

27 August 2019

Malaysian Resources Corp

Below Expectations

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1H19 performance disappointed both our and consensus expectations with a CNL of RM39.8m. Positively, its 1H19 property sales of RM244.0m is on track to meet our full-year expectation of RM524.8m. No dividends declared as expected. Cut FY19E CNP by 96%, while maintaining FY20E CNP at RM102.1m. Maintain UP with lower SoP-driven TP of RM0.700.

Below expectations. Its 1H19 performance disappointed both our and consensus expectations, as they recorded a CNL of RM39.8m (excluding an one-off gain of RM55.0m from the disposal of One IFC Sdn Bhd). The disappointment stemmed from slower-than-expected progressive billings from both construction and property development divisions. That aside, property development margins were also lower than expected due to the upfront construction cost booked in for projects like Sentral Suites. Positively, its 1H19 property sales of RM244.0m is on track to meet our full-year expectation of RM524.8m. No dividends declared as expected.

Results highlight. MRCB registered 1H19 CNL of RM39.8m vs. CNP of RM55.0m in 1H18, mainly due to the sharp drop in revenue which fell by 43%. The sharp decline in revenue is driven by its property development and construction divisions, which saw revenue declining 62% and 26%, respectively, due to slow billing progress. As for 2Q19, revenue saw a marginal growth of 3% but incurred CNL of RM43.9m compared to CNP of RM4.1m in 1Q19. This is mainly due to the mismatch in cost recognition in which they incurred upfront construction cost for several developments, especially Sentral Suites, but unable to book in billings as the progress for these projects are still at the start-up phases.

Outlook. We are keeping our sales target of RM524.8-550.0m for FY19-20, which we believe are achievable due to their on-going efforts in promoting their projects to overseas markets, especially Hong Kong. Its unbilled sales stand at c.RM1.8b which will provide the group 3-4 years of earnings visibility. On its construction front, management does not rule out potential participation in ECRL given their strong interest in rail-related projects and remains hopeful that LRT3 will recommence into full-swing by 1H20.

Earnings review. Post results, we cut our FY19E earnings by 95% as we further lowered our margin assumptions for its development division due to timing issues, and re-timed some of the billings progress for both its construction and property development divisions. No changes to FY20E earnings as we expect progress to pick up pace for both construction and property development divisions.

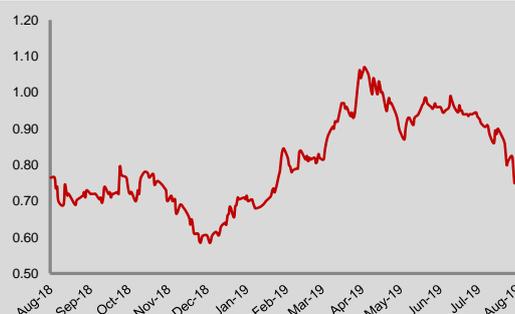
Maintain UNDERPERFORM with a lower SoP-driven Target Price of RM0.700 (from RM0.750). Our TP implies price to book ratio of 0.65x, which is close to trough levels. We opine that the long-term outlook for the company is relatively stable compared to other contractors or developers due to their massive outstanding order-book and transit-oriented developments. However, we note that management would need to step up efforts to enhance efficiency by further lowering their operating costs to remain competitive and improve overall profitability as margin erosions have been evident. While we are aware that the potential newsflow on ECRL could result in positive share price sentiment; we prefer to be careful as the margins are not compelling.

Risks to our call include: (i) stronger-than-expected property sales, (ii) lower-than-expected administrative cost, (iii) positive real estate policies, and (iv) changes in lending environment.

