

# Malaysian Resources Corp

## 1H16 Within Expectations

By Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my)

1H16 core profits of RM26.6m is broadly within our (21%) and consensus' (33%) expectations. We estimate 1H16 sales of RM202m, which is also broadly within our FY16E sales target of RM600m (33%) as launches are skewed to 4Q16. No dividend declared as expected. We make no changes to earnings forecasts. Call/TP is **UNDER REVIEW** (previously MP/TP: RM1.20) pending our sector update next week.

1H16 core net profit (CNP) of RM26.6m came broadly within our (21%) and consensus' (33%) expectations. The reason for results being broadly within is due to the fact that we have factored in the gains on disposal of Menara Shell (RM139m) which is expected to be completed by 4Q16. We estimate year-to-date sales of RM202m (pending clarification from management), which makes up 33% of our FY16E sales target of RM600m, mainly from sales at 9 Seputeh and Bandar Seri Iskandar.

**Results Highlights.** Top line was down YoY-Ytd (-12%) mainly due to the property segment as Q-Sentral is at the tail end of completion. Additionally, higher interest expense (+2%) coupled with the sale of Platinum Sentral (RM220m) in 1H15 brought CNP down (-88%). QoQ, top line was lower mostly due to the construction segment due to higher contributions for projects such as LRT Ampang line and LRT Stations 6 & 7 in 1Q16. However, PBT improved (+295%) on higher contributions from associates and joint-ventures and from the completed sale of Sooka Sentral (RM41.6m), bringing CNP back into the black to RM45.5m.

**Outlook.** The disposal of Menara Shell is subject to approvals by shareholders of MRCB and MQREIT, and green lights from Bursa and SC, and is expected to be completed by 4Q16, which we have already built into our estimates. Management is expecting FY16 sales of RM1.0b from launches at Sentral Suites (GDV: RM1.4b), Bukit Rahman Putra (GDV: RM415m) and Bandar Sri Iskandar (GDV: RM43m) towards 2H16. However, we are expecting sales of RM600m in FY16 as launches are mostly in 2H16 and given the weak property market, we would not be surprised if the group scales back launches. MRCB's remaining external construction order book is at c.RM6.6b, coupled with c.RM1.3b unbilled property sales providing the group with at least four years of earnings visibility.

**UNDER REVIEW.** We are placing our call/TP under review pending our sector update next week (previous call/TP:MP/TP@RM1.20 based on FY16E Fully Diluted NTA/share of RM0.86 and an applied Forward P/NTA of 1.40x which is -1.5SD to the average 6-year historical mean. In our last sector strategy (8/7/16), we had highlighted that we are monitoring two key indicators; (i) developers 1H16 sales must meet 40% of full-year targets (before any revisions during the year), and (ii) unbilled sales must have more than one-year visibility. If majority of developers fail on one or both conditions, we are likely to maintain a negative bias on the sector; however, if both are mostly met, we may upgrade the sector to NEUTRAL. So, we will wait for the results round-up to determine our sector call, and thus, our individual stock calls.

We are also aware that the feel-good sentiment from the upcoming Budget-2017 will soon be translated to positive news flow, which in turn, may separate the weak sector fundamentals from developers' share price performance.

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

## UNDER REVIEW

Price: **RM1.29**  
Target Price: **UNDER REVIEW**

### Share Price Performance



KLCI	1,680.30
YTD KLCI chg	-0.7%
YTD stock price chg	0.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,683.5
Issued shares	2,080.2
52-week range (H)	1.52
52-week range (L)	0.80
3-mth avg daily vol:	2,557,166
Free Float	40%
Beta	1.1

### Major Shareholders

Employees Provident	33.9%
Gapurna Sdn Bhd	17.2%
Lembaga Tabung Haji	8.7%

### Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	1,696.7	2,004.5	2,390.5
EBIT	547.1	226.2	294.1
PBT	370.1	219.2	166.1
<b>Net Profit (NP)</b>	<b>330.4</b>	<b>156.2</b>	<b>68.4</b>
<b>Core Net Profit</b>	<b>-74.6</b>	<b>125.2</b>	<b>68.4</b>
Consensus (NP)	n.a.	80.4	96.3
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	-2.6	4.4	2.4
EPS growth (%)	-279.5	-267.8	-45.3
NDPS (sen)	0.0	0.8	0.4
NTA/Share (RM)	0.69	0.86	0.88
PER (x)	11.0	23.3	53.3
Core PER (x)	-48.9	29.1	53.3
Price/NTA (x)	1.88	1.50	1.46
Net Gearing (x)	1.3	0.9	1.0
Dividend Yield (%)	0.0	0.6	0.3

