Total			4,856.0
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
Total SOP/share			1.48
Property RNAV discount/share		70%	(0.62)
SOP/share after RNAV discount			0.86
No of FD shares			4,825.5
Holding Co. Discount			10%
Implied SOP discount			49%
TP (RM)			0.75

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	0.970	354.1	Y	12/2018	-14.9%	1.4%	-19.6%	-11.6%	14.6	18.1	20.5	0.6	0.5	3.0%	0.0%	1.00	MP
CRESCENDO CORPORATION BHD	1.25	349.3	Y	01/2019	12.2%	1.6%	-10.4%	3.7%	10.0	11.2	10.8	0.4	0.3	3.5%	4.8%	1.30	MP
ECO WORLD DEVELOPMENT GROUP	1.01	2,973.8	Y	10/2018	-1.7%	-0.3%	45.7%	55.7%	26.3	18.1	11.6	0.8	0.8	3.8%	0.0%	1.15	MP
HUA YANG BHD	0.375	132.0	Y	03/2019	-3.2%	2.2%	48.0%	20.5%	29.9	20.2	16.8	0.2	0.2	1.1%	0.0%	0.410	MP
IOI PROPERTIES GROUP BHD	1.65	9,085.1	Y	06/2019	-15.0%	-6.0%	-5.3%	-2.7%	13.7	14.5	14.9	0.5	0.5	3.4%	3.0%	1.65	OP
MAGNA PRIMA BHD	0.910	302.7	Y	12/2018	-19.9%	7.3%	112.1%	1.5%	66.9	31.6	31.1	0.7	0.7	2.3%	1.4%	0.955	MP
MAH SING GROUP BHD	1.01	2,452.0	Y	12/2018	-5.5%	4.2%	-29.9%	4.0%	9.6	13.6	13.1	0.7	0.7	6.0%	5.4%	1.10	OP
MALAYSIAN RESOURCES CORP BHD	0.730	3,208.4	Y	12/2018	-36.8%	12.6%	-15.0%	11.4%	34.8	40.9	36.7	0.8	0.8	1.8%	0.0%	0.750	MP
SIME DARBY PROPERTY BHD	0.995	6,766.8	Y	12/2018	13.3%	17.6%	14.4%	44.5%	18.4	16.1	11.2	0.7	0.7	4.2%	2.5%	1.10	OP
SP SETIA BHD	2.11	8,349.1	Y	12/2018	-17.0%	6.1%	-64.0%	24.2%	10.6	29.5	23.8	0.7	0.6	4.8%	7.3%	2.45	OP
SUNSURIA BHD	0.775	619.1	Y	09/2018	10.9%	11.4%	5.7%	16.8%	6.8	6.5	5.5	0.8	0.7	11.7%	0.0%	0.860	MP
SUNWAY BHD	1.48	7,182.7	Y	12/2018	-2.6%	4.6%	-3.8%	8.1%	12.9	13.4	12.4	0.9	0.9	6.9%	4.7%	1.50	MP
UEM SUNRISE BHD	0.790	3,584.6	Y	12/2018	-2.8%	28.0%	23.3%	6.8%	13.2	10.7	10.0	0.6	0.5	4.7%	1.3%	0.850	OP
UOA DEVELOPMENT BHD	2.20	4,056.2	Y	12/2018	5.0%	8.9%	-17.0%	10.9%	9.7	11.7	10.6	0.9	0.9	7.7%	6.4%	2.15	OP
Simple Average					-5.6%	7.1%	6.0%	13.8%	19.8	18.3	16.3	0.7	0.6	4.6%	2.6%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.405	318.4	Y	04/2019	-35.7%	42.0%	-60.5%	103.6%	10.2	25.8	12.7	0.3	N.A.	1.2%	2.5%	0.410	SELL
LBS BINA GROUP BHD	0.690	1,075.7	Y	12/2018	-4.1%	15.5%	6.8%	12.3%	10.4	9.7	8.7	0.9	0.7	7.2%	4.8%	1.17	BUY
MATRIX CONCEPTS HOLDINGS BHD	1.97	1,483.0	Y	03/2019	22.9%	14.2%	9.1%	11.6%	7.0	6.4	5.7	1.2	1.1	18.0%	6.8%	2.37	BUY
PARAMOUNT CORP BHD	2.08	890.8	Y	12/2018	8.2%	5.0%	-33.7%	4.0%	6.7	10.1	9.7	0.9	0.8	7.0%	4.3%	2.48	BUY
TAMBUN INDAH LAND BHD	0.795	344.5	Y	12/2018	-29.3%	-1.4%	-36.1%	0.9%	4.1	6.5	6.4	0.6	0.6	8.2%	6.0%	1.00	BUY
TITIJAYA LAND BHD	0.330	436.6	Y	06/2019	6.6%	5.5%	5.9%	6.4%	6.0	5.7	5.3	0.4	0.3	5.7%	38.8%	0.445	BUY
YONG TAI BHD	0.620	301.1	Y	06/2019	146.7%	40.4%	62.6%	93.8%	19.4	11.9	6.2	0.8	0.7	4.4%	0.0%	0.855	NEUTRAL

Source: Kenanga Research

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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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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