

# Malaysian Resources Corp

## Banking on 2H17...

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1Q17 CNP of RM10.5m came in at 15% and 7% of our and streets' full-year estimates, respectively. We deem it to be broadly within our expectations banking on stronger 2H17 but deem to be below that of consensus. Property sales of RM513m exceeded our target of RM468m but still within management's target of RM1.2b. Raised FY17-18E CNP by to 10%-28% with revised sales of RM1.1b. Maintain MARKET PERFORM with an unchanged ex-all TP of RM1.32.

**Broadly inline...** MRCB only registered CNP of RM10.5m in 1Q17, accounting for 15% and 7% of our and streets' full-year estimates, respectively. While we deem that its 1Q17 to be broadly inline with our expectations as we expect earnings to pick in 2H17, we opine that it is below consensus expectations as consensus might have been overly aggressive on their construction margin assumptions. Positively, its 1Q17 property sales of RM513.0m came in above our overly conservative target of RM467.8m mainly driven by overwhelming response from Sentral Suites. However, it is still within management's target of RM1.2b.

**Results review. On YoY basis,** MRCB managed to turn around its CNL of RM18.9m into CNP of RM10.5m. This was mainly due to i) significant decrease in interest cost (-25%) as a result of its de-gearing exercise which they have managed to pare down its net gearing from 1.27x to 0.94x, and ii) narrowing of losses from its investment and other division which saw losses narrowed by 70%. **QoQ wise,** 1Q17 CNP saw a significant drop by 94% on the back of a softer revenue (-49%) as they did not recognise any gains from major asset disposals in 1Q17 vis-à-vis the recognition of the gains from the sale of Menara Shell and Jalan Kia Peng land back in 4Q16.

**Outlook.** Moving into FY17, management are maintaining their sales target at RM1.2b banking on their planned launches of Sentral Suites (GDV: RM1.4b), 9 Seputeh Phase 2 (GDV: >RM900.0m), Bukit Rahman Putra (GDV: RM100.0m) and Bandar Sri Iskandar (GDV: RM16.0m). MRCB's remaining external construction order book stands at c.RM7.0b. Coupled with c.RM1.5b unbilled property sales, these numbers will provide the group with at least four years of earnings visibility.

**Raising earnings.** Post results, we raised our FY17E-FY18E CNP by 10%-28% after revising our sales upwards to RM1.1b (previously, RM0.5b) for FY17-18E, respectively.

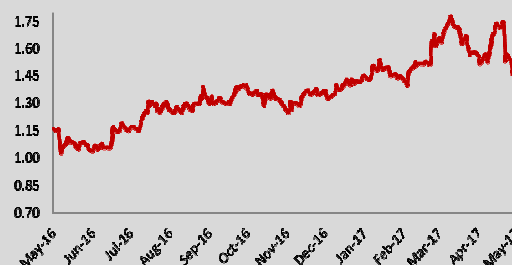
**MARKET PERFORM maintained.** We reiterate our MARKET PERFORM with an unchanged SoP-driven Target Price to RM1.32 (cum-rights TP, RM1.65), despite our upgrade in earnings backed by higher sales target of RM1.1b for FY17-18E as we believe that MRCB needs to manage its resources properly to avoid further unnecessary cash calls in the future, which is driven by overly aggressive land banking activities.

Downside risks to our call include: (i) weaker-than-expected property sales, (ii) higher-than-expected administrative cost, (iii) negative real estate policies, and (iv) tighter lending environment.

## MARKET PERFORM ↔

Cum/Ex-Price: RM1.41/RM1.21  
Cum/Ex-Target Price: RM1.65/RM1.32 ↔

### Share Price Performance



KLCI	1,764.89
YTD KLCI chg	7.5%
YTD stock price chg	6.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	3,079.9
Issued shares	2,184.3
52-week range (H)	1.80
52-week range (L)	1.02
3-mth avg daily vol:	10,550,070
Free Float	42%
Beta	1.0

