

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRC MK/HOLD/RM1.19/Target: RM1.25)

2Q17: Disappointing Results

Year to 31 Dec	2Q17 (RMm)	1Q17 (RMm)	qoq % chg	yoy % chg	1H17 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	756.5	524.9	44.1	94.4	1,281.4	55.3	2017F	5.2	22.8
Construction	467.6	231.2	102.2	>100.0	698.9	110.2	2018F	5.9	20.2
Property Development	243.9	242.5	0.6	8.9	486.5	29.1	2019F	6.6	18.1
Infrastructure	28.6	28.5	0.2	(1.7)	57.1	(0.2)			
Others	16.4	22.6	(27.3)	(49.8)	39.0	(33.6)			
EBIT	67.4	68.1	(1.0)	(41.5)	135.5	(27.6)			
Construction	14.0	1.3	>100.0	>100.0	15.3	>100.0			
Property Development	29.7	50.1	(40.8)	(67.2)	79.8	(49.4)			
Infrastructure	11.5	17.5	(34.0)	(40.9)	29.0	(11.2)			
Others	12.1	(0.8)	n.m.	>100.0	11.4	n.m.			
Net Finance Cost	(32.2)	(28.2)	14.2	(23.5)	(60.5)	(30.1)			
Associates & JV	6.8	(1.1)	(696.8)	(21.4)	5.7	(40.1)			
PBT	34.2	29.3	16.8	(53.7)	63.4	(31.3)			
PATMI	23.4	10.5	123.4	(48.6)	33.8	(32.2)			
Core PATMI	23.4	10.5	123.4	>100.0	33.8	>100.0			
EBIT Margins	%	%	+/-ppt	+/-ppt	%	+/-ppt			
Construction	3.0	0.5	2.5	1.2	2.2	1.3			
Property	12.2	20.7	(8.5)	(28.2)	16.4	(25.5)			
Core PATMI Margin	3.1	2.0	1.1	2.9	2.6	2.0			

Source: MRCB, UOB Kay Hian

RESULTS

- **Results disappointed.** Malaysian Resources Corporation (MRCB) reported 2Q17 core net profit of RM23.4m (+>100% qoq, +>100% yoy) and revenue of RM756.5m (+44.1% qoq, +94.4% yoy). 1H17 net profit of RM33.8m (+>100% yoy) accounts for 32.3% of our and 26.7% of consensus full-year estimates respectively. Key disappointments came from the property development and infrastructure division, which was impacted by lower traffic volumes at the Eastern Dispersal Link (EDL).
- **Property development earnings within expectations.** In 2Q17, the property development arm recorded revenue and EBIT of RM243.9m (+0.6% qoq, +8.9% yoy) and RM29.7m (-40.8% qoq, -67.2% yoy) respectively. Earnings growth was volatile due to one-off gains in 2Q16. Property development EBIT margin fell 8.5ppt due to higher start-up costs for newly-launched development, Sentral Suites.
- **Construction margins disappointing.** The construction division recorded revenue of RM467.6m (+>100% qoq, +>100% yoy) and EBIT of RM14.0m (+>100% qoq, +>100% yoy). EBIT margin continues to be depressed due to the zero margin assumed for the Bukit Jalil stadium construction project. However, management expects this to turn around in 2H. Construction orderbook stood at about RM6.3b as of 2Q17, or about 7x 2016 construction revenue.
- **Unbilled sales of RM1.6b underpin future earnings.** Unbilled sales represent about 1.2x 2016 property development revenue and should cushion earnings visibility for the next two years. The group had secured about RM513m (+266% yoy) in residential property sales as of 1Q17, primarily driven by Sentral Suites (RM427m) and Q Sentral (RM33m). The group has achieved 43% of its sales target of RM1.2b for 2017.
- **We cut 2017 net profit estimate by 12%** as we reduce our full-year blended margin assumption for the property development division from 20% to 16%. We also reduce our projections of traffic flows for the EDL. We also trim 2018-19 net profit estimates by 3% and 2% to reflect lower traffic projections.

RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.25 (from RM1.52) as we reduce our earnings estimates.** Our target price is based on a 30% discount to our RNAV/share of RM2.18, and implies 21x 2018F PE, on a par with the stock's long-term average PE of 20.8x. Note that MRCB's PE trading valuations stretched to as high as 46x PE and 34x during the 2008 and 2013 general elections. Entry price: RM1.10.

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