

27 February 2020

Malaysian Resources Corp

Missed Expectations

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FY19 CNP of RM23.7m (-69% YoY) missed our expectation, coming in at just 41% of our estimate although it beat consensus (by 25%). Earnings were dragged down by lower contributions from both the property development & investment and engineering & construction divisions. We have adjusted downwards our forward earnings and target price to RM0.63 (from RM0.70). Nonetheless, following its share price slump (down 18% since mid-Dec 2019), we are upgrading our call to MARKET PERFORM.

Below expectations. FY19 CNP of RM23.7m (-69% YoY) came below our estimate (at just 41%), although it beat consensus expectations (by 25%). The weaker full-year performance was mainly weighed down by lower operating profit (before unallocated corporate expenses and net finance cost) contributions from: (i) property development & investment segment (-24% to RM83.0m) which had previously benefited from land sale amounting to RM66.8m in pretax profit in FY18. Property sales came in at RM537m last year, and (ii) engineering, construction & environment division (-67% to RM23.4m) due to lower income recognition. In particular, its 50% JV for the LRT3 project only contributed net profit of RM0.6m in FY19, compared with RM14.6m in FY18.

Results' highlight. 4QFY19 CNP of RM6.0m was better than 3QFY19's RM2.5m and 4QFY18's RM0.4m. The improvements were largely driven by higher operating profit (before unallocated corporate expenses and net finance cost) contribution of RM18.7m (versus 3QFY19's RM2.0m and 4QFY18's 5.6m) from the engineering & construction division. This mitigated the lower operating profit contribution of RM8.8m (vs. 3QFY19's RM25.3m and 4QFY18's RM10.6m) from the property segment. A DPS of 1.0 sen was declared.

Outlook. The Group has unbilled property sales of RM1.6b and an outstanding external construction order-book of RM20.7b as of end-Dec 2019. While this is expected to underpin forward earnings visibility, there may be timing delays in income recognitions due to slower progress billings. For example, its RM5.7b LRT3 JV project has been hit by the re-negotiation process with the government and work package contractors following the change in project structure from PDP to fixed-price turnkey model. This project – which is 24% completed as of end-Dec 2019 – is now expected to hit 40% completion stage by end-2020.

Earnings revisions. Post results, we have slashed our FY20E earnings forecast to RM57m (-44%) and introduce net profit of RM68m for FY21. The revisions are made as we tweak the timing recognition of its key projects and lower our margin assumptions.

MARKET PERFORM with a lower Target Price of RM0.63 (from RM0.70). This is derived from our SoP-valuation method, which is anchored using the adjusted PBV multiple for its property business (see table overleaf). Following its share price drop to RM0.66 (down 18% since mid-Dec 2019), we are upgrading our call from UP to MP.

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

MARKET PERFORM ↑

Price : **RM0.660**
Target Price : **RM0.630** ↓

Share Price Performance



KLCI	1,495.19
YTD KLCI chg	-5.9%
YTD stock price chg	-9.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	2,912.0
Shares Outstanding	4,412.0
52-week range (H)	1.15
52-week range (L)	0.63
3-mth avg daily vol:	5,972,781
Free Float	37%
Beta	1.4

Major Shareholders

Employees Provident Fund Board	35.9%
GapurnaSdnBhd	15.5%
Lembaga Tabung Haji	6.0%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1,319.4	1559.8	1450.9
EBIT	92.0	117.1	118.7
PBT	53.0	75.5	91.8
Net Profit	23.7	56.9	67.7
Core PATAMI	23.7	56.9	67.7
Consensus (NP)	N.A.	65.3	76.6
Earnings Revision	N.A.	-44%	N.A.
Core EPS (sen)	0.54	1.3	1.5
Core EPS growth (%)	-68%	-52%	19%
NDPS (sen)	1.0	0.0	0.0
NTA per Share (RM)	1.1	1.1	1.1
Price to NTA (x)	0.6	0.6	0.6
PER (x)	122.2	50.8	42.8
Debt-to-Equity ratio (x)	0.4	0.3	0.3
Return on Asset (%)	1	1	1
Return on Equity (%)	1	1	1
Net Div. Yield (%)	0.0	0.0	0.0

