

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

9M18: Missed Expectations, But Asset Monetisation Expected Soon

MRCB's 9M18 net profit missed our expectation, coming in at 60% of our full-year estimate. The key variance to our forecast was attributable to: a) the deferment of LRT3 construction and hence slower progress billings, and b) slower-than-expected property progress billings. Meanwhile, we expect the disposal of Bukit Jalil to take place by the year-end and reduce gearing by 0.23x (in addition to EDL disposal previously). Maintain BUY with a lower target price of RM0.94.

9M18 RESULTS

Year to 31 Dec (RMm)	3Q18 (RMm)	2Q18 (RMm)	qoq chg %	yoy chg %	9M18 (RMm)	yoy chg %
Revenue	663.8	405.2	63.8	(43.3)	1,496.6	(37.0)
Construction	177.3	192.8	(8.0)	(80.6)	561.2	(65.2)
Property Development	469.1	193.4	142.5	122.8	882.9	42.4
Infrastructure	0.8	0.7	8.1	(97.4)	2.2	(97.5)
Others	16.6	18.3	(9.5)	8.1	50.3	(7.4)
EBIT	40.4	57.7	(30.1)	(50.3)	125.5	(41.4)
Engineering & Construction	3.8	25.0	(84.7)	(87.8)	44.8	(3.7)
Property Development	33.8	30.9	9.3	(2.2)	88.9	(20.6)
Infrastructure & Environmental	(4.8)	(1.7)	187.1	(138.1)	(7.8)	(118.8)
Others	7.6	3.5	115.7	180.1	(0.3)	(102.2)
Associates & JV	13.2	5.8	128.8	54.3	29.7	108.5
PBT	40.5	43.0	(5.9)	(22.6)	114.1	(1.0)
PATMI	19.8	33.4	(40.8)	(29.5)	74.8	18.2
EBIT Margin	%	%	ppt chg	ppt chg	%	ppt chg
Construction	2.2	13.0	(10.8)	(1.3)	8.0	5.1
Property	7.2	16.0	(8.8)	(9.2)	10.1	(8.0)
PATMI Margin	3.0	8.3	(5.3)	0.6	5.0	2.3

Source: Malaysian Resources Corporation Berhad, UOB Kay Hian

RESULTS

• **Missed expectations.** Malaysian Resources Corporation (MRCB) reported a 3Q18 net profit of RM19.8m (-41% qoq, -30% yoy) and 3Q18 revenue of RM664m (+64% qoq, -43% yoy). 9M18 net profit missed our expectation, coming in at 60% of our full-year estimate, dragged by the slower-than-expected progress billings arising from the deferment of the LRT3's construction coupled with slower-than-expected progress billings on unbilled property sales with most of the projects still in the early stages of construction. Meanwhile, MRCB's 9M18 performance was partially cushioned by two strategic landbank sales in Penang and Kia Peng.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	2,408	2,824	1,820	2,324	2,837
EBITDA	581	369	221	267	306
Operating profit	557	337	184	230	269
Net profit (rep./act.)	266	164	102	139	167
Net profit (adj.)	86	104	102	139	167
EPS (sen)	5.2	2.4	2.3	3.2	3.8
PE (x)	14.0	30.9	31.3	23.1	19.2
P/B (x)	0.4	0.7	0.7	0.6	0.6
EV/EBITDA (x)	11.1	17.4	29.1	24.1	21.0
Dividend yield (%)	2.7	2.7	2.7	2.7	2.7
Net margin (%)	11.1	5.8	5.6	6.0	5.9
Net debt/(cash) to equity (%)	76.3	62.4	63.7	61.9	58.0
Interest cover (x)	2.9	3.2	4.1	5.6	6.5
ROE (%)	10.3	4.2	2.1	2.8	3.4
Consensus net profit	-	-	109	144	173
UOBKH/Consensus (x)	-	-	0.94	0.96	0.97

Source: MRCB, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.73
Target Price	RM0.94
Upside	+33.3%
(Previous TP)	RM0.98

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,395.1
Market cap (RMm):	3,230.4
Market cap (US\$m):	770.3
3-mth avg daily t'over (US\$m):	3.8

