

# Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

**Maintain BUY**

## Dismal contribution from LRT3

**Revised Target Price: RM0.84**  
(previously : RM0.96)

### KEY INVESTMENT HIGHLIGHTS

- **MRCB booked RM372.7m revenue in 3QFY19, -43.8%yoy lower than the same period last year**
- **For construction, revenue in 3QFY19 slipped further by -22.5%yoy to RM137.4m**
- **The property segment reported RM215m (-54.2%yoy) revenue in 2QFY19, bringing the YTD amount to RM371.4m (-57.9%yoy)**
- **FY19F/20F estimates cut by -13.2% and -2.8%.**
- **Maintain BUY with a new TP of RM0.84**

**MRCB booked RM372.7m revenue in 3QFY19, -43.8%yoy lower than the same period last year.** Accordingly, it earned a minimal RM2.5m PATAMI in the quarter bringing earnings to a cumulative amount of RM17.7m for 9MFY19. The latter constitutes only 23.8% and 22.7% of our and consensus full year estimates. Bulk of the 9MFY19 earnings came from a gain on disposal of RM55m One IFC Sdn Bhd in 2QFY19.

**For construction, revenue in 3QFY19 slipped further by -22.5%yoy, to RM137.4m.** The billings were largely generated from MRT2, DASH, SUKE and TNB HQ campus projects, to name a few. LRT3 progress remained sluggish, with only RM1.2m profit generated in 9MFY19 (vs RM20.7m in 9MFY18). Certain projects still hit a snag due to legal proceedings, which warranted further prudent expensing in the period. Consequently, we saw the segment core EBIT came in lower by -92.7%yoy to RM3.3m for 9MFY19.

**The property segment reported RM215m (-54.2%yoy) revenue in 2QFY19,** bringing the YTD amount to RM371.4m (-57.9%yoy). During the 9MFY19 period, core EBIT declined at slower rate of -21.4%yoy to RM69.8m, thanks to a better margin of 18.8% (vs 10.1% 9MFY18). Going ahead, the segment could see a stronger sales flow following completion of SPA on some of its completed projects namely VIVO in Seputeh and Kalista Park Homes in Bukit Rahman Putra. MRCB's unbilled sales stood at RM1.7b as of 3QFY19.

**Earnings revision.** We cut our net earnings forecasts, due to the lethargic performance year-to-date. Our forecasts now are moderated by the still subdued environment in property market and lower than expected contribution from high-value projects. These led us to trim our FY19F/20F estimates by -45%/-35% respectively.

### RETURN STATISTICS

Price @ 21 <sup>st</sup> Nov 2019 (RM)	0.76
Expected share price return (%)	+10.5
Expected dividend yield (%)	+1.7
<b>Expected total return (%)</b>	<b>+12.2</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+4.8	3.4
3 months	+2.72	+0.82
12 months	+2.72	+9.38

### KEY STATISTICS


FBM KLCI	#N/A
Syariah compliant	Yes
Issue shares (m)	4399.85
Estimated free float (%)	37.2
Market Capitalisation (RM'm)	3331.1
52-wk price range	0.57 – 1.15
Beta vs FBM KLCI (x)	1.61
Monthly velocity (%)	11.0
Monthly volatility (%)	29.3
3-mth average daily volume (m)	6.9
3-mth average daily value (RM'm)	5.20
Top Shareholders (%)	
Employees Provident Fund	35.85
Gapurna Sdn Bhd	15.53
Lembaga Tabung Haji	6.08

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**Recommendation.** MRCB is well covered by strong outstanding orders of RM20.9b. This, coupled with a strong balance sheet, led us to believe its prospect will remain resilient to form a strong base for future value accretion. MRCB having secured the highest orderbook in the industry could be perceived as a comforting factor to investors, whereby long-term sustainability continues to be a major concern. Our **SOP** driven **TP** is adjusted to **RM0.84**, implying **40x PE** (close to its 2-year average) **to FY20F EPS**. We deem the valuation is fair, hence the **BUY** call. 