27 February 2020

Result Highlight								
FYE Dec (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Turnover	471.6	372.7	27%	374.1	26%	1,319.4	1,870.7	-29%
EBIT	26.8	25.3	6%	19.1	40%	92.0	141.5	-35%
Interest exp	(7.0)	(13.7)	-49%	(7.2)	-4%	(45.6)	(44.0)	4%
Share of profit from assoc/JVs	0.7	2.7	-75%	(4.2)	-116%	6.6	25.5	-74%
Pretax profit	20.4	14.3	43%	7.7	165%	53.0	123.0	-57%
Taxation	(13.1)	(12.1)	8%	(7.4)	78%	(34.3)	(46.1)	-26%
Profit after tax	7.3	2.2	234%	0.3	2208%	18.7	76.9	-76%
Minority interest	(1.3)	0.3	n.m.	0.1	n.m.	5.0	(1.5)	n.m.
PATAMI	6.0	2.5	138%	0.4	1400%	23.7	75.4	-69%
Core PATAMI	6.0	2.5	138%	0.4	1400%	23.7	75.4	-69%
DPS (sen)	1.0	0.0		1.8		1.0	1.8	
EBIT margin	5.7%	6.8%		5.1%		7.0%	7.6%	
Pretax margin	4.3%	3.8%		2.1%		4.0%	6.6%	
EPS (sen)	0.14	0.06		0.01		0.54	1.72	
Core EPS(sen)	0.14	0.06		0.01		0.54	1.72	
Effective tax	64.2%	84.7%		95.9%		64.7%	37.5%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Revenue								
Property development & investment	195.3	215.0	-9%	159.7	22%	566.7	1,042.7	-46%
Engineering, construction & environment	258.7	137.4	88%	197.4	31%	679.5	758.6	-10%
Facilities management & parking	14.3	13.5	6%	13.6	5%	53.6	53.3	1%
Others	3.4	6.9	-51%	3.4	-1%	19.5	16.1	21%
Total	471.6	372.7	27%	374.1	26%	1,319.4	1,870.7	-29%
Operating Profit (bef corp expenses and net finance cost)								
Property development & investment [^]	8.8	25.3	-65%	10.6	-17%	83.0	109.1	-24%
Engineering, construction & environment [^]	18.7	2.0	812%	5.6	232%	23.4	70.4	-67%
Facilities management & parking	2.3	3.6	-35%	0.8	202%	6.0	6.4	-7%
Others	(2.6)	(0.1)	1807%	8.5	-131%	(3.7)	(5.3)	-29%
	27.1	30.7	-12%	25.5	6%	108.7	180.7	-40%
Unallocated corporate expenses	(5.5)	(7.4)	-26%	(12.6)	-57%	(29.7)	(34.3)	-13%
Net finance costs	(1.2)	(9.0)	-87%	(5.1)	-76%	(26.0)	(23.4)	11%
Pretax Profit	20.4	14.3	43%	7.7	165%	53.0	123.0	-57%
Operating Profit Margin (bef corp expenses and net finance cost)								
Property development & investment [^]	4.5%	11.7%		6.6%		14.6%	10.5%	
Engineering, construction & environment [^]	7.2%	1.5%		2.8%		3.4%	9.3%	
Facilities management & parking	16.3%	26.5%		5.7%		11.1%	12.0%	
Others	n.m.	n.m.		n.m.		n.m.	n.m.	
Total	4.3%	3.8%		2.1%		4.0%	6.6%	
[^] incl share of associates & JVs results								

Source: Company, Kenanga Research

27 February 2020

Segment	Valuation (RMm)	Valuation basis
Property Development & Investment	3,051.5	P/BV of 0.52x (-1.5SD below mean) with inventory adjustment
Engineering, Construction & Environment	285.8	P/E of 14x (-1.5 SD below mean)
Facilities Management & Parking	49.1	P/BV of 0.85x (at mean)
Others	160.8	P/BV of 0.85x (at mean)
- less net debt at holding company	(289.2)	
Aggregate valuation	3,257.9	
less holding company discount of 15%	(488.7)	
No of shares (m units)	4,412.0	
RNAV per share (RM)	0.63	

