

# Malaysian Resources Corp

## Sunnier Days

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**FY17 CNP of RM101.2m came in above our, but below consensus', full-year estimates, at 130%/91%. Property sales of RM1.4b also came in above both our and management target of RM1.2b. Declared 1.75 sen dividend, higher than our 1.5 sen. Raised FY18E CNP by 34%, introduce FY19E CNP of RM186.8m. Maintain OUTPERFORM with higher Target Price of RM1.30.**

**Above our estimate but below consensus.** FY17 CNP of RM101.2m made up 130%/91% of our/consensus' estimates. The better-than-expected performance was attributable to; (i) lower interest cost arising from capitalisation and repayment of debts, (ii) better contribution from joint-venture i.e. PDP with GKENT, and (iii) lower contribution to minority interest. The negative variation compared to consensus could be due to higher margin assumptions for its construction/property division. FY17 property sales of RM1.4b exceeded both our and management's target of RM1.2b. Declared 1.75 sen dividend, slightly higher compared to our expectation of 1.5 sen.

**Results highlight.** FY17 CNP grew 361%, YoY backed by: (i) decent revenue growth (+17%), (ii) sharp reduction in interest cost (-34%), and (iii) significant decrease in minority interest (-72%). Main contributor to its revenue growth was its construction division, which saw construction revenue increasing by 107% due to the delivery of Bukit Jalil project. 4Q17 CNP surged 59%, QoQ, despite a significant drop in revenue of 64% thanks to: (i) improvements in associate/jv contribution (+26%), (ii) sharp decrease in interest cost (-95%), and (iii) improvement in property development and construction operating margins that ranges between 13ppt- 26ppt to 29%-32%.

**Outlook.** MRCB's remaining external construction order-book stands at c.RM5.2b, and coupled with c.RM1.7b unbilled property sales, these numbers will provide the group at least four years of earnings visibility. Going forward, management are looking for more land banking opportunities and sales target of RM1.0b for FY18 backed by its previous launches, i.e. Sentral Residences and 9 Seputeh. Construction and property division aside, management remains hopeful to dispose EDL highway in FY18.

**Raise FY18E earnings.** Post-results, we raised our FY18E CNP by 34% after adjusting our margin assumptions and effective interest cost after management's move in capitalising interest cost into project levels, and introduce our FY19E CNP of RM186.8m.

**OUTPERFORM maintained.** We reiterate our OUTPERFORM call on MRCB with a higher SoP-driven Target Price of RM1.30 (previously, RM1.25) as we factored in a higher construction profit in our FY18E CNP revision. We ascribed 50% discount to its property RNAV and 8x FY18E PER to its construction earnings. The sale of EDL highway would be a catalyst for the stock.

**Downside risks to our call include:** (i) weaker-than-expected property sales, (ii) higher-than-expected administrative cost, (iii) negative real estate policies, (iv) tighter lending environment, and (v) slower-than-expected construction billings.

# OUTPERFORM ↔

Price : **RM1.08**  
Target Price : **RM1.30** ↑

### Share Price Performance



KLCI	1,856.20
YTD KLCI chg	3.3%
YTD stock price chg	-3.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	4,742.0
Issued shares	4,390.8
52-week range (H)	1.57
52-week range (L)	0.87
3-mth avg daily vol:	12,423,470
Free Float	41%
Beta	1.4

### Major Shareholders

Employees Provident Fund Board	34.9%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.2%

### Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2,823.7	3,100.4	3,619.5
EBIT	547.1	535.9	338.4
PBT	247.3	236.6	269.7
<b>Net Profit (NP)</b>	<b>167.6</b>	<b>163.8</b>	<b>186.8</b>
<b>Core NP</b>	<b>101.3</b>	<b>163.8</b>	<b>186.8</b>
Consensus (CNP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	34%	0%
*Core EPS (sen)	2.1	3.4	3.9
Core EPS growth(%)	-235.7	61.8	14.0
NDPS (sen)	1.8	1.8	1.8
NAV/Share (RM)	0.52	0.95	0.96
*PER (x)	31.1	31.8	27.9
*Core PER (x)	51.5	31.8	27.9
Price/NAV (x)	2.06	1.13	1.13
Net Gearing (x)	0.8	0.6	0.4
Dividend Yield (%)	1.6	1.6	1.6

