

UOBKH HIGHLIGHTS

**Malaysian Resources Corporation (MRC MK/HOLD/RM1.16/Target: RM1.23)**

2Q16: Below Expectations

Year to 31 Dec	2Q16 (RMm)	1Q16 (RMm)	qoq % chg	yoy % chg	1H16 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	389.2	436.0	(10.7)	(26.6)	825.2	(11.7)	2016F	3.2	36.3
Construction	103.5	229.1	(54.8)	(54.1)	332.6	(7.9)	2017F	6.7	17.3
Property Development	182.3	152.8	19.3	(28.8)	335.2	(29.8)	2018F	7.7	15.1
Infrastructure	29.1	28.1	3.3	(0.3)	57.2	(0.6)			
EBIT	115.2	71.8	60.5	(10.7)	187.0	(54.6)			
Construction	1.8	1.1	61.1	(93.3)	3.0	(90.0)			
Property Development	90.4	67.3	34.3	13.9	157.8	(55.3)			
Infrastructure	19.5	13.1	48.7	27.2	32.7	2.4			
PBT	73.8	18.7	295.4	(25.3)	92.4	(73.7)			
PATMI	45.5	4.4	938.4	(31.9)	49.9	(83.6)			
Core PATMI	0.9	4.4	(79.4)	(94.9)	5.3	(84.3)			
<b>Margins (%)</b>			<b>+/- ppt</b>	<b>+/- ppt</b>		<b>+/- ppt</b>			
EBIT - Construction	1.8	0.5	1.3	(10.4)	0.9	(7.3)			
EBIT - Property	49.6	44.1	5.5	18.6	0.1	(73.7)			
Core PATMI	11.7	1.0	10.7	8.3	6.0	2.4			

Source: MRCB, UOB Kay Hian

**RESULTS**

- **MRCB's results were below expectations**, with core net profit coming in at RM0.9m (-79.4% qoq, -94.9% yoy) on revenue of RM389.2m (-10.7% qoq, -26.6% yoy). Profit missed estimates largely due to the poor performance of the construction division, which saw the final stages of earnings recognition from the low-margin LRT extension project. 1H16 net profit accounts for 17.3% of our and 6.6% of consensus full-year estimates.
- **Property development on track**. In 2Q16, the property development arm recorded revenue and EBIT of RM182.3m (+19.3% qoq, -28.8% yoy) and RM67.3m (-81.1% qoq, -75.4% yoy) respectively. Included in the EBIT were one-off gains of RM44.6m from the disposal of the Sooka Sentral building. Excluding the one-off gains, EBIT margin for the property division improved significantly as a result of the higher progress billings for the Sentral Residences development
- **Construction margins disappointed**. The construction division recorded revenue of RM103.5m (-54.8% qoq, -54.1% yoy) and EBIT of RM1.8m (+61.1% qoq, -93.3% yoy). EBIT margin for the division continues to be compressed due to high cost incurred for the LRT extension project. We expect construction margins to improve once the LRT extension project is completed.
- **Construction orderbook stands at about RM5.3b**, or about 6.8x 2015 construction revenue. The bulk of the outstanding construction orderbook comprises: a) the recently secured Kwasa Damansara infra works (RM2.6b), b) the MRT Line 2 viaduct package (RM648m) and c) PDP fees for LRT Line 3 (RM270m). Ytd, the company has secured about RM648m worth of infrastructure jobs.
- **Unbilled sales of RM1.3b to underpin future earnings**. The unbilled sales represent about 1.8x 2015 property development revenue and should cushion earnings visibility for the next two years. Most of the sales achieved this quarter came from the 9 Seputeh and Burwood, Melbourne, developments.

**RECOMMENDATION**

- **Maintain HOLD and target price of RM1.23**, based on a 35% discount to our SOTP valuation of RM1.91/share and implies 17x 2017F PE, which represents -1SD to its long-term mean of 30.2x. While fundamentals remain intact, execution of its large construction orders could re-rate the stock. Entry price is RM1.10.

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