

Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Robust earnings growth

KEY INVESTMENT HIGHLIGHTS

- **Earnings met expectation**
- **Construction segment has shown a notable improvement**
- **The property division generated RM236.4m revenue in 1QFY20**
- **No changes to our earnings estimates**
- **Reiterate BUY with an unchanged TP of RM0.73**

Earnings met expectation. MRCB's 1QFY20 topline came in at RM425.8m (+82.9yoy) underpinned by the Property Development & Investment Division, which recorded a 178% increase in revenue - mainly on account of the commencement of revenue recognition from the Group's property development project in Melbourne, 1060 Carnegie upon the handover and settlement of purchased units following the completion of construction. As for the bottom line, the Group reported strong earnings of RM15.6m from RM4.1m in the year before. The core earnings met ours but exceeded consensus' expectations, accounting for 24.6% and 34.5% of respective full year FY20 earnings estimates.

Construction segment has shown a notable improvement. This segment booked RM174.8m revenue in 1QFY20, jumped by +31.7%yoy from RM132.7m in 1QFY19. The better performance was fueled by (1) the Damansara-Shah Alam Elevated Highway Package CB2, (2) EPF Headquarters at Kwasa Sentral, (3) Sungai Besi-Ulu Kelang Elevated Expressway Package CA2, (4) Mass Rapid Transit Line 2 Package V210, and (5) construction works of the property development projects.

The property division generated RM236.4m revenue in 1QFY20. The key contributors for the revenue was the commencement of revenue recognition from the Group's property development project in Melbourne, 1060 Carnegie upon the handover and settlement of purchased units following its completion in December 2019. On top of that, other factors that lifted the segment's topline was the sale of completed unsold inventory and on-going development projects, namely (1) Sentral Suites in KL Sentral, (2) the 9 Seputeh mixed residential development in Jalan Klang Lama, and (3) the office towers in PJ Sentral Garden City.

Earnings estimates. We make no changes to our FY20 and FY21 earnings estimates as the results met expectation.

Maintain BUY

Unchanged Target Price: RM0.73

RETURN STATISTICS

Price@ 26 th June 2020 (RM)	0.47
Expected share price return (%)	+54.7
Expected dividend yield (%)	+2.13
Expected total return (%)	+56.90

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-14.5	-15.4
3 months	+20.5	+7.4
12 months	-50.5	-44.4

KEY STATISTICS

FBM KLCI	1,488.14
Syariah compliant	Yes
Issue shares (m)	4405.90
Estimated free float (%)	34.22
Market Capitalisation (RM'm)	2,183.96
52-wk price range	RM0.28 - RM1.01
Beta vs FBM KLCI (x)	1.77
Monthly velocity (%)	0.00
Monthly volatility (%)	29.27
3-mth average daily volume (m)	16.61
3-mth average daily value (RM'm)	8.27
Top Shareholders (%)	
Employees Provident Fund Board	35.85
Gapurna Sdn Bhd	15.53
Lembaga Tabung Haji	5.91

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Reiterate BUY with an unchanged TP of RM0.73. We note that MRCB had tender book valued at RM2.5b as at end-March 2019 and moving forward the Group will continue to actively tender for more contracting projects to replenish its order book. On top of that, it is worth to note that MRCB's order book stood at RM21.9b as at end-March 2020. On the other hand, LRT3 project - which is currently 29% completed, will see the pace of its profit recognition accelerates and expected to contribute more to MRCB's earnings in FY20 despite a slower pace earlier on due to the implementation of stricter standard operating procedures to prevent the spread of COVID-19. Our **TP** is unchanged at **RM0.73**, implying **40x PE** (close to its 2-year average) to **FY21F** EPS. Maintain **BUY** call. 

