

31 May 2018

Malaysian Resources Corp

1Q18 Below Expectations

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1Q18 came below expectations accounting for 13% each of our and consensus full-year estimates, due to slower-than-expected billings from construction and property division. Property sales of RM101.0m are also behind our and management targets of RM1.0b each. Lowered FY18-19E core earnings by 18-23%. Maintain OUTPERFORM with a lower SoP-Target Price of RM0.700 (previously, RM0.900).

Below expectations. 1Q18 Core Net Profit (CNP) of RM21.6m came in weaker than expected, which only accounts for 13% each of our and consensus full-year estimates. We believe the shortfall could be due to slower-than-expected billings from construction and property division. Property sales of RM101m are also below our and management targets of RM1.0b each. No dividends declared as expected.

Results highlight. 1Q18 CNP improved by 107%, YoY despite revenue declining by 19% attributable to: (i) sharp reduction in net interest cost by 88%, (ii) better contribution from associates and joint venture, and (iii) improvements in construction margin by 7ppt to 8%. We opine that MRCB could deliver a better performance if not being dragged down by its property division in which margin came off by 10ppt to 11% coupled with a lower property revenue (-9%). QoQ, 1Q18 CNP came off by 52% due to compression in margin of 21ppt for both property and construction divisions, down to 11% and 8%, respectively.

Con-call key takes. Management remains hopeful that LRT3 would progress as planned amid market concerns that it would be scrapped like MRT3. That said, management been having active discussion with the government to reach an amicable solution on EDL highway, which toll collections have been abolished since 1st Jan 2018 and is now classified as a federal road. We believe that it is unlikely for the government to scrap LRT3 unlike MRT3 as the project is already in progress, and opine that the government should prioritise the privatisation of EDL highway as its toll collections have already been abolished, which is part of their manifesto.

Outlook. In the near term, MRCB's remaining external construction order-book stands at c.RM4.9b, and coupled with c.RM1.6b unbilled property sales, these numbers will provide the group 3-4 years of earnings visibility. Going forward, management is still keeping their sales target of RM1.0b for FY18 backed by previous launches, i.e. Sentral Residences and 9 Seputeh. Construction and property division aside, management remains hopeful to dispose its EDL highway in FY18.

Earnings review. In light of its weaker sales and slower billings, we revised our FY18-19E core earnings down by 18-23% as we reduced our FY18-19E sales target by 20-22% to RM843.5-938.3m.

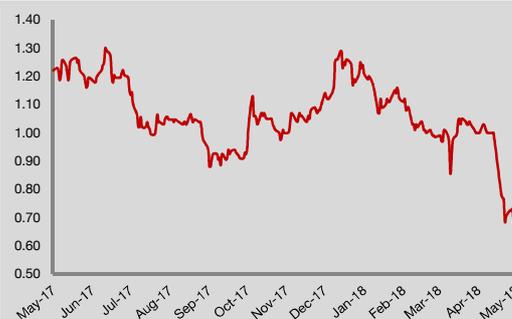
OUTPERFORM maintained. Despite disappointment in earnings, we reiterate OUTPERFORM on the stock with a lower Target Price of RM0.700 (from RM0.900) as we further widen our property RNAV discount from 68% to 70% and company holding discount to 20% (previously, 5%). Our TP implies FY18E PBV of 0.7x which at its through level of 0.7x since 2009, and we believe that it is justified given improving earnings and the potential disposal of EDL highway.

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.

OUTPERFORM ↔

Price : **RM0.570**
Target Price : **RM0.700** ↓

Share Price Performance



KLCI	1,719.28
YTD KLCI chg	-4.3%
YTD stock price chg	-49.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,502.7
Shares Outstanding	4,390.8
52-week range (H)	1.34
52-week range (L)	0.55
3-mth avg daily vol:	16,859,420
Free Float	41%
Beta	1.4

