

# Malaysian Resources Corp.

## 9MFY20 Below Expectations

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9MFY20 CNL of RM0.5m came below expectations due to weak property sales, low construction productivity bogged down by lockdown compliance and weak LRT3 contributions. We dial back our FY20/21E earnings by 87%/46% and lower our SoP-TP to RM0.65 (from RM0.75). However, no change to our OP rating as we believe the Covid-19 recovery narrative will grow in prominence moving forward which will benefit contractors like Mrcb.

**Below.** 3QFY20 CNP of RM0.9m (-63% YoY) brought 9MFY20 core net loss (CNL) to RM0.5m – disappointing both our and consensus CNP expectations of RM49m and RM32m. 9MFY20 property sales of RM126m also fell short of our RM300m full-year target.

**Construction the main culprit for underperformance.** Besides the lower-than-expected property sales, the negative deviation also stemmed from: (i) weaker-than-expected construction which registered losses due to sub-optimal productivity from lockdown compliance, and (ii) lower-than-expected contributions from LRT3 which only racked up RM1.6m PAT for 9MFY20 vs. our full-year projection of RM5m as re-negotiations\* with subcontractors have not been fully completed – leading to less than ideal profit recognition. No dividends as expected.

**Sequentially stronger as it emerged from the worst lockdown.** 3QFY20 CNP of RM0.9m returned to the black from a RM17m loss in 2QFY20 as it was not bogged down by a 2-month MCO in the previous quarter. Dissecting the quarter further, both property and construction segments recorded stronger revenue by 53% and 133%, respectively, as work progress increased. Consequently, both divisions' operating profits improved accordingly, lifting overall operating profit to RM16m from RM9m loss in the previous quarter.

**YoY boosted by property.** Despite the Covid-19 pandemic, 9MFY20 core net loss of RM0.5m actually improved from RM37m CNL posted in 9MFY19 mainly attributed to its property division which posted higher revenue and margins from: (i) recognition of Melbourne Carnegie 1060 in FY20, and (ii) higher degree of advance billings for Sentral Suites.

**Current unbilled sales** remain healthy at RM1.2b (1.5x cover) while outstanding construction order-book and tenderbook stood at RM21b and RM2.6b respectively.

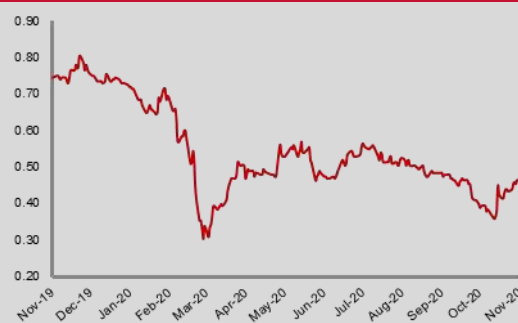
**Earnings downgrade.** Post results, we slash FY20/21E CNP by 87%/46% to RM6.2m/RM55.7m after accounting for: (i) lower FY20/21E sales of RM165m/RM265m (from RM300m/RM450m), (ii) weaker construction margins, and (iii) deferred LRT3 profit recognition into later years. While we expect 4QFY20 to perform better on more settlement at Carnegie 1060 (104/141 settled as of 9MFY20), we note that there were intermittent work stoppages faced at Kwasa, Sentral Suites and 9 Seputeh where Covid-19 cases were detected onsite - impeding optimal construction productivity.

**Maintain Outperform on lower SoP-TP of RM0.65 (from RM0.75)** post earnings adjustments and lowered construction PER to 9x (from 12x) to reflect the uncertain construction profits. While the results were unsatisfactory, we believe the Covid-19 recovery narrative will gradually grow in prominence moving forward and lift the construction sector as a whole. Being the largest Bumiputera-led contractor in Malaysia, we believe MRCB would naturally be a beneficiary of pump-priming initiatives yet to come – hence, we still believe the upside potential still outweighs the downside risks at current share price levels.