26 August 2016

**Result Highlight**

Y/E : Dec (RM mn)	2Q16	1Q16	QoQ chg	2Q15	YoY chg	1H15	1H16	YoY-Ytd chg
<b>Turnover</b>	<b>389.2</b>	<b>436.0</b>	<b>-11%</b>	<b>530.3</b>	<b>-27%</b>	<b>934.5</b>	<b>825.2</b>	<b>-12%</b>
<b>EBIT</b>	<b>109.5</b>	<b>33.6</b>	<b>226%</b>	<b>63.3</b>	<b>73%</b>	<b>361.8</b>	<b>143.1</b>	<b>-60%</b>
Interest expense	-44.4	-46.7	-5%	-44.3	0%	-89.7	-91.1	2%
Associates	6.7	0.4	1775%	3.2	106%	9.1	7.0	-23%
Joint-ventures	2.0	0.4	340%	-2.3	-184%	-8.8	2.4	-128%
<b>Pretax profit</b>	<b>73.8</b>	<b>18.7</b>	<b>295%</b>	<b>92.0</b>	<b>-20%</b>	<b>344.4</b>	<b>92.4</b>	<b>-73%</b>
Taxation	-16.7	-5.2	222%	-18.5	-10%	-25.6	-21.9	-14%
Minority Interest	11.6	9.1	27%	13.3	-13%	24.2	20.6	-15%
<b>Net Profit</b>	<b>45.5</b>	<b>4.4</b>	<b>938%</b>	<b>60.1</b>	<b>-24%</b>	<b>294.6</b>	<b>49.9</b>	<b>-83%</b>
<b>Core net profit</b>	<b>45.5</b>	<b>-18.9</b>	<b>n.a.</b>	<b>-11.9</b>	<b>-482%</b>	<b>222.6</b>	<b>26.6</b>	<b>-88%</b>
EPS (sen)	2.4	-1.1	-331%	-0.7	-466%	12.5	1.4	-89%
DPS (sen)	0.0	0.0	N.M	0.0	N.M	0.0	0.0	N.M
EBIT margin	28%	8%		12%		39%	17%	
Pretax margin	19%	4%		17%		37%	11%	
Effective tax rate	23%	28%		20%		7%	24%	

Source: Company, Kenanga Research

**Segmental Breakdown**

Y/E : Dec (RM mn)	2Q16	1Q16	QoQ chg	2Q15	YoY chg	1H15	1H16	YoY-Ytd chg
<b>Revenue</b>								
-Engineering and Construction	183.5	406.8	-55%	300.9	-39%	470.0	590.3	26%
-Property development	227.0	155.8	46%	258.6	-12%	482.8	382.7	-21%
-Infrastructure / environmental	31.1	28.1	11%	29.1	7%	58.3	59.3	2%
-Building services	27.5	22.6	22%	20.3	36%	42.3	50.1	19%
-Investment holding and Others	42.8	28.7	49%	156.4	-73%	164.0	71.5	-56%
-Elimination	-122.7	-206.0	-40%	-234.2	-48%	-281.9	-328.7	17%
<b>Group Revenue</b>	<b>389.2</b>	<b>436.0</b>	<b>-11%</b>	<b>531.2</b>	<b>-27%</b>	<b>935.4</b>	<b>825.2</b>	<b>-12%</b>
<b>Segment Profit</b>								
-Engineering and Construction	1.8	1.1	61%	27.5	-93%	29.7	3.0	-90%
-Property development	121.4	36.3	234%	227.4	-47%	280.7	157.8	-44%
-Infrastructure / environmental	19.5	13.1	49%	15.4	27%	31.9	32.7	2%
-Building services	4.6	7.4	-38%	-2.8	-267%	2.6	12.0	363%
-Investment holding and Others	-1.2	-17.2	-93%	9.6	-113%	-5.4	-18.5	242%
Elimination	0.0	0.0	N.M	0.0	N.M	0.0	0.0	N.M
<b>Group EBIT</b>	<b>146.2</b>	<b>40.8</b>	<b>259%</b>	<b>277.1</b>	<b>-47%</b>	<b>339.5</b>	<b>187.0</b>	<b>-45%</b>
<b>Segment Margin</b>								
-Engineering and Construction	1%	0%		9%		6%	1%	
-Property development	54%	23%		88%		58%	41%	
-Infrastructure / environmental	63%	47%		53%		55%	55%	
-Building services	17%	33%		-14%		6%	24%	
-Investment holding and Others	-3%	-60%		6%		-3%	-26%	

