

01 March 2018 | FY17 Results Review

Malaysian Resources Corporation Berhad

Insipid Results from Increasing OPEX

Maintain BUY

Unchanged Target Price (TP): 1.36

INVESTMENT HIGHLIGHTS

- **12MFY17 results below expectations**
- **Rising OPEX still leading to dwindling earnings**
- **In the midst of reviewing earnings forecasts**
- **Altogether, we reaffirm our BUY stance with a TP of RM1.36**

12MFY17 results below expectations. MRCB's FY17 PATAMI of RM 164.3m (-38.2%YoY) came in below our expectations accounting for 49.6% and 146.6% of ours and Streets's respectively. However, MRCB revenue rose from RM2.4bn in FY16 to RM2.82bn in FY17 (+17%YoY) led by the increase in revenues of the construction segment; RM 1.7bn (+106%YoY or 62.8% of total revenue). Our forecast departed from Street's on the account of higher recognition of progress billings especially of MRTV210.

Rising OPEX still leading to dwindling earnings. The trend divergence between the rising revenue and falling earnings is mainly attributable to persisting operating expenses (OPEX) which grew consequently from RM2.17bn in FY16 to RM2.61bn in FY17 (+20%YoY). The operating expenses (OPEX) growth is led by the project mobilizations of various projects such as the MRT2 V210 Package, Kwasa Land, PR1MA (Kajang & Brickfields) and the upcoming Damansara-Shah Alam Highway (DASH). The OPEX current level is critical as its materiality is 92.6% to revenue influences our earnings assumptions for FYE18 and FYE19.

In the midst of reviewing earnings forecasts. We are still revising MRCB's earnings assumptions for FYE18/FYE19. With an unbilled orderbook of RM7.9bn (excluding fee based contracts of RM600m) MRCB's outlook is positive. However, we reckon that balancing a decent orderbook figure and launching property projects in Australia and KL's prime area along with an increasing OPEX is a difficult task. We believe that MRCB's competitive advantage could be strengthened with the positive news of EDL's disposal but the steepening OPEX may still be of concern.

Recommendation. Altogether, we maintain our BUY recommendation with SOP-based TP of RM 1.36 per share.



RETURN STATS	
Price (28 Feb 2018)	RM1.08
Target Price	RM1.36
Expected Share Price Return	+26.0%
Expected Dividend Yield	+3.0%
Expected Total Return	+33.1%

STOCK INFO	
KLCI	1856.20
Bursa / Bloomberg	1651 MRC MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	4,390.77
Market cap. (RM'm)	1.07
Price over NA	1.07x
52-wk price Range	RM0.87 – RM1.57
Beta (against KLCI)	1.37x
3-mth Avg Daily Vol	12.1m
3-mth Avg Daily Value	RM14.1m
Major Shareholders (%)	
EMPLOYEES PROVIDENT	34.87%
GAPURNA SDN BHD	16.61%
LEMBAGA TABUNG HAJI	7.14%
VANGUARD GROUP	1.59%

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,696.7	2,408.0	2,823.6	2964.78	3113.019
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	202.73	223.003
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)	5.3	7.1	25.7	9.1	8.9
Dividend (sen)	2.5	3.7	2.75	2.98	2.98
Dividend yield (%)	2.1	2.6	2.5	4.0	4.1

Source: Bursa Malaysia, MIDFR

FY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q17	3Q17	4Q16	QoQ	YoY	12M17	12M16	YoY
Revenue	408.2	1,134.1	1,031.4	-64%	-60%	2,823.7	2,408.0	17.3%
Operating expenses	-374.6	1,056.8	-950.6	-135%	-61%	-2,614.7	-2,172.3	20.4%
Other operating income	89.3	7.9	192.0	1030%	-53%	129.5	300.2	-56.9%
Profit from operations	122.9	85.1	273.0	44%	-55%	338.4	535.8	-36.8%
Finance Cost	-2.1	-41.4	-42.8	-95%	-95%	-116.1	-175.9	-34.0%
Associates	-3.2	4.3	-175.9	-26%	-98%	9.3	26.3	-64.8%
JV	7.6	4.3	1.2	77%	534%	15.8	1.2	1214.7%
PBT	131.6	52.3	238.6	152%	-45%	247.3	392.6	-37.0%
Taxation	-26.7	-21.8	-29.6	23%	-10%	-65.5	-73.5	-10.9%
Normalised PATAMI	102.3	28.0	189.0	266%	-46%	164.3	266.0	-38.2%
EPS (sen)	4.82	1.28	8.9	-477%	-46%	6.6	13.8	-52.5%
	4Q17	3Q17	1Q16	+/- ppts	+/- ppts	12M17	12M16	+/- ppts
EBIT margin	30.1%	7.5%	26.5%	22.6	3.6	12.0%	22.3%	-10.3
PBT margin	32.2%	4.6%	23.1%	27.6	9.1	8.8%	16.3%	-7.5
PATAMI margin	25.1%	2.5%	18.3%	-414.8%	75.9%	6.5%	11.0%	-4.5%
Effective tax rate	20.3%	-141.7%	12.4%	162.0	7.9	26.5%	18.7%	7.8

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg2

Fadhli Dzulkifly
 abdul.fadhli@midf.com.my
 03-2173 8462

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.