

30 May 2017 | 1QFY17 Results Review

## Malaysian Resources Corporation Berhad

*Worry Not...Better Days Ahead*


### INVESTMENT HIGHLIGHTS

- **1QFY17 Results below expectations**
- **Dismal performance from lower construction activities**
- **Earnings estimates unchanged**
- **Altogether, we reaffirm our BUY recommendation with a revised TP of RM2.08**

**1QFY16 Results below expectations.** MRCB's 1QFY17 PATAMI of RM10.8m (+248%YoY) came in below expectations accounting for a dismal 3.2% and 7.4% of ours and consensus' estimates respectively. Despite that, its revenue surged from RM524m (+20.2%YoY) led by increase in revenue of property segment (46.2% of TR\*) of RM242.2m (+58.5%YoY).

**Dismal performance from lower construction activities.** Revenue from construction segment of RM231.2m (+1.0%YoY) stagnated due to lower pace construction activities as the bulk of its work now concentrated in National Sports Complex, Bukit Jalil to prepare for the 29<sup>th</sup> South East Asian Sports, 2017. We are expecting construction activities for Cyberjaya City Centre to pickup in 2Q17 onwards. Hence, we reckon that construction activities will show its mettle to recoup the current tepid performance.

**Earnings estimates unchanged.** We are persistent on the prospect on MRCB's earnings for FYE17 due to its ability to recover from transient earnings blips. MRCB is currently embarking on rights issue of up to 2.8bn shares that could possibly reduce its total debt of RM3.7bn to RM2.1bn (minimum scenario). This would spur its ability to progress in projects such as Kwasa Damansara and strengthen its balance sheet.

**Recommendation.** We maintain our BUY call with an adjusted SOP based TP of RM2.08. Our TP reflects the DCF (WACC of 8.0%) of toll concession, updated RNAV of on-going property development projects; book value of investment properties and earnings multiples over recurring facilities management businesses. 

**Maintain BUY**  
**Revised Target Price (TP): RM2.08**

RETURN STATS	
Price (29 May 2017)	RM1.41
Target Price	RM2.08
Expected Share Price Return	+32.2%
Expected Dividend Yield	+3.0%
<b>Expected Total Return</b>	<b>+35.2%</b>

STOCK INFO	
KLCI	1,764
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	2184.3
Market cap. (RM'm)	3079
Price over NA	1.03
52-wk price Range	RM1.02-RM1.8
Beta (against KLCI)	1.03
3-mth Avg Daily Vol	10.7m
3-mth Avg Daily Value	RM17.2m
Major Shareholders (%)	
EPF	33.4
Gapurna Sdn. Bhd.	16.7
Bank Rakyat	7.9
LTH	7.5

\*TR=Total Revenue

## VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share
<b>(a) Property Developments</b>			
KL Sentral Development	DCF of future profit	408.0	0.20
Project MX-1		650.5	0.33
PJ Sentral Garden City (Phase 1)		191.9	0.10
9 Seputeh, Old Klang		240.7	0.12
Penang Sentral		221.0	0.11
Kia Peng, The Grid		46.9	0.02
Kajang Utama, 3 Residences		28.1	0.01
Semarak City, Setapak		230.8	0.12
Lot 2C4: Putrajaya, Office Tower		42.6	0.02
Lot 349: Serviced Apartments		134.7	0.07
Suria Subang Jaya		40.9	0.02
Selborn 2 - Shah Alam		14.6	0.01
Batu Feringghi land, Penang		33.1	0.02
Bukit Rahman Putra, Sungai Buloh		134.6	0.07
Burwood (Australia)		21.2	0.01
Jalan Kia Peng		158.1	0.08
<b>Sub-total (a)</b>		<b>2,597.7</b>	<b>1.30</b>
<b>(b) Property Investments</b>			
Book value		1,187.0	0.59
<b>(c) Engineering &amp; Construction</b>			
FY15/16 average earnings	PER 14x	674.0	0.34
<b>(d) Toll Concessions</b>			
Eastern Dispersal Link, JB (EDL)	DCF (WACC: 8%)	1,399.1	0.70
<b>(e) Building &amp; Car Park Services</b>			
FY15/16 average earnings	PER 6x	38.9	0.02
<b>Total Sum-of-Parts (SOP)</b>		<b>5,896.6</b>	<b>2.95</b>
<b>Less:</b>			
Borrowings		-3,147.4	-1.57
<b>Add:</b>			
Cash		692.6	0.35
Gain on Platinum Sentral		220.5	0.11
Quill Capita Trust: Combined REIT assets valued at RM1.57b		489.8	0.24
<b>Estimated SOP</b>			<b>2.08</b>
Enlarged share cap			2,000.4

Source: MIDFR

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM'm)	1,696.7	2,408.0	2,122.4	2,022.0	2,050.0
Pre-tax profit (RM'm)	370.1	392.6	225.2	283.1	287.3
Normalised PATAMI (RM'm)	331.3	266.0	330.3	202.2	205.0
FD EPS (sen)	18.5	13.8	7.2	10.7	10.9
EPS Growth (%)	770.0	-25.4	18.5	48.6	2.0
PER(x)	26.6	23.4	19.8	14.0	12.8
Dividend (sen)	2.5	3.7	4.3	6.4	6.5
Dividend yield (%)	2.1	2.6	3.0	4.5	4.6

