

27 February 2019

Malaysian Resources Corp

FY18 Below Expectations

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FY18 CNP of RM75.4m came in below our and consensus expectations, accounting for 88%/84% of respective estimates. Positively, property sales of RM470.0m are ahead of our expectation of RM447.3m. A 1.75 sen dividend declared was a surprise as we did not expect any dividend. No changes to FY19E CNP, introduces FY20E CNP of RM114.4m. Maintain MP with an unchanged TP of RM0.750.

Below expectations. FY18 Core Net Profit (CNP) of RM75.4m came in below our and consensus expectations, accounting for 88%/84% of our/consensus full-year estimates. Note that this is the third disappointment for the year. The negative variances are mainly due to: (i) slower-than-expected construction billings, (ii) lower-than-expected property development margins as some of their major development projects are still at sub-structure levels, and (iii) higher-than-expected effective tax. Positively, property sales of RM470.0m are ahead of our expectations of RM447.3m. The 1.75 sen dividend declared was a surprise as we did not expect any dividend for the year.

Results highlight. FY18 CNP fell by 25%YoY, on the back of a lower revenue (-34%). The sharp reduction in revenue is dragged down by its construction division due to the absence of project handover, and they are also affected by the project review undertaken by the government which affected the recognition for LRT3. To recap, MRCB handed over the KL Sports City back in 2017. **QoQ**, 4Q18 CNP declined 97% underpinned by i) sharp decline in revenue (-43%), ii) losses incurred by its joint-venture, and iii) high effective tax rate of 94%.

Outlook. Going forward, management has set a sales target of RM800.0m underpinned by its planned launches of RM900.0m of which RM400.0m are from Australia. 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 do not rule out potential participation in ECRL given their strong interest in rail-related projects.

Earnings review. Post results, we make no changes to our FY19E earnings as we believe that its margin would improve once its on-going development project progresses past its start-up stage and billings from LRT3 resume. We also take the opportunity to introduce our FY20E earning of RM114.4m.

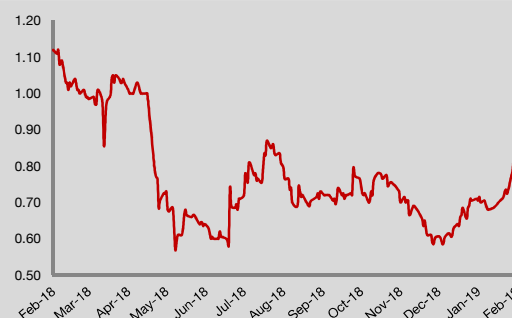
Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM0.750. Our TP implies price to book of 0.68x, which is close to its trough levels. We opine that the long-term outlook for the company is relatively stable compared to other contractors or developers due to their massive outstanding 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. While we are aware that the potential news flow on ECRL could result in positive share price sentiment; we prefer to be prudent as these contract margins might not be as compelling.

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 : RM0.800
Target Price : RM0.750 ↔

Share Price Performance



KLCI	1,719.00
YTD KLCI chg	1.7%
YTD stock price chg	30.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,519.9
Shares Outstanding	4,399.9
52-week range (H)	1.15
52-week range (L)	0.55
3-mth avg daily vol:	12,331,570
Free Float	41%
Beta	1.8

Major Shareholders

Kumpulan Wang Simpanan Pekerja	36.0%
Gapurna Sdn Bhd	16.1%
Lembaga Tabung Haji	7.0%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1870.7	1964.2	2062.5
EBIT	141.5	151.1	156.9
PBT	123.0	124.6	148.9
Net Profit	75.4	95.7	114.4
Core PATAMI	75.4	95.7	114.4
Consensus (NP)	n.a.	128.4	165.4
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	1.7	2.2	2.6
Core EPS growth (%)	-26%	27%	19%
NDPS (sen)	1.8	1.7	1.7
NTA per Share (RM)	1.0	1.1	1.1
Price to NTA (x)	0.8	0.8	0.8
PER (x)	46.5	36.7	30.7
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 (%)	2.2%	2.2%	2.2%

27 February 2019

Result Highlight								
	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
FYE Dec (RM'm)								
Turnover	375.1	662.8	-43%	408.2	-8%	1,870.7	2,823.7	-34%
EBIT	21.0	42.3	-50%	62.1	-66%	141.5	272.1	-48%
Interest inc/(exp)	-7.9	-15.1	-48%	-2.1	272%	-44.0	-116.1	-62%
Associates/JV	-4.2	13.2	n.m.	10.8	-139%	25.5	25.0	2%
Exceptional items	0.0	0.0	n.m.	60.8	-100%	0.0	66.3	-100%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	8.9	40.5	-78%	131.6	-93%	123.0	247.3	-50%
Taxation	-8.4	-22.0	-62%	-26.8	-69%	-46.1	-65.6	-30%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	0.6	18.4	-97%	104.7	-99%	76.9	181.7	-58%
Minority interest	0.1	1.3	-94%	0.8	-90%	-1.5	-14.2	-90%
PATAMI	0.6	19.8	-97%	105.6	-99%	75.4	167.5	-55%
Core PATAMI	0.6	19.8	-97%	44.8	-99%	75.4	101.2	-25%
DPS (sen)	1.8	0.0		1.8		1.8	1.8	
EBIT margin	6%	6%		15%		8%	10%	
Pretax margin	2%	6%		32%		7%	9%	
NP margin	2%	6%		32%		7%	9%	
CNP margin	0%	3%		11%		4%	4%	
EPS (sen)	0.0	0.5		4.8		1.7	7.6	
Core EPS(sen)	0.0	0.5		2.0		1.7	4.6	
BV/share (RM)	1.1	1.1		2.2		1.1	2.2	
Net gearing (x)	0.2	0.8		0.6		0.2	0.6	
Effective tax	94%	54%		20%		37%	27%	