### Major Shareholders

Employees Provident Fund	33.4%
Gapurna Sdn Bhd	16.7%
Lembaga Tabung Haji	7.9%

### Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	2,408.1	2,408.6	2,714.6
EBIT	547.1	535.9	313.1
PBT	392.6	185.1	232.0
<b>Net Profit (NP)</b>	<b>267.4</b>	<b>76.0</b>	<b>97.2</b>
<b>Core Net Profit</b>	<b>244.1</b>	<b>76.0</b>	<b>97.2</b>
Consensus (NP)	n.a.	144.4	158.4
Earnings Revision	n.a.	10%	28%
Core EPS (sen)	4.3	1.3	1.7
EPS growth (%)	487.3	-68.9	28.0
NDPS (sen)	2.8	0.2	0.3
NTA/Share (RM)	0.34	0.44	0.45
PER (x)	25.9	91.0	71.1
Core PER (x)	28.3	91.0	71.1
Price/NTA (x)	3.56	2.74	2.67
Net Gearing (x)	1.3	0.82	0.9
Dividend Yield (%)	2.3	0.2	0.2

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<b>Result Highlight</b>					
Y/E : Dec (RM mn)	1Q17	4Q16	QoQ chg	1Q16	YoY chg
<b>Turnover</b>	<b>524.9</b>	<b>1,031.7</b>	<b>-49%</b>	<b>436.0</b>	<b>20%</b>
<b>EBIT</b>	<b>65.6</b>	<b>273.0</b>	<b>-76%</b>	<b>33.6</b>	<b>95%</b>
Interest expense	-35.2	-42.8	-18%	-46.7	-25%
Associates	-2.4	7.2	-134%	0.4	-784%
Joint-ventures	1.3	1.3	2%	0.4	190%
<b>Pretax profit</b>	<b>29.3</b>	<b>238.6</b>	<b>-88%</b>	<b>18.7</b>	<b>57%</b>
Taxation	-8.9	-29.6	-70%	-5.2	71%
Minority Interest	9.9	20.9	-52%	9.1	10%
<b>Net Profit</b>	<b>10.5</b>	<b>188.1</b>	<b>-94%</b>	<b>4.4</b>	<b>139%</b>
<b>Core net profit</b>	<b>10.5</b>	<b>188.1</b>	<b>-94%</b>	<b>-18.9</b>	<b>155%</b>
EPS (sen)	0.5	8.8		-1.1	
EBIT margin	12%	26%		8%	
Pretax margin	6%	23%		4%	
Effective tax rate	30%	12%		28%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>					
Y/E : Dec (RM mn)	1Q17	4Q16	QoQ chg	1Q16	YoY chg
<b>Revenue</b>					
-Engineering and Construction	244.3	514.8	-53%	169.1	44%
-Property development	320.8	603.3	-47%	224.2	43%
-Infrastructure / environmental	28.5	24.9	14%	29.1	-2%
-Building services	20.9	26.1	-20%	22.0	-5%
-Investment holding and Others	20.9	209.5	-90%	7.6	175%
-Elimination	-110.5	-347.0	-68%	-47.8	131%
<b>Group Revenue</b>	<b>524.9</b>	<b>1,031.7</b>	<b>-49%</b>	<b>404.2</b>	<b>30%</b>
<b>Segment Profit</b>					
-Engineering and Construction	1.3	1.6	-21%	2.2	-42%
-Property development	50.1	236.4	-79%	53.3	-6%
-Infrastructure / environmental	17.5	12.1	44%	16.5	6%
-Building services	3.7	3.4	12%	5.4	-30%
-Investment holding and Others	-4.5	26.8	-117%	-15.0	-70%
Elimination	0.0	0.0	n.a.	0.0	n.a.
<b>Group EBIT</b>	<b>68.1</b>	<b>280.3</b>	<b>-76%</b>	<b>62.4</b>	<b>9%</b>
<b>Segment Margin</b>					
-Engineering and Construction	1%	0%		1%	
-Property development	16%	39%		24%	
-Infrastructure / environmental	61%	49%		57%	
-Building services	18%	13%		24%	
-Investment holding and Others	-22%	13%		-197%	

