

28 August 2020

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (Maintained)

Cleaner Slate After Kitchen-Sink Quarter; Stay BUY

Target Price (Return): MYR0.59 (13.4%)
 Price: MYR0.52
 Market Cap: USD550m
 Avg Daily Turnover (MYR/USD) 5.85m/1.37m

- **BUY, new SOP-based MYR0.59 TP from MYR0.62, 13% upside and c.2% yield.** The recent close of Johor Bahru-Singapore Rapid Transit System negotiations means that focus will shift to the Kuala Lumpur-Singapore High-Speed Rail project. On that account, we still believe 2H20 may offer fresh catalysts, thereby boosting potential earnings visibility. Malaysian Resources Corp is a likely beneficiary of this, should a bull case play out for the sector. The stock is trading at an attractive 16x P/E, below -1SD from its 5-year mean of 20x.
- **Losses partly offset by property contribution.** MRCB reported a 2Q20 net loss of MYR219.6m (>-100% QoQ, and YoY), bringing 1H20 earnings to -MYR204m (>-100% YoY). Losses were due to the additional provision of MYR197m in the engineering and construction segment. The amount stems from a possible impairment of contract assets, trade and other receivables that are likely to be impacted as a result of the pandemic. We do not rule out a potential writeback, but it seems unlikely that a portion of the amount will be realised in the near term. Core net loss came in at MYR1.5m – below our and consensus estimates.
- **Among all the segments, property is the biggest contributor to revenue.** Its revenue was up 40% YoY (-58% QoQ), mainly recognised from the 1060 Carnegie in Melbourne and Sentral Suites in KL Sentral projects. 2H20 could see stronger contributions from the property arm driven by unbilled sales, which currently stand at MYR1.3bn, comprising residential projects. YTD, MRCB has secured new property sales of MYR86m. While the quantum was lower by 65% YoY, we expect sales to improve in the remaining 2020. This could be driven by higher sales recorded from 1060 Carnegie and 9 Seputeh. Further on that, the group expects to hand over more of the 1060 Carnegie completed units in the coming quarters. The total estimated value is c.MYR136m, and this will be progressively recognised as revenue.
- **We tweak our net profit forecasts after adjusting for the impairment provision in FY20.** This results in net profit loss during the year from MYR66m PATAMI estimated previously. Consequently, our FY21F and FY22F earnings estimates are reduced by 5% respectively. Our TP is revised to MYR0.59 from MYR0.62 after taking into account a higher discount rate of 60% (from 55%). We consider this to be reasonable as we incorporate the group's latest developments. At the current price, the stock appears attractive as it currently trades below the level post 14th General Election (below -1SD of its 5-year mean of 20x).
- **Key downside risks** include a prolonged slowdown in the property market, longer-than-expected delays in the commencement of public sector infrastructure projects, and inability to secure new orders.

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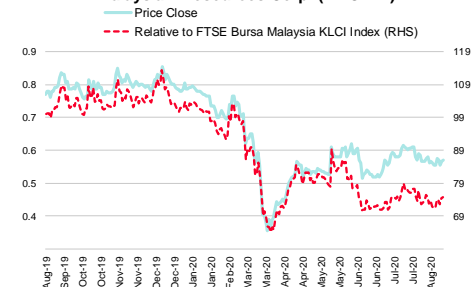
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.8)	(5.5)	(6.3)	(16.8)	(27.8)
Relative	(26.7)	(3.2)	(13.4)	(20.1)	(25.5)
52-wk Price low/high (MYR)					0.31 – 0.81

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	26	72	81
Recurring net profit growth (%)	(59.5)	(68.5)	8.7	180.3	12.4
Recurring P/E (x)	15.72	49.95	45.97	16.40	14.59
P/B (x)	0.2	0.2	0.3	0.3	0.3
P/CF (x)	0.51	10.09	2.35	5.63	12.35
Dividend Yield (%)	3.4	3.4	1.9	1.9	1.9
EV/EBITDA (x)	13.06	26.17	26.36	15.69	14.96
Return on average equity (%)	1.6	0.5	(3.7)	1.6	1.8
Net debt to equity (%)	19.2	24.6	25.0	25.7	28.7

Source: Company data, RHB

Note:

