

27 August 2019 | 2QFY19 Results Review

Malaysian Resources Corporation Berhad

Not looking back

INVESTMENT HIGHLIGHTS

- MRCB logged RM241.0m revenue in 2QFY19, -40.5%yoy lower than the same period last year
- Construction revenue in 2QFY19 slipped -21.8%yoy, to RM150.8m
- Property segment raked in RM71m (-63.2%yoy) of revenue in 2QFY19, bringing the YTD amount to RM156m
- We have changed our earnings estimates, making allowance for the sluggish YTD performance
- Accordingly, we trim down our FY19F and FY20F estimates by -13.2% and -2.8% respectively
- MRCB's toehold lies on its status as the largest Bumiputra construction company coupled with its balance sheet capacity
- Maintain BUY call with an adjusted TP of RM0.96

MRCB logged RM241.0m revenue in 2QFY19, -40.5%yoy lower than the same period last year. Accordingly, it earned RM11.0m in PATAMI in 2QFY19 bringing the earnings to a cumulative amount of RM15.0m for 1HFY19. The latter constitutes 17.4% and 15.9% of our and consensus full year estimates. It is worth pointing out the bulk of earnings recognized came from gain on disposal after tax, of RM55m One IFC Sdn Bhd. This left the core PATAMI at -RM40m in 1HFY19.

Construction. Its revenue in 2QFY19 slipped -21.8%yoy, to RM150.8m. The billings recognized largely stemmed from MRT2, DASH and TNB HQ campus projects, to name a few. Contribution from LRT3 was still sluggish, with the group only earning RM1.0m profit in 1HFY19 vs RM15.0m in the same period last year. Other factors which resulted to lower profit were the prudent expensing of certain costs while awaiting for the completion of the final accounts and the results of legal proceedings relating to certain projects. Moving forward, we expect the earnings to firm up come 2HFY19, as it catches up to the accelerated progress works of LRT3. Notwithstanding this, we view its prospect should be intact based on the RM21.2b worth of jobs outstanding, which provides a strong revenue base into the future.

Maintain BUY

Adjusted Target Price (TP): RM0.96
(previously TP: RM1.02)

RETURN STATS	
Price (26 Aug 2019)	RM0.74
Target Price	RM0.96
Expected Share Price Return	+29.7%
Expected Dividend Yield	+1.3%
Expected Total Return	+31.0%

STOCK INFO	
KLCI	1,609.33
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,412.1
Market cap. (RM'm)	3,264.9
Price over NA	0.67
52-wk price Range	RM0.57-RM1.15
Beta (against KLCI)	1.68
3-mth Avg Daily Vol	6.69m
3-mth Avg Daily Value	RM6.15m
Major Shareholders (%)	
EPF	35.9
Gapurna Sdn. Bhd.	15.5
LTH	6.2
Bank Kerjasama Rakyat	3.9

Property. The segment raked in RM71m (-63.2%yoy) of revenue in 2QFY19, bringing the YTD amount to RM156m (-62.2%yoy). Despite recognizing less in 1HFY19, profit didn't decline as much, at RM47m (-14.7%yoy) due to better margin fetch at 30.0%. While sales were largely recorded from on-going projects namely Sentral Suites, 9 Seputeh and the office towers in PJ Central, its conversion to revenue has yet to materialize due to the early stage progress and pending completion of SPA. Management has guided, that the segment's earnings should start building up beginning 3QFY19 when the group is able to recognize more. Putting this segment into perspective, the sales in 1HFY19 was recorded at RM244m with an unbilled amount stood at RM1.8b.

Change in earnings. We have changed our earnings estimates, making allowance for the sluggish performance YTD. Our forecasts now are moderated by the subdued environment in property market and lower than expected contribution from LRT3, leading us to trim down our FY19F and FY20F estimates by -13.2% and -2.8% respectively.

Recommendation. Positively, the billings of LRT3 are to pick up beginning 2HFY19. Despite its setback YTD, we believe a greater emphasis should be addressed on the outlook moving forward. Fundamentally, MRCB is well covered by a strong outstanding orderbook of RM21.2b. As of 2QFY19, its gearing stood at 0.25x vs 0.69x as at June FY18. We opine that the group's robust orderbook and healthy balance sheet will provide a strong base to value accretion prospectively. In a wider context, its status as the largest Bumiputra construction company coupled with its balance sheet capacity are its toehold to benefit from the return of large-scale projects with the like of Bandar Malaysia and East Coast Rail Link. As for now, we maintain our **BUY** call with adjusted TP of RM0.96, derived from our SOP valuation.

