

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

1Q18: Benefits From Deleveraging; Upgrade To BUY.

1Q18 results are considered in line to meet full-year expectations as we expect substantially stronger quarters ahead. The huge sell-off (-43% since GE14, -51% ytd) reflects over-bearish sentiment on the impact of the new government's belt tightening on mega projects, and ignores the deep value from the company's strengthened balance sheet and ability to substantially enhance value in its partnership with substantial shareholder EPF. Upgrade to BUY but with a lower target price of RM1.01.

1Q18 RESULTS

Year to 31 Dec (RMm)	1Q18	4Q17	qoq % chg	yoy % chg
Revenue	427.6	408.2	4.8	(17.7)
Construction	191.1	159.5	19.8	(17.4)
Property Development	220.4	198.0	11.3	(7.2)
Infrastructure	0.7	28.9	(97.5)	(97.5)
Others	15.4	21.8	(29.7)	(31.9)
EBIT	27.4	122.6	(77.6)	(58.3)
Construction	16.0	46.1	(65.3)	1,176.2
Property Development	24.1	63.5	(61.9)	(49.5)
Infrastructure	(1.3)	13.5	(109.7)	(107.5)
Others	(11.4)	(0.5)	2,229.6	1,339.5
Net Finance Cost	4.0	7.7	(48.2)	(114.2)
Associates & JV	10.7	10.8	(1.2)	(1,036.9)
PBT	30.6	131.6	(76.8)	13.3
PATMI	21.5	102.4	(79.0)	149.7
Core PATMI	21.5	41.6	(48.3)	149.7
EBIT Margin	%	%	ppt chg	ppt chg
Construction	8.4	28.9	(20.6)	7.8
Property	11.0	32.1	(21.1)	(9.2)
Core PATMI Margin	5.0	10.2	(5.2)	3.4

Source: MRCB, UOB Kay Hian

RESULTS

• **Within expectations.** While Malaysian Resources Corporation's (MRCB) core net profit of RM22m (-48% qoq, +150% yoy) represents only 14.6% of our full-year forecast, we expect stronger earnings in the quarters ahead. The significant yoy profit improvement reflects lower finance costs (after rights issue) and the absence of EDL highway's losses following the government direct non-tolling of EDL highway.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	2,408	2,824	1,956	2,555	3,010
EBITDA	536	401	308	357	387
Operating profit	513	369	271	320	351
Net profit (rep./act.)	244	250	147	182	206
Net profit (adj.)	64	250	147	182	206
EPS (sen)	3.9	5.7	3.4	4.2	4.7
PE (x)	14.7	10.0	17.0	13.7	12.2
P/B (x)	0.3	0.5	0.5	0.5	0.5
EV/EBITDA (x)	10.5	14.0	18.3	15.7	14.5
Dividend yield (%)	3.5	3.5	3.5	3.5	3.5
Net margin (%)	10.1	8.8	7.5	7.1	6.8
Net debt/(cash) to equity (%)	76.3	62.4	61.1	57.4	55.6
Interest cover (x)	3.5	4.4	7.1	8.2	9.2
ROE (%)	9.4	6.4	3.0	3.7	4.0
Consensus net profit	-	-	168	216	273
UOBKH/Consensus (x)	-	-	0.87	0.84	0.75

Source: MRCB, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM0.57
Target Price	RM1.01
Upside	+77.2%
(Previous TP)	RM1.10

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,390.8
Market cap (RMm):	2,502.7
Market cap (US\$m):	627.4
3-mth avg daily t'over (US\$m):	3.7

Price Performance (%)

52-week high/low	RM1.30/RM0.570			
1mth	3mth	6mth	1yr	YTD
(44.7)	(47.2)	(46.7)	(53.3)	(49.1)