Source: Kenanga Research

27 February 2020

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.	1-Yr. Fwd.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.20	438.1	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	18.3	111.8	85.7	0.6	0.6	0.5%	0.0%	0.890	UP	
ECO WORLD DEVELOPMENT GROUP	0.635	1,869.7	Y	10/2020	-19.2%	25.6%	8.0%	7.8%	9.3	8.6	7.9	0.4	0.4	4.8%	1.7%	0.750	MP	
IOI PROPERTIES GROUP BHD	1.04	5,726.4	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	8.7	8.9	8.3	0.3	0.3	3.5%	4.8%	1.45	OP	
LBS BINA GROUP BHD	0.475	727.1	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	8.7	10.6	9.6	0.5	0.5	5.1%	2.2%	0.520	MP	
MAGNA PRIMA BHD	0.750	249.5	Y	12/2020	7.7%	8.4%	-136.3%	-115.2%	N.A.	N.A.	N.A.	0.5	0.5	-4.3%	0.0%	0.545	UP	
MAH SING GROUP BHD	0.655	1,590.1	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	9.7	15.4	14.4	0.5	0.5	3.4%	6.1%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.660	2,912.0	Y	12/2019	18.2%	-7.0%	140.1%	19.0%	122.2	50.8	42.8	0.6	0.6	1.0%	0.0%	0.630	MP	
SIME DARBY PROPERTY BHD	0.760	5,168.6	Y	12/2019	1.5%	-7.7%	-7.3%	6.6%	7.3	7.9	7.4	0.5	0.5	7.0%	3.8%	1.00	OP	
SP SETIA BHD	1.28	5,174.4	Y	12/2020	19.9%	7.7%	48.0%	59.9%	20.3	13.6	8.5	0.4	0.4	2.7%	2.2%	1.45	OP	
SUNSURIA BHD	0.595	533.1	Y	09/2020	-2.7%	7.3%	-4.0%	4.8%	4.0	4.2	4.0	0.6	0.6	14.5%	0.0%	0.575	N.R.	
SUNWAY BHD	1.79	8,775.8	Y	12/2020	11.5%	8.8%	0.8%	9.3%	13.7	13.7	12.5	1.1	1.0	7.5%	3.6%	1.75	MP	
UEM SUNRISE BHD	0.620	2,813.2	Y	12/2020	-17.5%	-0.9%	-9.3%	-13.8%	9.0	9.9	11.5	0.4	0.4	3.9%	1.6%	0.720	OP	
UOA DEVELOPMENT BHD	1.98	3,892.7	Y	12/2020	6.6%	15.7%	-9.0%	13.3%	10.7	11.0	9.7	0.8	0.8	7.0%	7.1%	2.15	OP	
Simple Average					0.7%	5.4%	-8.5%	3.7%	20.2	22.2	18.6	0.6	0.5	4.4%	2.6%			
*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																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.350	272.1	Y	04/2020	11.9%	40.2%	22.6%	85.9%	18.5	15.1	8.1	0.2	N.A.	1.7%	2.6%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.91	1,571.6	Y	03/2020	7.3%	9.1%	5.8%	4.8%	7.2	6.8	6.5	1.0	1.0	15.9%	6.4%	2.28	BUY	
PARAMOUNT CORP BHD	1.32	800.8	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.7	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.665	288.2	Y	12/2019	-11.3%	4.0%	-21.7%	-1.0%	5.2	6.6	6.7	0.5	0.5	6.6%	6.0%	0.840	N.A	
TITIJAYA LAND BHD	0.280	354.6	Y	06/2020	-21.3%	8.5%	-35.0%	15.7%	10.6	16.4	14.2	0.3	0.3	1.7%	45.0%	0.305	N.A	
YONG TAI BHD	0.100	95.1	Y	06/2020	128.4%	8.6%	-3718.7%	-130.6%	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.183	N.A	

Source: Kenanga Research

27 February 2020

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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