

20 May 2014 | 1QFY14 Results Review

Malaysia Resources Corporation Bhd

Poised for forward earnings recovery

Upgrade to BUY

Increased Target Price (TP): RM2.16

(From RM1.45)

INVESTMENT HIGHLIGHTS

- 1QFY14 earnings came in line with our estimate but below market consensus.
- We believe MRCB is now poised for earnings recovery this year and to regain upward earnings trajectory from FY15 onwards.
- Roll over its sum-of-parts valuation into FY15.
- Upgrade our recommendation to BUY with a higher TP of RM2.16.

1QFY14 earnings on track. MRCB reported 1QFY14 revenue and core PATAMI of RM204.6m (-21.9%yoy, -44.5%qoq) and RM12m (+128.2%yoy, >+100%qoq) respectively. The growth was attributable to higher revenue contribution from property development. The Group's EBIT and net margins improved to 33.3% and 5.9% respectively (1QFY13 at 17.5% and 2.0%). Overall, the earnings figure came within ours (-5%) but below market consensus (-19%) expectations.

Strong gains in property. The property division achieved operating profit of RM35.1m (+128.3%yoy and +78.3%qoq) in 1QFY14. This was driven by strong pace of on-going property development works as it entered advance stages of completion, particularly Lot B (Q Sentral office) and Lot D (The Sentral Residence). This has led the division's margin to expand to 23.2% (ppts: +1.5yoy, 11.9qoq).

Construction improves. In contrast, the engineering and construction division's operating profit reported a dropped -17%yoy in 1QFY14. We opine its lower contribution was due to (i) infancy execution stage for some projects, and (ii) slow progress in the Ampang Line package B for LRT extension project. Nonetheless, the division returned to the black with a growth of 125%qoq to RM5.4m.

Business to grow steadily. With its books now cleaned up, we believe the Group is poised for earnings recovery this year and to regain its upward earnings trajectory from FY15 onwards. We are also optimistic on MRCB's potential with regard to (i) its tender participation in Kwasa Damansara Transit Hub development, (ii) its new property development portfolio's GDV of more than RM10b over the next 10 years, (iii) further investment assets in KL Sentral to be monetized via REIT, and (iv) positive outcome on the tolling of Eastern Dispersal Link (EDL) highway.

RETURN STATS

Price (19 th May 2014)	RM1.53
Target Price	RM2.16
Expected Share Price Return	41.2%
Expected Dividend Yield	1.3%
Expected Total Return	42.5%


STOCK INFO

KLCI	1,887.07
Bursa / Bloomberg	1651 / MRC MK
Board / Sector	Main/ Construction
Syariah Compliant	No
Issued shares (mil)	1651.3
Par Value (RM)	1.00
Market cap. (RM'm)	2,526.5
Price over NTA	1.84x
52-wk price Range	RM1.23–RM1.84
Beta (against KLCI)	1.37x
3-mth Avg Daily Vol	2.25m
3-mth Avg Daily Value	RM3.58m
Major Shareholders	
EPF	38.87%
Gapurna Sdn Bhd	12.51%
Lembaga Tabung Haji	8.85%

INVESTMENT STATISTICS

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	1,226.7	1,283.2	940.9	1,021.3	1,686.4
Pretax profit (RM'm)	123.3	134.0	-110.4	97.0	202.0
Net profit (RM'm)	93.5	60.1	-109.1	61.3	121.2
Net profit margin	7.6	4.7	-11.6	6.0	7.2
EPS (sen)	6.8	4.3	-7.4	3.7	7.3
EPS Growth (%)	30.3	-35.7	-270.0	150.3	115.9
PER(x)	22.7	35.3	0.0	41.2	21.0
Dividend(sen)	1.1	2.0	1.0	1.4	2.0
Dividend yield (%)	0.7	1.3	0.7	0.9	1.3

Source: Company, forecasts by MIDFR

Upgrade to BUY. We maintain our FY14 and FY15 earnings forecast at this juncture. Nonetheless, we upgrade our recommendation to BUY and revise upwards our TP to RM2.16 per share as we roll over its sum-of-parts valuation into FY15. The upward revision reflects its exciting FY15 earnings prospect and attractive valuation. We are bullish on MRCB for its healthy and diversified outstanding order book of RM1.2b in addition to prospective new contracts to be secured this year. 