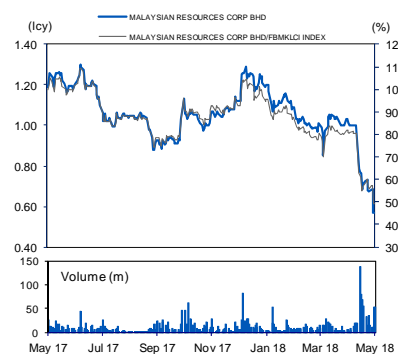
Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1

FY18 NAV/Share (RM) 1.12

FY18 Net Debt/Share (RM) 0.68

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Property development: Earnings within expectations.** In 1Q18, the segment recorded revenue of RM220m (+11% qoq, -7% yoy) and EBIT of RM24m (-62% qoq, -50% yoy). Key earnings contributors to the segment were its Australian project and its ongoing high-rise developments - 9 Seputeh and Sentral Residences.
- Construction: Margins to stabilise.** The segment recorded revenue of RM191m (+5% qoq, -18% yoy) and EBIT of RM16m (-65% qoq, +>100% yoy). We expect EBIT margins to stabilise at the current 8.4% level.

STOCK IMPACT

- Ability to complete disposal of EDL swiftly a key catalyst...** Having followed the previous government's instructions to stop tolling since the 2018 Budget was announced (in Oct 17), EDL's balance sheet has further shrunk to have only sufficient cash to make one more interest payment of about RM40m to bondholders due in June. Hence, it is hoped that the new government would expedite the acquisition of EDL before the next bi-yearly interest payment.
- ...even if government compensation implies modest ROE.** Our SOTP valuation incorporates only an effective RM300m equity value for EDL, which is about the equity portion of the project's start-up capital (the equity portion was funded mostly via shareholders' advances). This valuation methodology is considered highly conservative as it assumes zero equity return, which is even more conservative than in a government expropriation scenario which entails compensating: a) bondholders the full principal plus coupon payments, and b) equity owners' equity clawback plus returns.
- Modest-to-moderate reliance on mega projects.** Despite investors' misgivings, MRCB's valuation is not overly dependent on federal government projects, and in fact, the federal government accounts for 11% of the group's construction orderbook post completion (expected mid-18) of the Bukit Jalil property development sale to EPF. Moreover, the company does not expect any changes to federal government projects that have already commenced, including the LRT3 extension (currently 10% completed) which the MRCB-George Kent consortium is the appointed project manager (PDP).
- Construction orderbook to swell from RM6b as of 1Q18, or 3.4x 2017 construction revenue.** To-date, the group has RM6.2m worth of gross orderbook on hand, which will swell to RM17.2b after it completes the sale of the Bukit Jalil property development project to EPF. Long-dated projects like Kwasa Land and Bukit Jalil (20 years) ensure continuity of healthy contract flows even after the federal government turns off the tap on new mega projects.
- Strengthening balance sheet.** MRCB's gearing is expected to drop significantly from the current 58% to as low as 10% should its asset monetisation programme be fully carried out (see RHS table).

EARNINGS REVISION/RISK

- None.
- Key risks include: a) the derailment of the planned sale of EDL to the federal government, and b) changes to its PDP role for LRT3.

VALUATION/RECOMMENDATION

- Upgrade to BUY with a lower target price of RM1.01** (from RM1.10) after we cut our SOTP valuation to RM5.5b as our previous assumption of its EDL highway had been overly bullish. Our target price is based on a 20% discount to our SOTP valuation of RM1.26/share, implying 24.3x 2019F PE.

SHARE PRICE CATALYST

- a) Sale of EDL, b) sale completion of Bukit Jalil Project, and c) various asset monetization programmes.