## OUTPERFORM ↔

Price : RM0.465  
Target Price : RM0.650 ↓

### Share Price Performance



KLCI	1,597.48
YTD KLCI chg	0.5%
YTD stock price chg	-36.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	2,051.6
Shares Outstanding	4,412.0
52-week range (H)	0.81
52-week range (L)	0.28
3-mth avg daily vol:	5,713,721
Free Float	37%
Beta	1.7

### Major Shareholders

Employees Provident Fund Board	35.9%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.9%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1319.4	1092.9	1190.4
EBIT	92.0	44.8	93.8
PBT	53.0	7.9	72.1
<b>Net Profit</b>	<b>18.7</b>	<b>6.2</b>	<b>55.7</b>
<b>Core PATAMI</b>	<b>-31.3</b>	<b>6.2</b>	<b>55.7</b>
Consensus (NP)	n.a.	31.6	63.7
Earnings Revision	n.a.	-87%	-46%
Core EPS (sen)	-0.7	0.1	1.3
Core EPS growth (%)	-599%	-120%	799%
NDPS (sen)	1.0	0.0	0.3
NTA per Share (RM)	1.0	1.0	1.1
PER (x)	-65.6	331.6	36.9
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	0.3	0.4	0.3
Return on Asset (%)	-0.4%	0.1%	0.6%
Return on Equity (%)	0.4%	0.1%	1.1%
Net Div. Yield (%)	2.2%	0.1%	0.5%



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\*LRT3 renegotiation with subcontractors might linger for another 2-3 quarters – leading to sub-optimal recognition of LRT3 profits as Mrcb will not recognise profits for components which have not finalised its renegotiation/re-measurements.

**Risks to our call** include: (i) lower-than-expected property sales, (ii) snap elections, (iii) resurgence of Covid-19, and (iv) tighter lending environment.

<b>Result Highlight</b>								
<b>FYE Dec (RM m)</b>	<b>3Q20</b>	<b>2Q20</b>	<b>QoQ</b>	<b>3Q19</b>	<b>YoY</b>	<b>9M20</b>	<b>9M19</b>	<b>YoY</b>
Revenue	298	167	78%	373	-20%	891	848	5%
Expenses	-297	-389	-24%	-358	-17%	-1083	-871	24%
Other operating income	15	10	46%	11	43%	33	88	-62%
<b>Operating Profit</b>	<b>16</b>	<b>-211</b>	<b>108%</b>	<b>25</b>	<b>-37%</b>	<b>-159</b>	<b>65</b>	<b>-344%</b>
Interest costs	-12	-13	-11%	-14	-14%	-37	-39	-3%
Associate	4	4	15%	4	18%	11	9	32%
JV	-1	-1	-46%	-1	-14%	-2	-3	-22%
<b>PBT</b>	<b>8</b>	<b>-222</b>	<b>n.a.</b>	<b>14</b>	<b>-47%</b>	<b>-188</b>	<b>33</b>	<b>-677%</b>
Income Tax	-7	3	-366%	-12	-44%	-15	-21	-27%
<b>PAT</b>	<b>1</b>	<b>-219</b>	<b>n.a.</b>	<b>2</b>	<b>-63%</b>	<b>-203</b>	<b>11</b>	<b>-1885%</b>
MI	0	0	n.a.	0	-64%	0	-6	100%
<b>PATAMI</b>	<b>1</b>	<b>-220</b>	<b>100%</b>	<b>3</b>	<b>-63%</b>	<b>-203</b>	<b>18</b>	<b>-1246%</b>
Exceptional Items	0	-203	-100%	0	n.a.	-203	55	-468%
<b>Core PATAMI</b>	<b>0.9</b>	<b>-17</b>	<b>n.a.</b>	<b>3</b>	<b>-63%</b>	<b>-0.5</b>	<b>-37</b>	<b>n.a.</b>
DPS (sen)	0	0	n.a.	0	n.a.	0	0	n.a.
EBIT margin	5%	-126%		7%		-18%	8%	
Pretax margin	3%	-133%		4%		-21%	4%	
CNP margin	0%	-10%		1%		0%	-4%	
Effective tax	-90%	-1%		-85%		8%	-65%	

