

29 June 2020

Construction & Engineering | Construction

## Malaysian Resources Corp (MRC MK)

**Buy** (Maintained)

**Built To Sustain; Still BUY**

Target Price (Return): MYR0.55 (+17%)  
Price: MYR0.47  
Market Cap: USD483m  
Avg Daily Turnover (MYR/USD) 7.52m/1.74m

- Maintain BUY with new SOP-based TP of MYR0.55 from MYR0.48, 17% upside and c.5% yield.** Malaysian Resources Corp (a usual suspect for rail projects) is likely a beneficiary, if mega projects are revived. Speculation on the outcome may persist, and crystallise ahead the Budget 2021 and 12th Malaysia Plan announcements. Share price has recovered 27% in the last three months. Still, its value remains attractive – trading at 15x P/E, below -1SD from its five-year mean of 20x.
- 1Q20 in line with estimates.** 1Q20 net profit was MYR16m (>+100% YoY) – meeting our but above consensus expectations at 24% and 35% of full-year estimates. Property segments reported >+100% YoY and QoQ growth with PBT of MYR20.6m. The strong growth was mainly from 1060 Carnegie in Melbourne and Sentral Suites in KL Sentral. Revenue was recognised for 1060 Carnegie upon the handover and settlement of purchased units following its completion in Dec 2019. For Sentral Suites, it achieved a sales ratio of 82% and construction progress of 34% as at Mar 2020.
- Highway projects represent the bulk of construction billings.** Revenue grew 32% YoY (-32% QoQ), attributed to the Damansara-Shah Alam Elevated Highway, EPF headquarters, and Sungai Besi-Ulu Kelang Elevated Expressway projects, to name a few. Contribution (booked under share of JV) from the Light Rail Transit 3 (LRT3) is still minimal, at only MYR1.2m. Income recognition was deferred following the re-modelling of the LRT3 project. Based on our channel checks, the review exercise is already at the tail-end, with an outcome to be seen in the next few weeks. This could see billings significantly improve moving forward.
- Open tender valued at MYR2.5bn.** There is greater emphasis on infrastructure projects, which usually comes in a sizeable chunk. As at Mar 2020, its orderbook remained the highest in the industry – at MYR21bn – with active projects forming c.40% of the total. In view of business sustainability, this is positive for the longer term. However, we remain cautious on the immediate-term outlook, due to the impact of the Movement Control Order (MCO). To mitigate this, the group has embarked on austerity and cost cutting measures, which include cutting corporate overhead and temporary salary cut of 30%, among the top management.
- Earnings forecasts unchanged.** We have adjusted the TP to MYR0.55 after rolling over our base year to FY21, and construction earnings pegged to a higher P/E of 16x (in line with other big caps) from 12x. We believe the multiple is justified as we have seen sentiment on the sector improving.
- Key downside risks** include a prolonged slowdown in the property market, longer-than-expected delays in the commencement of public sector infrastructure projects, and the inability to secure new orders.

### Analysts

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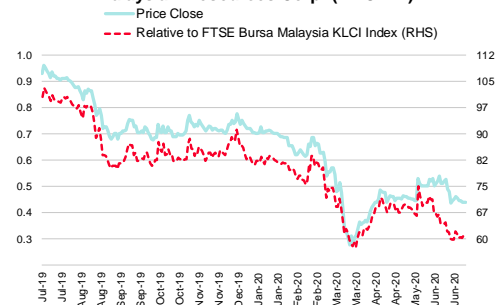
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### Share Performance (%)

|                            | YTD         | 1m     | 3m   | 6m     | 12m    |
|----------------------------|-------------|--------|------|--------|--------|
| Absolute                   | (35.6)      | (11.3) | 27.0 | (36.5) | (50.3) |
| Relative                   | (29.3)      | (14.9) | 14.9 | (29.3) | (39.2) |
| 52-wk Price low/high (MYR) | 0.31 – 0.99 |        |      |        |        |

Malaysian Resources Corp (MRC MK)