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
External Revenue								
Property Development	159.7	469.1	-66%	198.0	-19%	1,042.7	858.7	21%
Construction	197.4	177.3	11%	159.5	24%	758.6	1,773.9	-57%
Facilities management	13.6	13.7	0%	13.7	-1%	53.3	55.8	-4%
Others	5.6	2.9	92%	8.1	-31%	16.1	20.4	-21%
EBIT Segmentation								
Property Development	9.0	33.8	-73%	63.5	-86%	97.8	176.0	-44%
Construction	11.4	3.8	198%	46.1	-75%	56.2	92.7	-39%
Facilities management	0.8	4.8	-84%	0.3	188%	6.4	11.4	-44%
Others	0.7	2.8	-77%	-0.8	n.m.	-5.3	2.1	n.m.
EBIT margins								
Property Development	5.6%	7.2%		32.1%		9.4%	20.5%	
Construction	5.8%	2.2%		28.9%		7.4%	5.2%	
Facilities management	5.7%	34.9%		1.9%		12.0%	20.5%	
Others	11.6%	96.3%		-9.3%		-32.7%	10.5%	

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%	FY19 PER of 7x	58.4
Quill Capital REITs	28%	Based on MQREIT TP of RM1.05	312.9
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

27 February 2019

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	1.00	365.1	Y	12/2019	18.3%	-1.4%	-27.5%	2.2%	15.3	21.1	20.7	0.5	0.5	2.4%	0.0%	1.00	MP
ECO WORLD DEVELOPMENT GROUP	0.990	2,914.9	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	17.6	14.3	11.5	0.8	0.7	4.5%	1.1%	1.15	OP
HUA YANG BHD	0.405	142.6	Y	03/2019	9.0%	0.3%	149.1%	22.3%	32.3	13.0	10.6	0.2	0.2	1.8%	0.0%	0.410	OP
IOI PROPERTIES GROUP BHD	1.63	8,975.0	Y	06/2019	-15.0%	-6.0%	0.9%	-3.4%	13.6	13.5	13.9	0.5	0.5	3.6%	3.1%	1.65	MP
LBS BINA GROUP BHD	0.675	1,052.3	Y	12/2018	1.6%	6.4%	-12.5%	1.5%	10.2	11.6	11.5	0.8	0.7	6.9%	2.6%	0.720	MP
MAGNA PRIMA BHD	0.890	296.0	Y	12/2018	-19.9%	7.3%	112.1%	1.5%	65.4	30.9	30.4	0.7	0.7	2.3%	1.5%	0.955	MP
MAH SING GROUP BHD	1.00	2,427.7	Y	12/2018	-5.5%	4.2%	-29.9%	4.0%	9.5	13.5	13.0	0.7	0.7	6.0%	5.5%	1.10	OP
MALAYSIAN RESOURCES CORP BHD	0.800	3,519.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	46.5	36.7	30.7	0.7	0.7	2.0%	2.2%	0.750	MP
SIME DARBY PROPERTY BHD	1.16	7,889.0	Y	12/2018	11.9%	17.8%	9.5%	45.5%	21.5	19.6	13.5	0.8	0.8	4.1%	2.0%	1.10	OP
SP SETIA BHD	2.57	10,173.5	Y	12/2018	-17.0%	6.1%	-64.0%	24.2%	12.9	36.0	28.9	0.8	0.7	4.8%	6.0%	2.45	OP
SUNSURIA BHD	0.640	511.3	Y	09/2019	6.4%	7.6%	0.7%	2.6%	3.9	3.8	3.7	0.6	0.5	15.1%	0.0%	0.860	OP
SUNWAY BHD	1.66	8,050.5	Y	12/2018	-2.6%	4.6%	-3.7%	8.0%	14.4	15.0	13.9	1.0	1.0	6.9%	4.2%	1.50	MP
UEM SUNRISE BHD	0.845	3,834.1	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	11.8	10.8	12.2	0.6	0.6	4.9%	1.2%	0.850	MP
UOA DEVELOPMENT BHD	2.31	4,259.0	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.8	12.2	12.1	0.9	0.9	7.4%	6.1%	2.15	MP
Simple Average					1.8%	1.4%	14.2%	10.1%	20.5	18.0	16.2	0.7	0.7	5.2%	2.5%		
*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	0.375	293.0	Y	04/2019	-38.8%	43.7%	-77.6%	210.7%	9.4	41.9	13.5	0.3	N.A.	0.7%	1.3%	0.370	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.97	1,483.0	Y	03/2019	25.1%	12.1%	-2.3%	10.9%	7.0	7.1	6.4	1.2	1.1	16.2%	6.2%	2.32	BUY
PARAMOUNT CORP BHD	2.16	925.1	Y	12/2018	8.2%	5.0%	-33.7%	4.0%	6.9	10.5	10.1	0.9	0.8	7.0%	4.2%	2.56	BUY
TAMBUN INDAH LAND BHD	0.775	335.9	Y	12/2019	-14.3%	10.6%	-24.0%	9.5%	6.1	8.0	7.3	0.6	0.7	7.7%	5.4%	0.917	BUY
TITIJAYA LAND BHD	0.320	418.2	Y	06/2019	-7.2%	6.5%	-10.4%	9.4%	5.8	6.4	5.9	0.4	0.3	4.9%	40.0%	0.430	BUY
YONG TAI BHD	0.330	160.3	Y	06/2019	65.7%	87.4%	-143.0%	42.2%	10.3	N.A.	10.1	0.4	0.4	-1.1%	0.0%	0.398	NEUTRAL

Source: Kenanga Research

27 February 2019

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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