

30 August 2017 | 1HFY17 Results review

## Malaysian Resources Corporation Berhad

### *Earnings Still Visible But A Juncture May Lie Ahead*

**Maintain BUY**

**Adjusted Target Price (TP): RM1.36**

#### INVESTMENT HIGHLIGHTS

- **1HFY17 results below the line**
- **Earnings bore the brunt of gushing OPEX**
- **But future earnings still visible**
- **Altogether, we maintain our BUY stance with an adjusted TP of RM1.36 per share**

**1HFY17 results below the line.** MRCB's 1HFY17 PATAMI of RM33.8m (-30%YoY) came in below expectations accounting for a dismal 10.1% and 26.9% of ours and consensus' estimates respectively. However, MRCB revenue surged from RM825.2m in 1H16 to RM1.28b in 1H17 (+55.3%YoY) led by increase in both revenues of property segment of RM698.8m (+85.5%YoY or 54.5% of TR\*) and construction segment; RM485.4m (+46.0%YoY or 37.8% of TR).

**Earnings bore the brunt of gushing OPEX.** The deviation of insipid earnings and surging revenue are attributable to swelling operating expenses (OPEX). OPEX grew consequently from RM751.2m in 1HFY16 to RM1.18bn (+57.5%YoY) currently. We see the growth is consequent of OPEX intensity to complete projects, i.e. refurbishments and construction of Stadium Bukit Jalil in KL Sports City, Sentral Residences, PJ Sentral towers (Celcom, MyIPO, MBSB) within time. We are expecting ~15.5%-20.0% increase in OPEX from 1HFY16 but not as high as the current rate. The OPEX current level is critical for us to follow closely as its materiality is 92.3% to revenue.

**But future earnings still visible.** Having said that, we are confident on MRCB's earnings visibility for FYE17/FYE18. Moreover, its orderbook of RM5.6bn (excluding fee based contracts of RM600m) stretches to 2027 implying a healthy earnings visibility. Turning to our forecasts, we will be moved to change our assumptions if OPEX continue to persist above ~85.0% of MRCB's total revenue for the next 2 consecutive quarters. Thus, MRCB's results for 9MFYE17 are a critical juncture to start reassessing whether our assumptions for FYE18/FYE19 holds water.

**Recommendation.** To reflect the changes in its capital structure we adjust our SOP by fine-tuning debt value\*, enlarged share capital\* and cash position\* to arrived at our BUY recommendation with an adjusted SOP-based TP of **RM1.36** per share. Our TP implies a +15.5% upside and +9.6% earnings yield with +5.68% spread against 10Y-MGS yield of 3.92%.

RETURN STATS	
Price (29 August 2017)	RM1.19
Target Price	RM1.36
Expected Share Price Return	+12.5%
Expected Dividend Yield	+3.0%
<b>Expected Total Return</b>	<b>+15.5%</b>

STOCK INFO	
KLCI	1,761.14
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	2192
Market cap. (RM'm)	2609.18
Price over NA	0.86
52-wk price Range	RM1.13-RM1.8
Beta (against KLCI)	1.13
3-mth Avg Daily Vol	8.02m
3-mth Avg Daily Value	RM10.8m
Major Shareholders (%)	
EPF	34.7
Gapurna Sdn. Bhd.	16.6
Bank Rakyat	7.8
LTH	7.5

## 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

## SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share (RM)
<b><u>(a) Property Developments</u></b>			
DCF of Future Profits	WACC 8.0%	<b>2,597.7</b>	<b>0.64</b>
<b><u>(b) Property Investments</u></b>			
Book value		1,187.0	0.27
<b><u>(c) Engineering &amp; Construction</u></b>			
FY15/16 average earnings	PER 16x*	797.7	0.18
<b><u>(d) Toll Concessions</u></b>			
Eastern Dispersal Link, JB (EDL)	DCF (WACC: 8%)	1,399.1	0.32
<b><u>(e) Building &amp; Car Park Services</u></b>			
FY15/16 average earnings	PER 10x	64.8	0.01
<b>Total Sum-of-Parts (SOP)</b>		<b>6,046.2</b>	<b>1.42</b>
<b><u>Less:</u></b>			
Borrowings*		1,433.0	-0.33
<b><u>Add:</u></b>			
Cash*		658.1	0.15
Quill Capita Trust: Combined REIT assets valued at RM1.57b		489.8	0.11
<b>Estimated SOP</b>			<b>1.36</b>
Enlarged share cap*			4,384.0

Source: MIDFR

- Adjusted to reflect MRCB announcements on Bursa Malaysia; A) Circular (13.07.2017), B) New Issue of Securities (11.7.2017); i) borrowing assumes the reduction of RM766.9m from the proposed rights issue against its net debt position of RM2.2b, ii) the enlarged share capital assumes the minimum scenario of total share to be issued pursuant to (a) : pg.2
- Cash position reported in Bursa Malaysia announcement (29.08.17).

