

Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Expect better earnings in FY20

KEY INVESTMENT HIGHLIGHTS

- **MRCB posted RM1.32b revenue in FY19, -29.5%yoy**
- **Construction segment shown a significant improvement**
- **Property division booked RM195m revenue in 4Q19, +22.3%yoy**
- **1sen/share dividend declared**
- **Reiterate BUY with a lower TP of RM0.73**

MRCB posted RM1.32b revenue in FY19, -29.5% lower than the same period last year on the back of the Group's major high-rise residential development projects still being in the early phase of construction. Moreover, the Group earned a PATAMI of RM23.7m (-76.5%yoy) in FY19. The core earnings came in below expectations, as it constitutes only 58.9% and 73.1% of our and consensus full year estimates.

Construction segment shown a significant improvement. This segment registered RM258.7m revenue in 4QFY19, a jump of +31.1%yoy from RM197.4m in 4QFY18. The better performance was driven by the following construction projects, namely the Mass Rapid Transit Line 2 Package V210, Damansara-Shah Alam Elevated Highway Package CB2, EPF Headquarters at Kwasa Sentral, Sungai Besi-Ulu Kelang Elevated Expressway Package CA2, construction works of the property development projects and several smaller civil engineering projects in the Klang Valley. It is worth pointing out that, as at December FY19, MRCB order book stood at a hefty RM21.8b while its unbilled construction order book stood at RM20.7b.

Property division booked RM195.3m revenue in 4Q19, +22.3%yoy. The key contributors for the revenue were on-going development projects, namely Sentral Suites in KL Sentral, the 9 Seputeh mixed residential development in Jalan Klang Lama and the MyIPO office tower in PJ Sentral Garden City, the completed MBSB office tower in PJ Sentral Garden City, Sentral Residences and Kalista Park Homes in Bukit Rahman Putra. It must also be highlighted that the Group has cumulative unbilled sales totaling RM1.6b.

Maintain BUY

Revised Target Price : RM0.73

(from RM0.84)

RETURN STATISTICS

Price @ 26 th Feb 2020 (RM)	RM0.66
Expected share price return (%)	+10.21
Expected dividend yield (%)	+1.52
Expected total return (%)	+11.73

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-7.69	-2.90
3 months	-9.59	-6.78
12 months	-17.50	-5.15

KEY STATISTICS

FBM KLCI	1495.19
Syariah compliant	Yes
Issue shares (m)	4399.9
Estimated free float (%)	37.3
Market Capitalisation (RM'm)	2911.95
52-wk price range	RM0.63 - RM1.15
Beta vs FBM KLCI (x)	1.4
Monthly velocity (%)	11.0
Monthly volatility (%)	29.3
3-mth average daily volume (m)	5.97
3-mth average daily value (RM'm)	4.30
Top Shareholders (%)	
Employees Provident Fund Board	35.85
Gapurna Sdn Bhd	15.53
Lembaga Tabung Haji	5.97

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1sen/share dividend declared. The group approved and declared a first and final single tier dividend of 1.0sen per ordinary shares for the financial year ended 31 December 2019. The entire amount of approximately RM44.0m is expected to be paid on 20 May 2020.

Reiterate BUY with a new TP of RM0.73. We note that MRCB has participated in open tenders valued at RM1.4b as at the end of 2019 and moving forward the Group will continue to actively tender for more contracting projects to replenish its order book. The LRT3 project, which is currently 24% completed, will see the pace of its profit recognition accelerates and is expected to generate higher contribution to MRCB's earnings in FY20. Our new **TP** is adjusted (as we rollover our valuation base year to FY21) to **RM0.73**, implying **40x PE** (close to its 2-year average) to **FY21F** EPS. Hence, maintain **BUY** call. 

