

31 May 2018 | 3MFY18 Results Review

Malaysian Resources Corporation Berhad

Earnings Lugged by Opex and Lower Revenue

Maintain BUY
Target Price (TP): RM1.36


INVESTMENT HIGHLIGHTS

- **3MFY18 results disappointing**
- **Earnings still bore the brunt of OPEX**
- **Reviewing the TOD demand and MRCB's niche**
- **Nonetheless, we maintain our BUY stance with TP of RM1.36 per share**

3MFY18 results disappointing. MRCB's 3MFY18 PATAMI of RM21.5m (+150.0%YoY) came in below expectations accounting for a dismal 10.6% and 9.6% of ours and consensus' estimates respectively. MRCB's revenue decreased from RM519.8m in 3MFY16 to RM427.5m in 3MFY17 (-17.5%YoY).

Earnings bore the brunt of OPEX. We have mentioned about OPEX growing for MRCB previously. Notably, OPEX shrank from RM473.41m in 3MFY17 to RM419.3m (-188.6%YoY) currently. Monitoring OPEX is important as its materiality is 98.8% to revenue consequently influences our earnings assumptions for FYE18 and FYE19. Despite the decreased of revenue, we surmise that OPEX plays a strong hand in MRCB's reversal in earnings for 3MFY18.

Reviewing the TOD demand and MRCB's niche. That said, we are reviewing whether transport-oriented development business model is sustainable for MRCB as the outlay investment cost to mobilize project team is high. Despite that, MRCB's orderbook is RM4.6bn thus earnings estimates for FYE18/FYE19 is reiterated on the basis thereof as well as on-going projects such as 9 Seputeh and upcoming TRIA Phase 2.

Recommendation. We maintain our BUY recommendation with an SOP-based TP of **RM1.36** per share 

RETURN STATS	
Price (30 May 2018)	RM0.57
Target Price	RM1.36
Expected Share Price Return	+58.0%
Expected Dividend Yield	+3.0%
Expected Total Return	+61.0%

STOCK INFO	
KLCI	1,719.2
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,390.7
Market cap. (RM'm)	2502
Price over NA	0.52
52-wk price Range	RM0.55 - RM1.34
Beta (against KLCI)	1.42
3-mth Avg Daily Vol	17.4m
3-mth Avg Daily Value	RM14.9m
Major Shareholders (%)	
EPF	35.32
Gapurna Sdn. Bhd.	16.61
LTH	6.97
Vanguard	1.63

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,696.7	2,408.0	2,833.6	2,022.0	2,050.0
Pre-tax profit (RM'm)	370.1	392.6	247.3	283.1	287.3
Normalised PATAMI (RM'm)	331.3	266.0	184.3	202.2	205.0
FD EPS (sen)	18.5	13.8	6.6	10.7	10.9
EPS Growth (%)	770.0	-25.4	-52.5	48.6	2.0
PER(x)	3.1	4.1	8.6	5.3	5.2
Dividend (sen)	2.5	3.7	2.8	6.4	6.5
Dividend yield (%)	2.1	2.6	3.0	4.5	4.6

Source: MIDFR

SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share (RM)
(a) Property Developments			
DCF of Future Profits	WACC 8.0%	2,597.7	0.64
(b) Property Investments			
Book value		1,187.0	0.27
(c) Engineering & Construction			
FY15/16 average earnings	PER 16x*	797.7	0.18
(d) Toll Concessions			
Eastern Dispersal Link, JB (EDL)	DCF (WACC: 8%)	1,399.1	0.32
(e) Building & Car Park Services			
FY15/16 average earnings	PER 10x	64.8	0.01
Total Sum-of-Parts (SOP)		6,046.2	1.42
Less:			
Borrowings*		1,433.0	-0.33
Add:			
Cash*		658.1	0.15
Quill Capita Trust: Combined REIT assets valued at RM1.57b		489.8	0.11
Estimated SOP			1.36
Enlarged share cap*			4,384.0

Source: MIDFR

3MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q18	4Q17	1Q17	QoQ	YoY	3M17	3M16	YoY
Revenue	427.5	519.8	524.0	-18%	-18%	427.5	519.8	-17.8%
Operating expenses	-419.3	473.4	-476.4	-189%	-12%	-419.3	473.4	-188.6%
Other operating income	15.8	17.2	17.2	-8%	-8%	15.8	17.2	-8.1%
Profit from operations	24.1	63.2	65.5	-62%	-63%	24.1	63.2	-61.9%
Finance Cost	-4.2	-35.1	-35.1	-88%	-88%	-4.2	-35.1	-88.0%
Associates	2.8	-2.4	-2.4	17%	-217%	2.8	-2.4	-216.7%
JV	7.8	1.2	1.20	550%	550%	7.8	1.2	550.0%
PBT	30.5	26.9	29.2	13%	4%	30.5	26.9	13.4%
Taxation	-4.9	-8.4	-8.8	-42%	-44%	-4.9	-8.4	-41.7%
Normalised PATAMI	21.5	8.6	10.8	150%	99%	21.5	8.6	150.0%
EPS (sen)	0.49	0.4	4.8	-223%	-90%	0.5	0.4	22.5%
	1Q18	4Q17	1Q16	+/- ppts	+/- ppts	3M17	3M16	+/- ppts
EBIT margin	5.6%	12.2%	12.5%	-6.5	-6.9	5.6%	12.2%	-6.5
PBT margin	7.1%	5.2%	5.6%	2.0	1.6	7.1%	5.2%	2.0
PATAMI margin	5.0%	1.7%	2.1%	-844.7%	-538.0%	5.0%	1.7%	3.4%
Effective tax rate	16.1%	-131.2%	30.1%	147.3	-14.1	16.1%	31.2%	-15.2

Source: Bursa Malaysia, MIDFR

DAILY PRICE CHART



Source: Bloomberg, 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 <i>rise</i> 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 <i>fall</i> 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.