Source: MIDFR

## 1QFY17 RESULTS

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q17	4Q16	1Q16	QoQ	YoY	3M17	3M16	YoY
<b>Revenue</b>	<b>524.0</b>	<b>1,031.4</b>	<b>436.0</b>	<b>-49%</b>	<b>20%</b>	<b>524.0</b>	<b>436.0</b>	<b>20.2%</b>
Operating expenses	-476.4	-950.6	-410.0	-50%	16%	-476.4	-410.0	16.2%
Other operating income	17.2	192.0	39.5	-91%	-56%	17.2	39.5	-56.5%
<b>Profit from operations</b>	<b>65.5</b>	<b>273.0</b>	<b>65</b>	<b>-76%</b>	<b>1%</b>	<b>65.5</b>	<b>64.6</b>	<b>1.4%</b>
Finance Cost	-35.1	-42.8	-46.7	-18%	-25%	-35.1	-46.7	-24.8%
Associates	-2.4	-175.9	3.6	-101%	-167%	-2.4	3.6	-167.4%
JV	1.2	1.2	4.47	0%	-73%	1.2	4.5	-73.2%
<b>PBT</b>	<b>29.2</b>	<b>238.6</b>	<b>18.6</b>	<b>-88%</b>	<b>57%</b>	<b>29.2</b>	<b>18.6</b>	<b>57.0%</b>
Taxation	-8.8	-29.6	-5.1	-70%	73%	-8.8	-5.1	72.5%
<b>Normalised PATAMI</b>	<b>10.8</b>	<b>189.0</b>	<b>3.1</b>	<b>-94%</b>	<b>248%</b>	<b>10.8</b>	<b>3.1</b>	<b>248.4%</b>
EPS (sen)	4.8	8.9	2.5	-154%	92%	4.8	4.3	11.6%
	<b>1Q17</b>	<b>4Q16</b>	<b>1Q16</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3M17</b>	<b>3M16</b>	<b>+/- ppts</b>
EBIT margin	12.5%	26.5%	14.8%	-14.0	-2.3	12.5%	14.8%	-2.3
PBT margin	5.6%	23.1%	4.3%	-17.6	1.3	5.6%	4.3%	1.3
PATAMI margin	2.1%	18.3%	0.7%	191.7%	1230.6%	2.1%	0.7%	1.4%
Effective tax rate	30.1%	-112.4%	27.4%	142.5	2.7	30.1%	27.4%	2.7
<b>Segmental Breakdown</b>								
<b>Revenue</b>	<b>1Q17</b>	<b>4Q16</b>	<b>1Q16</b>	<b>QoQ</b>	<b>YoY</b>	<b>3M17</b>	<b>3M16</b>	<b>YoY</b>
Engineering and construction	231.2	378.4	229.0	-39%	1%	231.2	229.0	1.0%
Property development	242.2	599.7	152.8	-60%	59%	242.2	152.8	58.5%
Infrastructure	28.5	26.9	28.1	6%	1%	28.5	28.1	1.4%
Building services	16.8	18.8	17.9	-11%	-6%	16.8	17.9	-6.1%
Investment holdings & others	5.6	7.6	8.0	-26%	-30%	5.6	8.0	-30.0%
<b>TOTAL</b>	<b>524.0</b>	<b>1,031.4</b>	<b>435.8</b>	<b>-49%</b>	<b>20%</b>	<b>524.0</b>	<b>435.8</b>	<b>20.2%</b>
<b>PBT</b>	<b>1Q17</b>	<b>4Q16</b>	<b>1Q16</b>	<b>QoQ</b>	<b>YoY</b>	<b>3M17</b>	<b>3M16</b>	<b>YoY</b>
Engineering and construction	1.2	1.5	1.1	-20%	9%	1.2	1.1	-9.1%
Property development	50.1	236.4	67.3	-79%	-26%	50.1	67.3	-25.6%
Infrastructure	17.4	12.1	13.1	44%	33%	17.4	13.1	32.8%
Building services	3.7	3.4	7.4	10%	-50%	3.7	7.4	-50.0%
Investment holdings & others	-4.5	26.8	-17.2	-117%	-74%	-4.5	-17.2	-73.8%
<b>TOTAL</b>	<b>68.0</b>	<b>280.2</b>	<b>71.7</b>	<b>-76%</b>	<b>-5%</b>	<b>68.0</b>	<b>71.7</b>	<b>-5.2%</b>
<b>PBT margin</b>	<b>1Q17</b>	<b>4Q16</b>	<b>1Q16</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3M17</b>	<b>3M16</b>	<b>+/- ppts</b>
Engineering and construction	0.5%	0.4%	0.5%	0.1	0.0	0.5%	0.5%	0.0
Property development	20.7%	39.4%	44.0%	-18.7	-23.4	20.7%	44.0%	-23.4
Infrastructure	61.1%	45.0%	46.6%	16.1	14.4	61.1%	46.6%	14.4
Building services	22.0%	17.9%	41.3%	4.2	-19.3	22.0%	41.3%	-19.3

Source: MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.