

Malaysian Resources Corp

First Contract for the Year

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We are neutral on the contract award from Turnpike Synergy Sdn Bhd for a portion of SUKE highway worth RM323.0m as it falls within our FY19E order-book replenishment target. No changes to FY18-19E earnings. Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM0.750.

News. Yesterday, MRCB announced that they have bagged a contract award amounting to RM323.0m from Turnpike Synergy Sdn Bhd for the construction works of SUKE highway under work package CA2. The construction works for this portion is expected to be completed in April 2020.

Neutral. This marks MRCB's first construction win for the year. However, we are neutral on the contract win of RM323.0m as it is within our FY19E order-book replenishment of RM1.5b. Assuming a conservative pre-tax margin of 5%, this job is expected to contribute c.RM9.7m to its bottom-line in FY19E.

Outlook. Going forward, management is targeting sales of RM1.0b for FY19 with planned launches of RM0.9b for the year of which RM0.5b is from its Australian project in Docklands. Its existing outstanding order-book stands at a massive value of c.RM21.3b with a visibility of more than 5 years. However, we are much more prudent with our sales target as we are only expecting sales of RM0.5b as compared to management's target of RM1.0b as we remain conservative given the current challenging climate in the property sector.

Earnings review. No changes to our FY18-19E earnings.

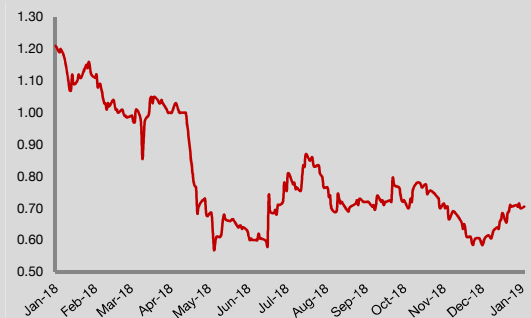
Maintain MARKET PERFORM. We maintain MARKET PERFORM, with an unchanged SoP-driven Target Price of RM0.750. Our Target Price implies a price-to-book ratio of 0.75x, which is close to its trough levels. We opine that the long-term outlook for the company is relatively stable compared to other contractors or developers due to their massive outstanding order-book and transit-oriented-developments. However, we note that management would need to step up in increasing operational efficiency by further lowering operating costs to remain competitive and improve overall profitability as margin erosions have been evident.

Risks to call include: (i) higher-than-expected property sales and construction replenishment, (ii) lower-than-expected administrative costs, (iii) positive real estate policies, and (iv) encouraging lending environment.

MARKET PERFORM ↔

Price : **RM0.705**
Target Price : **RM0.750** ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,697.50 |
| YTD KLCI chg | 0.4% |
| YTD stock price chg | 14.6% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | MRC MK Equity |
| Market Cap (RM m) | 3,101.9 |
| Shares Outstanding | 4,399.9 |
| 52-week range (H) | 1.22 |
| 52-week range (L) | 0.55 |
| 3-mth avg daily vol: | 13,541,960 |
| Free Float | 41% |
| Beta | 1.6 |

Major Shareholders

| | |
|--------------------------------|-------|
| Employees Provident Fund Board | 36.0% |
| Gapurna Sdn Bhd | 16.1% |
| Lembaga Tabung Haji | 7.0% |

Summary Earnings Table

| FYE Dec (RM m) | 2017A | 2018E | 2019E |
|------------------------|--------------|-------------|-------------|
| Turnover | 2,823.7 | 1,784.5 | 2,009.2 |
| EBIT | 338.4 | 130.8 | 130.8 |
| PBT | 247.3 | 124.4 | 138.6 |
| Net Profit (NP) | 167.6 | 86.1 | 96.0 |
| Core Net Profit | 101.3 | 86.1 | 96.0 |
| Consensus (NP) | n.a. | 93.6 | 125.7 |
| Earnings Revision | n.a. | 0% | 0% |
| Core FD EPS (sen) | 2.1 | 1.8 | 2.0 |
| EPS growth (%) | -235.7 | -15.0 | 11.4 |
| NDPS (sen) | 1.8 | 0.0 | 0.0 |
| NTA/Share (RM) | 0.95 | 0.96 | 0.96 |
| FD PER (x) | 20.3 | 39.5 | 35.5 |
| Core PER (x) | 33.6 | 39.5 | 35.5 |
| Price/NTA (x) | 0.74 | 0.74 | 0.73 |
| Net Gearing (x) | 0.6 | 0.5 | 0.4 |
| Dividend Yield (%) | 2.5 | 0.0 | 0.0 |