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<b>Result Highlight</b>								
	<b>4Q17</b>	<b>3Q17</b>	<b>QoQ</b>	<b>4Q16</b>	<b>YoY</b>	<b>FY17</b>	<b>FY16</b>	<b>YoY</b>
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>408.2</b>	<b>1,134.1</b>	<b>-64%</b>	<b>1,031.7</b>	<b>-60%</b>	<b>2,823.7</b>	<b>2,408.1</b>	<b>17%</b>
EBITDA	62.1	85.2	-27%	58.6	6%	272.1	290.5	-6%
Depreciation	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>EBIT</b>	<b>62.1</b>	<b>85.2</b>	<b>-27%</b>	<b>58.6</b>	<b>6%</b>	<b>272.1</b>	<b>290.5</b>	<b>-6%</b>
Interest inc/(exp)	-2.1	-41.4	-95%	-42.8	-95%	-116.1	-175.9	-34%
Associates/JV	10.8	8.6	26%	8.5	28%	25.0	32.7	-23%
Exceptional items	60.8	0.0	n.m.	214.4	-72%	66.3	245.4	-73%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>131.6</b>	<b>52.3</b>	<b>151%</b>	<b>238.6</b>	<b>-45%</b>	<b>247.3</b>	<b>392.6</b>	<b>-37%</b>
Taxation	-26.8	-21.8	23%	-29.6	-9%	-65.6	-73.5	-11%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>104.7</b>	<b>30.5</b>	<b>243%</b>	<b>209.0</b>	<b>-50%</b>	<b>181.7</b>	<b>319.1</b>	<b>-43%</b>
Minority interest	0.8	-2.4	-134%	-20.9	-104%	-14.2	-51.7	-72%
<b>PATAMI</b>	<b>105.6</b>	<b>28.1</b>	<b>276%</b>	<b>188.1</b>	<b>-44%</b>	<b>167.5</b>	<b>267.4</b>	<b>-37%</b>
<b>Core PATAMI</b>	<b>44.8</b>	<b>28.1</b>	<b>59%</b>	<b>-26.3</b>	<b>-270%</b>	<b>101.2</b>	<b>22.0</b>	<b>361%</b>
DPS (sen)	1.75	0.00		2.75		1.75	2.75	
EBIT margin	15%	8%		6%		10%	12%	
Pretax margin	32%	5%		23%		9%	16%	
NP margin	32%	5%		23%		9%	16%	
CNP margin	11%	2%		-3%		4%	1%	
EPS (sen)	4.8	1.3		8.9		7.6	12.7	
Core EPS(sen)	2.0	1.3		-1.2		4.6	1.0	
BV/share (RM)	2.2	1.4		1.4		2.2	1.4	
Net gearing (x)	0.6	1.1		0.4		0.6	0.4	
Effective tax	20%	42%		12%		27%	19%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>4Q17</b>	<b>3Q17</b>	<b>QoQ</b>	<b>4Q16</b>	<b>YoY</b>	<b>FY17</b>	<b>FY16</b>	<b>YoY</b>
<b>External Revenue</b>								
Property Development	198.0	174.3	14%	599.7	-67%	858.7	1,330.4	-35%
Construction	159.5	915.5	-83%	378.5	-58%	1,773.9	857.9	107%
Infra	28.9	29.0	0%	27.0	7%	114.9	112.4	2%
Facilities management	13.7	12.4	10%	18.8	-27%	55.8	71.3	-22%
Others	8.1	2.9	180%	7.6	6%	20.4	36.1	-44%
<b>EBIT Segmentation</b>								
Property Development	63.5	32.7	94%	236.4	-73%	176.0	464.6	-62%
Construction	46.1	31.3	48%	1.6	2808%	92.7	11.6	700%
Infra	13.5	12.7	6%	12.1	11%	55.2	58.5	-6%
Facilities management	0.3	0.3	-20%	3.4	-92%	11.4	15.8	-28%
Others	-0.8	2.4	-132%	26.8	-103%	2.1	6.9	-69%
<b>EBIT margins</b>								
Property Development	32%	19%		39%		20%	35%	
Construction	29%	3%		0%		5%	1%	
Infra	47%	44%		45%		48%	52%	
Facilities management	2%	3%		18%		21%	22%	
Others	-9%	82%		351%		11%	19%	