## 1HFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	2Q17	1Q17	2Q16	QoQ	YoY	6M17	6M16	YoY
<b>Revenue</b>	<b>756.5</b>	<b>524.0</b>	<b>389.1</b>	<b>44%</b>	<b>94%</b>	<b>1,281.3</b>	<b>825.2</b>	<b>55.3%</b>
Operating expenses	-706.8	-476.4	-340.2	48%	108%	-1,183.3	-751.2	57.5%
Other operating income	15.0	17.2	60.6	-13%	-75%	32.2	100.1	-67.8%
<b>Profit from operations</b>	<b>64.7</b>	<b>65.5</b>	<b>109.5</b>	<b>-1%</b>	<b>-41%</b>	<b>130.3</b>	<b>174.0</b>	<b>-25.1%</b>
Finance Cost	-37.3	-35.1	-44.3	-6%	-15%	-72.5	-91.1	-20.4%
Associates	4.2	-2.4	6.6	75%	-36%	1.8	7.0	-74.6%
JV	2.5	1.2	1.96	108%	28%	3.8	2.4	58.3%
<b>PBT</b>	<b>34.1</b>	<b>29.2</b>	<b>73.7</b>	<b>17%</b>	<b>-54%</b>	<b>63.4</b>	<b>92.4</b>	<b>-31.4%</b>
Taxation	-8.1	-8.8	-16.6	-8%	-51%	-16.9	-21.8	-22.5%
<b>Normalised PATAMI</b>	<b>23.3</b>	<b>10.8</b>	<b>45.3</b>	<b>116%</b>	<b>-49%</b>	<b>33.8</b>	<b>48.3</b>	<b>-30.0%</b>
EPS (sen)	1.07	4.8	2.4	-122%	-55%	1.6	2.7	-42.2%
	<b>2Q17</b>	<b>1Q17</b>	<b>1Q16</b>	<b>+/- pts</b>	<b>+/- pts</b>	<b>6M17</b>	<b>6M16</b>	<b>+/- pts</b>
EBIT margin	8.6%	12.5%	28.1%	-3.9	-19.6	10.2%	21.1%	-10.9
PBT margin	4.5%	5.6%	18.9%	-1.1	-14.4	4.9%	11.2%	-6.2
PATAMI margin	3.1%	2.1%	11.6%	260.9%	-51.4%	2.6%	5.9%	-3.2%
Effective tax rate	23.8%	-130.1%	22.5%	153.9	1.2	26.7%	23.6%	3.1

Revenue	6M17	6M16	YoY	Comments
Eng and con	485.4	332.5	46.0%	Increase from execution of KL Sports City Package 1
Property development	698.8	376.7	85.5%	Higher take-up rate from Eastern Burwood, Melbourne and Sentral Residences
Infrastructure	57.1	57.2	-0.2%	Slower progress rate
Building services	29.5	37.2	-20.7%	
Inv. holdings & others	9.3	21.4	-56.5%	
<b>TOTAL</b>	<b>1,281.3</b>	<b>825.2</b>	<b>55.3%</b>	
Segment Gross Profit	6M17	6M16	YoY	Comments
Eng and con	15.2	2.9	424.1%	Improvement through scale and resource allocation from orderbook of RM5.6bn
Property development	79.8	157.7	-49.4%	Tapered by operating expense though mobilisation cost in Australia
Infrastructure	29.0	32.6	-11.0%	
Building services	10.8	12.0	-10.0%	
Inv holdings & others	0.5	-18.4	-102.7%	
<b>TOTAL</b>	<b>135.4</b>	<b>186.9</b>	<b>-27.6%</b>	
PBT margin	6M17	6M16	+/- ppts	+/- ppts
Eng and con	3.1%	0.9%	2.3	Margin revival through MRCB Builders cost efficiency and project value engineering
Property development	11.4%	41.9%	-30.4	
Infrastructure	50.8%	57.0%	-6.2	
Building services	36.6%	32.3%	4.4	

Source: Bursa Malaysia, MIDFR

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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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.