| 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 | FY19' PER of 8x | 210.0 |
| Building Services | 100% | FY18 PER of 7x | 58.4 |
| Quill Capital REITs | 28% | Based on MQREIT TP of RM1.1 | 327.8 |
| Concession | | | |
| EDL | 100% | Book Value | |
| Sub Total | | | 4,856.0 |
| Cash proceeds from warrant conversion | | | 548.1 |
| Proceeds from rights | | | 1,732.1 |
| Total SOP/share | | | 1.48 |
| Property RNAV discount/share | | 70% | (0.62) |
| SOP/share after RNAV discount | | | 0.86 |
| No of FD shares | | | 4,825.5 |
| Holding Co. Discount | | | 10% |
| Implied SOP discount | | | 49% |
| TP (RM) | | | 0.750 |

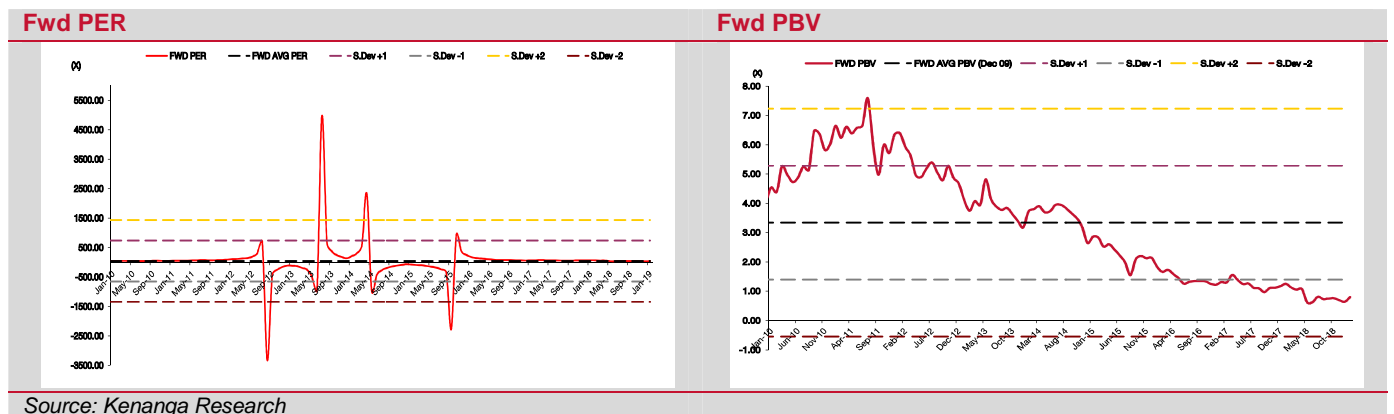
Source: Kenanga Research

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29 January 2019

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|--------|--------|-------|-------|-------|
| FY Dec (RM m) | 2015A | 2016A | 2017A | 2018E | 2019E | FY Dec (RM m) | 2015A | 2016A | 2017A | 2018E | 2019E |
| Revenue | 1,696.7 | 2,408.1 | 2,823.7 | 1,784.5 | 2,009.2 | Growth | | | | | |
| EBITDA | 547.1 | 535.9 | 338.4 | 107.3 | 149.1 | Turnover (%) | 12.0 | 41.9 | 17.3 | -36.8 | 12.6 |
| Depreciation | 0.0 | 0.0 | 0.0 | -17.1 | -18.3 | EBITDA (%) | 54.4 | -2.0 | -36.8 | -68.3 | 39.0 |
| Operating Profit | 547.1 | 535.9 | 338.4 | 90.2 | 130.8 | Operating Profit (%) | 73.3 | -2.0 | -36.8 | -73.3 | 45.1 |
| Int Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | PBT (%) | 67.8 | 6.1 | -37.0 | -49.7 | 11.4 |
| Interest Exp | -184.8 | -175.9 | -116.1 | -10.0 | -12.0 | Core Net Profit (%) | -279.5 | -129.4 | 361.2 | -15.0 | 11.4 |
| Associate | 16.0 | 26.3 | 9.3 | 30.0 | 20.0 | Profitability (%) | | | | | |
| Jointly Controlled Entity | -8.1 | 6.3 | 15.8 | -0.9 | -0.9 | EBITDA Margin | 32.2 | 22.3 | 12.0 | 6.0 | 7.4 |
| PBT | 370.1 | 392.6 | 247.3 | 124.4 | 138.6 | Operating Margin | 32.2 | 22.3 | 12.0 | 5.1 | 6.5 |
| Taxation | -6.1 | -73.5 | -65.5 | -31.1 | -34.6 | PBT Margin | 21.8 | 16.3 | 8.8 | 7.0 | 6.9 |
| Minority Interest | -33.6 | -51.7 | -14.2 | -7.2 | -8.0 | Core Net Margin | -4.4 | 0.9 | 3.6 | 4.8 | 4.8 |
| Net Profit | 330.4 | 267.4 | 167.6 | 86.1 | 96.0 | Effective Tax Rate | 1.6 | 18.7 | 26.5 | 25.0 | 25.0 |
| Core Net Profit | -74.6 | 22.0 | 101.3 | 86.1 | 96.0 | ROE | -3.30 | 0.77 | 2.10 | 1.78 | 1.97 |
| | | | | | | ROA | -1.05 | 0.29 | 0.98 | 0.84 | 0.89 |
| Balance Sheet | | | | | | DuPont Analysis | | | | | |
| FY Dec (RM m) | 2015A | 2016A | 2017A | 2018E | 2019E | Net Margin (%) | -4.4 | 0.9 | 3.6 | 4.8 | 4.8 |