Source: Bloomberg

| Forecasts and Valuation         | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm)           | 1,871  | 1,319  | 1,309   | 1,375   | 1,444   |
| Recurring net profit (MYRm)     | 75     | 24     | 66      | 73      | 83      |
| Recurring net profit growth (%) | (59.5) | (68.5) | 180.1   | 9.2     | 14.7    |
| Recurring P/E (x)               | 14.21  | 45.14  | 16.12   | 14.76   | 12.86   |
| P/B (x)                         | 0.2    | 0.2    | 0.2     | 0.2     | 0.2     |
| P/CF (x)                        | 0.46   | 9.12   | 1.96    | 5.08    | 10.93   |
| Dividend Yield (%)              | 3.7    | 3.7    | 4.7     | 5.3     | 5.3     |
| EV/EBITDA (x)                   | 12.37  | 24.93  | 14.56   | 14.57   | 13.97   |
| Return on average equity (%)    | 1.6    | 0.5    | 1.4     | 1.5     | 1.8     |
| Net debt to equity (%)          | 19.2   | 24.6   | 20.2    | 22.5    | 27.2    |

Source: Company data, RHB

### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

## Financial Exhibits

| Asia                            | Financial summary (MYR)             | Dec-18        | Dec-19        | Dec-20F        | Dec-21F        | Dec-22F        |
|---------------------------------|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Malaysia                        | Recurring EPS                       | 0.03          | 0.01          | 0.03           | 0.03           | 0.04           |
| Construction & Engineering      | DPS                                 | 0.02          | 0.02          | 0.02           | 0.03           | 0.03           |
| <b>Malaysian Resources Corp</b> | BVPS                                | 2.12          | 2.10          | 2.08           | 2.07           | 2.05           |
| MRC MK                          | Return on average equity (%)        | 1.6           | 0.5           | 1.4            | 1.5            | 1.8            |
| Buy                             |                                     |               |               |                |                |                |
|                                 | <b>Valuation metrics</b>            | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20F</b> | <b>Dec-21F</b> | <b>Dec-22F</b> |
|                                 | Recurring P/E (x)                   | 14.21         | 45.14         | 16.12          | 14.76          | 12.86          |
|                                 | P/B (x)                             | 0.2           | 0.2           | 0.2            | 0.2            | 0.2            |
|                                 | FCF Yield (%)                       | 177.8         | (17.0)        | 29.0           | 0.0            | (10.5)         |
|                                 | Dividend Yield (%)                  | 3.7           | 3.7           | 4.7            | 5.3            | 5.3            |
|                                 | EV/EBITDA (x)                       | 12.37         | 24.93         | 14.56          | 14.57          | 13.97          |
|                                 | EV/EBIT (x)                         | 15.99         | 24.93         | 21.59          | 21.94          | 20.39          |
|                                 | <b>Income statement (MYRm)</b>      | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20F</b> | <b>Dec-21F</b> | <b>Dec-22F</b> |
|                                 | Total turnover                      | 1,871         | 1,319         | 1,309          | 1,375          | 1,444          |
|                                 | Gross profit                        | 373           | (9)           | 236            | 247            | 260            |
|                                 | EBITDA                              | 165           | 92            | 142            | 150            | 171            |
|                                 | Depreciation and amortisation       | (37)          | 0             | (46)           | (50)           | (54)           |
|                                 | Operating profit                    | 128           | 92            | 96             | 99             | 117            |
|                                 | Net interest                        | (23)          | (46)          | (13)           | (8)            | (12)           |
|                                 | Pre-tax profit                      | 123           | 53            | 90             | 98             | 113            |
|                                 | Taxation                            | (46)          | (34)          | (23)           | (25)           | (28)           |
|                                 | Reported net profit                 | 75            | 24            | 66             | 73             | 83             |
