Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Maintain NEUTRAL

Construction work progress remains slow

Revised **Target Price : RM0.45**
(previously 0.50)

KEY INVESTMENT HIGHLIGHTS

- **3QFY20 results barely breakeven at RM0.9m, mainly due to the slower resumption in construction activities**
- **As a result, 9MFY20 recorded a narrower loss of –RM0.5m which was below ours and consensus expectations**
- **Given the resurgence of Covid-19 and movement restriction, we opine recovery momentum to be dampened**
- **Healthy construction order book of about RM20.5b to provide support to the group's earnings momentum in FY21**
- **Maintain NEUTRAL with a revised TP at RM0.45**

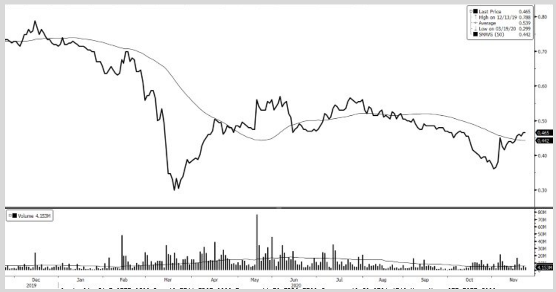
Turned a marginal profit. Malaysian Resources Corporation Berhad (MRCB)'s 3QFY20 results posted a slight profit of RM0.9m (+63.2%yoy). As a result, this led to the group to narrow its 9MFY20 financial performance loss to -RM0.5m (-103.1%yoy). However, this came in below ours and consensus expectations which was primarily due to the slower-than-expected work progress. The existing strict Covid-19 standard operating procedures (SOPs) in place led to lower-than-expected progress billings and delayed revenue recognition. Note that the losses excluded impairment provision of -RM202.5m which arise from the COVID-19 pandemic. Moving forward, we expect MRCB's construction and property business to recover at a slower pace in view of a resurgence of Covid-19 and extended lockdowns in Malaysia in 4Q.

Nonetheless, revenue growth remains resilient. The group's 9MFY20 revenue increased by +5.0%yoy to RM890.6m. This was despite the advent of the ongoing Covid-19 outbreak during the period under review. The improvement in revenue was primarily driven by higher revenue from the property development and investment division amounting to RM489.4m (+31.8%yoy), particularly contributed by the recognition of revenue from '1060 Carnegie' in Melbourne, 'Sentral Suites' and 'TRIA, 9 Seputeh'. However, this was partially moderated by the decrease in construction revenue of RM363.2m (-13.7%yoy) as a result of the complete halt in construction works during MCO.

Property division to support earnings momentum. The group posted a higher 9MFY20 normalised profit of RM34.3m (211.5%yoy), after excluding the one-off gains on disposal of RM58.8m of the Group's entire 30% equity interest in One IFC Sdn Bhd recorded in 2Q19. In addition, the group achieved decent property sales of RM126.0m mainly from the completion of 1060 Carnegie in Melbourne as of 1HFY20. With unbilled sales of RM1.2b, we believe that the property segment to book in higher revenue and profit into FY21 as construction progresses, especially at the Sentral Suites project which makes up 72% of the unbilled sales. Note that the Sentral Suites project is slated to be completed towards the end of 2021.

RETURN STATISTICS	
Price @ 23rd Nov 2020 (RM)	RM0.465
Expected share price return (%)	-3.2
Expected dividend yield (%)	+2.2
Expected total return (%)	-1.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+17.7	+10.1
3 months	-1.1	-12.6
12 months	-37.6	-37.6

KEY STATISTICS	
FBMLC KI	1,597.48
Syariah compliant	Yes
Issue shares (m)	4405.9
Estimated free float (%)	37.3
Market Capitalisation (RM'm)	2,051.60
52-wk price range	RM0.28 - RM0.81
Beta vs FBM KLCI (x)	1.73
Monthly velocity (%)	0
Monthly volatility (%)	26.57
3-mth average daily volume (m)	5.71
3-mth average daily value (RM'm)	2.56
Top Shareholders (%)	
Employees Provident Fund Board	35.85
Gapurna Sdn Bhd	15.53
Lembaga Tabung Haji	5.9

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Resurgence of Covid-19 to dampen the Construction segment. The normalised 9MFY20 profit improved by +16.4%yoy to RM3.8m *(refer to Table 1).* While we expect the partial resumption of work site operations to contribute to 4QFY20 earnings, the resurgence of Covid-19 and extended lockdowns might cause slower work progress as compared to pre-MCO level given the stringent standard operating procedures (SOPs). This might lead to slower recovery in terms of progress billings in 4QFY20 before potentially rebounding to full operations in FY21. Meanwhile, we opine that the group's current sizeable outstanding order book of RM20.5b, of which 91% are infra-related, to continue to provide support to the group's earnings momentum in the medium-to-longer term.

Earnings estimates. We are revising our FY20/21/22 earnings forecast to RM7.1m, RM62.3m and RM74.8m respectively as we lower our revenue assumptions due to slower-than-expected progress billings as construction works are hampered by resurgence in Covid-19 and extended lockdowns.