| Fixed Assets | 2,537.9 | 1,249.8 | 2,171.7 | 1,953.7 | 1,689.2 | Assets Turnover (x) | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 |
| Intangible Assets | 317.1 | 317.1 | 225.6 | 225.6 | 225.6 | Leverage Factor (x) | 3.1 | 2.7 | 2.1 | 2.1 | 2.2 |
| Other FA | 2,336.6 | 2,523.1 | 2,167.0 | 2,216.9 | 2,276.8 | ROE (%) | -3.30 | 0.77 | 2.10 | 1.78 | 1.97 |
| Inventories | 551.7 | 962.9 | 154.5 | 163.8 | 104.0 | Leverage | | | | | |
| Receivables | 1,095.1 | 1,248.0 | 3,045.3 | 2,475.9 | 2,599.0 | Debt/Asset (x) | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 |
| Other CA | 45.5 | 978.0 | 1,984.2 | 1,984.2 | 1,984.2 | Debt/Equity (x) | 1.5 | 1.0 | 0.7 | 0.8 | 0.9 |
| Cash | 520.7 | 598.4 | 724.2 | 1,429.9 | 2,094.9 | Net Debt/Equity (x) | 1.3 | 0.8 | 0.6 | 0.5 | 0.4 |
| Total Assets | 7,089.8 | 7,562.5 | 10,301.0 | 10,278.4 | 10,802.2 | Valuations | | | | | |
| Payables | 1,188.4 | 1,494.4 | 1,279.2 | 832.3 | 928.9 | EPS (sen) | 6.8 | 5.5 | 3.5 | 1.8 | 2.0 |
| ST Borrowings | 1,042.1 | 1,042.1 | 2,490.6 | 2,490.6 | 2,490.6 | Core EPS (sen) | -1.5 | 0.5 | 2.1 | 1.8 | 2.0 |
| Other ST Liability | 54.8 | 54.8 | 217.9 | 217.9 | 217.9 | NDPS (sen) | 0.0 | 2.8 | 1.8 | 0.0 | 0.0 |
| LT Borrowings | 2,345.2 | 1,887.2 | 891.2 | 1,291.2 | 1,691.2 | NTA/share (RM) | 0.40 | 0.52 | 0.95 | 0.96 | 0.96 |
| Other LT Liability | 135.2 | 135.2 | 493.3 | 493.3 | 493.3 | PER (x) | 10.3 | 12.7 | 20.3 | 39.5 | 35.5 |
| Minorities Int. | 52.6 | 104.4 | 104.5 | 111.7 | 119.6 | Core PER (x) | -45.6 | 154.9 | 33.6 | 39.5 | 35.5 |
| Net Assets | 2,260.1 | 2,844.4 | 4,824.1 | 4,841.3 | 4,860.5 | Net Div. Yield (%) | 0.0 | 3.9 | 2.5 | 0.0 | 0.0 |
| Share Capital | 2,114.5 | 2,471.9 | 4,309.4 | 4,309.4 | 4,309.4 | P/NTA (x) | 1.75 | 1.35 | 0.74 | 0.74 | 0.73 |
| Reserves | 62.5 | 62.5 | 56.8 | 56.8 | 56.8 | | | | | | |
| Equity | 2,260.1 | 2,844.4 | 4,824.1 | 4,841.3 | 4,860.5 | | | | | | |
| | | | 2,657.6 | 2,352.0 | 2,087.0 | | | | | | |
| Cashflow Statement | | | | | | | | | | | |
| FY Dec (RM m) | 2015A | 2016A | 2017A | 2018E | 2019E | | | | | | |
| Operating CF | 1,055.0 | -941.0 | -1,829.5 | 233.5 | 167.5 | | | | | | |
| Investing CF | -825.1 | 1,101.5 | -565.8 | 151.0 | 186.3 | | | | | | |
| Financing CF | -472.7 | -317.1 | 2,342.1 | 321.1 | 311.2 | | | | | | |
| Change In Cash | -242.9 | -156.5 | -53.2 | 705.6 | 665.0 | | | | | | |
| Free CF | 606.7 | 420.6 | -2,685.9 | 465.5 | 448.4 | | | | | | |