UNDERPERFORM ↔

Price : RM0.740
Target Price : RM0.700 ↓

Share Price Performance



KLCI	1,600.53
YTD KLCI chg	-5.3%
YTD stock price chg	20.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	3,264.9
Shares Outstanding	4,412.0
52-week range (H)	1.15
52-week range (L)	0.57
3-mth avg daily vol:	6,690,676
Free Float	42%
Beta	1.7

Major Shareholders

Employees Provident Fund Board	35.9%
GapurnaSdnBhd	15.5%
Lembaga Tabung Haji	6.2%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1870.7	1087.5	1854.6
EBIT	141.5	54.2	156.9
PBT	123.0	59.6	132.9
Net Profit	75.4	58.5	102.1
Core PATAMI	75.4	3.5	102.1
Consensus (NP)	n.a.	94	127
Earnings Revision	n.a.	-95%	0%
Core EPS (sen)	1.7	0.1	2.3
Core EPS growth (%)	-26%	-95%	2791%
NDPS (sen)	1.8	0.0	0.0
NTA per Share (RM)	1.0	1.1	1.1
Price to NTA (x)	0.7	0.7	0.6
PER (x)	40.7	869.8	30.1
Debt-to-Equity ratio (x)	0.3	0.3	0.3
Return on Asset (%)	1%	0%	1%
Return on Equity (%)	2%	1%	2%
Net Div. Yield (%)	2.5%	0.0%	0.0%

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Result Highlight								
FYE Dec (RM'm)	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
Turnover	241.0	234.1	3%	405.2	-41%	475.0	832.8	-43%
EBIT	-33.9	18.9	-279%	54.0	-163%	-15.0	78.2	-119%
Interest inc/(exp)	-12.6	-12.4	1%	-16.8	-25%	-25.0	-21.0	19%
Associates/JV	1.3	1.9	-34%	5.8	-78%	3.2	16.5	-80%
Exceptional items	55.0	0.0	n.m.	0.0	n.m.	55.0	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	9.8	8.4	17%	43.0	-77%	18.2	73.6	-75%
Taxation	-2.2	-6.9	-68%	-10.8	-80%	-9.0	-15.7	-42%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	7.7	1.6	393%	32.3	-76%	9.2	57.9	-84%
Minority interest	3.4	2.6	32%	1.1	212%	6.0	-2.9	-305%
PATAMI	11.1	4.1	167%	33.4	-67%	15.2	55.0	-72%
Core PATAMI	-43.9	4.1	n.m.	33.4	n.m.	-39.8	55.0	n.m.
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	-14%	8%		13%		-3%	9%	
Pretax margin	4%	4%		11%		4%	9%	
NP margin		4%		11%		4%	9%	
CNP margin	-18%	2%		8%		-8%	7%	
EPS (sen)	0.3	0.1		0.8		0.3	1.3	
Core EPS(sen)	-1.0	0.1		0.8		-0.9	1.3	
BV/share (RM)	1.1	1.1		1.1		1.1	1.1	
Net gearing (x)	0.2	0.2		0.7		0.2	0.7	
Effective tax	22%	82%		25%		50%	21%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
External Revenue								
Property Development	71.2	85.1	-16%	193.4	-63%	156.4	413.9	-62%
Construction	150.8	132.7	14%	192.8	-22%	283.5	383.9	-26%
Facilities management	12.8	13.1	-3%	13.1	-2%	25.9	26.1	-1%
Others	6.2	3.1	101%	5.3	18%	9.2	7.6	22%
EBIT Segmentation								
Property Development	44.0	3.0	1365%	30.9	42%	47.0	55.1	-15%
Construction	-15.2	16.7	n.m.	25.0	-161%	1.5	41.0	-96%
Facilities management	0.5	-0.4	-220%	0.7	-34%	0.1	0.9	-91%
Others	-2.3	1.4	n.m.	2.8	-183%	-1.0	-8.7	-89%
EBIT margins								
Property Development	61.7%	3.5%		16.0%		30.0%	13.3%	
Construction	-10.1%	12.6%		13.0%		0.5%	10.7%	
Facilities management	3.5%	-2.8%		5.3%		0.3%	3.3%	
Others	-37.9%	44.3%		53.9%		-10.6%	-115.2%	

