

Malaysian Resources Corp

Mixed Results

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CNP of RM56.4m came in above our but below streets' full-year expectations at 104%/52%. Its 9M17 property sales of RM1.1b are also on track. No dividends declared, as expected. Raised FY17-18E CNP by 44%-13%, respectively. Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM1.14.

Above our estimate but below streets'. 9M17 CNP of RM56.4m made up 104% and 52% of our and streets' full-year estimates, respectively. Its performance was way better than expected, due to lumpy billings in 3Q17 from its construction division. The negative variation compared to streets' estimates could be due to highly optimistic margin assumptions for its construction/property division. The 9M17 property sales of RM1.1b is on track to meet our and managements' targets of c.RM1.2b as we expect sales to be slower in 4Q17. No dividend declared, as expected.

Results highlight. 9M17 CNP grew 17%YoY underpinned by;(i) strong growth in revenue (+75%), and (ii) lower financing cost (-14%). The strong growth in revenue was mainly driven by its construction division that registered 237% increase in construction revenue due to better billings contribution from projects like the National Sports Complex. **QoQ**, 3Q17 CNP improved by 57% underpinned by (i) improvement in construction revenue (+96%), (ii) better contribution from associates/joint ventures (+26%), and (iii) improvement in property development margins to 19% (+7ppt).

Outlook. They are on-track to meet their sales target of RM1.2b backed by projects like Sentral Suites (GDV: RM1.4b), Bukit Rahman Putra (GDV: RM100.0m), and Bandar Sri Iskandar (GDV: RM16.0m). MRCB's remaining external construction order-book stands at c.RM5.3b. Coupled with c.RM1.2b unbilled property sales, these numbers will provide the group at least four years of earnings visibility.

Raising FY17-18E earnings. Post-results, we raised our FY17-18E CNPs by 44-13%, after factoring higher contribution from its construction division and associates.

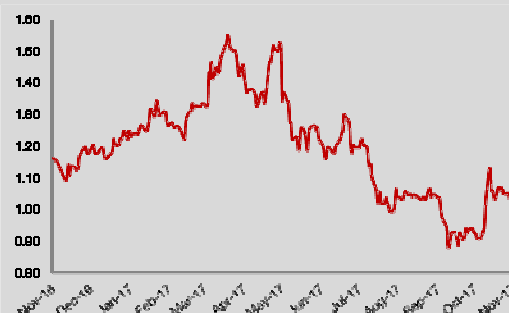
OUTPERFORM maintained. We reiterate our OUTPERFORM call on MRCB with an unchanged SoP-driven Target Price of RM1.14, which is derived by ascribing a 50% discount to its property RNAV and 8x FY18E PER to its construction earnings. We are positive with the recent rights issuance exercise as it brings MRCB back to a better financial footing. The potential 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 : **RM0.975**
Target Price : **RM1.14** ↔

Share Price Performance



KLCI	1,720.68
YTD KLCI chg	4.8%
YTD stock price chg	-16.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	4,277.1
Issued shares	4,386.7
52-week range (H)	1.57
52-week range (L)	0.87
3-mth avg daily vol:	10,711,290
Free Float	41%
Beta	1.3

Major Shareholders

Employees Provident Fund	34.9%
GapurnaSdnBhd	16.6%
LembagaTabung Haji	7.4%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	2,408.1	2,908.6	2,714.6
EBIT	547.1	535.9	254.6
PBT	392.6	149.9	295.4
Net Profit (NP)	267.4	77.6	122.3
Core NP	244.1	77.6	122.3
Consensus (CNP)	n.a.	108.6	150.8
Earnings Revision	n.a.	44%	13%
*Core EPS (sen)	4.3	1.4	2.1
Core EPS growth(%)	-427.1	-68.2	57.5
NDPS (sen)	2.8	1.5	1.7
NAV/Share (RM)	0.44	1.21	1.22
*PER (x)	20.8	71.7	45.5
*Core PER (x)	22.8	71.7	45.5
Price/NAV (x)	2.20	0.80	0.80
Net Gearing (x)	0.8	-0.2	-0.2
Dividend Yield (%)	2.8	1.5	1.8

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Result Highlight								
	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
FYE Dec (RM'm)								
Turnover	1,134.1	756.5	50%	551.2	106%	2,415.5	1,376.4	75%
EBIT	85.2	59.3	44%	88.8	-4%	210.0	231.9	-9%
Interest inc/(exp)	-41.4	-37.4	11%	-42.0	-1%	-114.0	-133.1	-14%
Associates/JV	8.6	6.8	26%	14.8	-42%	14.2	24.2	-41%
Exceptional items	0.0	5.5	-100%	0.0	n.m.	5.5	31.0	-82%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	52.3	34.2	53%	61.6	-15%	115.8	154.0	-25%
Taxation	-21.8	-8.1	169%	-22.0	-1%	-38.8	-43.9	-12%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	30.5	26.1	17%	39.6	-23%	77.0	110.1	-30%
Minority interest	-2.4	-2.7	-10%	-10.2	-76%	-15.0	-30.8	-51%
PATAMI	28.1	23.4	20%	29.4	-4%	61.9	79.3	-22%
Core PATAMI	28.1	17.9	57%	29.4	-4%	56.4	48.3	17%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	8%	8%		16%		9%	17%	
Pretax margin	5%	5%		11%		5%	11%	
NP margin	5%	5%		11%		5%	11%	
CNP margin	2%	2%		5%		2%	4%	
EPS (sen)	1.3	1.1		1.6		2.9	4.2	
Core EPS(sen)	1.3	0.8		1.6		2.6	2.6	
BV/share (RM)	1.4	1.4		1.4		1.4	1.4	
Net gearing (x)	1.1	1.0		1.0		1.1	1.0	
Effective tax	42%	24%		36%		34%	29%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
External Revenue								
Property Development	174.3	243.9	-29%	353.9	-51%	660.7	730.7	-10%
Construction	915.5	467.6	96%	146.9	523%	1,614.4	479.5	237%
Infra	29.0	28.6	2%	28.2	3%	86.1	85.4	1%
Facilities management	12.4	12.7	-2%	15.3	-19%	42.0	52.5	-20%
Others	2.9	3.7	-21%	7.0	-58%	12.3	28.4	-57%
EBIT								
Property Development	32.7	29.7	10%	70.5	-54%	112.5	228.2	-51%
Construction	31.3	14.0	123%	7.0	345%	46.5	10.0	366%
Infra	12.7	11.5	10%	13.7	-7%	41.7	46.4	-10%
Facilities management	0.3	7.1	-95%	0.4	-24%	11.2	12.5	-10%
Others	2.4	5.1	-53%	-1.5	-258%	2.9	-20.0	-115%
EBIT margins								
Property Development	19%	12%		20%		17%	31%	
Construction	3%	3%		5%		3%	2%	
Infra	44%	40%		49%		48%	54%	
Facilities management	3%	56%		3%		27%	24%	
Others	82%	138%		-22%		24%	-70%	

