

24 November 2020

Malaysian Resources Corp (MRC MK)

Expecting FY21F Outlook To Improve; Stay BUY

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return): MYR0.57 (+21%)
 Price: MYR0.47
 Market Cap: USD502m
 Avg Daily Turnover (MYR/USD): 2.41m/0.58m

- **Maintain BUY, with a new SOP-based TP of MYR0.57 from MYR0.59, 21% upside and c.2% yield.** We expect key sector catalysts to surface in 2021, which primarily hinge on the final outcome of the Kuala Lumpur-Singapore High Speed Rail (HSR) negotiation. The Government's intention to pursue the project is a positive development and will likely benefit Malaysian Resources Corp, seen as a key candidate for infrastructure works. The stock is trading at an attractive 16x P/E, below -1SD from its 5-year mean of 20x.
- **Cumulative core losses narrowed.** 3Q20 net profit was MYR0.9m. Recovery is showing with >100% QoQ growth, despite declining 64% YoY. Cumulatively, this brings 9M20 earnings to -MYR203m (>-100% YoY). Headline loss was due to the additional provisions of MYR197m in the engineering and construction segment in 2Q20. After stripping out the one-off item, 9M20 core net loss narrowed MYR0.5m – below our and consensus estimates.
- **Property wing was the biggest contributor to revenue.** It grew 32% YoY in 9M20, mainly recognising revenue from 1060 Carnegie in Melbourne, Sentral Suites in KL Sentral projects and 9 Seputeh in Jalan Klang Lama. 4Q20F could see more contributions from the property arm driven by unbilled sales, which currently stands at MYR1.2bn, comprising residential projects. YTD, MRCB has secured new property sales of MYR126m. As the lockdown restriction in Victoria State, Australia, has eased since 28 Oct, the group expects to hand over more of the 1060 Carnegie completed units in 4Q20. The total estimated value is c.MYR126m, and this should be progressively recognised as revenue.
- **We tweak our net profit forecasts after lowering the annual bottomline contribution from the construction division.** This was a result of margin contraction for certain projects, which were impacted by certain restriction measures in 4Q20. We also understand that the re-measurement exercise of the Light Rapid Transit 3 contract will likely be extended to year-end. This would result in minimal JV contribution, despite physical progress reaching a higher completion rate. Taking these into consideration, our FY20F-22F earnings are reduced by 13%, 8%, and 9%. Consequently, our TP is revised to MYR0.57.
- **Key downside risks** include a prolonged slowdown in the property market, longer-than-expected delays in the commencement of public sector infrastructure projects, and the inability to secure new orders.

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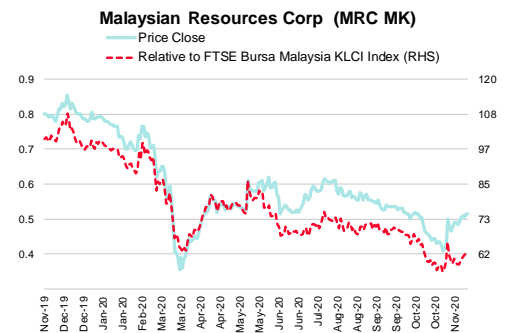


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.3)	17.7	(11.4)	(12.3)	(37.6)
Relative	(36.8)	10.8	(12.7)	(23.5)	(37.6)
52-wk Price low/high (MYR)				0.31	– 0.81



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	1,871	1,319	1,216	1,276	1,340
Recurring net profit (MYRm)	75	24	22	65	73
Recurring net profit growth (%)	(59.5)	(68.5)	(9.1)	201.7	12.1
Recurring P/E (x)	14.06	44.66	49.14	16.29	14.54
P/B (x)	0.2	0.2	0.2	0.2	0.2
P/CF (x)	0.45	9.03	1.91	5.39	11.79
Dividend Yield (%)	3.8	3.8	2.2	2.2	2.2
EV/EBITDA (x)	12.30	24.81	26.30	15.77	15.14
Return on average equity (%)	1.6	0.5	(3.8)	1.4	1.6
Net debt to equity (%)	19.2	24.6	24.0	25.0	28.2

Source: Company data, RHB

Note:

