31 May 2019 | 1QFY19 Results Review

Malaysian Resources Corporation Berhad

Temporary blip in earnings

***Maintain* BUY**

***Adjusted* Target Price (TP): RM1.02**
(from* RM1.05*)

INVESTMENT HIGHLIGHTS

- **Earnings missed expectations**
- **Property Development and Investment (PDI) revenue reported a drop by -61.4%yoy**
- **Outstanding orderbook stood at RM21.4b**
- **Current prospect seen fundamentally positive**
- **Reiterate BUY call with an adjusted TP of RM1.02**

Missed expectations. MRCB's 1QFY19 PATAMI formed 3% and 3.6% of our and consensus yearly estimates respectively. Revenue for the quarter was at RM234.1m, a drop of -45.3%yoy from last year. Construction and property remained key contributors, with both covering 93.1% of the group's external revenue.

Property Development and Investment (PDI) revenue declined by -61.4%yoy to RM85.1m in 1QFY19. Key factor leading to the decline was the deferment of sales income, given the pending completion of SPA. Moreover, newer property projects were evidently still at early stage, making income recognition minimal. According to management, bulk of the sales secured will likely be recognized in the 3QFY19 which takes into account the timeline on SPA completion. Year-to-date, RM75m worth of sales were recorded with unbilled amount stood at RM1.6b as of 1QFY19. The unbilled figure provides 1.5x cover to its FY18 PDI revenue.

Engineering, Conctruction & Environment (ECE) revenue contracted -30.5%yoy to RM132.7m. In 1QFY19, revenue was largely supported by the progress works for MRT Line 2 Package V210, Damansara-Shah Alam Highway (DASH) Package CB2, and TNB HQ projects. Despite the drop, we noted that operating profit increased by +4.0%yoy to RM16.7m. At JV level, we saw minimal contribution from LRT3, recording only RM0.5m in PAT vs RM9.0m in 1QFY18. This was attributable to an extended deferment of progress billings due to a recent change in contractual agreement. In the near term, MRCB is likely to see better contributions from LRT3 as progress, set to ramp in 2HFY19. As of 1QFY19, MRCB has an outstanding orderbook worth RM21.4b. The figure was arguably the highest in the industry and shall keep it busy beyond the industry's average visibility.

RETURN STATS	
Price (30 May 2019)	RM0.93
Target Price	RM1.02
Expected Share Price Return	+9.7%
Expected Dividend Yield	+1.1%
Expected Total Return	**+10.8%**

STOCK INFO	
KLCI	1,636.50
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,091.9
Market cap. (RM'm)	4,091.9
Price over NA	0.85
52-wk price Range	RM0.57-RM1.15
Beta (against KLCI)	1.76
3-mth Avg Daily Vol	16.1m
3-mth Avg Daily Value	R15.1m
Major Shareholders (%)	
EPF	36.0
Gapurna Sdn. Bhd.	16.1
LTH	6.7
Bank Kerjasama Rakyat	3.9

Rise in finance cost. Comparatively, finance cost was higher by almost three-fold in 1QFY19 at RM12.4m compared to last year. The increase was due to borrowings made for new land development with a JV partner, as well as for Penang Sentral development. Consequently, pre-tax margin seen contracted by -3.6ppts(yoy) to 3.6% in 1QFY19. It is worth pointing out that the contraction was also due to lower earnings contribution from JV entities during the quarter. Going ahead, we believe the rise in cost should be reasonably offset by better progress billings in the upcoming quarters, as project works shift to higher gear.

Change in earnings. Post results, we tweak our estimates for FY19 and FY20 by -36.0% and -7.5% respectively. This is taking into account the increase in cost structure as well as the lower than expected contribution in 1HFY19.