Source: Company, Kenanga Research

<b>Segmental breakdown</b>								
<b>External Revenue</b>	<b>3Q20</b>	<b>2Q20</b>	<b>QoQ</b>	<b>3Q19</b>	<b>YoY</b>	<b>9M20</b>	<b>9M19</b>	<b>YoY</b>
Prop Dev & Investment	153	100	53%	215	-29%	489	371	32%
Construction	132	57	133%	137	-4%	363	421	-14%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	11	10	20%	13	-15%	34	39	-15%
Others	1	1	41%	7	-80%	4	16	-74%
	<b>298</b>	<b>167</b>	<b>78%</b>	<b>373</b>	<b>-20%</b>	<b>891</b>	<b>848</b>	<b>5%</b>
<b>Core Operating Profit (Net of EI)</b>								
Prop Dev & Investment	12	8	56%	23	-49%	40	15	169%
Construction	-3	-11	-73%	2	-269%	-2	3	-151%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	2	1	184%	4	-32%	6	4	56%
Others	4	-5	188%	0	3341%	0	-1	-93%
	<b>16</b>	<b>-8</b>	<b>298%</b>	<b>28</b>	<b>-44%</b>	<b>44</b>	<b>21</b>	<b>112%</b>
Unallocated Corp Expense	-7	-4	73%	-7	-6%	-15	-24	-39%
Finance Income	7	3	118%	5	57%	14	14	2%
<b>Core Operating Profit</b>	<b>16</b>	<b>-9</b>	<b>285%</b>	<b>25</b>	<b>-37%</b>	<b>43</b>	<b>10</b>	<b>322%</b>
<b>Core OP Margins</b>								
Prop Dev & Investment	8%	8%		11%		8%	4%	
Construction	-2%	-20%		1%		0%	1%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	21%	9%		27%		17%	9%	
Others	317%	-509%		-2%		-2%	-7%	
<b>Total</b>	<b>5%</b>	<b>-5%</b>		<b>8%</b>		<b>5%</b>	<b>2%</b>	

Source: Company, Kenanga Research

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<b>Sum of Parts</b>					
<b>MRCB SoP</b>	<b>Stake</b>	<b>PAT/Gross RNAV/NBV</b>	<b>Valuation Method</b>	<b>Valuations Multiple</b>	<b>Value (MYR)</b>
Property Development	100%	5758	PBV	0.35	2015
Engineering and Construction	100%	26	PER	9	238
Facilities Management	100%	61	PBV	0.8	49
MQREIT	27.9%		In-House TP of RM0.83		248
Investment Properties	100%	358	PBV	1	358
				<b>Sum</b>	<b>2908</b>
				Number of Shares	4395
				RNAV/share	0.65
				FD number of shares	4834
				FD RNAV/share	0.60
				<b>Target Price</b>	<b>0.65</b>
				FY21E Earnings (m)	56
				Implied Fwd PER	52

Source: Company, Kenanga Research

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### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)		Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.				
<b>STOCKS UNDER COVERAGE</b>															
ECO WORLD DEVELOPMENT GROUP	0.405	1,192.5	Y	10/2020	5.8	5.1	5.1	0.3	0.2	4.8%	2.8%	0.490	OP		
IOI PROPERTIES GROUP BHD	0.990	5,451.1	Y	06/2021	8.8	8.0	7.9	0.3	0.3	3.7%	3.0%	0.970	MP		
LBS BINA GROUP BHD	0.385	601.2	Y	12/2020	9.0	15.4	8.8	0.4	0.4	2.8%	1.8%	0.330	UP		
MAH SING GROUP BHD	0.890	2,160.6	Y	12/2020	21.7	42.4	12.7	0.6	0.6	1.7%	3.4%	1.05	OP		
MALAYSIAN RESOURCES CORP BHD	0.465	2,051.6	Y	12/2020	N.A.	465.0	35.8	0.4	0.4	0.1%	0.1%	0.650	OP		
SIME DARBY PROPERTY BHD	0.570	3,876.5	Y	12/2020	5.5	11.5	9.0	0.4	0.4	3.5%	2.6%	0.700	OP		
SP SETIA BHD	0.780	3,164.3	Y	12/2020	13.0	n.a.	11.1	0.2	0.2	-2.4%	0.2%	0.680	UP		
SUNWAY BHD	1.35	6,600.1	Y	12/2020	10.4	15.8	11.0	0.7	0.7	4.4%	3.2%	1.57	OP		
UEM SUNRISE BHD	0.420	2,124.6	Y	12/2020	6.1	6.7	7.8	0.3	0.3	0.8%	0.0%	0.555	OP		
UOA DEVELOPMENT BHD	1.57	3,334.3	Y	12/2020	8.5	8.7	7.7	0.6	0.6	7.0%	8.9%	1.82	OP		
					<b>9.9</b>	<b>64.3</b>	<b>11.7</b>	<b>0.4</b>	<b>0.4</b>	<b>2.6%</b>	<b>2.6%</b>				

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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