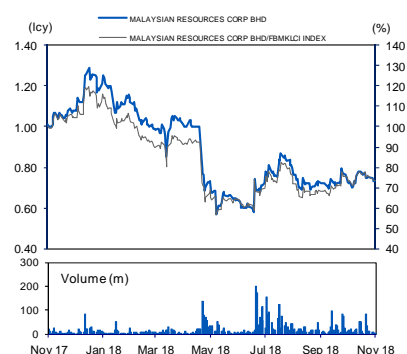
Price Performance (%)

52-week high/low	RM1.29/RM0.570			
1mth	3mth	6mth	1yr	YTD
(4.5)	(9.3)	1.4	(24.6)	(34.4)

Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1
FY18 NAV/Share (RM)	1.11
FY18 Net Debt/Share (RM)	0.70

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Construction: LRT3 earnings to pick up in 2019.** MRCB's 9M18 construction earnings dropped 4% yoy, largely attributable to: a) a high base effect following the earnings contribution from the National Sports Complex in 9M17; and b) slower-than-expected billings on the LRT3 project following the project's deferment to Feb 24. The construction segment's performance was partly cushioned by the completion of its two projects, namely Amand Desaru and Johor Land Tower. Construction margin improved by 5ppt yoy to 8%.
- Property development: Slower-than-expected progress billings on unbilled sales.** The property arm reported a lower yoy 9M18 operating profit of RM89m (-21% yoy) due to: a) high base effect in 2017 during which MRCB recognised progress-based profits from the completion of the Eastern Burwood project; and b) slower-than-expected progress billing recognitions on unbilled sales as most of the projects are still in the early stages of construction (9M18 unbilled sales RM1.6b). Ytd sales also missed guidance, coming in at RM356m vs its initial target of RM700m. However, 9M18 property earnings were partially cushioned by two strategic landbank sales in Penang and Kia Peng which contributed to a cumulative PAT of RM50m.

STOCK IMPACT

- Anticipating another asset disposal by year-end.** Following the disposal of the Eastern Dispersal Link (EDL) in the last few weeks, we expect the final approval for the 80% stake sale of Bukit Jalil to the Employees Provident Fund (EPF) to take place by the year-end as negotiations with various stakeholders are entering the final phase at this point of time. The 80% stake sale will pare down MRCB's debt by RM1.1b and potentially lower gearing by 0.23x.
- Sustainable earnings from construction orderbook backlog.** MRCB's strong outstanding orderbook of RM9.9b as of Jun 18 will provide earnings visibility for its construction business in the next 3-4 years. The outstanding orderbook includes a 50% share of outstanding LRT3 contract value of RM5.0b, with all the LRT3 packages having been awarded to the respective contractors previously in 2016-18.
- Upbeat on orderbook replenishment.** MRCB expects to replenish its orderbook in the coming years on the back of: a) the proposed integrated development in Bukit Jalil with potential GDV of RM20b, and b) the Kwasa Land development. Long-term projects such as Kwasa Land and the Bukit Jalil integrated development (20 years) will ensure continuity of healthy contract flow even after the federal government turns off the tap on new mega projects.

EARNINGS REVISION/RISK

- We cut our net profit forecasts for 2018-20 by 19%, 18% and 15% respectively to reflect:** a) the slower-than-expected progress billings recognition on the LRT3 project which is expected to be extended till end-Feb 24 (construction period) with our contract value assumption unchanged at RM2.18b, and b) downward revision to our previously bullish progress billings assumption on unbilled sales of RM1.6b for 2018. Meanwhile we cut our property sales target to RM450m (vs RM700m previously).
- Nevertheless, there could be earnings upside in the later years as the development of the Bukit Jalil land would contribute positively to the company's bottom line. MRCB guided that construction would commence as soon as 2H19, pending MRCB's stake disposal to EPF as well other necessary arrangements including the masterplan development for the prime landbank in Bukit Jalil.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM0.94 (from RM0.98).** Our target price is based on a 20% discount to our SOTP valuation of RM1.18/share, implying 29.8x 2019F PE.

