

## UOBKH HIGHLIGHTS

### Malaysian Resources Corporation (MRC MK/HOLD/RM1.08/Target: RM1.10)

2017: Strong Wrap-Up For The Year

Year to 31 Dec	4Q17 (RMm)	3Q17 (RMm)	qoq % chg	yoy % chg	2017 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
<b>Revenue</b>	408.2	1,134.1	(64.0)	(60.4)	2,823.7	17.3	2018F	3.4	32.8
Construction	159.5	915.5	(82.6)	(57.9)	1,773.9	106.8	2019F	4.3	25.7
Property Development	198.0	174.3	13.6	(67.0)	858.7	(35.5)	2020F	4.8	22.9
Infrastructure	28.9	29.0	(0.5)	7.0	114.9	2.3			
Others	21.8	15.3	42.4	(17.6)	76.1	(29.1)			
<b>EBIT</b>	122.6	79.4	54.4	(56.3)	337.4	(39.5)			
Engineering & Construction	46.1	31.3	47.6	2,807.6	92.7	700.3			
Property Development	63.5	32.7	94.1	(73.2)	176.0	(62.1)			
Infrastructure & Environmental	13.5	12.7	6.0	11.2	55.2	(5.7)			
Others	(0.5)	2.7	(118.1)	(101.6)	13.6	(40.2)			
Net Finance Cost	7.7	(37.8)	(120.4)	(128.7)	(90.6)	(40.6)			
Associates & JV	10.8	8.6	26.0	27.7	25.0	(23.4)			
PBT	131.6	52.3	151.5	(44.9)	247.3	(37.0)			
<b>PATMI</b>	102.4	28.1	264.6	(45.8)	164.3	(38.7)			
Core PATMI	41.6	28.1	48.2	(48.6)	103.5	(10.4)			
<b>EBIT Margin</b>	%	%	<b>ppt chg</b>	<b>ppt chg</b>	%	<b>ppt chg</b>			
Construction	28.9	3.4	25.5	28.5	5.2	3.9			
Property	32.1	18.8	13.3	(7.4)	20.5	(14.4)			
Core PATMI Margin	10.2	2.5	7.7	2.4	3.7	(1.1)			

Source: SP Setia, UOB Kay Hian

## RESULTS

- Results above expectations.** Malaysian Resources Corporation Berhad (MRCB) reported core net profit of RM41.6m (+48% qoq, -49% yoy) and revenue of RM408.2m (-64% qoq, -64% yoy) for 4Q18. While revenue for the quarter contracted on a qoq basis, the group's core PATMI staged a qoq rise, mainly due to the improvement in margins recorded for both the property and construction divisions. Cumulatively for 2017, the group reported core net profit of RM103.5m (-10% yoy), representing 120% of our full-year estimate. Earnings exceeded expectations due to significantly lower finance cost, which declined as the group moved to capitalise its interest costs compared to expensing it out in the previous quarters.
- Property development; earnings within expectations.** In 4Q17, the segment recorded revenue of RM198.0m (+14% qoq, -67% yoy) and EBIT of RM63.5m (+94% qoq, -73% yoy). Earnings growth was volatile due to one-off gains in 4Q16. Key earnings contributor for the property development division were its Australian project, and its ongoing high-rise developments named 9 Seputeh and Sentral Residences. In terms of property sales, the group recorded RM1.2b in 2017 and is targeting RM1b in new sales for 2018.
- Construction margins stage a turnaround post completion of Bukit Jalil project.** The division recorded revenue of RM159.5m (-83% qoq, -57% yoy) and EBIT of RM46.1m (+48% qoq, +>100% yoy). EBIT margin made a significant turnaround due to the absence of a low-margin construction project (Bukit Jalil stadium refurbishment). Revenue for the division showed significant contraction on a sequential basis as a chunk of revenue was recognised in 3Q17.
- Construction orderbook stood at about RM5.1b as of 4Q17, or 2.9x 2017 construction revenue.** In 2017, the group secured about RM468m worth of new construction jobs, which included a package for DASH (RM369m) and two other smaller construction jobs totalling RM99m. These projects would enhance earnings visibility for the division for the next 2-3 years
- Monetisation of EDL is a potential catalyst.** Recall that during the Budget 2018 announcement, the government stated that toll collections for the Eastern Dispersal Link would be abolished from 1 Jan 18. Hence, we expect the government to buy out the expressway or compensate MRCB based on traffic flows on the highway. If the government chooses the first option, MRCB would be able to shelve about RM1b in borrowings, allowing it to turn into a net cash position. On top of that, there would be about RM40m earnings flowing to bottom-line from savings in interest and operating costs.

## RECOMMENDATION

- Maintain HOLD with a target price of RM1.10, based on a 20% discount to our SOTP valuation of RM1.38/share.** Our target price implies 25x 2019F PE. While the prospective PE multiple is above its long-term average, we think share price has partially priced in the forthcoming EDL disposal. Assuming the disposal materialises, its 2019F PE could drop to 21x due to the RM40m net profit impact.

## ANALYST

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