|                                 | Recurring net profit                | 75            | 24            | 66             | 73             | 83             |
|                                 | <b>Cash flow (MYRm)</b>             | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20F</b> | <b>Dec-21F</b> | <b>Dec-22F</b> |
|                                 | Change in working capital           | 2,247         | 105           | 439            | 94             | (33)           |
|                                 | Cash flow from operations           | 2,343         | 117           | 547            | 211            | 98             |
|                                 | Capex                               | (438)         | (300)         | (236)          | (211)          | (211)          |
|                                 | Cash flow from investing activities | 1,012         | (300)         | (236)          | (211)          | (211)          |
|                                 | Dividends paid                      | (45)          | (77)          | (77)           | (20)           | (22)           |
|                                 | Cash flow from financing activities | (1,918)       | 23            | (77)           | (20)           | (22)           |
|                                 | Cash at beginning of period         | 724           | 552           | 398            | 719            | 716            |
|                                 | Net change in cash                  | 1,437         | (160)         | 233            | (20)           | (135)          |
|                                 | Ending balance cash                 | 2,161         | 392           | 632            | 699            | 581            |
|                                 | <b>Balance sheet (MYRm)</b>         | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20F</b> | <b>Dec-21F</b> | <b>Dec-22F</b> |
|                                 | Total cash and equivalents          | 552           | 398           | 719            | 716            | 600            |
|                                 | Tangible fixed assets               | 1,979         | 2,279         | 2,469          | 2,630          | 2,787          |
|                                 | Total investments                   | 34            | 34            | 34             | 34             | 34             |
|                                 | Total assets                        | 8,342         | 8,136         | 7,840          | 7,934          | 8,041          |
|                                 | Short-term debt                     | 726           | 726           | 726            | 726            | 726            |
|                                 | Total long-term debt                | 766           | 866           | 966            | 1,066          | 1,166          |
|                                 | Total liabilities                   | 3,442         | 3,294         | 3,028          | 3,158          | 3,290          |
|                                 | Total equity                        | 4,900         | 4,842         | 4,812          | 4,776          | 4,750          |
|                                 | Total liabilities & equity          | 8,342         | 8,136         | 7,840          | 7,934          | 8,041          |
|                                 | <b>Key metrics</b>                  | <b>Dec-18</b> | <b>Dec-19</b> | <b>Dec-20F</b> | <b>Dec-21F</b> | <b>Dec-22F</b> |
|                                 | Revenue growth (%)                  | (29.2)        | (29.5)        | (0.8)          | 5.0            | 5.0            |
|                                 | Recurrent EPS growth (%)            | (59.5)        | (68.5)        | 180.1          | 9.2            | 14.7           |
|                                 | Gross margin (%)                    | 19.9          | (0.7)         | 18.0           | 18.0           | 18.0           |
|                                 | Operating EBITDA margin (%)         | 8.8           | 7.0           | 10.9           | 10.9           | 11.9           |
|                                 | Net profit margin (%)               | 4.0           | 1.8           | 5.1            | 5.3            | 5.8            |
|                                 | Dividend payout ratio (%)           | 102.4         | 325.2         | 30.0           | 30.0           | 30.0           |
|                                 | Capex/sales (%)                     | 23.4          | 22.7          | 18.0           | 15.3           | 14.6           |
|                                 | Interest cover (x)                  | 2.91          | 2.02          | 3.24           | 3.35           | 3.54           |