SUM-OF-PARTS VALUATION

	Basis	Market Value
Construction	15x FY15 earnings	1,669.5
Property development	Book value	2,396.2
Building services	9x FY15 earnings	212.5
Duke	Take-over price	228.0
Gain from Platinum Sentral		240.0
EDL	DCF	1,508.6
Quill Capita Trust	Assets Value of RM1.6b	512.0
Sum-Of-Parts (SOP)		6,766.8
Net debt		-2,653.9
Total SOP		4,113.0
Enlarged share base		1,900.4
SOP per share		2.16

Source: Forecasts by MIDFR

1QFY14 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	1Q14	YoY	QoQ	3M14	YoY	
Revenue	204.6	-21.9%	-44.5%	204.6	-21.9%	Accounted 20% of ours and consensus estimates
Operating expenses	-175.8	-30.0%	-50.4%	-175.8	-30.0%	
Other operating income	39.3	12.5%	-4.3%	39.3	12.5%	QoQ - Higher due to Government's interim payment
Profit from operations	68.1	48.9%	22.4%	68.1	48.9%	Refer to segmental
Finance Cost	-38.4	-5.8%	6.6%	-38.4	-5.8%	
Associates	0.7	128.3%	>100%	0.7	128.3%	
JV	-6.5	>100%	>100%	-6.5	>100%	
Pre-tax profit	23.9	>100%	23.7%	23.9	>100%	Higher due to better property profit margin
Taxation	-10.5	>100%	15.2%	-10.5	>100%	No exemption for losses of certain subsidiaries
Core PATAMI	12.0	128.2%	>100%	12.0	128.2%	As above
EPS (sen)	0.7	91.8%	>100%	0.7	91.8%	
	1Q14	+/- ppts	+/- ppts	3M14	+/- ppts	
EBIT margin	33.3%	15.8	18.2	33.3%	15.8	
Pre-tax margin	11.7%	9.7	6.4	11.7%	9.7	
Net profit margin	5.9%	3.9	5.3	5.9%	3.9	
Effective tax rate	44.1%	15.4	-3.3	-44.1%	-72.8	

Segmental Breakdown						Comments
Revenue	1Q14	YoY	QoQ	3M14	YoY	
Engineering and construction	37.2	-77.6%	-71.6%	37.2	-77.6%	
Property development	151.4	113.1%	-13.3%	151.4	113.1%	
Infrastructure and environmental	0.0	-100.0%	-100.0%	0.0	-100.0%	Environmental projects reclassified under E&C
Building services	16.1	-4.4%	106.1%	16.1	-4.4%	
Investment holdings & others	0.0	-73.7%	-82.8%	0.0	-73.7%	
TOTAL	204.6	-21.9%	-44.5%	204.6	-21.9%	
Profit from operations	1Q14	YoY	QoQ	3M14	YoY	
Engineering and construction	5.4	-17.0%	124.5%	5.4	-17.0%	
Property development	35.1	128.3%	78.3%	35.1	128.3%	
Infrastructure and environmental	-1.0	-95.3%	62.6%	-1.0	95.3%	
Building services	3.8	40.6%	>100%	3.8	40.6%	
Investment holdings & others	-11.5	-31.4%	>-100%	-11.5	31.4%	
Interim payment from government	26.2	5.0%	4.2%	26.2	5.0%	
Finance income	10.1	85.0%	16.8%	10.1	85.0%	
TOTAL	68.1	48.9%	22.6%	68.1	48.9%	
Profit from operations margin	1Q14	+/- ppts	+/- ppts	3M14	+/- ppts	
Engineering and construction	14.5%	10.6	31.3	14.5%	10.6	
Property development	23.2%	1.5	11.9	23.2%	1.5	
Infrastructure and environmental	-	-	-	-	-	
Building services	23.8%	7.6	16.1	23.8%	7.6	
Investment holdings & others	-	-	-	-	-	

Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.