

31 May 2019

# Malaysian Resources Corp

## Below Expectations

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1Q19 CNP of RM4.1m came in below expectations, accounting for only 4% of both our/consensus full-year estimates. This is the fourth disappointment in a row. Property sales of RM75.0m is also short of our/management's sales target of RM524.8m/RM800.0m. No dividend was declared, as expected. Cut FY19E CNP by 18%. Maintain UP with an unchanged TP of RM0.750.

**Below expectations.** 1Q19 CNP of RM4.1m came in below expectations, accounting for only 4% of both our/consensus full-year estimates. This is the fourth disappointment in a row. The negative variances are mainly due to: (i) slower-than-expected construction billings, and (ii) lower-than-expected billings progress from unbilled sales of RM1.6b. Property sales of RM75.0m is also short of our/management's sales target of RM524.8m/RM800.0m. No dividends declared, as expected.

**Results highlight.** 1Q19 CNL fell sharply by 81%, underpinned by the decline in revenue (-45%). This is due to softer billings from both its construction and property divisions where revenue declined by 31% and 61%, respectively. The low billings from its construction division is due to the fact that most of its contracts are still at start-up phase or going through cost rationalisation, while the lower property revenue is because most of its projects are still at sub-structure level or are from overseas, which can only be recognised upon completion. QoQ, 1Q19 CNP grew 540% (low base effect), amid lower revenue (-38%), thanks to the improvements in construction operating margin from 5.8% to 12.6%, and lower effective tax rate of 82% vis-à-vis 94% in 4Q18.

**Outlook.** Management maintains their sales target of RM800.0m underpinned by planned launches of RM900.0m of which RM400.0m are in Australia and inventories clearing from Vivo, 9 Seputeh with an estimated GDV of RM250.0m. However, we are only targeting sales of RM524.8-550.0m for FY19-20. Its unbilled sales stand at c.RM1.6b which will provide the group 3-4 years of earnings visibility. On its construction front, management does not rule out potential participation in ECRL given their strong interest in rail-related projects.

**Earnings review.** Post results, we cut our FY19E earnings by 18% as we re-timed some of the billings progress for both its construction and property divisions. Our FY19E sales is kept unchanged at RM524.8m, as we believe they have a better chance in meeting our target, which is lower than management's target of RM800.0m.

**Maintain UNDERPERFORM with an unchanged SoP-driven Target Price of RM0.750.** Our TP implies price to book ratio of 0.68x, which is close to 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 to enhance efficiency by further lowering their operating costs to remain competitive and improve overall profitability as margin erosions have been evident. While we are aware that the potential newsflow on ECRL could result in positive share price sentiment; we prefer to be prudent as the margins might not be as compelling.

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

## UNDERPERFORM ↔

Price : RM0.930  
Target Price : RM0.750 ↔

### Share Price Performance



KLCI	1,636.50
YTD KLCI chg	-3.2%
YTD stock price chg	51.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	4,091.9
Shares Outstanding	4,399.9
52-week range (H)	1.15
52-week range (L)	0.57
3-mth avg daily vol:	16,110,850
Free Float	41%
Beta	1.8

### Major Shareholders

Employees Provident Fund Board	36.0%
Gapurna Sdn Bhd	16.1%
Lembaga Tabung Haji	6.7%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1870.7	1172.1	1854.6
EBIT	141.5	148.4	156.9
PBT	123.0	101.9	148.9
<b>Net Profit</b>	<b>75.4</b>	<b>78.3</b>	<b>114.4</b>
<b>Core PATAMI</b>	<b>75.4</b>	<b>78.3</b>	<b>114.4</b>
Consensus (NP)	n.a.	116	148
Earnings Revision	n.a.	-18%	0%
Core EPS (sen)	1.7	1.8	2.6
Core EPS growth (%)	-26%	4%	46%
NDPS (sen)	1.8	1.4	1.7
NTA per Share (RM)	1.0	1.1	1.1
Price to NTA (x)	0.9	0.9	0.9
PER (x)	54.1	52.1	35.7
Debt-to-Equity ratio (x)	0.3	0.3	0.3
Return on Asset (%)	1%	1%	1%
Return on Equity (%)	2%	2%	2%
Net Div. Yield (%)	1.9%	1.5%	1.9%