Source: Company data, RHB

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## Results At a Glance

Figure 1: MRCB's results review

| FYE Dec (MYRm)                | 1Q19         | 4Q19         | 1Q20         | QoQ (%)      | YoY (%)      | Comments   |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--|
| <b>Revenue</b>                | <b>234.1</b> | <b>471.6</b> | <b>425.8</b> | <b>(9.7)</b> | <b>81.9</b>  | Attributed to better progress billings in the construction division and settlement of purchased units from 1060 Carnegie |
| <b>EBIT</b>                   | <b>18.9</b>  | <b>26.8</b>  | <b>35.9</b>  | <b>34.1</b>  | <b>90.1</b>  |  |
| <i>EBIT Margin (%)</i>        | 8.1          | 5.7          | 8.4          |              |              |  |
| Interest expense              | (12.4)       | (7.0)        | (12.6)       | 80.3         | 1.5          |  |
| Associates                    | 1.9          | 0.7          | 3.6          | 437.1        | 84.5         |  |
| <b>Pretax profit</b>          | <b>8.4</b>   | <b>20.4</b>  | <b>26.9</b>  | <b>31.5</b>  | nm           |  |
| <i>Pretax Margin (%)</i>      | 3.6          | 4.3          | 6.3          |              |              |  |
| Tax                           | (7.4)        | (13.1)       | (11.2)       | (14.4)       | 52.1         |  |
| <i>Effective tax rate (%)</i> | 87.8         | 64.2         | 41.8         |              |              |  |
| <b>Net Profit</b>             | <b>1.6</b>   | <b>7.3</b>   | <b>15.6</b>  | <b>113.8</b> | <b>906.4</b> |  |
| <b>Core Profit</b>            | <b>4.1</b>   | <b>6.0</b>   | <b>15.6</b>  | <b>159.5</b> | <b>278.4</b> | Within our estimates   |
| <i>Net Margin (%)</i>         | 1.8          | 1.3          | 3.7          |              |              |  |

Source: Company data, RHB

Figure 2: MRCB's segmental results

| FYE Dec (MYRm)        | 1QFY19       | 4QFY19       | 1QFY20       | QoQ (%)      | YoY (%)     | Comments   |
|-----------------------|--------------|--------------|--------------|--------------|-------------|--|
| <b>Revenue</b>        | <b>234.1</b> | <b>471.6</b> | <b>425.8</b> | <b>(9.7)</b> | <b>81.9</b> | Bulk of the contribution came from highway projects<br>Revenue was recognised from 1060 Carnegie upon the handover of purchased units following its completion in Dec 2019 |
| Construction          | 132.7        | 258.7        | 174.8        | (32.4)       | 31.7        |  |
| Property              | 85.1         | 195.3        | 236.4        | 21.0         | 177.8       |  |
| Others                | 16.2         | 17.6         | 14.5         | (17.7)       | (10.5)      |  |
| <b>Segmental EBIT</b> | <b>20.7</b>  | <b>26.5</b>  | <b>36.0</b>  | <b>36.2</b>  | <b>74.0</b> |  |
| Construction          | 16.7         | 19.8         | 12.6         | (36.5)       | (24.8)      |  |
| Property              | 3.0          | 7.0          | 20.6         | 194.8        | 584.7       |  |
| Others                | 1.0          | (0.3)        | 2.9          | na           | 194.4       |  |

Source: Company data, RHB

Figure 3: MRCB's SOP valuation

| Items  | P/E/ WACC/ Valuation | Equity value/surplus (MYRm) |
|--|----------------------|-----------------------------|
| Construction (16x 1-year forward earnings)         | P/E of 16x           | 321.8                       |
| Surplus RNAV for property and investments          | WACC of 11%          | 702.0                       |
| 31% MQ REIT  | TP: 0.78             | 232.4                       |
| Kwasa Damansara PDP for infrastructure works (DCF) | WACC of 8%           | 61.9                        |
| Shareholders' Funds (excl. construction)           |                      | 4,762.1                     |
| Total RNAV   |                      | 6,080.3                     |
| Share base   |                      | 4,412..1                    |
| <b>RNAV per share</b>                              |                      | <b>1.38</b>                 |
| Discount   |                      | 60%                         |
| <b>Target Price (MYR)</b>                          |                      | <b>0.55</b>                 |

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2020-03-31 | Buy            | 0.48         | 0.39  |
| 2019-11-22 | Buy            | 0.87         | 0.75  |
| 2019-08-27 | Buy            | 0.97         | 0.72  |
| 2019-05-31 | Buy            | 1.10         | 0.93  |
| 2019-02-27 | Buy            | 1.08         | 0.80  |
| 2018-11-13 | Buy            | 1.20         | 0.75  |
| 2018-04-06 | Buy            | na           | 0.98  |
| 2018-03-01 | Buy            | 1.34         | 1.09  |

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
| <b>Sell:</b>        | Share price may fall by more than 10% over the next 12 months                                    |
| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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