Major Shareholders

Employees Provident Fund Board	35.3%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.0%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2,823.7	2,651.5	2,893.0
EBIT	338.4	159.1	159.1
PBT	247.3	194.0	206.8
Net Profit (NP)	167.6	134.3	143.2
Core Net Profit	101.3	134.3	143.2
Consensus (NP)	n.a.	168.2	216.1
Earnings Revision	n.a.	-18%	-23%
Core FD EPS (sen)	2.1	2.8	3.0
EPS growth (%)	-235.7	32.6	6.6
NDPS (sen)	1.8	1.8	1.8
NTA/Share (RM)	0.95	0.96	0.96
FD PER (x)	16.4	20.5	19.2
Core PER (x)	27.2	20.5	19.2
Price/NTA (x)	0.60	0.59	0.59
Net Gearing (x)	0.6	0.4	0.4
Dividend Yield (%)	3.1	3.1	3.1

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Result Highlight					
	1Q18	4Q17	QoQ	1Q17	YoY
FYE Dec (RM'm)					
Turnover	427.6	408.2	5%	524.9	-19%
EBIT	24.2	62.1	-61%	65.6	-63%
Interest inc/(exp)	-4.3	-2.1	102%	-35.2	-88%
Associates/JV	10.7	10.8	-1%	-1.1	-1037%
Exceptional items	0.0	60.8	n.m.	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.
Pretax profit	30.6	131.6	-77%	29.3	4%
Taxation	-4.9	-26.8	-82%	-8.9	-44%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.
Profit after tax	25.6	104.7	-76%	20.4	26%
Minority interest	-4.0	0.8	-592%	-9.9	-60%
PATAMI	21.6	105.6	-80%	10.5	107%
Core PATAMI	21.6	44.8	-52%	10.5	107%
DPS (sen)	0.00	1.75		0.00	
EBIT margin	6%	15%		12%	
Pretax margin	7%	32%		6%	
NP margin	7%	32%		6%	
CNP margin	5%	11%		2%	
EPS (sen)	0.5	4.8		0.5	
Core EPS(sen)	0.5	2.0		0.5	
BV/share (RM)	1.1	2.2		1.4	
Net gearing (x)	0.6	0.6		0.9	
Effective tax	16%	20%		30%	

Source: Company, Kenanga Research

Segmental Breakdown					
	1Q18	4Q17	QoQ	1Q17	YoY
External Revenue					
Property Development	220.4	198.0	11%	242.5	-9%
Construction	191.1	159.5	20%	231.2	-17%
Infra	0.7	28.9	-97%	28.5	-97%
Facilities management	13.0	13.7	-5%	16.9	-23%
Others	2.3	8.1	-71%	5.7	-59%
EBIT Segmentation					
Property Development	24.1	63.5	-62%	50.1	-52%
Construction	16.0	46.1	-65%	1.3	1176%
Infra	-1.3	13.5	-110%	17.5	-107%
Facilities management	0.2	0.3	-38%	3.7	-96%
Others	-11.6	-0.8	1430%	-4.5	155%
EBIT margins					
Property Development	11%	32%		21%	
Construction	8%	29%		1%	
Infra	n.m.	47%		61%	
Facilities management	1%	2%		22%	
Others	n.m.	n.m.		n.m.	

Source: Company, Kenanga Research

SOP Valuations			
SOP Valuation	Stake	Method	Value (RM)
Property Development	Various	NPV of profits (WACC: 11%)	2,488.3
Property Investment	Various	Book Value	2,053.6
Construction	Various	FY18' 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	117.9
Sub Total			5,255.8
Cash proceeds from warrant conversion			548.1
Proceeds from rights			1,732.1
Total SOP/share			1.56
Property RNAV discount/share		70%	(0.66)
SOP/share after RNAV discount			0.90
No of FD shares			4,825.5
Holding Co. Discount			20%
Implied SOP discount			55%
TP (RM)			0.700