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<b>Result Highlight</b>						
	<b>1Q19</b>	<b>4Q18</b>	<b>QoQ</b>	<b>1Q18</b>	<b>YoY</b>	
<b>FYE Dec (RM'm)</b>						
<b>Turnover</b>	<b>234.1</b>	<b>375.1</b>	<b>-38%</b>	<b>427.6</b>	<b>-45%</b>	
<b>EBIT</b>	<b>18.9</b>	<b>21.0</b>	<b>-10%</b>	<b>24.2</b>	<b>-22%</b>	
Interest inc/(exp)	-12.4	-7.9	58%	-4.3	190%	
Associates/JV	1.9	-4.2	-146%	10.7	-82%	
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	
<b>Pretax profit</b>	<b>8.4</b>	<b>8.9</b>	<b>-6%</b>	<b>30.6</b>	<b>-72%</b>	
Taxation	-6.9	-8.4	-18%	-4.9	39%	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
<b>Profit after tax</b>	<b>1.6</b>	<b>0.6</b>	<b>177%</b>	<b>25.6</b>	<b>-94%</b>	
Minority interest	2.6	0.1	2936%	-4.0	n.m.	
<b>PATAMI</b>	<b>4.1</b>	<b>0.6</b>	<b>540%</b>	<b>21.6</b>	<b>-81%</b>	
<b>Core PATAMI</b>	<b>4.1</b>	<b>0.6</b>	<b>540%</b>	<b>21.6</b>	<b>-81%</b>	
DPS (sen)	0.0	1.8		0.0		
EBIT margin	8%	6%		6%		
Pretax margin	4%	2%		7%		
NP margin	4%	2%		7%		
CNP margin	2%	0%		5%		
EPS (sen)	0.1	0.0		0.5		
Core EPS(sen)	0.1	0.0		0.5		
BV/share (RM)	1.1	1.1		1.1		
Net gearing (x)	0.2	0.2		0.6		
Effective tax	82%	94%		16%		

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>						
	<b>1Q19</b>	<b>4Q18</b>	<b>QoQ</b>	<b>1Q18</b>	<b>YoY</b>	
<b>External Revenue</b>						
Property Development	85.1	159.7	-47%	220.4	-61%	
Construction	132.7	197.4	-33%	191.1	-31%	
Facilities management	13.1	13.6	-3%	13.0	1%	
Others	3.1	5.6	-45%	2.3	31%	
<b>EBIT Segmentation</b>						
Property Development	3.0	9.0	-67%	24.1	-88%	
Construction	16.7	11.4	46%	16.0	4%	
Facilities management	-0.4	0.8	n.m.	0.2	n.m.	
Others	1.4	0.7	109%	-11.6	n.m.	
<b>EBIT margins</b>						
Property Development	3.5%	5.6%		11.0%		
Construction	12.6%	5.8%		8.4%		
Facilities management	-2.8%	5.7%		1.3%		
Others	44.3%	11.6%		-493.6%		

Source: Company, Kenanga Research

<b>SOP Valuations</b>			
<b>SOP Valuation</b>	<b>Stake</b>	<b>Method</b>	<b>Value (RM)</b>
<b>Property Development</b>	Various	NPV of profits (WACC: 11%)	2,206.3
<b>Property Investment</b>	Various	Book Value	2,053.6
<b>Construction</b>	Various	FY20` PER of 7x	210.0
<b>Building Services</b>	100%	FY20 PER of 7x	44.1
<b>Quill Capital REITs</b>	28%	Based on MQREIT TP of RM1.10	327.8
<b>Sub Total</b>			<b>4,841.7</b>
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
<b>Total SOP/share</b>			<b>1.48</b>
Property RNAV discount/share		70%	-0.62
<b>SOP/share after RNAV discount</b>			<b>0.86</b>
No of FD shares			4,825.5
Holding Co. Discount			10%
Implied SOP discount			49%
<b>TP (RM)</b>			<b>0.75</b>