Source: Company, Kenanga Research

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SOP Valuations			
Property Development	Various	NPV of profits (WACC: 11%) after 50% discount	1,477.41
Property Investment	Various	Book Value	1,975.55
Construction	Various	FY18` PER of 8x	210.00
Building Services	100%	FY18 PER of 7x	58.37
Quill Capital REITs	31%	Estimate Market Cap of Quill	453.02
Concession			
EDL	100%	DCF (WACC: 7%)	889.75
Sub Total			5,064.12
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant conversion			262.00
Proceeds from rights			2,232.04
Total			7,636.96
No of FD shares			5,713.44
SoP (RM)			1.34
Holding Co. Discount			15%
TP (RM)			1.14

Source: Kenanga Research

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Peer Comparison

NAME	Price (21/11/17)	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)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.99	10,957	12.7	12.5	12.1	3.0%	5.0%	5.0%	0.62	910.6	928.6	951.9	2.0%	2.5%	2.20	OUTPERFORM
S P SETIA BHD*#	3.32	10,216	15.9	15.7	17.8	4.0%	9.7%	8.0%	1.36	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.06	4,810	32.8	17.4	16.5	0.0%	2.2%	4.0%	0.74	147.3	276.8	293.4	87.9%	6.0%	1.30	OUTPERFORM
SUNWAY BHD^	1.62	7,905	14.4	14.9	14.4	3.7%	7.3%	6.7%	1.01	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD	1.54	3,734	12.5	12.8	13.2	4.4%	10.1%	10.0%	1.07	346.8	338.9	327.6	-2.3%	-3.3%	1.63	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.46	4,299	39.8	45.6	20.7	0.0%	3.7%	4.4%	1.14	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.45	4,246	10.7	10.5	10.4	6.1%	19.4%	9.8%	1.01	373.9	380.6	384.2	1.8%	1.0%	2.47	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	0.98	4,277	22.8	71.7	45.5	1.5%	8.6%	2.4%	0.81	244.1	77.6	122.3	-68%	57.6%	1.14	OUTPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.18	1,615	8.9	7.4	7.0	5.4%	31.8%	22.7%	1.43	188.0	224.0	238.0	19.1%	6.3%	2.12	MARKET PERFORM
SUNSURIA BERHAD	1.38	1,102	30.0	13.1	9.9	1.9%	6.9%	11.6%	1.44	36.7	84.2	111.9	129.5%	32.9%	1.55	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.50	341	13.5	9.4	9.0	4.0%	2.2%	8.0%	0.45	28.9	42.5	44.6	47.2%	4.9%	1.60	OUTPERFORM
HUA YANG BHD	0.68	238	3.4	45.0	20.5	0.3%	21.9%	12.2%	0.39	70.0	5.0	12.0	-92.9%	140.0%	0.65	UNDERPERFORM
AMVERTON BHD	1.35	493	24.6	18.4	14.2	0.0%	3.3%	4.2%	0.77	20.1	26.7	34.6	33.2%	29.5%	2.50	OUTPERFORM
MAGNA PRIMA BHD	1.30	432	81.4	89.7	50.0	0.5%	7.4%	1.1%	1.07	7.9	7.2	12.9	-8.9%	79.2%	1.60	OUTPERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.88	3,846	12.9	11.5	14.4	3.5%	8.6%	6.7%	0.78	298.0	333.9	267.1	12.0%	-20.0%	3.00	NEUTRAL
GLOMAC BHD	0.63	455	4.2	8.2	6.7	4.8%	2.3%	5.1%	0.41	108.2	55.7	68.0	-48.5%	22.1%	0.67	SELL
PARAMOUNT CORP BHD	1.75	743	9.9	13.5	10.3	9.7%	14.6%	13.6%	0.83	75.0	55.2	72.1	-26.5%	30.8%	2.37	BUY
TAMBUN INDAH LAND BHD	1.01	438	3.9	5.0	5.5	7.9%	20.0%	14.6%	0.73	112.2	87.5	79.7	-22.0%	-8.9%	1.41	NEUTRAL
LBS BINA GROUP BHD	2.01	1,366	16.0	12.4	9.8	4.8%	8.8%	9.0%	1.08	85.3	110.1	140.0	29.0%	27.2%	2.34	BUY

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

MRCB and SPSETIA is of ex-rights

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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