Source: Kenanga Research

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Peer Comparison

NAME	Price (30/5/18)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY18/19 NP Growth	FY19/20 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY17/18	FY18/19	FY19/20	(%)	(%)	(%)	(x)	FY17/18	FY18/19	FY19/20	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.58	8,700	9.8	12.6	12.1	3.8%	5.1%	4.0%	0.50	938.0	727.4	757.2	-22.4%	4.1%	1.70	MARKET PERFORM
S P SETIA BHD*	2.99	11,632	13.3	16.8	14.4	3.9%	8.4%	4.8%	0.78	766.4	607.3	712.3	-20.8%	17.3%	3.50	OUTPERFORM
UEM SUNRISE BHD*	0.730	3,312	12.2	9.9	9.2	1.4%	4.0%	4.7%	0.49	272.2	335.7	358.7	23.3%	6.8%	0.970	OUTPERFORM
SUNWAY BHD*	1.45	7,064	12.6	12.4	11.7	4.3%	7.2%	7.1%	0.88	566.3	573.3	607.6	1.2%	6.0%	1.60	MARKET PERFORM
MAH SING GROUP BHD	1.04	2,525	9.8	10.1	10.4	6.3%	9.0%	8.2%	0.70	296.8	290.2	281.8	-2.2%	-2.9%	1.10	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.27	3,739	33.1	19.8	14.0	0.0%	5.2%	4.3%	0.99	113.1	188.6	267.1	66.8%	41.7%	1.15	OUTPERFORM
UOA DEVELOPMENT BHD*	2.56	4,437	11.3	13.6	12.3	5.5%	12.1%	7.7%	1.04	401.5	333.1	369.3	-17.0%	10.9%	2.30	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	0.570	2,503	27.2	20.5	19.2	3.1%	2.1%	2.8%	0.59	101.3	134.3	143.2	33%	6.6%	0.700	OUTPERFORM
SUNSURIA BERHAD	1.00	799	8.8	9.5	7.4	0.0%	12.5%	10.3%	0.91	90.7	84.1	107.5	-7.4%	27.9%	1.15	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.30	296	10.4	11.6	11.2	4.6%	8.0%	3.8%	0.35	34.9	31.3	32.5	-10.4%	3.7%	1.30	MARKET PERFORM
HUA YANG BHD	0.475	167	37.9	16.2	14.8	0.0%	0.7%	1.7%	0.28	4.4	10.3	11.3	134.4%	9.4%	0.465	MARKET PERFORM
AMVERTON BHD	1.00	365	16.7	16.7	15.2	0.0%	3.8%	3.3%	0.56	22.1	22.0	24.1	-0.5%	9.5%	1.05	MARKET PERFORM
MAGNA PRIMA BHD	1.10	366	80.9	46.7	45.5	1.0%	1.9%	1.9%	0.88	6.7	11.7	12.0	73.3%	2.6%	0.955	UNDERPERFORM
CONSENSUS NUMBERS																
SIME DARBY PROPERTY BHD	1.15	7821	12.5	14.7	16.7	2.8%	n.a.	7.5%	0.82	624.0	530.5	469.3	-15.0%	-11.5%	1.72	BUY
MATRIX CONCEPTS HOLDINGS BHD	1.96	1474	7.0	5.8	5.6	7%	19.0%	19.3%	1.07	211.8	253.5	265.5	19.7%	4.7%	2.39	BUY
LBS BINA GROUP BHD	0.89	1381	13.4	11.6	10.2	3.9%	8.4%	9.5%	1.03	103.4	119.5	135.0	15.6%	13.0%	1.22	BUY
PARAMOUNT CORP BHD	2.00	857	6.4	9.5	9.1	4.5%	12.2%	8.3%	0.78	133.4	89.9	94.2	-32.6%	4.8%	2.40	BUY
TITIJAYA LAND BHD	0.38	511	6.7	6.9	6.2	3%	8.6%	11.0%	0.45	76.0	73.9	82.0	-2.7%	10.9%	0.86	BUY
YONG TAI BHD	1.40	675	102.0	41.2	7.3	0%	3.5%	7.1%	1.22	6.6	16.4	93.1	147.7%	467.6%	2.04	BUY
GLOMAC BHD	0.47	373	3.4	15.7	12.1	1.9%	0.6%	1.1%	n.a.	108.2	23.8	30.9	-78.0%	30.0%	0.49	SELL
TAMBUN INDAH LAND BHD	0.78	336	4.0	6.6	6.6	5.8%	12.3%	7.9%	0.61	83.4	51.1	51.1	-38.7%	0.0%	0.87	NEUTRAL

* Core NP and Core PER

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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