

UOBKH HIGHLIGHTS

**Malaysian Resources Corporation (MRC MK/HOLD/RM1.43/Target: RM1.43)**

**4Q16: ABOVE EXPECTATIONS**

Year to 31 Dec	4Q16 (RMm)	3Q16 (RMm)	qoq % chg	yoy % chg	2016 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	1,031.7	551.2	87.2	165.8	2,408.1	41.9	2017F	3.3	34.4
Construction	378.5	146.9	157.6	112.0	857.9	10.9	2018F	3.9	29.5
Property Development	599.7	353.9	69.5	282.1	1,330.4	83.8	2019F	4.4	26.2
Infrastructure	27.0	28.2	(4.3)	(5.6)	112.4	(2.2)			
Others	26.5	22.2	19.3	9.8	107.4	27.7			
EBIT	280.3	90.2	211.0	(23.7)	557.5	(33.2)			
Engineering & Construction	1.6	7.0	(77.4)	(103.6)	11.6	(67.3)			
Property Development	236.4	70.5	235.6	(33.6)	464.6	(35.1)			
Infrastructure & Environmental	12.1	13.7	(11.7)	(60.8)	58.5	(22.1)			
Others	30.2	(1.1)	n.m.	23.5	22.7	221.8			
Net Finance Cost	(26.9)	(39.1)	(31.3)	(61.6)	(152.5)	(14.8)			
Associates & JV	8.5	14.8	(42.7)	n.m.	32.7	314.4			
PBT	238.6	61.6	287.4	n.m.	392.6	3.8			
PATMI	189.0	29.4	543.1	n.m.	268.3	n.m.			
Core PATMI	80.9	29.4	175.3	n.m.	115.6	n.m.			
EBIT Margin									
Construction	0.4	4.8	(4.4)	25.1	1.4	(3.2)			
Property	39.4	19.9	19.5	(187.5)	34.9	(64.0)			
Core PATMI Margin	7.8	5.3	2.5	19.2	4.8	5.1			

Source: MRCB, UOB Kay Hian

**RESULTS**

- **MRCB's results above expectations**, with core net profit coming in at RM80.9m (+>100% qoq, +>100% yoy) on revenue of RM1,031.7m (+87.2% qoq, +165.8% yoy). This quarter, profits were mainly driven by its property division, underpinned by the advanced stage of recognitions of its projects including the Sentral Residences, 9 Seputeh, PJ Sentral and PRIMA Homes. Cumulatively, 2016 core net profit of RM115.6m exceeded our estimate of RM90m for the year and consensus estimate of RM96m.
- **Property key earnings growth driver for the group**. In 4Q16, the property development arm recorded revenue and EBIT of RM600m (+70% qoq, +282% yoy) and RM236.4m (+236% qoq, -36% yoy) respectively. The superior growth for the quarter was largely due to one offs amounting to RM201m. Excluding the one-offs, the division reported an EBIT of RM35.4m for the quarter.
- **Construction margins hampered by provisions**. The construction division recorded revenue of RM379m (+158% qoq, 112% yoy) and an EBIT of RM1.6m (-77% qoq, ->100% yoy). While revenue was up, EBIT was lower due to the fact that the LRT 2 and Bukit Jalil stadium construction project margins have yet to be recognised pending variation orders that the group is gunning for.
- **RM2.4b worth of properties lined up for launch in 2017**. We gather that the group is targeting to launch about RM2.4b worth of new projects this year including: a) Sentral Suites (RM1.4b), b) 9 Seputeh (RM900m), and c) Kalista Bukit Rahman Putra (RM100m). In terms of sales target, the group is aiming to secure RM1.2b worth of sales in 2017.
- **Construction orderbook stands at about RM5.4b**. A bulk of the outstanding construction orderbook comprises of orders for: a) the recently-secured MRT Line 2 job (RM623m); b) Prima Brickfields (RM355m); and c) RM3.2b worth of fee-based jobs. A bulk of these jobs would be able to sustain earnings momentum for the group for the next 3-4 years.

**EARNINGS REVISION**

- No change to our earnings forecast. We also introduce our 2019 net profit forecast of RM144m.

**RECOMMENDATION**

- **Maintain HOLD with a target price of RM1.43**, based on a 25% discount to our RNAV/share of RM1.91. Our target price implies a 20x 2018F PE, which represents -1SD to its long-term mean of 30.2x. We maintain our HOLD recommendation as the stock has limited near term catalysts, given that the potential sale of the Eastern Dispersal Link (EDL) may not be forthcoming. A good entry price: RM1.20.

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