Target price. We are revising downward our TP to **RM0.45** (*previously RM0.50*) due to our earnings revision**.** We peg a target PER of 32.0x to the group's FY21 EPS of 1.4sen. Note that the PER is +1SD to the group's two year historical average.

Maintain NEUTRAL. In the near term, we expect that the group's revenue and earnings prospects to remain lacklustre in anticipation of the slower resumption of construction and business activities and limited workforce capacity at work sites in view of the stringent Covid-19 SOPs in 4QFY20. This might dampen the earnings prospects in the short-to-medium term as construction progress billings would be affected on slower work progress. While we expect the work progress to possibly accelerate going into FY21, the execution is still very much dependent on the developments surrounding the Covid-19 moving forward. On the property segment, we opine that sales would continue to be encouraging with sizeable unbilled sales of RM1.2b albeit recovery might be dampened given the weak consumer sentiments and consumers might delay big-ticket items in the foreseeable term. Nonetheless, on a longer term horizon, the group's prospect is well-supported by its strong outstanding order book of about RM20.5b which provides long-term earnings visibility. In addition, the continuation of mega public infra projects such as MRT3 and KL-SG HSR as announced in the Budget 2021 could possibly provide a re-rating catalysts moving forward. All in, we are maintaining our **NEUTRAL** recommendation on **MRCB** at current juncture.

INVESTMENT STATISTICS

FYE 31st December	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	1870.7	1319.4	1253.4	1441.4	1585.6
EBIT (RM'm)	141.5	92.0	46.0	105.8	119.6
Pre-tax profit (RM'm)	123.0	53.0	29.2	77.2	88.8
Normalised PATAMI (RM'm)	101.2	23.6	7.1	62.3	74.8
FD EPS (sen)	2.3	0.5	0.2	1.4	1.7
PER(x)	38.3	123.5	289.6	32.9	27.4
Dividend (sen)	1.8	1.0	1.0	1.0	1.0
Dividend yield (%)	2.0	1.5	2.2	2.2	2.2

Source: Company, MIDFR

Table 1: SEGMENTAL BREAKDOWN

Revenue (RM'm)	9MFY20	9MFY19	YoY Chg
Property development	489.405	371.369	31.8%
Engineering and construction	363.2	420.9	-13.7%
Building services	33.7	39.4	-14.5%
Profit/(Loss)	**9MFY20**	**9MFY19**	**YoY Chg**
Property development	34.3	11.0	211.5%
Engineering and construction	3.8	3.3	16.4%
Building services	5.7	3.6	55.7%
Profit/(Loss) margin	**9MFY20**	**9MFY19**	**+/- ppts**
Property development	7.0%	3.0%	-11.8
Engineering and construction	1.1%	0.8%	0.3
Building services	16.9%	9.3%	7.6

Source: Company, MIDFR
**Profit/(Loss) before unallocated corporate expenses, finance costs, and income and share of associates & joint venture results*
**Note: All figures excludes impairment provision of RM202.5m*

MALAYSIAN RESOURCES CORPORATION BHD: 3QFY20 RESULTS SUMMARY

FYE 31st Dec (All in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q20	**% YoY**	**% QoQ**	**9M20**	**9M19**	**% YoY**
Revenue	**296.6**	**-20.4**	**77.4**	**890.6**	**847.8**	**5.0**
EBITDA	**26.2**	**-32.5**	**-87.3**	**74.4**	**97.0**	**-23.2**
Depreciation and amortisation	-17.6	13.3	30.9	-45.4	-45.5	-0.4
EBIT	**8.6**	**63.0**	**-188.7**	**29.1**	**51.4**	**-43.5**
Interest Income	7.2	57.6	114.9	14.1	13.8	2.2
Finance cost	-11.7	-14.1	-10.8	-37.5	-38.6	-3.0
Share of Results of JV	3.5	28.3	56.1	9.3	5.9	N/A
Pre-tax Profit	**7.6**	**46.6**	**-139.1**	**15.0**	**32.5**	**-54.0**
Taxation	-6.8	-43.6	-366.2	-15.5	-21.1	-26.7
PAT	**0.8**	**-63.3**	**104.7**	**-0.5**	**11.4**	**-104.6**
MI	-0.1	-62.5	-189.7	0.0	-6.3	-100.2
PATANCI	0.9	-63.2	105.4	-0.5	17.7	-103.1
Normalised PATANCI	**0.9**	**-63.2**	**105.4**	**-0.5**	**17.7**	**-103.1**
Diluted EPS	0.0	-63.2	-105.4	0.0	0.4	-103.1
	3Q20	**+/- ppts**	**+/- ppts**	**9M20**	**9M19**	**+/- ppts**
Operating margin (%)	2.9	-3.3	8.7	3.3	6.1	-2.8
Pre-tax margin(%)	2.6	-1.3	14.2	1.7	3.8	-2.2
PATANCI margin(%)	0.3	-0.4	10.5	-0.1	2.1	-2.1
Effective tax rate(%)	89.	174.4	76.4	103.5	65.0	38.5

Source: Company, MIDFR
**Note: All figures excludes impairment provision of RM202.5m*

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.