UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRCB MK/BUY/RM0.93/Target: RM1.03)

1Q19: Earnings Miss Expectations

Year to 31 Dec	1Q19 (RMm)	4Q18 (RMm)	qoq % chg	yoy % chg
Revenue	234.1	374.1	(37.4)	(45.3)
Construction	132.7	197.4	(32.7)	(30.5)
Property Development	85.1	159.7	(46.7)	(61.4)
Infrastructure	0.0	0.0	NIL	(100.0)
Others	16.2	17.0	(4.7)	5.6
EBIT	**20.7**	**26.0**	**(20.4)**	**(24.5)**
Engineering & Construction	16.7	11.4	46.4	4.4
Property Development	3.0	9.0	(66.6)	(87.6)
Infrastructure & Environmental	0.0	0.0	NIL	(100.0)
Others	1.0	5.6	(82.3)	(108.7)
Associates & JV	1.9	(4.2)	146.1	(81.8)
PBT	8.4	33.7	(75.0)	(72.5)
Net Profit	**4.1**	**26.4**	**(84.3)**	**(80.8)**
EBIT Margin	**%**	**%**	**qoq ppt chg**	**yoy ppt chg**
Construction	12.6	5.8	6.8	4.2
Property	3.5	5.6	(2.1)	(7.4)
Net Margin	1.8	7.1	(5.3)	(3.3)

Year	Net Profit (RMm)	EPS (sen)	PE (x)
2019F	123	2.8	33.2
2020F	153	3.5	26.6
2021F	172	3.9	23.7

Source: MRCB, UOB Kay Hian

RESULTS

- **1Q19 earnings missed expectations.** Malaysian Resources Corporation (MRCB) reported 1Q19 net profit of RM4m (-84% qoq, -81% yoy) on revenue of RM234m (-37% qoq, -45% yoy), accounting for only 3% of our full-year estimate. We believe the variances were due to: a) slower-than-expected progress billings for its construction projects and unbilled sales; b) lower-than-expected sales from its completed properties; and c) higher tax expense as some costs incurred were not tax deductible.

- **Property development: Slower-than-expected progress billings on unbilled sales.** The property arm reported a lower 1Q19 profit (-67% qoq, -88% yoy) owing to: a) high base in 1Q18 where two sizeable property projects - VIVO in 9 Seputeh and Kalista Park Homes in Bukit Rahman Putra – were completed; b) slower-than-expected progress billing recognitions on unbilled sales as most of the projects are still in the early stages of construction (1Q19 unbilled sales: RM1.6b); and c) no revenue was recognised from completed units. Sales in 1Q19 stood at RM75m vs MRCB's target of RM800m for 2019. The company is hopeful it could secure higher sales in the coming quarters from new launches like Kwasa Land (GDV: RM300m), recently launched projects like Tria Phase 1 & 2 and from its completed inventory worth RM300m in GDV.

- **Construction: Firmer margins.** Construction revenue fell to RM234m (-37% qoq, -45% yoy) due to lower billings recognition on completion of several projects in Johor. On the other hand, EBIT increased 46% qoq and 4% yoy, largely due to margin improvement to 13% (+7ppt qoq, +4ppt yoy). However, we expect blended margins to normalise in the coming quarter to high-single-digits in the later quarters on commencement of new projects (which have lower margins in the early stage). Meanwhile, MRCB is in advanced negotiations to finalise the work and design of LRT3 packages with the respective WPCs, while the project is expected to go into full swing in 2H19. At present, minimal construction progress works have been recognised in selected work packages, resulting in lower contribution of RM0.5m to its JV with GKENT in 1Q19 (1Q18: RM9m).

- **The company is actively tendering for new jobs,** including infrastructure-related works. It hopes to secure new jobs worth up to RM2b. We expect MRCB would be the key beneficiary from the rollout of shelved mega projects such as the East Coast Rail Link (ECRL), given its strong track record coupled with its ability to undertake large projects on an improved balance sheet with net gearing of 0.23x in 1Q19 (1Q18: 0.58x). MRCB has an outstanding orderbook of RM21.4b (including Bukit Jalil provisional contract worth RM10.1b).

EARNINGS REVISION

- We reduce our 2019-21 net profit forecasts by 14-24% to factor in lower billings for its outstanding construction orderbook and unbilled property billings, and a lower property sales target of RM450m (RM650m previously).

- If MRCB clinches the ECRL project, we would review our earnings forecasts.

RECOMMENDATION

- **Maintain BUY with a lower target price of RM1.03 (from RM1.08), after our earnings adjustment.** Our target price is based on a 15% discount to our SOTP valuation of RM1.14/share, and implies 36.6x 2019F PE. Key catalysts include the potential revival of the East Coast Rail Link and sooner-than-expected kick-start of LRT3 works.

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