Source: Kenanga Research



Peer Comparison

| Name | Last Price | Market | Shariah | Current | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net Div.Yld. (%) | Target | Rating | |
|---|------------|------------|-----------|---------|----------------|-------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|-------------|------------------|------------|------------|--|
| | (RM) | Cap (RM'm) | Compliant | FYE | 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. | 1-Yr. Fwd. | Price (RM) | |
| PROPERTY DEVELOPERS UNDER COVERAGE | | | | | | | | | | | | | | | | | | |
| AMVERTON BHD | 0.875 | 319.4 | Y | 12/2018 | -14.9% | 1.4% | -19.6% | -11.6% | 13.1 | 16.3 | 18.5 | 0.5 | 0.5 | 3.0% | 0.0% | 1.00 | MP | |
| ECO WORLD DEVELOPMENT GROUP | 0.935 | 2,753.0 | Y | 10/2019 | -4.4% | -18.3% | 23.4% | 23.9% | 16.6 | 13.5 | 10.9 | 0.7 | 0.7 | 4.5% | 1.1% | 1.15 | OP | |
| HUA YANG BHD | 0.390 | 137.3 | Y | 03/2019 | 9.0% | 0.3% | 149.1% | 22.3% | 31.1 | 12.5 | 10.2 | 0.2 | 0.2 | 1.8% | 0.0% | 0.410 | OP | |
| IOI PROPERTIES GROUP BHD | 1.54 | 8,479.5 | Y | 06/2019 | -15.0% | -6.0% | -5.3% | -2.7% | 12.8 | 13.5 | 13.9 | 0.5 | 0.5 | 3.4% | 3.2% | 1.65 | MP | |
| LBS BINA GROUP BHD | 0.680 | 1,060.1 | Y | 12/2018 | 1.6% | 6.4% | -12.5% | 1.5% | 10.3 | 11.7 | 11.5 | 0.8 | 0.7 | 6.9% | 2.6% | 0.720 | MP | |
| MAGNA PRIMA BHD | 0.925 | 307.7 | Y | 12/2018 | -19.9% | 7.3% | 112.1% | 1.5% | 68.0 | 32.1 | 31.6 | 0.7 | 0.7 | 2.3% | 1.4% | 0.955 | MP | |
| MAH SING GROUP BHD | 0.930 | 2,257.7 | Y | 12/2018 | -5.5% | 4.2% | -29.9% | 4.0% | 8.8 | 12.6 | 12.1 | 0.7 | 0.6 | 6.0% | 5.9% | 1.10 | OP | |
| MALAYSIAN RESOURCES CORP BHD | 0.705 | 3,101.9 | Y | 12/2018 | -36.8% | 12.6% | -15.0% | 11.4% | 33.6 | 39.5 | 35.5 | 0.7 | 0.7 | 1.8% | 0.0% | 0.750 | MP | |
| SIME DARBY PROPERTY BHD | 1.18 | 8,025.0 | Y | 12/2018 | 11.9% | 17.8% | 9.5% | 45.5% | 21.9 | 20.0 | 13.7 | 0.8 | 0.8 | 4.1% | 2.0% | 1.10 | OP | |
| SP SETIA BHD | 2.58 | 10,213.1 | Y | 12/2018 | -17.0% | 6.1% | -64.0% | 24.2% | 13.0 | 36.1 | 29.1 | 0.8 | 0.7 | 4.8% | 6.0% | 2.45 | OP | |
