

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

1H18: A Soft Patch In 1H18, But Stronger Prospects Ahead

MRCB will continue to focus on strengthening its core business (property and construction divisions) in the coming quarters after the dismaying 1H18 performance, which accounted for 22% (core net profit) of our full-year estimates, dragged by slower-than-expected progress billing and weak property sales. Meanwhile, MRCB remains upbeat on its strategic plans to dispose of its two key non-core assets, Bukit Jalil land and EDL before the year's end. Maintain BUY. Target price: RM0.98.

1H18 RESULTS

Year to 31 Dec (RMm)	2Q18	1Q18	qoq % chg	yoy % chg	1H18	yoy % chg
Revenue	405.2	427.6	(5.2)	(44.1)	832.8	(33.1)
Construction	192.8	191.1	0.9	(58.8)	383.9	(45.1)
Property Development	193.4	220.4	(12.3)	(9.0)	413.9	(8.1)
Infrastructure	0.7	0.7	(2.8)	(97.5)	1.4	(97.5)
Others	18.3	15.4	19.3	11.7	33.7	(13.5)
EBIT	57.7	27.4	110.4	(14.9)	85.2	(36.3)
Engineering & Construction	25.0	16.0	56.1	78.0	41.0	168.1
Property Development	30.9	24.1	28.0	2.8	55.1	(29.4)
Infrastructure & Environmental	(1.7)	(1.3)	29.5	(114.6)	(3.0)	(110.3)
Others	3.5	(11.4)	(130.8)	(71.0)	(7.9)	(169.5)
Net Finance Cost	(10.5)	4.0	(363.5)	(67.4)	(6.5)	(89.2)
Associates & JV	5.8	10.7	(45.8)	(15.0)	16.5	190.7
PBT	43.0	30.6	40.8	24.4	73.6	19.5
PATMI	33.4	21.5	55.4	39.1	55.0	68.2
Core PATMI	10.0	21.5	(53.7)	(58.5)	31.5	(3.6)
EBIT Margin	%	%	ppt chg	ppt chg	%	ppt chg
Construction	13.0	8.4	4.6	10.0	10.7	8.5
Property	16.0	11.0	5.0	1.8	13.3	(4.0)
Core PATMI Margin	2.5	5.0	(2.6)	-0.9	3.8	1.2

Source: Malaysian Resources Corporation Berhad, UOB Kay Hian

RESULTS

- Missed expectations.** Malaysian Resources Corporation's (MRCB) reported 1H18 core net profit of RM32m (-4% yoy) represents only 22% of our full-year estimates. Nevertheless we expect stronger earnings in the coming quarters driven by accelerated progress billings from its sizeable outstanding orderbook of RM5.1b and better property sales. In addition, the company remains upbeat of the disposal its two key assets, Bukit Jalil and EDL Highway, which is expected to be finalised with the relevant authorities by end-18.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	2,408	2,824	1,709	2,318	2,837
EBITDA	581	369	253	307	342
Operating profit	557	337	216	270	305
Net profit (rep./act.)	266	164	126	169	196
Net profit (adj.)	86	104	126	169	196
EPS (sen)	5.2	2.4	2.9	3.9	4.5
PE (x)	14.2	31.3	24.4	18.1	15.7
P/B (x)	0.4	0.7	0.6	0.6	0.6
EV/EBITDA (x)	11.0	17.3	24.7	20.4	18.3
Dividend yield (%)	2.7	2.7	2.9	2.9	2.9
Net margin (%)	11.1	5.8	7.4	7.3	6.9
Net debt/(cash) to equity (%)	76.3	62.4	62.6	59.3	57.6
Interest cover (x)	2.9	3.2	4.7	6.5	7.4
ROE (%)	10.3	4.2	2.6	3.4	3.9
Consensus net profit	-	-	165	201	239
UOBKH/Consensus (x)	-	-	0.76	0.84	0.82

Source: Malaysian Resources Corporation Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.70
Target Price	RM0.98
Upside	+40.0%
(Previous TP)	RM1.01