1Q18 KEY STATS

	(RMm)
Property sales	101
Property unbilled sales	1,600
Construction unbilled orderbook	4,900
External construction orderbook	6,200

Source: MRCB

RELIANCE ON FEDERAL GOVERNMENT RELATED PROJECTS

	(%)
% of construction existing orderbook	30
% of construction orderbook after completion	11
Bukit Jalil project stake sale to EPF	
% of SOTP valuation	23
% of group 2019 earnings	24

Source: UOB Kay Hian

IMPROVING BALANCE SHEET

	Net Debt (RMm)	Gearing (%)
1Q18	2,879	58
Bukit Jalil Project Sale to EPF	1,741	11
EDL Disposal	682	14
Ascott Tower Sale	552	11
Celcom Tower Sale	488	10

Note: Illustration conservatively assumes zero equity value for EDL

Source: MRCB

SOTP

	(RMm)
Property	2,601.8
Construction	1,855.6
LRT3 PDP Fees	215.6
Investment Properties	7,67.6
Concession	300
Net Debt	-682.0
OCT 33% stake	486.4
Total RNAV	5,545.0
Share base (m)	4,385.2
SOTP/share (RM)	1.26
Discount (%)	20
Target Price (RM)	1.01

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	2,824	1,956	2,555	3,010
EBITDA	401	308	357	387
Deprec. & amort.	32	37	37	37
EBIT	369	271	320	351
Total other non-operating income	(32)	(37)	(37)	(37)
Associate contributions	25	26	26	26
Net interest income/(expense)	(91)	(43)	(43)	(42)
Pre-tax profit	333	216	266	297
Tax	(66)	(52)	(67)	(74)
Minorities	(17)	(17)	(17)	(17)
Net profit	250	147	182	206
Net profit (adj.)	250	147	182	206

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	614	614	614	614
Other LT assets	3,724	3,802	3,884	3,970
Cash/ST investment	724	735	849	861
Other current assets	5,238	4,744	5,044	5,086
Total assets	10,301	9,896	10,391	10,531
ST debt	2,491	2,491	2,491	2,491
Other current liabilities	1,497	1,123	1,490	1,477
LT debt	1,242	1,242	1,242	1,242
Other LT liabilities	142	11	5	0
Shareholders' equity	4,824	4,906	5,024	5,164
Minority interest	104	122	139	157
Total liabilities & equity	10,301	9,896	10,391	10,531

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(889)	385	229	127
Pre-tax profit	333	216	266	297
Tax	(67)	(52)	(67)	(74)
Deprec. & amort.	(32)	(37)	(37)	(37)
Associates	(976)	0	0	0
Working capital changes	(1,921)	308	117	(8)
Other operating cashflows	1,774	(51)	(51)	(51)
Investing	(1,057)	(50)	(50)	(50)
Capex (growth)	0	(50)	(50)	(50)
Investments	(976)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(81)	0	0	0
Financing	1,817	(65)	(65)	(65)
Dividend payments	(70)	(65)	(65)	(65)
Issue of shares	1,798	0	0	0
Proceeds from borrowings	469	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(380)	0	0	0
Net cash inflow (outflow)	(129)	270	114	12
Beginning cash & cash equivalent	593	464	735	849
Changes due to forex impact	260	0	0	0
Ending cash & cash equivalent	724	735	849	861

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	14.2	15.7	14.0	12.9
Pre-tax margin	11.8	11.1	10.4	9.9
Net margin	8.8	7.5	7.1	6.8
ROA	2.8	1.5	1.8	2.0
ROE	6.4	3.0	3.7	4.0
Growth				
Turnover	17.3	(30.7)	30.6	17.8
EBITDA	(25.3)	(23.2)	16.1	8.4
Pre-tax profit	(10.1)	(34.9)	23.0	11.7
Net profit	2.4	(41.1)	23.9	12.8
Net profit (adj.)	290.8	(41.1)	23.9	12.8
EPS	47.2	(41.1)	23.9	12.8
Leverage				
Debt to total capital	43.1	42.6	42.0	41.2
Debt to equity	77.4	76.1	74.3	72.3
Net debt/(cash) to equity	62.4	61.1	57.4	55.6
Interest cover (x)	4.4	7.1	8.2	9.2

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