23 November 2018 | 9MFY18 Results Review

Malaysian Resources Corporation Berhad

To pick up momentum soon

***Maintain* BUY**

***Adjusted* Target Price (TP): RM0.83**
(from RM1.07)

INVESTMENT HIGHLIGHTS

- **Earnings were below ours and consensus' expectations, due to lower than expected contribution from key segments**
- **Property segment covered 70.8% of the group's operating profit**
- **Recognition from LRT3 was higher YTD**
- **Expecting momentum to pick up in FY19**
- **Earnings are lowered for FY18 and FY19, by -19.5% and -11.1% respectively**
- **Maintain BUY with adjusted TP of RM0.83**

Earnings were below expectations. MRCB's 9MFY18 revenue was rather unexciting at RM1.5b. It dropped by -37.0%yoy from the same period last year, leading to net profit of RM76.3m (-2.4%yoy). The cumulative quantum was arrived after recording RM18.4m (-44.0%yoy) of PATAMI in 3QFY18. Altogether, the group's 9MFY18 PATAMI accounted for 58.9% and 62.7% of ours and consensus' estimates respectively.

The drop was moderated by its key segment contribution namely property. In 9MFY18, revenue contribution from the segment amounted to RM882.9m. Stripping out a one-off item (RM323.0m) i.e. the land disposal of free hold land in Jalan Kia Peng, we arrived to operational revenue of RM560.0m for the period. Consequently, this led to operating profit figure of RM88.9m, covering approximately 70.8% of the group's total.

Revenue contraction in Engineering, Construction and Environment segment appeared significant. In 9MFY18, the contribution from E&C amounted to RM561.2m (-65.2%yoy). Despite the huge drop, we are encouraged to see that it was still able to provide RM44.8m (vs RM46.5m) worth of operating profit. Notably, this was derived from the progressive billings of MRT2 V210 package, Sungai Pahang Project and the on-going construction works of property development projects.

RETURN STATS	
Price (22 Nov 2018)	RM0.73
Target Price	RM0.83
Expected Share Price Return	+13.7%
Expected Dividend Yield	+1.8%
Expected Total Return	**+15.5%**

STOCK INFO	
KLCI	1,695.62
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	4,395.1
Market cap. (RM'm)	3,208.4
Price over NA	0.66
52-wk price Range	RM0.55-RM1.31
Beta (against KLCI)	1.55
3-mth Avg Daily Vol	21.3m
3-mth Avg Daily Value	RM15.9m
Major Shareholders (%)	
EPF	35.5
Gapurna Sdn. Bhd.	16.6
LTH	7.0
Bank Kerjasama Rakyat	3.9

Recognition from LRT3 was higher YTD. MRCB-GK JV contributed RM20.7m in PAT for 9MFY18, a stark contrast from RM7.2m logged last year. The higher contribution was attributable to the better construction work progress achieved for the project. However, we ought to highlight that the amount recorded was significantly lower than management's expectation due to deferment of progress billings to future quarters. This was a result of the government's decision to restructure the LRT construction programme, leading to re-timing of income recognition in the future quarters. Given this situation, we opine that LRT3 contribution in 4QFY18 expected to be dismal. Assuming that re-negotiation works run uninterrupted, construction work is expected to pick up pace in the subsequent quarters.

Our view. We are expecting some improvement of construction progress in FY19, to provide better revenue recognition in the E&C segment. Moving forward, further recovery would rely on the rate of conversion from the group's current tender book to new outstanding orders. At this juncture, we are comforted that the E&C segment currently has open tenders valued at RM2.7b. Any project wins going ahead will add to the group's current outstanding order book of RM5.9b, which will provide at least 4.5x cover to E&C two-year average revenue. Concurrently, we opine property segment will continue supporting earnings owing to its RM1.6b worth of unbilled property sales.

Earnings review. We introduce a new set of estimates for FY18 and FY19 respectively. Accordingly, our net profit in FY18 and FY19 were adjusted lower by -19.5% and -11.1% respectively. This was after we fine-tuned our construction progress assumptions and made adjustment to net profit margin.

Recommendation. At this juncture, we maintain our **BUY** call with adjusted TP of RM, based on our SOP-driven valuation. Our TP implies 0.8 PBV on FY19E BV/share.

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	940.9	1,514.8	1,696.7	2,408.0	2,823.6	1,896.6	1,983.8
EBIT (RM'm)	9.0	321.2	352.5	357.4	358.6	227.6	238.1
Pre-tax profit (RM'm)	-110.4	125.7	370.1	392.6	338.4	189.7	244.0
Normalised PATAMI (RM'm)	-109.1	41.6	331.3	266.0	167.5	104.3	134.2
FD EPS (sen)	-7.4	2.4	18.5	13.8	6.6	2.4	3.1
EPS Growth (%)	-270.0	-133.0	660.6	-25.4	-52.5	-63.8	28.7
PER(x)	N.A.	30.0	3.9	5.3	11.1	30.8	23.9
Dividend (sen)	1.0	2.5	2.5	3.7	4.3	1.3	1.3
Dividend yield (%)	1.4	3.4	3.4	5.0	5.9	1.8	1.8

Source: MIDFR

9MFY18 Results Review

	Quarterly Results					Cumulative		
FYE Dec (RM'm)	**3Q18**	**3Q17**	**2Q18**	**YoY**	**QoQ**	**9M18**	**9M17**	**YoY**
Revenue	**663.8**	**1,129.8**	**725.3**	**-41.3%**	**-8.5%**	**1,496.6**	**2,374.9**	**-37.0%**
Operating expenses	-631.3	-1,051.3	-675.1	-39.9%	-6.5%	-1,413.0	-2,200.1	-35.8%
Other operating income	9.9	7.9	15.1	24.9%	-34.2%	36.9	40.2	-8.3%
Profit from operations	**42.3**	**86.5**	**65.2**	**-51.0%**	**-35.0%**	**120.5**	**215.0**	**-43.9%**
Finance Cost	-15.1	-41.4	-37.4	-63.6%	-59.7%	-36.1	-114.0	-68.3%
Associates	9.0	4.3	4.2	-309.2%	112.6%	14.5	6.1	139.2%
JV	4.3	4.3	2.6	-0.6%	65.0%	15.2	8.2	85.8%
PBT	**40.5**	**53.6**	**34.6**	**-24.5%**	**17.0%**	**114.1**	**115.2**	**-1.0%**
Taxation	-22.0	-20.7	-7.9	6.7%	179.9%	-37.7	-37.0	2.1%
PATAMI	**18.4**	**33.0**	**26.7**	**-44.0%**	**-31.0%**	**76.3**	**78.2**	**-2.4%**
EPS (sen)	0.45	1.3	0.76	-135.2%	-40.8%	1.7	2.9	-40.4%
	3Q18	**3Q17**	**2Q18**	**+/- ppts**	**+/- ppts**	**9M18**	**9M17**	**+/- ppts**
EBIT margin	6.4%	7.7%	9.0%	-1.3	-2.6	8.1%	9.1%	-1.0
PBT margin	6.1%	4.7%	4.8%	1.4	1.3	7.6%	4.9%	2.8
PATAMI margin	2.8%	2.9%	3.7%	-0.1	-0.9	5.1%	3.3%	1.8%
Effective tax rate	54.4%	38.5%	22.8%	15.9	31.7	33.1%	32.1%	1.0

Source: MIDFR, Company

DAILY PRICE CHART

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Source: MIDFR, Bloomberg

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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.