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):	4,390.8
Market cap (RMm):	3,249.2
Market cap (US\$m):	791.4
3-mth avg daily t'over (US\$m):	6.2

Price Performance (%)

52-week high/low	RM1.29/RM0.570			
1mth	3mth	6mth	1yr	YTD
(8.6)	8.0	(31.5)	(28.7)	(33.9)

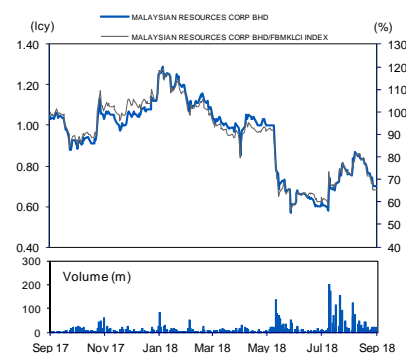
Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1

FY18 NAV/Share (RM) 1.12

FY18 Net Debt/Share (RM) 0.68

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Property arm: High base in 1H17.** In 1H18, the segment reported EBIT of RM55.1m (-29% yoy) due to the high base in 1H17 following the completion of its Australian property projects. Meanwhile, the key earnings contributors to this division in 1H18 were land sales in Penang and other development projects such as 9 Seputeh and PJ Sentral Garden. To date, the company has achieved sales of RM261m while the company's target is RM700m for 2018.
- Construction arm: Improved margins.** Construction margins in 1H18 have improved to 10.7% (+ 8.5ppt) thanks to its value engineering initiatives for its ongoing projects. Meanwhile, the company's 1H18 EBIT grew more than one-fold largely due to the progress of MRT2 package, several commercial buildings in Johor as well PDP JV for LRT3. However, there are several projects in the initial stage, and these are expected to pick up gradually in the coming quarters.

STOCK IMPACT

- Significant deleveraging exercise by year's end.** The disposal of Eastern Dispersal Link (EDL) and Bukit Jalil land are expected to be finalised by the year's end. Post disposal, we expect MRCB's net gearing to improve significantly as well as see an earnings enhancement due to the absence of interest payment for the said borrowings. Assuming we assess the disposal transaction independently, the disposal of EDL and Bukit Jalil could reduce MRCB's net gearing from 0.69x to 0.46x and 0.43x respectively.
- Modest to moderate reliance on government infra-related projects.** MRCB's reliance on government infra-related projects is modest, which only account for 23% of its external construction orderbook of RM6.2b as of 30 Jun 18. On a brighter note, Putrajaya's nod to proceed with LRT3 project will be viewed positively as MRCB will continue to be the project delivery partner (PDP), although the proposed "fixed contract" mechanism may potentially contribute lower earnings vs pre-agreed PDP fees.
- Sustainable earnings from construction orderbook backlog.** MRCB's strong outstanding orderbook of RM5.1b will provide earnings visibility for its construction arm in the next 3-4 years. Additionally, the company expects to replenish its orderbook in the coming years from the proposed integrated development in Bukit Jalil with potential GDV of RM20b and Kwasa Land. Long-dated projects such as Kwasa Land and Bukit Jalil (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 reduce MRCB's 2018-20 earnings forecast by 14%, 7% and 5% to RM126m, RM169m and RM196m respectively to reflect the lower unbilled recognition rate for its property arm and slower-than-anticipated construction progress billings.
- Key risks include: a) the derailment of the planned sale of EDL to the federal government, and b) changes to its PDP role for LRT3.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM0.98** (from RM1.01) after we cut our SOTP valuation to RM5.4b as our previous assumptions of MRCB's unbilled recognition rate had been overly bullish. Our target price is based on a 20% discount to our SOTP valuation of RM1.22/share, implying 19.8x 2019F PE.

SHARE PRICE CATALYST

- a) Sale of EDL, b) sale completion of Bukit Jalil Project, and c) various asset monetisation programmes.