Source: Company, Kenanga Research

SOP Valuations			
SOP Valuation	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%)	2,206.3
Property Investment	Various	Book Value	2,053.6
Construction	Various	FY20` PER of 7x	210.0
Building Services	100%	FY20 PER of 7x	44.1
Quill Capital REITs	28%	Based on MQREIT TP of RM1.05	312.9
Concession			
EDL	100%	Book Value	
Sub Total			4,826.8
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
Total SOP/share			1.47
Property RNAV discount/share		75%	-0.66
SOP/share after RNAV discount			0.81
No of FD shares			4,825.5
Holding Co. Discount			15%
Implied SOP discount			52%
TP (RM)			0.70

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.715	2,105.2	Y	10/2019	-4.4%	-18.3%	9.5%	18.8%	12.7	11.6	9.8	0.5	0.5	4.8%	1.3%	1.15	OP	
HUA YANG BHD	0.325	114.4	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	13.9	15.8	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.22	6,717.5	Y	06/2019	-15.0%	-6.0%	2.2%	-5.3%	10.2	9.9	10.5	0.4	0.4	3.6%	4.1%	1.65	OP	
LBS BINA GROUP BHD	0.540	842.2	Y	12/2019	31.3%	0.9%	7.9%	-7.2%	9.9	9.2	9.9	0.6	0.5	6.6%	3.3%	0.495	MP	
MAGNA PRIMA BHD	1.15	382.5	Y	12/2019	-5.6%	28.8%	-572.6%	-139.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.0%	0.0%	0.710	UP	
MAH SING GROUP BHD	0.870	2,112.1	Y	12/2019	4.5%	7.0%	-4.3%	-0.3%	12.9	13.4	13.5	0.6	0.6	5.2%	4.6%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.740	3,264.9	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	40.7	869.8	30.1	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.830	5,644.7	Y	12/2019	13.6%	12.5%	1.5%	9.7%	15.4	15.2	13.8	0.6	0.6	3.9%	2.6%	1.10	MP	
SP SETIA BHD	1.59	6,427.5	Y	12/2019	5.5%	24.3%	27.2%	46.0%	29.2	23.0	15.7	0.4	0.4	1.9%	4.4%	1.85	MP	
SUNSURIA BHD	0.745	667.5	Y	09/2019	-18.5%	7.4%	-19.3%	4.4%	5.0	6.2	5.9	0.7	0.7	12.2%	0.0%	0.760	OP	
SUNWAY BHD	1.62	7,900.0	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.5	14.8	13.4	0.9	0.9	6.3%	3.6%	1.60	MP	
UEM SUNRISE BHD	0.690	3,130.8	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	9.6	9.1	11.1	0.5	0.5	4.8%	1.4%	0.835	MP	
UOA DEVELOPMENT BHD	2.06	4,050.0	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.4	10.9	10.8	0.8	0.8	7.4%	6.8%	2.15	MP	
Simple Average					-0.5%	9.1%	-39.1%	194.2%	15.8	84.7	15.3	0.6	0.6	4.1%	2.3%			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.370	288.1	Y	04/2020	12.9%	38.7%	25.7%	90.1%	21.2	16.8	8.9	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.91	1,502.8	Y	03/2020	3.0%	9.6%	3.8%	9.3%	6.9	6.6	6.1	1.1	1.1	16.3%	6.8%	2.36	BUY	
PARAMOUNT CORP BHD	1.31	794.8	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	8.7	8.5	8.0	0.7	N.A.	7.2%	4.9%	1.83	BUY	
TAMBUN INDAH LAND BHD	0.765	331.6	Y	12/2019	-11.1%	4.0%	-21.2%	1.9%	6.0	7.6	7.5	0.5	0.5	6.7%	5.9%	0.863	BUY	
TITIJAYA LAND BHD	0.295	373.9	Y	06/2019	-14.3%	13.9%	-36.3%	19.5%	5.2	8.1	6.8	0.3	0.3	3.5%	43.4%	0.310	BUY	
YONG TAI BHD	0.235	127.5	Y	06/2019	28.1%	108.6%	-238.6%	281.2%	8.2	N.A.	16.7	0.3	0.3	-4.5%	0.0%	0.343	N.A	

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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