24 November 2020

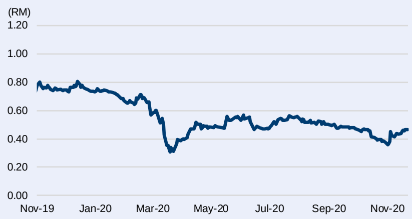
Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM0.465 @ 23 November 2020**

"Weak core earnings to persist"

Share price performance



	1M	3M	12M
Absolute (%)	17.7	-11.4	-37.6
Rel KLCI (%)	10.1	-12.6	-37.6

	BUY	HOLD	SELL
Consensus	4	5	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,412.0
Mkt cap (RMm)/(US$m)	2,051.6/501.5
Avg daily vol - 6mth (m)	9.1
52-wk range (RM)	0.28 – 0.81
Est free float	37.3%
Stock Beta	1.73
Net cash/(debt) (RMm)	(1,190.6)
ROE (CY21E)	NA
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

EPF	35.9%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.9%
KWAP	5.0%

Source: Affin Hwang, Bloomberg

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Malaysian Resources Corp (MRC MK)

SELL (maintain)
Up/Downside: -7.5%

Price Target: RM0.43
Previous Target (Rating): RM0.43 (SELL)

Challenging conditions remain

- **MRCB's 9M20 results were below market and our expectations as it is seeing a slow earnings recovery despite the easing of the Movement Control Order (MCO) and the resumption of construction activities since June.**
- **MRCB incurred a lower core net loss of RM0.5m in 9M20, compared to RM37.3m in 9M19. We cut core net profit to RM7.6m in 2020E from RM20.4m previously to reflect a higher tax expense.**
- **We expect MRCB to see a slow earnings recovery due to disruptions caused by the current Covid-19 pandemic. Maintain our SELL call and TP of RM0.43.**

Remained in the red

MRCB reported a headline net loss of RM203m in 9M20, mainly due to the RM202.5m of impairments recognised in 2Q20. Core net loss was reduced to RM0.5m in 9M20 as it posted a core net profit of RM0.9m in 3Q20. But the recovery still lags the consensus full-year net profit forecast of RM31.6m and our previous estimate of RM20.4m. Revenue increased 5% yoy to RM890.6m in 9M20 on the back of higher property development revenue (+32% yoy). Its construction (-14% yoy) and building services (-15% yoy) divisions saw lower revenue in 9M20 due to the adverse impact of the MCO. EBITDA margin improved to 9.0% in 9M20, compared to 4.6% in 9M19. Coupled with lower net interest expense, the company turned around to post core PBT of RM15m in 9M20, compared to a core pre-tax loss of RM25.5m in 9M19.

Slow property sales and construction progress billings

MRCB achieved property sales of RM126m in 9M20, compared to RM398m in 9M19. The Covid-19 pandemic affected sales in Malaysia due to the temporary closure of property showrooms during the MCO and weak market sentiment. Slower progress billings for some construction projects such as LRT Line 3 (LRT3) and SUKE led to lower construction revenue in 9M20. High unbilled property sales of RM1.2bn and remaining order book of RM20.5bn will support its core operations. But key risk is project execution.

Maintain our SELL call

There were disruptions caused by Covid-19 infections among some workers at its property construction sites affecting work progress. An accident at a section of SUKE led to a temporary closure for investigation, which led to MRCB and its subcontractor being fined RM180k by the authorities in 4Q20. We believe earnings forecast risk remains high for MRCB. We reiterate our SELL call and target price of RM0.43, based on a 40% discount to RNAV. Key upside risks are the acceleration of the Kwasa Damansara development that potentially benefits MRCB, and faster progress billings for ongoing projects.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	1,870.7	1,319.4	1,294.6	1,403.7	1,656.0
EBITDA (RMm)	122.8	52.9	103.6	98.0	160.0
Pretax profit (RMm)	123.0	53.0	(173.5)	28.6	96.1
Net profit (RMm)	101.2	23.7	(194.9)	19.1	66.4
EPS (sen)	2.3	0.5	(4.4)	0.4	1.5
PER (x)	20.2	86.3	(10.5)	107.5	30.9
Core net profit (RMm)	48.8	(34.3)	7.6	19.1	66.4
Core EPS (sen)	1.1	(0.8)	0.2	0.4	1.5
Core EPS growth (%)	(54.9)	(66.6)	100.3	13.7	49.8
Core PER (x)	41.8	(59.8)	268.7	107.5	30.9
Net DPS (sen)	1.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	3.8	3.8	3.8	3.8	3.8
EV/EBITDA	16.9	27.4	65.7	31.8	32.0
Chg in EPS (%)			(62.6)	(1.7)	(0.5)
Affin/Consensus (x)			NA	0.3	0.8