Source: Company, Kenanga Research

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<b>SOP Valuations</b>			
<b>SOP Valuation</b>	<b>Stake</b>	<b>Method</b>	<b>Value (RM)</b>
Property Development	Various	NPV of profits (WACC: 11%)	2,954.8
Property Investment	Various	Book Value	2,053.6
Construction	Various	FY18` PER of 8x	210.0
Building Services	100%	FY18 PER of 7x	58.4
Quill Capital REITs	31%	Estimate Market Cap of Quill	459.8
Concession			
EDL	100%	Book Value	117.9
<b>Sub Total</b>			<b>5,854.5</b>
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
<b>Total SOP/share</b>			<b>1.69</b>
Property RNAV discount		50%	(0.31)
<b>SOP/share after RNAV discount</b>			<b>1.38</b>
No of FD shares			4,825.5
Holding Co. Discount			5%
Implied SOP discount			23%
<b>TP (RM)</b>			<b>1.30</b>

Source: Kenanga Research

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Peer Comparison

NAME	Price (28/2/18)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>																
IOI PROPERTIES GROUP BHD*	1.85	10,186	11.5	12.5	11.9	3.2%	5.1%	4.7%	0.58	938.0	859.1	903.8	-8.4%	5.2%	2.00	MARKET PERFORM
S P SETIA BHD*	3.39	12,723	15.1	19.1	16.3	3.4%	8.4%	4.8%	0.88	766.4	607.3	712.3	-20.8%	17.3%	4.10	OUTPERFORM
UEM SUNRISE BHD*	1.09	4,946	18.2	17.8	21.4	0.9%	4.0%	3.9%	0.74	272.2	278.6	230.8	2.3%	-17.2%	1.20	MARKET PERFORM
SUNWAY BHD^	1.65	8,078	14.3	14.2	13.4	3.6%	7.3%	6.7%	1.02	566.0	572.0	607.0	1.1%	6.1%	1.75	MARKET PERFORM
MAH SING GROUP BHD	1.20	2,913	11.4	11.6	12.0	5.4%	9.0%	8.2%	0.81	296.8	290.2	281.8	-2.2%	-2.9%	1.50	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.29	3,798	33.6	20.1	14.2	0.0%	5.2%	4.3%	0.85	113.1	188.6	267.1	66.8%	41.7%	1.50	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.60	4,506	11.5	11.4	11.4	5.8%	12.1%	9.3%	1.04	401.5	403.9	406.1	0.6%	0.6%	2.60	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.08	4,742	51.5	31.8	27.9	1.7%	8.6%	2.4%	1.14	101.3	163.8	186.8	62%	14.0%	1.30	OUTPERFORM
SUNSURIA BERHAD	1.30	1,038	11.4	9.3	6.1	0.0%	6.9%	11.6%	1.14	90.7	111.9	169.9	23.3%	51.9%	1.40	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.40	318	13.6	9.2	8.8	4.3%	2.2%	8.0%	0.41	28.9	42.5	44.6	47.2%	4.9%	1.50	MARKET PERFORM
HUA YANG BHD	0.580	204	2.9	64.4	17.6	3.4%	21.9%	12.2%	0.34	70.0	3.0	12.0	-95.7%	300.0%	0.600	MARKET PERFORM
AMVERTON BHD	1.25	456	18.7	17.9	16.7	0.0%	3.0%	4.0%	0.69	24.3	25.7	27.5	5.8%	7.0%	2.00	OUTPERFORM
MAGNA PRIMA BHD	1.26	419	78.9	53.5	52.1	0.9%	7.4%	1.1%	1.01	6.7	11.7	12.0	74.6%	2.6%	1.25	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>																
IGB CORPORATION BHD	2.97	3,984	11.7	14.9	14.1	3.4%	7.4%	5.1%	0.76	340.9	268.3	281.7	-21.3%	5.0%	n.a.	BUY
GLOMAC BHD	0.54	429	4.0	16.4	11.5	3.1%	0.7%	4.6%	n.a.	108.2	26.2	37.3	-75.8%	42.4%	0.54	SELL
PARAMOUNT CORP BHD	1.98	840	6.3	9.4	9.0	5.1%	14.6%	9.6%	0.90	133.4	89.1	93.3	-33.2%	4.8%	2.40	BUY
TAMBUN INDAH LAND BHD	0.87	375	4.5	5.0	5.0	7.6%	18.8%	11.9%	0.59	83.4	74.5	74.5	-10.6%	0.0%	1.00	NEUTRAL
LBS BINA GROUP BHD	1.02	1,582	15.3	12.3	11.3	3.3%	9.2%	10.5%	0.90	103.4	128.7	139.5	24.5%	8.4%	1.25	BUY

\* Core NP and Core PER

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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