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

28 August 2020

Construction & Engineering | Construction

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.03	0.01	0.01	0.03	0.04
Construction & Engineering	DPS	0.02	0.02	0.01	0.01	0.01
Malaysian Resources Corp	BVPS	2.12	2.10	2.00	2.01	2.03
MRC MK	Return on average equity (%)	1.6	0.5	(3.7)	1.6	1.8
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	15.72	49.95	45.97	16.40	14.59
60% discount to RNAV	P/B (x)	0.2	0.2	0.3	0.3	0.3
	FCF Yield (%)	160.7	(15.4)	22.7	(0.0)	(9.7)
Key drivers	Dividend Yield (%)	3.4	3.4	1.9	1.9	1.9
i. New property sales;	EV/EBITDA (x)	13.06	26.17	26.36	15.69	14.96
ii. Asset disposals; and	EV/EBIT (x)	16.88	26.17	54.30	23.32	21.83
iii. New construction contracts.						
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	1,871	1,319	1,309	1,375	1,444
Weaker-than-expected market conditions.	Gross profit	373	(9)	183	252	260
	EBITDA	165	92	90	154	171
Company Profile	Depreciation and amortisation	(37)	0	(46)	(50)	(54)
MRCB is engaged in construction (niche strength in environmental projects), property development and investment and toll road operations. It is known for its transit-oriented developments, eg KL Sentral, Bukit Jalil City, Kwasa Damansara and Penang Sentral.	Operating profit	128	92	44	103	117
	Net interest	(23)	(46)	(16)	(13)	(15)
	Pre-tax profit	123	53	(162)	98	110
	Taxation	(46)	(34)	(9)	(24)	(28)
	Reported net profit	75	24	(171)	72	81
	Recurring net profit	75	24	26	72	81
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2,247	105	439	94	(33)
	Cash flow from operations	2,343	117	505	211	96
	Capex	(438)	(300)	(236)	(211)	(211)
	Cash flow from investing activities	1,012	(300)	(236)	(211)	(211)
	Dividends paid	(45)	(77)	(77)	0	(22)
	Cash flow from financing activities	(1,918)	23	(77)	0	(22)
	Cash at beginning of period	724	552	398	533	596
	Net change in cash	1,437	(160)	192	(0)	(137)
	Ending balance cash	2,161	392	590	533	459
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	552	398	533	596	545
	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	7,655	7,815	7,985
	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	4,627	4,656	4,695
	Total liabilities & equity	8,342	8,136	7,655	7,815	7,985
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(29.2)	(29.5)	(0.8)	5.0	5.0
	Recurrent EPS growth (%)	(59.5)	(68.5)	8.7	180.3	12.4
	Gross margin (%)	19.9	(0.7)	14.0	18.3	18.0
	Operating EBITDA margin (%)	8.8	7.0	6.9	11.2	11.9
	Net profit margin (%)	4.0	1.8	(13.1)	5.3	5.6
	Dividend payout ratio (%)	102.4	325.2	0.0	30.0	30.0
	Capex/sales (%)	23.4	22.7	18.0	15.3	14.6
	Interest cover (x)	2.91	2.02	1.48	3.49	3.54

Source: Company data, RHB

28 August 2020

Construction & Engineering | Construction

Figure 1: MRCB's results review

FYE Dec (MYRm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)	Comments
Revenue	241.0	425.8	167.2	(60.7)	(30.6)	475.0	592.9	24.8	Dragged by lower progress billings
EBIT	21.1	35.9	(211.1)	(>-100)	(>-100)	40.0	(175.2)	(>-100)	
EBIT Margin (%)	8.8	8.4	(126.3)			8.4	(29.6)		
Interest expense	(12.6)	(12.6)	(13.1)	4.4	4.7	(25.0)	(25.7)	3.1	
Associates	0.0	3.6	2.2	(37.9)	na	3.2	5.8	80.5	
Pretax profit	9.8	26.9	(222.0)	(>-100)	(>-100)	18.2	(195.2)	(>-100)	Impairment provision of MYR197m
Pretax Margin (%)	4.1	6.3	(132.8)			3.8	(32.9)		
Tax	(2.2)	(11.2)	(2.6)	(77.1)	18.2	(9.0)	(8.7)	(4.1)	
Effective tax rate (%)	22.1	41.8	(1.2)			49.5	(4.4)		
Net Profit	7.7	15.6	(219.5)	(>-100)	(>-100)	9.2	(203.8)	(>-100)	
Core Profit	11.1	15.6	(17.1)	(>-100)	(>-100)	15.2	(1.5)	(>-100)	Below estimates
Net Margin (%)	4.6	3.7	(10.2)			3.2	(0.2)		

Source: Company data, RHB

Figure 2: MRCB's segmental results

FYE Dec (MYRm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)	Comments
Revenue	241.0	425.8	167.2	(60.7)	(30.6)	475.0	592.9	24.8	Impacted by MCO Higher contribution from 1060 Carnegie projects
Construction	150.8	174.8	56.7	(67.6)	(62.4)	283.5	231.5	(18.3)	
Property	71.2	236.4	100.0	(57.7)	40.3	156.4	336.4	115.1	
Others	19.0	14.5	10.5	(27.3)	(44.4)	35.2	25.1	(28.8)	
Segmental EBIT	20.7	36.0	(210.4)	(683.9)	(1,116.1)	47.6	(174.4)	(>-100)	
Construction	16.7	12.6	(208.2)	(1,757.2)	(1,345.8)	1.5	(195.7)	(>-100)	
Property	3.0	20.6	2.0	(90.1)	(32.0)	47.0	22.6	(51.9)	
Others	1.0	2.9	(4.2)	(243.9)	(523.6)	(0.9)	(1.3)	41.8	
EBIT margins	8.6%	8.5%	-125.8%	(134.3)	(134.4)	10.0%	-29.4%		
Construction	11.1%	7.2%	-367.5%	(374.7)	(378.6)	0.5%	-84.5%		
Property	4.2%	8.7%	2.0%	(6.7)	(2.2)	30.0%	6.7%		
Others	5.2%	20.1%	-39.7%	(59.7)	(44.9)	-2.6%	-5.1%		

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	275.9
Surplus RNAV for property and investments	WACC of 11%	1,109.2
31% MQ REIT	TP: 0.83	247.3
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 8%	61.9
Shareholders' Funds (excl. construction)		4,762.1
Total RNAV		6,456.4
Share base		4,412.05
RNAV per share		1.46
Discount		60%
Target Price (MYR)		0.59

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-06	Buy	0.62	0.54
2020-06-28	Buy	0.55	0.47
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

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