SOTP VALUATION

	RMm
Property	2,568.3
Construction	1,706.3
DCF of LRT3 PDP fees	215.6
Investment Properties	767.6
Concession	300.0
Net Debt	(682.0)
OCT 33% stake	486.4
Total RNAV	5,362.2
Sharebase (m)	4,385.2
SOTP/share (RM)	1.22
Discount	20%
Target Price (RM)	0.98

Source: UOB Kay Hian

NON-CORE ASSETS DISPOSAL

	Net Debt (RMm)	Net Gearing (x)
As of June-18 ¹	3,439	0.69
Non-Core Assets Disposal²		
Kia Peng Land ³	2,556	0.07
Bukit Jalil Land	1,741	0.23
EDL ⁴	1,520	0.26
Ascot Tower	2,749	0.03
Menara Celcom	2,815	0.01

Note:

¹Borrowings inclusive EDL borrowings of RM1.059b

²Non-core assets disposal transaction to occur independently

³MRCB announced to sell Kia Peng Land to Perkeso worth RM323m in Mar-18 and expected to be completed by 3Q18.

⁴Inclusive MRCB's equity shareholder amount of RM300m

Source: UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF JUNE 2018

Projects	(RMm)
Construction Projects	
KWASA UTAMA - C8	2,622
MRT2 V210 Package	453
DASH - Package CB2	351
PRIMA Brickfields	335
PR1MA Kajang	104
Others	634
Sub-total	4,498
Fee-based Contracts	
LRT3 PDP	270
KWASA UTAMA - Management Fee for C8	187
PDP to Develop Kwasa Damansara township	112
Sub Total	569
Grand Total	5,067

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	2,824	1,709	2,318	2,837
EBITDA	369	253	307	342
Deprec. & amort.	32	37	37	37
EBIT	337	216	270	305
Associate contributions	25	26	26	26
Net interest income/(expense)	(115)	(54)	(47)	(46)
Pre-tax profit	247	189	249	285
Tax	(66)	(45)	(62)	(71)
Minorities	(17)	(17)	(17)	(17)
Net profit	164	126	169	196
Net profit (adj.)	104	126	169	196

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(889)	327	214	122
Pre-tax profit	247	189	249	285
Tax	(67)	(45)	(62)	(71)
Deprec. & amort.	(32)	(37)	(37)	(37)
Associates	(976)	0	0	0
Working capital changes	(1,921)	281	118	(1)
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)	212	99	7
Beginning cash & cash equivalent	593	464	676	775
Changes due to forex impact	260	0	0	0
Ending cash & cash equivalent	724	676	775	782

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	614	614	614	614
Other LT assets	3,724	3,876	3,937	4,013
Cash/ST investment	724	676	775	782
Other current assets	5,238	4,544	4,876	4,988
Total assets	10,301	9,710	10,202	10,396
ST debt	2,491	2,491	2,491	2,491
Other current liabilities	1,497	970	1,340	1,386
LT debt	1,242	1,242	1,242	1,242
Other LT liabilities	142	0	0	0
Shareholders' equity	4,824	4,885	4,989	5,121
Minority interest	104	122	139	157
Total liabilities & equity	10,301	9,710	10,202	10,396

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	13.1	14.8	13.3	12.1
Pre-tax margin	8.8	11.0	10.7	10.0
Net margin	5.8	7.4	7.3	6.9
ROA	1.8	1.3	1.7	1.9
ROE	4.2	2.6	3.4	3.9
Growth				
Turnover	17.3	(39.5)	35.6	22.4
EBITDA	(36.5)	(31.4)	21.4	11.3
Pre-tax profit	(37.0)	(23.7)	32.0	14.4
Net profit	(38.3)	(23.4)	34.4	15.8
Net profit (adj.)	19.9	21.6	34.4	15.8
EPS	(54.8)	21.6	34.4	15.8
Leverage				
Debt to total capital	43.1	42.7	42.1	41.4
Debt to equity	77.4	76.4	74.8	72.9
Net debt/(cash) to equity	62.4	62.6	59.3	57.6
Interest cover (x)	3.2	4.7	6.5	7.4

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