INVESTMENT STATISTICS

FYE Dec	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	131.2
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	170.0	26.0
PER(x)	6.4	13.4	38.3	123.5	45.7	36.3
Dividend (sen)	3.7	4.3	1.8	1.0	1.0	1.0
Dividend yield (%)	4.2	4.9	2.0	1.5	1.5	1.5

Source: Company, MIDFR

4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q19	4Q18	3Q19	YoY	QoQ	12M19	12M18	YoY
Revenue	471.6	374.1	372.7	26.1%	26.5%	1,319.4	1,870.7	-29.5%
Operating expenses	-457.3	-369.6	-358.0	23.7%	27.7%	-1,328.2	-1,778.9	-25.3%
Other operating income	12.4	14.6	10.5	-15.0%	17.8%	100.8	49.7	103.0%
Profit from operations	26.8	19.1	25.2	39.7%	6.0%	92.0	141.5	-35.0%
Finance Cost	-7.0	-7.2	-13.7	-3.5%	-48.8%	-45.6	-44.0	3.7%
Associates	2.5	3.7	3.6	-168.6%	-30.6%	11.2	18.2	-38.4%
JV	-1.9	-7.9	-0.9	-76.5%	98.2%	-4.6	7.3	-163.2%
PBT	20.4	7.7	14.3	165.3%	43.1%	53.0	123.0	-56.9%
Taxation	-13.1	-7.4	-12.1	77.6%	8.3%	-34.3	-46.1	-25.7%
PATAMI	6.0	26.4	2.5	-77.2%	141.2%	23.7	101.2	-76.5%
EPS (sen)	0.14	0.60	0.06	-123.3%	133.3%	0.5	2.3	-76.5%
	4Q19	4Q18	3Q19	+/- pts	+/- pts	12M19	12M18	+/- pts
EBIT margin	5.7%	5.1%	6.8%	0.6	-1.1	7.0%	7.6%	-0.6
PBT margin	4.3%	2.1%	3.8%	2.3	0.5	4.0%	6.6%	-2.6
PATAMI margin	1.3%	7.1%	0.7%	-5.8	0.6	1.8%	5.4%	-3.6%
Effective tax rate	64.2%	95.9%	84.8%	-31.7	-20.6	64.7%	37.5%	27.2

Segmental Breakdown								
Revenue (RM'm)	4Q19	4Q18	3Q19	YoY	QoQ	12M19	12M18	YoY
Engineering and construction	258.7	197.4	137.4	31.1%	88.3%	679.5	758.6	-10.4%
Property development	195.3	159.7	215.0	22.3%	-9.2%	566.7	1,042.7	-45.6%
Building services	14.3	13.6	13.5	4.9%	5.9%	53.6	53.3	0.6%
Investment holdings & others	3.4	3.4	6.9	-1.2%	-51.0%	19.5	16.1	21.0%
TOTAL	471.6	374.1	372.7	26.1%	26.5%	1,319.4	1,870.7	-29.5%
PBT	4Q19	4Q18	3Q19	YoY	QoQ	12M19	12M18	YoY
Engineering and construction	19.8	11.4	1.8	73%	1017%	23.1	56.2	59.0%
Property development	7.0	9.0	22.8	-22%	-69%	76.8	97.8	-21.5%
Building services	2.3	0.8	3.6	202%	-36%	6.0	6.4	-6.7%
Investment holdings & others	-2.6	4.8	-0.1	-154%	1807%	-3.7	-5.3	-29.5%
TOTAL	26.5	26.0	28.1	2%	-6%	102.1	155.2	-34.2%
PBT margin	4Q19	4Q18	3Q19	+/- pts	+/- pts	12M19	12M18	+/- pts
Engineering and construction	7.6%	5.8%	1.3%	1.9	6.4	3.4%	7.4%	-4.0
Property development	3.6%	5.6%	10.6%	-2.1	-7.1	13.6%	9.4%	4.2
Building services	16.3%	5.7%	27.1%	10.6	-10.8	11.1%	12.0%	-1122.3%

Source: Company, 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.