

03 September 2018 | 6MFY18 Results Update

Malaysian Resources Corporation Berhad

Weak results due to lower revenue

Maintain BUY
Adjusted Target Price (TP): RM1.09
(previously RM1.36)


INVESTMENT HIGHLIGHTS

- **6MFY18 Results below expectations**
- **Inspid results due to lower construction revenue**
- **Change assumptions**
- **Reaffirm BUY with an adjusted TP of RM1.09**

6MFY18 Results below expectations. MRCB's 6MFY18 normalised PATAMI of RM54.9m (+68.4% YoY) came in below expectations accounting for 27.1% and 33.0% of ours and consensus' estimates respectively.

Inspid results due to lower construction revenue. The wide variance is due lower construction billings rate. But the prospects are healthy as the unbilled orderbook stands at RM5.1bn and its property division is embarking on exciting projects such as Sentral Suites (GDV: RM1.5bn) and 1060 Carnegie, Melbourne (GDV: RM305m)

Change earnings assumptions. We change our estimates. As for revenue; (i) FYE18 - RM1.61bn (-20.0%) and (ii) FYE19 - RM1.64bn (-20.0%), and earnings; (i) FYE18 - RM145.6m (-28.9%) and (ii) FYE19 - RM164.0bn (20.0%).

Recommendation. Premised on that, we maintain our BUY call with an adjusted TP of **RM1.09** per share which is based on SOP valuation. 

RETURN STATS	
Price (30 August 2018)	RM0.70
Target Price	RM1.09
Expected Share Price Return	+55.7%
Expected Dividend Yield	+9.1%
Expected Total Return	+64.8%

STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	1651/ MRC MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1886.6
Par Value (RM)	1.00
Market cap. (RM'm)	2188
Price over NA	0.634
52-wk price Range	RM0.55-RM1.31
Beta (against KLCI)	1.58
3-mth Avg Daily Vol	34.1m
3-mth Avg Daily Value	RM25.2m
Major Shareholders (%)	
EPF	35.52
Gapurna Sdn. Bhd.	16.61
LTH	6.97
Bank Kerjasama Rakyat	3.92

SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share (RM)
(a) Property Developments			
DCF of Future Profits	WACC 8.0%	1,818.4	0.4
(b) Property Investments			
Book value		1,187.0	0.27
(c) Engineering & Construction			
FY15/16 average earnings	PER 12x*	598.3	0.14
(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)		5,067.5	1.16
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			1.09
Enlarged share cap*			4,384.0

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	1,617.2	1,640.0
Pre-tax profit (RM'm)	-110.4	125.7	370.1	392.6	338.4	283.1	287.3
Normalised PATAMI (RM'm)	-109.1	41.6	331.3	266.0	167.5	145.6	164.0
FD EPS (sen)	-7.4	2.4	18.5	13.8	6.6	3.0	3.3
EPS Growth (%)	-270.0	-133.0	770.0	-25.4	-47.54%	48.6	2.0
PER(x)	N.A.	28.8	3.8	5.1	10.7	23.3	21.2
Dividend (sen)	1.0	2.5	2.5	3.7	4.3	6.4	6.5
Dividend yield (%)	0.8	2.0	2.1	2.6	3.0	9.14	9.3

6MFY18 RESULTS

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	2Q18	1Q18	2Q17	QoQ	YoY	6M18	6M17	YoY
Revenue	405.2	427.5	725.2	-5%	-44%	832.4	1,245.1	-33.1%
Operating expenses	-362.3	419.3	675.1	-186%	-154%	-781.6	-1,148.8	-32.0%
Other operating income	11.0	15.8	15.0	-30%	-27%	26.9	32.2	-16.5%
Profit from operations	54.0	24.1	65.1	124%	-17%	78.1	128.4	-39.2%
Finance Cost	-16.7	-4.2	37.3	298%	-145%	-21.0	-72.5	-71.0%
Associates	2.7	2.8	4.2	-196%	-36%	5.5	1.8	209.0%
JV	3.0	7.8	2.5	-62%	20%	10.9	3.8	186.8%
PBT	43.0	25.6	34.5	68%	25%	73.5	61.5	19.5%
Taxation	-10.7	-4.9	-7.8	118%	37%	-15.6	-16.9	-7.7%
Normalised PATAMI	32.8	21.6	24.0	52%	37%	54.9	32.6	68.4%
EPS (sen)	0.76	0.5	1.10	-255%	-31%	1.3	1.5	-16.7%
	2Q18	1Q18	2Q17	+/- ppts	+/- ppts	6M18	6M17	+/- ppts
EBIT margin	13.3%	5.6%	9.0%	7.7	4.3	9.4%	10.3%	-0.9
PBT margin	10.6%	6.0%	4.8%	4.6	5.9	8.8%	4.9%	3.9
PATAMI margin	8.1%	5.1%	3.3%	-994.0%	-83.1%	6.6%	2.6%	4.0%
Effective tax rate	24.9%	-119.1%	22.6%	144.0	2.3	21.2%	27.5%	-6.3

Revenue	6MFY18	6MFY17	YoY
Engineering and construction	383.8	698.8	-45.1%
Property development	417.5	450.1	-7.2%
Infrastructure	1.4	57.0	-97.5%
Building services	26.0	29.5	-11.9%
Investment holdings & others	7.5	9.3	-19.4%
TOTAL	832.8	1,245.1	-33.1%
Segment Gross Profit	6MFY18	6MFY17	YoY
Engineering and construction	40.9	77.9	-47.5%
Property development	55.0	15.2	261.8%
Infrastructure	-2.9	29.0	-110.0%
Building services	0.8	10.8	-92.6%
Investment holdings & others	-8.7	0.5	-1776.3%
TOTAL	85.1	133.5	-36.3%
PBT margin	6MFY18	6MFY17	+/- ppts
Engineering and construction	10.7%	11.1%	-0.5
Property development	13.2%	3.4%	9.8
Infrastructure	-202.8%	50.9%	-253.7
Building services	3.1%	36.6%	-33.5

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.