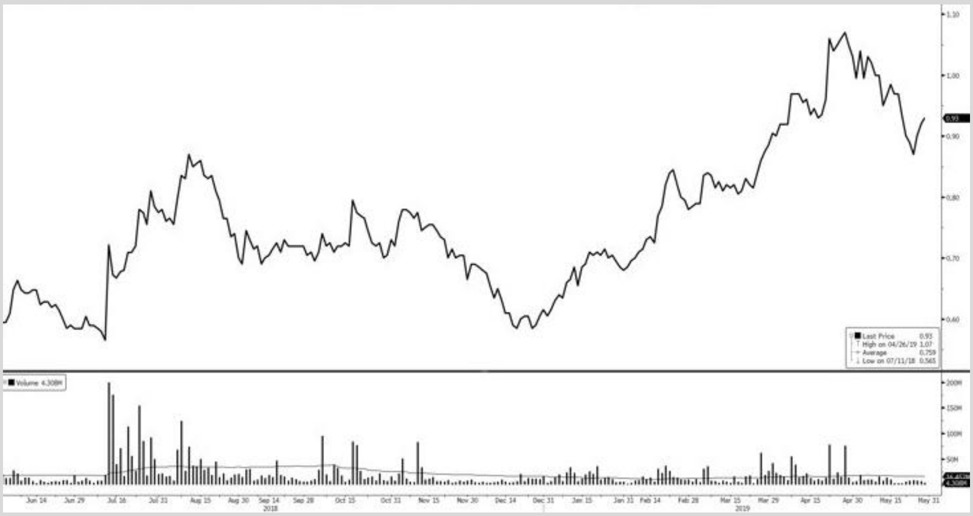
Recommendation. LRT3's billing is expected to pick up in 2HFY19. However, we will not be surprised if near terms earnings are hampered given this deferment which could likely drag into 2QFY19. While we take note of the short-term setback mentioned, we believe a greater emphasis should be addressed on its prospect moving forward. Fundamentally, MRCB is well covered by a strong outstanding orderbook of RM21.4b. As of 1QFY19, its gearing stood at 0.23x vs 0.58x as at March FY18. On that note, we believe the group's robust orderbook and healthy balance sheet will directly benefit its value accretion prospectively. Given its status as the largest Bumiputra construction company coupled with its balance sheet capacity, we believe MRCB stands a great chance to benefit from the return of large scale projects with the like of Bandar Malaysia and East Coast Rail Link. As for now, we maintain our **BUY** call with adjusted TP of **RM1.02,** derived from our SOP valuation.

INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,823.6	1,870.7	1,722.7	2,050.3
EBIT (RM'm)	358.6	141.5	206.7	246.0
Pre-tax profit (RM'm)	338.4	123.0	109.5	171.9
Normalised PATAMI (RM'm)	167.5	101.2	85.9	128.9
FD EPS (sen)	6.6	2.3	2.0	2.9
EPS Growth (%)	-52.5	-64.9	-15.1	50.1
PER(x)	14.2	40.4	47.6	31.7
Dividend (sen)	4.3	1.8	1.3	1.0
Dividend yield (%)	4.7	1.9	1.4	1.1

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3MFY19 RESULTS REVIEW

	Quarterly Results				
FYE Dec (RM'm)	**1Q19**	**1Q18**	**4Q18**	**YoY**	**QoQ**
Revenue	**234.1**	**427.6**	374.1	**-45.3%**	**-37.4%**
Operating expenses	-226.7	-419.3	-369.6	-45.9%	-38.7%
Other operating income	11.5	15.9	14.6	-27.4%	-21.0%
Profit from operations	**18.9**	**24.2**	**19.1**	**-21.8%**	**-1.4%**
Finance Cost	-12.4	-4.3	-7.2	190.4%	71.3%
Associates	3.0	2.8	3.7	-205.4%	-19.3%
JV	-1.0	7.9	-7.9	-113.0%	-87.1%
PBT	**8.4**	**30.6**	**7.7**	**-72.5%**	**9.3%**
Taxation	-6.9	-4.9	-7.4	39.1%	-7.1%
PATAMI	**4.1**	**21.5**	**26.4**	**-80.8%**	**-84.3%**
EPS (sen)	0.09	0.5	0.6	-118.4%	-85.0%
	1Q19	**1Q18**	**4Q18**	**+/- ppts**	**+/- ppts**
EBIT margin	8.1%	5.7%	5.1%	2.4	2.9
PBT margin	3.6%	7.1%	2.1%	-3.6	1.5
PATAMI margin	1.8%	5.0%	7.1%	-3.3	-5.3
Effective tax rate	81.5%	16.1%	95.9%	65.4	-14.4

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.