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,408.0	2,823.6	1,870.7	1,464.3	1,937.8
EBIT (RM'm)	357.4	358.6	141.5	131.8	232.5
Pre-tax profit (RM'm)	392.6	338.4	123.0	114.6	202.1
PATAMI (RM'm)	266.0	167.5	101.2	74.5	125.3
FD EPS (sen)	13.8	6.6	2.3	1.7	2.8
EPS Growth (%)	-25.4	-52.5	-64.9	-26.4	68.3
PER(x)	5.4	11.3	32.2	43.7	26.0
Dividend (sen)	3.7	4.3	1.8	1.3	1.0
Dividend yield (%)	5.0	5.9	2.4	1.8	1.3

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

6MFY19 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	2Q19	2Q18	1Q19	YoY	QoQ	6M19	6M18	YoY
Revenue	241.0	405.2	234.1	-40.5%	3.0%	475.0	832.8	-43.0%
Operating expenses	-286.1	-362.3	-226.7	-21.0%	26.2%	-512.9	-781.6	-34.4%
Other operating income	66.3	11.1	11.5	498.6%	474.0%	77.8	27.0	188.6%
Profit from operations	21.1	54.0	18.9	-60.9%	11.8%	40.0	78.2	-48.8%
Finance Cost	-12.6	-16.8	-12.4	-25.1%	1.2%	-25.0	-21.0	18.7%
Associates	2.1	2.7	3.0	-176.3%	-29.4%	5.0	5.5	-9.0%
JV	-0.8	3.0	-1.0	-126.7%	-20.1%	-1.8	10.9	-116.8%
PBT	9.8	43.0	8.4	-77.2%	16.8%	18.2	73.6	-75.2%
Taxation	-2.2	-10.8	-6.9	-79.8%	-68.4%	-9.0	-15.7	-42.5%
PATAMI	11.0	32.8	4.1	-66.6%	165.6%	15.0	55.0	-72.8%
EPS (sen)	0.25	0.8	0.1	-132.9%	177.8%	0.3	1.3	-72.8%
	2Q19	2Q18	1Q19	+/- ppts	+/- ppts	6M19	6M18	+/- ppts
EBIT margin	8.8%	13.3%	8.1%	-4.6	0.7	8.4%	9.4%	-1.0
PBT margin	4.1%	10.6%	3.6%	-6.5	0.5	3.8%	8.8%	-5.0
PATAMI margin	4.6%	8.1%	1.8%	-3.5	2.8	3.2%	6.6%	-3.5%
Effective tax rate	22.1%	25.0%	81.5%	-2.9	-59.4	49.5%	21.3%	28.2

Segmental Breakdown								
Revenue (RM'm)	2Q19	2Q18	1Q19	YoY	QoQ	6M19	6M18	YoY
Engineering and construction	150.8	192.8	132.7	-21.8%	13.6%	283.5	383.9	-26.1%
Property development	71.2	193.4	85.1	-63.2%	-16.3%	156.4	413.9	-62.2%
Infrastructure	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Building services	12.8	13.1	13.1	-2.2%	-2.7%	25.9	26.1	-0.6%
Investment holdings & others	6.2	6.0	3.1	3.7%	100.8%	9.2	9.0	2.5%
TOTAL	241.0	405.2	234.0	-40.5%	3.0%	475.0	832.8	-43.0%
PBT	2Q19	2Q18	1Q19	YoY	QoQ	6M19	6M18	YoY
Engineering and construction	-15.2	25.0	16.7	-161%	-191%	1.5	41.0	96.3%
Property development	44.0	30.9	3.0	42%	1365%	47.0	55.1	-14.7%
Infrastructure	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Building services	0.5	0.7	-0.4	-34%	-220%	0.1	0.9	-91.1%
Investment holdings & others	-2.3	1.1	1.4	-306%	-272%	-1.0	-11.7	-91.7%
TOTAL	26.9	57.7	20.7	-53%	30%	47.6	85.1	-44.1%
PBT margin	2Q19	2Q18	1Q19	+/- ppts	+/- ppts	6M19	6M18	+/- ppts
Engineering and construction	-10.1%	13.0%	12.6%	-23.0	-22.7	0.5%	10.7%	-10.1
Property development	61.7%	16.0%	19.6%	45.7	42.1	30.0%	13.3%	16.7
Infrastructure	NA	NA	NA	NA	NA	NA	NA	NA
Building services	3.5%	5.3%	-2.8%	-1.7	6.4	0.3%	3.3%	-3.0

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.