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,408.0	2,823.6	1,870.7	1,342.6	1,701.8
EBIT (RM'm)	357.4	358.6	141.5	101.6	163.4
Pre-tax profit (RM'm)	392.6	338.4	123.0	67.1	131.0
Normalised PATAMI (RM'm)	266.0	167.5	101.2	40.3	93.6
FD EPS (sen)	13.8	6.6	2.3	0.9	2.1
EPS Growth (%)	-25.4	-52.5	-64.9	-60.2	132.4
PER(x)	6.4	13.4	38.3	96.1	41.4
Dividend (sen)	3.7	4.3	1.8	1.5	1.5
Dividend yield (%)	4.2	4.9	2.0	1.7	1.7

Source: Company, MIDFR

## 3QFY19 Results Review

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q19	3Q18	2Q19	YoY	QoQ	9M19	9M18	YoY
<b>Revenue</b>	<b>372.7</b>	<b>663.8</b>	<b>241.0</b>	<b>-43.8%</b>	<b>54.7%</b>	<b>847.8</b>	<b>1,496.6</b>	<b>-43.4%</b>
Operating expenses	-358.0	-631.3	-286.1	-43.3%	25.1%	-870.9	-1,413.0	-38.4%
Other operating income	10.5	9.9	66.3	6.4%	-84.1%	88.4	36.9	139.6%
<b>Profit from operations</b>	<b>25.2</b>	<b>42.3</b>	<b>21.1</b>	<b>-40.4%</b>	<b>19.6%</b>	<b>65.2</b>	<b>120.5</b>	<b>-45.9%</b>
Finance Cost	-13.7	-15.1	-12.6	-9.4%	8.7%	-38.6	-36.1	7.0%
Associates	3.6	9.0	2.1	-140.5%	73.7%	8.7	14.5	-40.2%
JV	-0.9	4.3	-0.8	-121.9%	14.7%	-2.8	15.2	-118.2%
<b>PBT</b>	<b>14.3</b>	<b>40.5</b>	<b>9.8</b>	<b>-64.7%</b>	<b>45.4%</b>	<b>32.5</b>	<b>114.1</b>	<b>-71.5%</b>
Taxation	-12.1	-22.0	-2.2	-45.0%	457.9%	-21.1	-37.7	-44.0%
<b>PATAMI</b>	<b>2.5</b>	<b>19.8</b>	<b>11.0</b>	<b>-87.3%</b>	<b>-77.1%</b>	<b>17.7</b>	<b>74.8</b>	<b>-76.3%</b>
EPS (sen)	0.06	0.5	0.3	-113.3%	-76.0%	0.4	1.7	-76.5%
	<b>3Q19</b>	<b>3Q18</b>	<b>2Q19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>9M19</b>	<b>9M18</b>	<b>+/- ppts</b>
EBIT margin	6.8%	6.4%	8.8%	0.4	-2.0	7.7%	8.1%	-0.4
PBT margin	3.8%	6.1%	4.1%	-2.3	-0.2	3.8%	7.6%	-3.8
PATAMI margin	0.7%	3.0%	4.6%	-2.3	-3.9	2.1%	5.0%	-2.9%
Effective tax rate	84.8%	54.4%	22.1%	30.4	62.7	65.0%	33.1%	31.9

Segmental Breakdown								
Revenue (RM'm)	3Q19	3Q18	2Q19	YoY	QoQ	9M19	9M18	YoY
Engineering and construction	137.4	177.3	150.8	-22.5%	-8.9%	420.9	561.2	-25.0%
Property development	215.0	469.1	71.2	-54.2%	201.8%	371.4	882.9	-57.9%
Building services	13.5	13.7	12.8	-1.4%	5.3%	39.4	39.7	-0.9%
Investment holdings & others	6.9	3.7	6.2	86.9%	11.6%	16.1	12.7	27.0%
<b>TOTAL</b>	<b>372.7</b>	<b>663.8</b>	<b>241.0</b>	<b>-43.8%</b>	<b>54.7%</b>	<b>847.8</b>	<b>1,496.6</b>	<b>-43.4%</b>
Core EBIT	3Q19	3Q18	2Q19	YoY	QoQ	9M19	9M18	YoY
Engineering and construction	1.8	3.8	-15.2	-54%	-112%	3.3	44.8	-92.7%
Property development	22.8	33.8	44.0	-32%	-48%	69.8	88.9	-21.4%
Building services	3.6	4.8	0.5	-26%	694%	3.6	5.6	-35.1%
Investment holdings & others	-0.1	-2.0	-2.3	-93%	-94%	-1.1	-13.8	-91.9%
<b>TOTAL</b>	<b>28.0</b>	<b>40.4</b>	<b>26.9</b>	<b>-31%</b>	<b>4%</b>	<b>75.6</b>	<b>125.5</b>	<b>-39.7%</b>
Core EBIT margin	3Q19	3Q18	2Q19	+/- ppts	+/- ppts	9M19	9M18	+/- ppts
Engineering and construction	1.3%	2.2%	-10.1%	-0.9	11.4	0.8%	8.0%	-7.2
Property development	10.6%	7.2%	-21.3%	3.4	32.0	18.8%	10.1%	8.7
Building services	26.5%	35.2%	3.5%	-8.6	23.0	9.3%	14.1%	-4.9

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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