

**HLIB Research**

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**HOLD** (Maintain)

**Target Price: RM0.47**
**Previously: RM0.48**
**Current Price: RM0.465**

Capital upside	1.1%
Dividend yield	0.2%
Expected total return	1.3%

**Sector coverage:** Construction

**Company description:** MRCB is primarily involved in property development (with a niche in TODs) and construction.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-8.1	-3.8	-32.5
Relative	-6.6	-11.6	-30.5

**Stock information**

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	2042
3-mth average volume ('000)	5973
SC Shariah compliant	Yes

**Major shareholders**

EPF	35.9%
Gapurna	15.5%
LTH	5.9%

**Earnings summary**

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	-31	17	53
EPS - core (sen)	-0.0	0.4	1.2
P/E (x)	NA	122.7	38.3

# Malaysian Resources Corporation

## Tough operating conditions

MRCB's 9MFY20 core loss of -RM0.5m were below ours and consensus expectations. 3QFY20 recovery was driven by construction and property segments emerging from the MCO. MRCB's outstanding orderbook stands at c.RM17.0bn translating to a tremendous c.24x but a large chunk is long dated jobs. Unbilled sales amounts to RM1.2bn representing 2.1x cover on FY19 property revenue. Cut FY20-21 earnings by 14-57%. Maintain HOLD with lower TP of RM0.47. Our TP implies a FY20/21/22 P/E multiple of 125.2x/39.1x/22.8x.

**Below expectations.** MRCB reported 3QFY20 results with revenue of RM297.6m (+78% QoQ, -20% YoY) and core PATAMI of RM0.9m (against core loss of RM17.1m in 2QFY20, -63% YoY). This brings 9MFY20 to a near breakeven (-RM0.5m) vs core loss of -RM37.3m in 9MFY19. The results were way off our and consensus expectations (we projected FY20 core earnings of RM38.9m; while consensus projected core earnings of RM35.3m). Note that 9MFY20 core earnings have been adjusted for RM202.5 worth of impairments.

**Deviations.** The results shortfall was largely due to slow construction progress as well as slow recognition from its property projects.

**Dividends.** No dividends were declared for the quarter (9MFY20: nil; 9MFY19: nil).

**QoQ.** 3QFY20 turned into core PATAMI of RM0.9m (vs. core loss of -RM17.1m in 2QFY20). Profitability rebounded in 3QFY20 as operations came out of the MCO period imposed in 2QFY20. Both construction and property segments saw topline rebound of 133% and 53% respectively. Nonetheless, productivity during the CMCO period was only 80% hampering earnings recognition while handover at 1060 Carnegie was disrupted by lockdowns in Melbourne.

**YoY.** Core earnings fell by -63% in 3QFY20 in tandem with revenue decline of -20% largely attributed to its property segment (-29%) and to a lesser extent its construction segment (-4%). Pace of normalisation for construction and property projects continues to be slow with Covid-19 SOP compliance mainly responsible.

**YTD.** Marginal loss of -RM0.5m was recorded in 9MFY20 narrowing from -RM37.3m in 9MFY19 anchored by stronger property revenue contribution (+32%). This was due to handover of 1060 Carnegie project where 104 units were settled in 9MFY20. Property contribution in 9MFY19 was also depressed resulting from suboptimal construction stage for its projects (after adjusting for disposal gain).

**Construction.** MRCB's outstanding orderbook stands at c.RM17bn (excluding LRT3 as it is equity accounted), translating to a sizable c.24x cover on FY19 construction revenue. Despite the sizable cover ratio, we note that some of the development contracts are very long term in nature which will not translate to near term revenue. New job wins are proving difficult as the company recently lost out on approximately RM400m worth of ECRL tenders. As for LRT3, completion is on track for 40% by year end. Re-measurement will likely take some time further delaying full steam earnings recognition from the project.

**Property.** Unbilled sales amounts to RM1.2bn representing 2.1x cover on FY19 property revenue. 9MFY20 sales achieved amount to RM126m whereby RM102m was achieved by end July. Recovery momentum has been sluggish and FY20 sales could fall short of management's RM250m target. 1060 Carnegie project contribution is expected to improve in 4QFY20 seeing as 18 units were settled in Oct-2020 compared with 25 units and 20 units settled in 3QFY20 and 2QFY20 respectively.

Despite the anticipated pickup in handover, there have been disruptions (1 week shutdowns) at a number of its domestic property projects due to isolated Covid-19 cases emanating from subcontractors' workers. As such, both Sentral Suites and TRIA Seputeh completion rates of 39% and 30% are running behind completion targets for FY20.

**Forecast.** Slash FY20-21 earnings by -57.2% and -14.0% after recalibrating for construction progress of its property and construction projects as well as revising downwards FY21 contract replenishment and property sales assumptions.

**Maintain HOLD, TP: RM0.47.** Maintain HOLD with lower SOP-driven TP of RM0.47 (from RM0.48) post-earnings adjustment. Our TP implies a FY20/21/22 P/E multiple of 125.2x/39.1x/22.8x. Despite being a frontrunner for the HSR, we reckon MRCB's operating fundamentals remains challenging, limiting its upside potential.