Source: Company, Kenanga Research

26 August 2016

### Peer Comparison

NAME	Price (25/8/16)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>															
S P SETIA BHD*	3.23	9,101	9.2	12.3	11.4	5.2%	13.9%	1.1	918.3	692.0	744.2	-24.6%	7.5%	UNDER REVIEW	UNDER REVIEW
IOI PROPERTIES GROUP BHD*	2.50	11,028	17.1	14.8	14.7	3.2%	4.1%	0.7	648.5	749.1	750.5	15.5%	0.2%	2.45	MARKET PERFORM
UEM SUNRISE BHD*	1.09	4,946	19.3	23.6	21.2	1.5%	3.9%	0.8	257.2	210.4	234.6	-18.2%	11.5%	1.00	UNDERPERFORM
SUNWAY BHD	3.01	6,120	8.7	10.7	10.3	3.3%	11.7%	0.7	594.2	484.6	502.6	-18.4%	3.7%	3.22	MARKET PERFORM
MAH SING GROUP BHD^	1.61	3,879	10.9	10.2	10.0	4.0%	14.3%	1.2	357.2	379.7	389.5	6.3%	2.6%	UNDER REVIEW	UNDER REVIEW
ECO WORLD DEVELOPMENT GROUP BHD	1.32	3,121	71.0	30.8	15.1	0.0%	2.5%	1.0	44.0	126.5	257.7	187.8%	103.7%	1.58	OUTPERFORM
UOA DEVELOPMENT BHD*	2.42	3,948	9.2	9.4	8.9	6.2%	14.1%	1.1	399.0	391.0	414.6	-2.0%	6.0%	UNDER REVIEW	UNDER REVIEW
MALAYSIAN RESOURCES CORP BHD	1.29	2,683	-48.9	29.1	53.3	0.6%	-3.3%	1.3	-74.6	125.2	68.4	-267.8%	-45.3%	UNDER REVIEW	UNDER REVIEW
KSL HOLDINGS BHD	1.12	1,153	5.0	5.4	5.6	0.0%	10.0%	0.5	211.5	198.4	190.3	-6.2%	-4.1%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.50	1,413	6.0	6.8	6.2	5.9%	31.8%	1.4	255.2	224.2	248.1	-12.1%	10.7%	UNDER REVIEW	UNDER REVIEW
CRESCENDO CORPORATION BHD*	1.50	341	19.2	18.8	18.0	2.1%	2.2%	0.4	17.8	18.3	19.0	2.6%	4.0%	1.50	UNDERPERFORM
HUA YANG BHD	1.87	494	4.5	4.7	5.1	2.2%	25.9%	0.8	110.1	106.1	96.7	-3.7%	-8.9%	1.83	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>															
IGB CORPORATION BHD	2.68	3,578	17.9	16.0	14.9	3.3%	4.8%	0.8	199.4	222.9	240.3	11.8%	7.8%	4.80	NEUTRAL
GLOMAC BHD	0.79	571	7.1	7.3	6.6	5.2%	8.3%	0.6	80.8	78.1	86.1	-3.3%	10.2%	0.79	NEUTRAL
PARAMOUNT CORP BHD	1.47	622	9.7	9.2	8.6	5.4%	7.2%	0.7	64.1	67.7	71.9	5.6%	6.3%	2.18	BUY
TAMBUN INDAH LAND BHD	1.50	640	6.0	6.3	5.9	5.1%	23.5%	1.3	106.9	101.5	108.8	-5.0%	7.1%	1.62	BUY

\* Core NP and Core PER

\*\* Crescendo per share data is based on non-Fully Diluted

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

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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenanga.com.my](http://www.kenanga.com.my)



Chan Ken Yew  
Head of Research