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg	Comments
Revenue	**372.7**	**167.2**	**297.6**	***78.0***	***(20.2)***	**847.8**	**890.6**	***5.0***	Higher property development revenue (+32% yoy), partly offset by lower construction (-14% yoy) and building services (-15% yoy) revenue.
Op costs	(342.5)	(172.6)	(271.4)	*57.2*	*(20.8)*	(808.8)	(810.3)	*0.2*	
EBITDA	**30.2**	**(5.4)**	**26.2**	***NA***	***(13.2)***	**39.0**	**80.2**	***105.9***	
EBITDA margin (%)	*8.1*	*NA*	*8.8*	*NA*	*0.7ppt*	4.6	9.0	*4.4ppt*	
Depreciation	(15.5)	(13.4)	(17.6)	*30.9*	*13.3*	(45.5)	(45.4)	*(0.4)*	
EBIT	**14.7**	**(18.9)**	**8.6**	***NA***	***(41.3)***	**(6.6)**	**34.8**	***(629.4)***	Higher core operating profit for property development division.
Int expense	(13.7)	(13.1)	(11.7)	*(10.8)*	*(14.1)*	(38.6)	(37.5)	*(3.0)*	
Int and other inc	10.5	10.3	7.3	*(29.4)*	*(31.2)*	13.8	14.1	*2.2*	
Associates	2.7	2.2	3.5	*56.1*	*28.8*	5.9	3.5	*(41.3)*	LRT3 project contributed RM1.6m in 9M20 compared to RM1.2m in 6M19.
Exceptional items	0.0	(202.5)	0.0	*(100.0)*	*#DIV/0!*	58.0	(202.5)	*NA*	
Pretax profit	**14.3**	**(222.0)**	**7.6**	***NA***	***(46.6)***	**32.5**	**(187.5)**	***NA***	
Core pretax profit	**14.3**	**(19.5)**	**7.6**	***NA***	***(46.6)***	**(25.5)**	**15.0**	***NA***	
Tax	(12.1)	2.6	(6.8)	*(366.2)*	*(43.6)*	(21.1)	(15.5)	*(26.7)*	
Tax rate (%)	*104.5*	*1.1*	*164.2*	*163.1ppt*	*59.7ppt*	79.4	(8.1)	*NA*	
Minority interests	0.3	(0.1)	0.1	*(185.6)*	*(64.2)*	6.3	(0.0)	*NA*	
Net profit	**2.5**	**(219.6)**	**0.9**	***NA***	*(63.5)*	**17.7**	**(203.0)**	***NA***	Below expectations.
EPS (sen)	0.1	(5.0)	0.0	*NA*	*(66.7)*	0.4	(4.6)	*NA*	
Core net profit	**2.5**	**(17.1)**	**0.9**	***NA***	***(63.5)***	**(37.3)**	**(0.5)**	***(98.5)***	Below expectations. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental operating profit

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg
Construction	1.8	(208.2)	(3.0)	*(98.6)*	*NA*	3.3	(198.7)	*NA*
Property	22.8	2.1	11.7	*449.4*	*(48.9)*	69.8	34.3	*(50.8)*
Building services	3.6	0.9	2.4	*183.9*	*(31.7)*	3.6	5.7	*55.7*
Investment holding	(0.1)	(5.0)	4.4	*(188.0)*	*(3,340.9)*	(1.1)	(0.1)	*(93.3)*
Total	**28.0**	**(210.3)**	**15.6**	**NA**	**(44.6)**	**75.6**	**(158.7)**	***NA***

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE Dec (%)	3Q19	2Q20	3Q20	ppt qoq	ppt yoy	9M19	9M20	ppt yoy
Construction	1.3	NA	NA	*NA*	*NA*	0.8	NA	*NA*
Property	10.6	2.1	7.6	*5.5*	*(3.0)*	18.8	7.0	*(11.8)*
Building services	26.5	9.0	21.3	*12.3*	*(5.2)*	9.3	16.9	*7.6*
Total	**7.5**	**(125.8)**	**5.2**	***NA***	***(2.3)***	**8.9**	**NA**	***NA***

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	Value (RMm)
Property development	3,257
Property investment	1,314
Construction	160
Car Park & REIT	403
Total	**5,134**
Net cash/(debt)	(1,311)
RNAV	**3,823**
No. of shares	4,406
RNAV / share	**0.87**
Target price @ 50% discount	**0.43**

Source: Affin Hwang

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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