**Figure #1** Quarterly results comparison

FYE Dec	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
Revenue	372.7	167.2	297.6	78	(20)	847.8	890.6	5
EBIT	25.2	(8.6)	15.9	(285)	(37)	7.2	43.2	497
Finance cost	(13.7)	(13.1)	(11.7)	(11)	(14)	(38.6)	(37.5)	(3)
Share of JVs and associates	2.7	2.2	3.5	56	29	5.9	9.3	57
PBT	14.3	(19.5)	7.6	(139)	(47)	(25.5)	15.0	(159)
PAT	2.2	(17.0)	0.8	(105)	(63)	(43.6)	(0.5)	(99)
Core PATMI	2.5	(17.1)	0.9	(105)	(63)	(37.3)	(0.5)	(99)
Reported PATMI	2.5	(219.6)	0.9	(100)	(63)	17.7	(203.0)	(1,246)
Core EPS (sen)	0.1	(0.4)	0.0	(105)	(63)	(0.8)	(0.0)	(99)
EBIT margin (%)	6.8	(5.1)	5.3			0.9	4.8	
PBT margin (%)	3.8	(11.7)	2.6			(3.0)	1.7	

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**Figure #2** SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY21 earnings	31	13	397	0.08
LRT3 JV - annual average	16	10	161	0.03
Property development - NPV of profits		8%	1,440	0.30
Property investment - book value			1,418	0.29
Stake in MRCB-Quill REIT at RM0.96 TP	1,029	28%	287	0.06
<b>Firm value</b>			<b>3,702</b>	<b>0.77</b>
Less: Net debt			(1,411)	(0.29)
<b>Target price</b>			<b>2,291</b>	<b>0.47</b>

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All items in (RM m) unless otherwise stated

**Balance Sheet**

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Cash	552	517	1,600	1,581	1,602
Receivables	1,926	2,049	983	1,233	1,444
Inventories	95	436	69	89	106
PPE	665	678	629	655	681
Investment properties	1,314	1,420	1,418	1,424	1,430
Others	3,791	3,383	3,180	3,207	3,236
<b>Assets</b>	<b>8,342</b>	<b>8,481</b>	<b>7,879</b>	<b>8,189</b>	<b>8,498</b>
Debits	1,491	1,828	1,928	2,028	2,128
Payables	1,190	1,011	604	780	934
Others	761	818	510	510	510
<b>Liabilities</b>	<b>3,442</b>	<b>3,658</b>	<b>3,041</b>	<b>3,318</b>	<b>3,571</b>
Shareholder's equity	4,832	4,792	4,805	4,842	4,906
Minority interest	68	32	33	29	21
<b>Equity</b>	<b>4,900</b>	<b>4,823</b>	<b>4,838</b>	<b>4,871</b>	<b>4,927</b>

**Cash Flow Statement**

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Profit before taxation	75	(2)	16	69	-
Depreciation & amortisation	37	69	53	47	-
Changes in working capital	1,143	(628)	728	(93)	-
Taxation	(85)	(34)	-	(12)	-
Others	(183)	349	-	-	-
<b>CFO</b>	<b>988</b>	<b>(246)</b>	<b>797</b>	<b>12</b>	<b>-</b>
Net capex	(71)	(34)	(80)	(80)	-
Others	1,083	174	-	-	-
<b>CFI</b>	<b>1,012</b>	<b>140</b>	<b>(80)</b>	<b>(80)</b>	<b>-</b>
Changes in borrowings	(1,890)	337	100	100	-
Issuance of shares	9	13	-	-	-
Dividends paid	(77)	(77)	(77)	(3)	-
Others	(36)	(202)	-	-	-
<b>CFF</b>	<b>(1,994)</b>	<b>72</b>	<b>23</b>	<b>97</b>	<b>-</b>
<b>Net cash flow</b>	<b>6</b>	<b>(35)</b>	<b>740</b>	<b>29</b>	<b>-</b>
Forex	-	-	-	-	-
Others	82	-	-	-	-
Beginning cash	464	552	517	1,600	-
Ending cash	552	517	1,600	1,581	-

**Income Statement**

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
<b>Revenue</b>	<b>1,792</b>	<b>1,319</b>	<b>1,245</b>	<b>1,624</b>	<b>1,945</b>
EBITDA	80	87	71	112	150
EBIT	43	17	17	65	100
Net finance cost	(23)	(26)	(24)	(26)	(28)
Associates & JV	25	7	22	30	48
<b>Profit before tax</b>	<b>45</b>	<b>(2)</b>	<b>16</b>	<b>69</b>	<b>121</b>
Tax	(46)	(34)	-	(12)	(22)
<b>Net profit</b>	<b>24</b>	<b>(36)</b>	<b>16</b>	<b>57</b>	<b>99</b>
Minority interest	(1)	5	1	(4)	(8)
<b>PATMI (core)</b>	<b>23</b>	<b>(31)</b>	<b>17</b>	<b>53</b>	<b>91</b>
Exceptionals	78	55	-	-	-
PATMI (reported)	101	24	17	53	91
Consensus - PATMI	-	-	35	66	93
HLIB/ Consensus	-	-	47.1%	80.5%	98.6%

**Valuation & Ratios**

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Core EPS (sen)	0.5	(0.7)	0.4	1.2	2.1
P/E (x)	89.5	n.m.	122.7	38.3	22.4
EV/EBITDA (x)	43.5	40.1	49.4	31.1	23.3
DPS (sen)	1.8	1.8	0.1	0.4	0.6
Dividend yield	3.8%	3.8%	0.2%	0.8%	1.3%
BVPS (RM)	1.10	1.09	1.09	1.10	1.12
P/B (x)	0.42	0.43	0.42	0.42	0.42
EBITDA margin	4.5%	6.6%	5.7%	6.9%	7.7%
EBIT margin	2.4%	1.3%	1.4%	4.0%	5.2%
PBT margin	2.5%	-0.2%	1.3%	4.3%	6.2%
Net margin	1.3%	-2.4%	1.3%	3.3%	4.7%
ROE	0.5%	-0.6%	0.3%	1.1%	1.9%
ROA	0.2%	-0.4%	0.2%	0.7%	1.1%
Net gearing	19.4%	27.4%	6.8%	9.2%	10.7%

**Assumptions**

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Contracts secured	5,686	150	-	250	500
Property sales	457	537	200	500	500

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
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