INVESTMENT STATISTICS

FYE December	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	2408.0	2823.6	1870.7	1319.4	1622.9	2109.7
EBIT (RM'm)	357.4	358.6	141.5	92.0	163.4	173.0
Pre-tax profit (RM'm)	392.6	338.4	123.0	53.0	131.0	131.3
Normalised PATAMI (RM'm)	266.0	167.5	101.2	23.6	63.6	80.2
FD EPS (sen)	13.8	6.6	2.3	0.5	1.4	1.8
EPS Growth (%)	-25.4	-52.5	-64.9	-76.8	188.4	26.1
PER(x)	6.4	13.4	38.3	123.5	32.6	25.8
Dividend (sen)	3.7	4.3	1.8	1.0	1.0	1.0
Dividend yield (%)	4.2	4.9	2.0	1.5	2.1	2.1

Source: Company, MIDF

1QFY20 RESULTS REVIEW

	Quarterly Results					Cumulative		
FYE Dec (RM'm)	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
Revenue	425.8	234.1	471.6	81.9%	-9.7%	425.8	234.1	81.9%
Operating expenses	-397.7	-226.7	-457.3	75.4%	-13.0%	-397.7	-226.7	75.4%
Other operating income	7.9	11.5	12.4	-31.9%	-36.6%	7.9	11.5	-31.9%
Profit from operations	35.9	18.9	26.8	90.1%	33.9%	35.9	18.9	90.1%
Finance Cost	-12.6	-12.4	-7	1.5%	79.9%	-12.6	-12.4	1.5%
Associates	3.5	3.0	2.5	-216.9%	38.3%	3.5	3.0	16.9%
JV	0.1	-1.0	-1.9	-111.8%	-106.3%	0.1	-1.0	-111.8%
PBT	26.9	8.4	20.4	219.3%	31.7%	26.9	8.4	219.3%
Taxation	-11.2	-6.9	-13.1	63.7%	-14.3%	-11.2	-6.9	63.7%
PATAMI	15.6	4.1	6.0	278.4%	160.8%	15.6	4.1	278.4%
EPS (sen)	0.35	0.09	0.14	-488.9%	150.0%	0.35	0.09	288.9%
	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
EBIT margin	8.4%	8.1%	5.7%	0.4	2.7	8.4%	8.1%	0.4
PBT margin	6.3%	3.6%	4.3%	2.7	2.0	6.3%	3.6%	2.7
PATAMI margin	3.7%	1.8%	1.3%	1.9	2.4	3.7%	1.8%	1.9%
Effective tax rate	41.8%	81.5%	64.2%	-39.7	-22.4	41.8%	81.5%	-39.7
Segmental Breakdown								
Revenue (RM'm)	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
Property development	236.4	85.1	195.3	177.8%	21.1%	236.4	85.1	177.8%
Engineering and construction	174.8	132.7	258.7	31.7%	-32.4%	174.8	132.7	31.7%
Building services	12.7	13.1	14.3	-3.7%	-11.5%	12.7	13.1	-3.7%
Investment holdings & others	1.9	3.1	3.4	-39.6%	-45.4%	1.9	3.1	-39.6%
TOTAL	425.8	234.1	471.7	81.9%	-9.7%	425.8	234.1	81.9%
PBT	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
Property development	20.6	3.0	7	585%	194%	20.6	3.0	-584.7%
Engineering and construction	12.6	16.7	19.8	-25%	-37%	12.6	16.7	24.8%
Building services	2.4	-0.4	2.3	-736%	3%	2.4	-0.4	736.4%
Investment holdings & others	0.5	1.4	-2.6	-61%	-120%	0.5	1.4	61.2%
TOTAL	36.0	20.7	26.5	74%	36%	36.0	20.7	74.0%
PBT margin	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Engineering and construction	8.7%	3.5%	3.6%	5.2	5.1	8.7%	3.5%	5.2
Property development	7.2%	12.6%	7.7%	-5.4	-0.5	7.2%	12.6%	-5.4
Building services	18.8%	-2.8%	16.1%	21.7	2.7	18.8%	-2.8%	-19866.7%

Source: Company, MIDF

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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.