Source: Company, Kenanga Research

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<b>SOP Valuations</b>			
<b>Property Development</b>	Various	NPV of profits (WACC: 11%) after 50% discount	1,581.61
<b>Property Investment</b>	Various	Book Value	2,595.39
<b>Construction</b>	Various	FY18 PER of 8x	100.49
<b>Building Services</b>	100%	FY18 PER of 7x	58.37
<b>Quill Capital REITs</b>	31%	Estimate Market Cap of Quill	453.02
<b>Concession</b>			
EDL	100%	DCF (WACC: 7%)	889.75
<b>Sub Total</b>			<b>5,678.64</b>
Net cash from Platinum Sentral			78.8
Cash proceeds from warrant conversion			262.00
Proceeds from rights			2,856.70
<b>Total</b>			<b>8,876.14</b>
No of FD shares			5,713.44
<b>SoP (RM)</b>			<b>1.55</b>
<b>Holding Co. Discount</b>			<b>15%</b>
<b>TP (RM)</b>			<b>1.32</b>

Source: Kenanga Research

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Peer Comparison

NAME	Price (29/5/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>																
IOI PROPERTIES GROUP BHD*	2.09	11,508	17.7	14.4	14.3	3.5%	4.1%	4.2%	0.61	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*	3.79	10,818	13.4	14.2	17.4	4.9%	9.7%	8.0%	1.30	808.0	761.3	620.6	-5.8%	-18.5%	3.86	OUTPERFORM
UEM SUNRISE BHD*	1.24	5,626	38.2	24.1	34.9	0.0%	2.2%	3.4%	0.88	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD*	3.59	7,309	13.5	14.0	13.5	2.9%	7.3%	6.7%	0.82	541.6	521.7	542.6	-3.7%	4.0%	3.50	MARKET PERFORM
MAH SING GROUP BHD^	1.56	3,759	10.8	11.1	11.5	4.1%	10.1%	10.0%	1.08	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.58	4,652	36.0	41.2	18.7	0.0%	3.7%	4.4%	1.23	129.3	112.9	248.8	-12.7%	120.4%	1.72	OUTPERFORM
UOA DEVELOPMENT BHD*	2.70	4,405	11.8	11.6	11.3	5.6%	19.4%	9.8%	1.12	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.21	3,080	12.6	44.8	40.7	0.2%	8.6%	2.4%	1.32	244.1	68.8	75.7	-72%	10.0%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.21	1,246	6.1	7.2	7.0	0.0%	8.8%	6.9%	0.46	204.6	173.7	177.1	-15.1%	2.0%	1.30	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.75	1,588	8.4	7.1	6.7	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.39	1,110	30.3	11.3	7.1	2.2%	6.9%	13.3%	1.40	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.68	382	13.2	11.4	11.0	2.9%	2.2%	8.0%	0.50	28.9	33.6	34.6	16.4%	3.0%	1.70	MARKET PERFORM
HUA YANG BHD	1.07	377	6.2	6.1	5.2	1.7%	21.9%	12.2%	0.58	61.0	62.0	72.0	1.6%	16.1%	1.24	MARKET PERFORM
A&M REALTY BHD	1.68	613	30.6	22.9	17.7	0.0%	3.3%	4.2%	0.93	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
<b>CONSENSUS NUMBERS</b>																
IGB CORPORATION BHD	2.95	3,938	13.2	12.8	16.4	3.1%	6.7%	6.4%	0.80	298.0	307.0	240.3	3.0%	-21.7%	3.00	NEUTRAL
GLOMAC BHD	0.70	502	6.2	12.6	7.3	5.3%	12.7%	6.0%	0.50	80.9	39.8	68.7	-50.9%	72.7%	0.74	SELL
PARAMOUNT CORP BHD	1.82	772	10.3	9.6	9.1	4.9%	8.0%	8.3%	0.79	75.0	80.6	84.9	7.5%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.47	636	5.7	6.6	6.9	6.0%	21.5%	16.4%	1.06	112.2	96.4	91.7	-14.1%	-4.9%	1.58	NEUTRAL
LBS BINA GROUP BHD	2.04	1,359	15.9	12.1	9.7	4.7%	8.1%	9.1%	1.09	85.3	112.0	139.9	31.2%	25.0%	2.12	BUY

\* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

# MRCB's prices are of ex-rights

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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