Source: Kenanga Research

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)	
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																	
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP
ECO WORLD DEVELOPMENT GROUP	0.860	2,532.2	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.3	12.4	10.0	0.7	0.6	4.5%	1.2%	1.15	OP
HUA YANG BHD	0.305	107.4	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	13.1	14.8	0.2	0.2	1.4%	0.0%	0.335	MP
IOI PROPERTIES GROUP BHD	1.29	7,102.9	Y	06/2019	-15.0%	-6.0%	5.3%	0.7%	10.7	10.2	10.1	0.4	0.4	3.8%	3.9%	1.65	OP
LBS BINA GROUP BHD	0.515	802.9	Y	12/2019	31.3%	0.9%	7.9%	3.4%	9.4	8.7	8.5	0.6	0.5	6.6%	3.4%	0.675	MP
MAGNA PRIMA BHD	0.880	292.7	Y	12/2019	40.0%	11.1%	9637.5%	338.9%	N.A.	1,168.2	266.2	0.8	0.8	0.1%	0.0%	0.740	UP
MAH SING GROUP BHD	0.905	2,197.1	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	13.4	13.7	13.6	0.6	0.6	5.2%	4.4%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.930	4,091.9	Y	12/2019	-37.3%	58.2%	3.8%	46.1%	54.1	52.1	35.7	0.8	0.8	1.6%	1.5%	0.750	UP
SIME DARBY PROPERTY BHD	1.06	7,208.9	Y	12/2019	13.6%	12.5%	7.8%	16.9%	19.6	18.2	15.6	0.8	0.8	4.1%	2.2%	1.10	MP
SP SETIA BHD	2.11	8,508.6	Y	12/2019	7.8%	29.7%	71.3%	50.5%	38.8	22.6	15.0	0.6	0.6	2.5%	3.3%	2.45	OP
SUNSURIA BHD	0.660	587.3	Y	09/2019	-18.5%	7.4%	-14.7%	9.7%	4.4	5.2	4.7	0.6	0.6	12.9%	0.0%	0.760	OP
SUNWAY BHD	1.69	8,252.0	Y	12/2019	-2.7%	12.5%	-8.5%	22.5%	14.1	15.4	12.6	1.0	1.0	6.3%	3.5%	1.60	MP
UEM SUNRISE BHD	0.860	3,902.2	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	12.0	11.0	12.4	0.6	0.6	4.9%	1.2%	0.850	MP
UOA DEVELOPMENT BHD	2.30	4,240.6	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.7	12.2	12.1	0.9	0.9	7.4%	6.1%	2.15	MP
<b>Simple Average</b>					<b>3.2%</b>	<b>7.3%</b>	<b>702.8%</b>	<b>35.6%</b>	<b>18.4</b>	<b>100.2</b>	<b>33.5</b>	<b>0.7</b>	<b>0.6</b>	<b>4.5%</b>	<b>2.2%</b>		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
<b>CONSENSUS NUMBERS</b>																	
GLOMAC BHD	0.350	273.1	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	8.7	47.9	17.1	0.3	N.A.	0.6%	1.1%	0.390	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,518.5	Y	03/2019	25.1%	12.1%	-2.3%	11.5%	7.1	7.3	6.5	1.1	1.1	16.2%	6.2%	2.33	BUY
PARAMOUNT CORP BHD	2.10	910.0	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.9	9.7	9.2	0.8	N.A.	7.2%	4.3%	2.56	BUY
TAMBUN INDAH LAND BHD	0.755	327.3	Y	12/2019	-14.3%	10.6%	-22.4%	10.1%	5.9	7.6	6.9	0.5	N.A.	7.1%	5.7%	0.897	BUY
TITIJAYA LAND BHD	0.295	375.6	Y	06/2019	-14.3%	13.9%	-28.4%	17.1%	5.2	7.2	6.2	0.3	0.3	3.9%	1.7%	0.360	BUY
YONG TAI BHD	0.335	179.0	Y	06/2019	28.1%	108.6%	-168.0%	66.5%	11.5	N.A.	11.3	0.4	0.5	-4.5%	0.0%	0.343	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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