SOTP VALUATION

	RMm
Property	2,520.3
Construction	1,638.4
DCF of LRT3 PDP fees	119.8
Investment Properties	1,033.0
Net Debt	(632.0)
QCT 33% stake	486.4
Total RNAV	5,165.8
Sharebase (m)	4,385.2
SOTP/share (RM)	1.18
Discount	20%
Target Price (RM)	0.94

Source: UOB Kay Hian

Note:

Net debt includes the sale of EDL proceeds of RM1.32b and cash proceeds from disposal of Bukit Jalil land of RM1.10b

NON-CORE ASSETS DISPOSAL

	Net Debt (RM m)	Net Gearing To Reduce by (x)
As of Sep-18 ¹	3,479	0.71
Non-Core Assets Disposal²		
EDL ³	2,102	0.25
Bukit Jalil Land	2,341	0.23
Ascot Tower	3,349	0.03
Menara Celcom	3,415	0.01

Source: UOB Kay Hian

Note:

¹Borrowings inclusive EDL borrowings of RM1.074b based on the proposed utilisation for the repayment of Senior Sukuk (RM835.7m) and Junior Sukuk (RM238.5m)

²Non-core assets disposal transaction to occur independently

³Inclusive MRCB's equity shareholder amount of RM251m

OUTSTANDING ORDERBOOK AS OF SEP 18

Projects	(RMm)
Construction Projects	
KWASA UTAMA - C8	2,622
MRT2 V210 Package	423
DASH - Package CB2	332
PRIMA Brickfields	335
PR1MA Kajang	78
Others	470
Sub-total	4,259
Fee-based Contracts	
KWASA UTAMA - Management Fee for C8	187
PDP to Develop Kwasa Damansara township	112
Sub Total	299
Turnkey Contractor	
LRT3	5,335
Grand Total	9,993

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	2,824	1,820	2,324	2,837
EBITDA	369	221	267	306
Deprec. & amort.	32	37	37	37
EBIT	337	184	230	269
Associate contributions	25	28	28	28
Net interest income/(expense)	(115)	(54)	(48)	(47)
Pre-tax profit	247	159	211	250
Tax	(66)	(38)	(53)	(62)
Minorities	(17)	(18)	(19)	(20)
Net profit	164	102	139	167
Net profit (adj.)	104	102	139	167

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(889)	287	156	250
Pre-tax profit	247	159	211	250
Tax	(67)	(38)	(53)	(62)
Deprec. & amort.	(32)	(37)	(37)	(37)
Associates	(976)	0	0	0
Working capital changes	(1,921)	265	89	153
Other operating cashflows	1,859	(61)	(54)	(54)
Investing	(1,057)	(50)	(50)	(50)
Capex (growth)	0	(50)	(50)	(50)
Investments	(976)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(81)	0	0	0
Financing	1,817	(65)	(65)	(65)
Dividend payments	(70)	(65)	(65)	(65)
Issue of shares	1,798	0	0	0
Proceeds from borrowings	469	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(380)	0	0	0
Net cash inflow (outflow)	(129)	173	41	135
Beginning cash & cash equivalent	593	464	637	678
Changes due to forex impact	260	0	0	0
Ending cash & cash equivalent	724	637	678	813

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	614	614	614	614
Other LT assets	3,724	3,802	3,884	3,970
Cash/ST investment	724	637	678	813
Other current assets	5,238	4,730	5,005	4,942
Total assets	10,301	9,783	10,182	10,339
ST debt	2,491	2,491	2,491	2,491
Other current liabilities	1,497	1,066	1,372	1,406
LT debt	1,242	1,242	1,242	1,242
Other LT liabilities	142	0	0	0
Shareholders' equity	4,824	4,861	4,935	5,038
Minority interest	104	123	142	162
Total liabilities & equity	10,301	9,783	10,182	10,339

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	13.1	12.1	11.5	10.8
Pre-tax margin	8.8	8.7	9.1	8.8
Net margin	5.8	5.6	6.0	5.9
ROA	1.8	1.0	1.4	1.6
ROE	4.2	2.1	2.8	3.4
Growth				
Turnover	17.3	(35.5)	27.7	22.1
EBITDA	(36.5)	(40.2)	21.0	14.5
Pre-tax profit	(37.0)	(35.9)	32.9	18.5
Net profit	(38.3)	(37.8)	35.8	20.4
Net profit (adj.)	19.9	(1.3)	35.8	20.4
EPS	(54.8)	(1.3)	35.8	20.4
Leverage				
Debt to total capital	43.1	42.8	42.4	41.8
Debt to equity	77.4	76.8	75.6	74.1
Net debt/(cash) to equity	62.4	63.7	61.9	58.0
Interest cover (x)	3.2	4.1	5.6	6.5