

27 February 2019

Construction & Engineering | Construction

MRCB (MRC MK)

Buy (Maintained)

Transition Complete, Growth To Resume

Target Price (Return)	MYR1.08 (+35%)
Price:	MYR0.80
Market Cap:	USD866m
Avg Daily Turnover (MYR/USD)	18.8m/4.6m

- **Reiterate BUY and SOP-based TP of MYR1.08, 35% upside plus 3% yield.** We anticipate a better year for Malaysian Resources Corp in FY19 after an eventful FY18, with the completion of two major divestments (Bukit Jalil Sentral and the Eastern Dispersal Link), which brought net gearing down to a palatable 0.19x, and a change of structure in its Light Rail Transit 3 (LRT3) to a turnkey contract. In the near term, we believe its earnings could grow 74% YoY in FY19, driven by improvements in the property and construction divisions. In the longer term, we see compelling value in the company's Transit Oriented Development (TOD) ready landbank in PJ, Penang, Cyberjaya and Kwasa Damansara, which could be unlocked through development or land sales.
- **FY18 core earnings missed.** MRCB reported 4Q18 core earnings of MYR0.3m. Both of its key segments – property and construction – fared poorly. The property division was affected by projects being in the early stages of construction, while the latter barely booked any profits from the LRT3 project, which is the company's main job on hand. FY18's core earnings contracted 53% YoY to MYR79m, missing our and consensus estimates at 76-88% of respective FY18 forecasts.
- **Forecasting earnings growth to resume in FY19.** We make no changes to our FY19F-20F numbers and introduce FY21F estimates. We expect the property division to benefit from improved new property sales, with a higher target of MYR800m for FY19 (vs MYR470m in 2018) and higher progress billings for Sentral Suites and Tria Residence. For the construction division, we believe growth will be driven by the resumption of the LRT3 project in 2H19, and higher rate of billings for its MYR22bn construction orderbook. Last month, MRCB secured the CA2 package of the Sungai Besi-Ulu Klang (SUKU) Highway with a contract sum of MYR323m – a pleasant start to FY19.
- **Keen to participate in ECRL and KVDT2 if revived.** During the conference call, management highlighted that its current construction tenderbook stands at MYR2.9bn, comprising 90% of signature mixed development projects and hospitals, with the balance 10% comprising infrastructure projects. MRCB added that it is keen to participate in the East Coast Rail Link (ECRL) and Klang Valley Double Track Phase 2 (KVDT2), should the projects recommence and tenders are called.
- **Key risks** include a prolonged slowdown in the property market, longer-than-expected delays in the commencement of public sector infrastructure projects, and the inability to secure new orders.

Figure 1: MRCB's results review

FYE Dec (MYRm)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)	Comments
Revenue	408.2	663.8	374.1	(43.6)	(8.3)	2,823.7	1,870.7	(33.7)	Lower revenue from all segments
EBIT	122.9	42.3	19.1	(54.8)	(84.4)	338.4	139.6	(58.7)	
EBIT Margin (%)	30.1	6.4	5.1			12.0	7.5		
Interest expense	(2.1)	(15.1)	(7.2)	(52.0)	242.2	(116.1)	(43.3)	(62.7)	
Associates	(0.2)	13.2	0.0	nm	nm	25.0	25.5	n.m.	
Pretax profit	131.6	40.5	7.7	(81.0)	nm	247.3	121.8	(50.8)	
Pretax Margin (%)	32.2	6.1	2.1			8.8	6.5		Lower property contributions
Tax	(26.7)	(22.0)	(7.4)	(66.5)	(72.4)	(65.5)	(45.1)	(31.1)	
Effective tax rate (%)	20.3	54.4	95.9			26.5	37.1		
Net Profit	105.7	18.4	26.1	41.3	(75.3)	167.6	76.7	(54.3)	
Core Profit	105.7	21.2	0.3	(98.5)	(99.7)	167.6	79.4	(52.6)	Below expectations
Net Margin (%)	25.9	3.2	0.1			5.9	4.2		

Source: Company data, RHB

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	2,823.7	1,870.7	2,035.2	2,071.8	2,208.6
Recurring net profit (MYRm)	167.6	79.4	138.4	140.9	149.2
Recurring net profit growth (%)	(37.3)	(52.6)	74.3	1.8	5.9
Recurring EPS (MYR)	0.04	0.02	0.03	0.03	0.03
Recurring P/E (x)	21.01	44.31	25.43	24.98	23.59
P/B (x)	0.42	0.71	0.71	0.70	0.63
P/CF (x)	(1.35)	2.21	12.72	16.15	14.01
Dividend Yield (%)	2.2	2.5	2.8	3.1	3.8
EV/EBITDA (x)	19.86	24.65	22.81	22.42	15.11
Return on average equity (%)	4.3	2.1	2.8	2.8	2.8
Net debt to equity (%)	25.80	12.81	12.47	10.23	8.33

Source: Company data, RHB

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