

27 February 2019 | 4QFY18 Results Review

Malaysian Resources Corporation Berhad

Earnings met expectations

INVESTMENT HIGHLIGHTS


- **Earnings met expectations**
- **Outstanding orderbook stood at RM21.8b**
- **Current prospect is fundamentally positive**
- **Dividend of 1.75sen/share equates to 76% pay-out ratio**
- **Reiterate BUY call with an adjusted TP of RM0.90**

Earnings met expectations. MRCB's 12MFY18 revenue slipped -29.2%yoy to RM1.9b from the same period last year. Consequently, net profit was recorded lower by -37.5%yoy at RM101.2m. The cumulative quantum was arrived after recording RM26.4m (-73.2%yoy) of PATAMI in 4QFY18. Altogether, the group's 12MFY18 PATAMI accounted for 102.4% and 102.6% of ours and consensus' estimates respectively.

Lack of income from KL Sports City project. The decline in revenue was due to the absence of income from the regeneration and redevelopment of the KL Sports City in Bukit Jalil which was completed in July 2017. Accordingly, we noted that the project represented about 41% of MRCB's total revenue in CY17. The income from Eastern Dispersal Link (EDL) Expressway was also absence, as its toll operation was discontinued in late CY18.

Outstanding orderbook stood at RM21.8b. The group has recently won RM323m worth of contract for the construction of SUKE highway. Accordingly, the amount was added to the previous unbilled jobs to arrive at RM21.8b.

Dividend of 1.75sen/share declared. Management has proposed the payment of a first and final single tier dividend in respect of the financial year ended 31 December 2018. Subject to approval, investors can expect 1.75sen/share of dividend distribution. This equates to 76% pay-out ratio of the group's FY18 earnings.

Recommendation. LRT3's progress is expected to resume in 2HFY19. While it provides more clarity on the timeline, our concern stemmed from the downside risk to income as LRT3 job makes up about 56% of unbilled construction jobs. We will not be surprised if near term earnings are hampered given this deferment. While we have fairly expressed our concerns, we think the group's prospect is fundamentally positive. On that note, we believe the group's robust orderbook and healthy balance sheet will directly benefit its prospective value accretion. Hence, we maintain our **BUY** call with adjusted TP of **RM0.90**, derived from our SOP valuation. 

Maintain BUY

Adjusted Target Price (TP): RM0.90
(from RM0.83)

RETURN STATS

Price (26 Feb 2019)	RM0.80
Target Price	RM0.90
Expected Share Price Return	+12.5%
Expected Dividend Yield	+1.4%
Expected Total Return	+13.9%

STOCK INFO

KLCI	1,719.00
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,399.9
Market cap. (RM'm)	3,519.9
Price over NA	0.73
52-wk price Range	RM0.55-RM1.15
Beta (against KLCI)	1.79
3-mth Avg Daily Vol	12.3m
3-mth Avg Daily Value	RM8.6m
Major Shareholders (%)	
EPF	36.0
Gapurna Sdn. Bhd.	16.1
LTH	7.0
Bank Kerjasama Rakyat	3.9

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	1,696.7	2,408.0	2,823.6	1,870.7	1,983.8	2,050.3
EBIT (RM'm)	352.5	357.4	358.6	141.5	238.1	246.0
Pre-tax profit (RM'm)	370.1	392.6	338.4	123.0	214.0	215.3
Normalised PATAMI (RM'm)	331.3	266.0	167.5	101.2	134.2	139.4
FD EPS (sen)	18.5	13.8	6.6	2.3	3.1	3.2
EPS Growth (%)	660.6	-25.4	-52.5	-64.9	32.6	3.9
PER(x)	4.3	5.8	12.2	34.8	26.2	25.2
Dividend (sen)	2.5	3.7	4.3	1.8	1.3	1.1
Dividend yield (%)	3.1	4.6	5.4	2.2	1.6	1.4

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

12FY18 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	4Q18	4Q17	3Q18	YoY	QoQ	12M18	12M17	YoY
Revenue	374.1	349.6	663.8	7.0%	-43.6%	1,870.7	2,640.6	-29.2%
Operating expenses	-369.6	-336.3	-631.3	9.9%	-41.5%	-1,778.9	-2,494.5	-28.7%
Other operating income	14.6	88.4	9.9	-83.5%	47.4%	49.7	126.5	-60.7%
Profit from operations	19.1	101.8	42.3	-81.2%	-54.8%	141.5	272.6	-48.1%
Finance Cost	-7.2	19.7	-15.1	-136.7%	-52.0%	-44.0	-28.4	54.9%
Associates	3.7	3.2	9.0	-215.0%	-59.1%	18.2	9.3	96.4%
JV	-7.9	7.6	4.3	-203.4%	-284.7%	7.3	15.8	-53.7%
PBT	7.7	132.3	40.5	-94.2%	-81.0%	123.0	269.2	-54.3%
Taxation	-7.4	-26.7	-22.0	-72.4%	-66.5%	-46.1	-68.8	-33.0%
PATAMI	26.4	98.7	18.4	-73.2%	43.1%	101.2	161.9	-37.5%
EPS (sen)	0.60	4.5	0.5	-113.3%	33.3%	2.3	6.3	-63.7%
	4Q18	4Q17	3Q18	+/- ppts	+/- ppts	12M18	12M17	+/- ppts
EBIT margin	5.1%	29.1%	6.4%	-24.0	-1.3	7.6%	10.3%	-2.8
PBT margin	2.1%	37.8%	6.1%	-35.8	-4.0	6.6%	10.2%	-3.6
PATAMI margin	7.1%	28.2%	2.8%	-21.2	4.3	5.4%	6.1%	-0.7%
Effective tax rate	95.9%	20.2%	54.4%	75.7	41.4	37.5%	25.5%	11.9

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.