| SUNSURIA BHD | 0.580 | 463.3 | Y | 09/2019 | 6.4% | 7.6% | 0.7% | 2.6% | 3.5 | 3.5 | 3.4 | 0.5 | 0.4 | 15.1% | 0.0% | 0.860 | OP | |
| SUNWAY BHD | 1.60 | 7,759.6 | Y | 12/2018 | -2.6% | 4.6% | -3.7% | 8.0% | 13.9 | 14.4 | 13.4 | 1.0 | 1.0 | 6.9% | 4.4% | 1.50 | MP | |
| UEM SUNRISE BHD | 0.770 | 3,493.8 | Y | 12/2018 | -2.8% | 28.0% | 23.3% | 6.8% | 12.8 | 10.4 | 9.7 | 0.5 | 0.5 | 4.7% | 1.3% | 0.850 | OP | |
| UOA DEVELOPMENT BHD | 2.38 | 4,388.1 | Y | 12/2018 | 5.0% | 8.9% | -17.0% | 10.9% | 10.8 | 13.0 | 11.7 | 1.0 | 1.0 | 7.7% | 5.9% | 2.15 | MP | |
| Simple Average | | | | | -6.1% | 5.8% | 10.8% | 10.6% | 19.3 | 17.8 | 16.1 | 0.7 | 0.7 | 5.2% | 2.4% | | | |
| <i>*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures</i> | | | | | | | | | | | | | | | | | | |
| CONSENSUS NUMBERS | | | | | | | | | | | | | | | | | | |
| GLOMAC BHD | 0.380 | 297.1 | Y | 04/2019 | -38.8% | 43.7% | -77.6% | 210.7% | 9.5 | 42.4 | 13.7 | 0.3 | N.A. | 0.7% | 1.3% | 0.370 | N.A | |
| MATRIX CONCEPTS HOLDINGS BHD | 1.95 | 1,468.0 | Y | 03/2019 | 22.1% | 13.1% | 7.8% | 10.2% | 6.9 | 6.4 | 5.8 | 1.2 | 1.1 | 18.1% | 6.7% | 2.45 | BUY | |
| PARAMOUNT CORP BHD | 2.12 | 907.9 | Y | 12/2018 | 8.2% | 5.0% | -33.7% | 4.0% | 6.8 | 10.3 | 9.9 | 0.9 | 0.8 | 7.0% | 4.2% | 2.56 | BUY | |
| TAMBUN INDAH LAND BHD | 0.765 | 331.5 | Y | 12/2018 | -28.3% | -18.6% | -34.6% | -16.3% | 4.0 | 6.1 | 7.3 | 0.5 | 0.7 | 7.9% | 6.7% | 0.920 | BUY | |
| TITIJAYA LAND BHD | 0.315 | 412.0 | Y | 06/2019 | -7.2% | 6.5% | -10.4% | 9.4% | 5.7 | 6.3 | 5.8 | 0.4 | 0.3 | 4.9% | 40.6% | 0.430 | BUY | |
| YONG TAI BHD | 0.375 | 182.1 | Y | 06/2019 | 87.8% | 75.4% | -41.2% | 255.9% | 11.7 | 20.0 | 5.6 | 0.5 | 0.3 | 2.1% | 0.0% | 0.585 | N.A | |

Source: Kenanga Research

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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Published and printed by:

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