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

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	0.03
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	2.02
MRC MK	Return on average equity (%)	1.6	0.5	(3.8)	1.4	1.6
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	14.06	44.66	49.14	16.29	14.54
	P/B (x)	0.2	0.2	0.2	0.2	0.2
	FCF Yield (%)	179.7	(17.2)	30.1	(1.4)	(11.4)
	Dividend Yield (%)	3.8	3.8	2.2	2.2	2.2
	EV/EBITDA (x)	12.30	24.81	26.30	15.77	15.14
	EV/EBIT (x)	15.90	24.81	59.01	24.36	22.90
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	1,871	1,319	1,216	1,276	1,340
	Gross profit	373	(9)	170	234	241
	EBITDA	165	92	84	143	159
	Depreciation and amortisation	(37)	0	(46)	(50)	(54)
	Operating profit	128	92	37	92	105
	Net interest	(23)	(46)	(15)	(11)	(14)
	Pre-tax profit	123	53	(168)	88	99
	Taxation	(46)	(34)	(7)	(22)	(25)
	Reported net profit	75	24	(175)	65	73
	Recurring net profit	75	24	22	65	73
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2,247	105	494	87	(31)
	Cash flow from operations	2,343	117	555	197	90
	Capex	(438)	(300)	(236)	(211)	(211)
	Cash flow from investing activities	1,012	(300)	(236)	(211)	(211)
	Dividends paid	(45)	(77)	(77)	0	(20)
	Cash flow from financing activities	(1,918)	23	(77)	0	(20)
	Cash at beginning of period	724	552	398	583	632
	Net change in cash	1,437	(160)	242	(14)	(141)
	Ending balance cash	2,161	392	640	569	491
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	552	398	583	632	574
	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	7,607	7,757	7,917
	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	2,984	3,112	3,242
	Total equity	4,900	4,842	4,623	4,645	4,675
	Total liabilities & equity	8,342	8,136	7,607	7,757	7,917
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(29.2)	(29.5)	(7.9)	5.0	5.0
	Recurrent EPS growth (%)	(59.5)	(68.5)	(9.1)	201.7	12.1
	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	(14.4)	5.1	5.4
	Dividend payout ratio (%)	102.4	325.2	0.0	30.0	30.0
	Capex/sales (%)	23.4	22.7	19.4	16.5	15.7
	Interest cover (x)	2.91	2.02	1.26	3.12	3.16
	Key drivers					
	i. New property sales;					
	ii. Asset disposal;					
	iii. New construction contracts.					
	Key risks					
	Weaker-than-expected market conditions.					
	Company Profile					
	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.					

Source: Company data, RHB

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Results At A Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
Revenue	372.7	167.2	297.6	78.0	(20.2)	847.8	890.6	5.0	Driven by the property segment.
EBIT	25.2	(211.1)	15.9	>100	(37.1)	65.2	(159.3)	(344.3)	
<i>EBIT Margin (%)</i>	6.8	(126.3)	5.3			7.7	(17.9)		
Interest expense	(13.7)	(13.1)	(11.7)	(10.8)	(14.1)	(38.6)	(37.5)	(3.0)	
Associates	2.7	2.2	3.5	56.1	28.8	5.9	9.3	56.9	
Pretax profit	14.3	(222.0)	7.6	>100	(46.6)	32.5	(187.5)	(676.7)	Total impairment provision of MYR202.5m.
<i>Pretax Margin (%)</i>	3.8	(132.8)	2.6			3.8	(21.1)	(648.9)	
Tax	(12.1)	(2.6)	(6.8)	166.2	(43.6)	(21.0)	(15.5)	(26.1)	
<i>Effective tax rate (%)</i>	84.8	(1.2)	89.6			64.5	(8.3)	(112.8)	
Net Profit	2.5	(219.5)	0.9	>100	(63.5)	17.7	(203.0)	>-100	
Core Profit	2.5	(17.1)	0.9	>100	(64.0)	17.9	(0.5)	>-100	Below estimates.
<i>Net Margin (%)</i>	0.7	(10.2)	0.3			2.1	(0.1)		

Source: Company data, RHB

Figure 2: MRCB's segmental results

FYE Dec (MYRm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
Revenue	372.6	167.2	297.6	78.0	(20.1)	847.8	890.6	5.0	
Construction	137.4	56.7	131.7	>100	(4.1)	420.9	363.2	(13.7)	Impacted by the MCO.
Property	215.0	100.0	153.0	53.1	(28.8)	371.4	489.4	31.8	Higher contributions from 1060 Carnegie in Melbourne.
Others	20.3	10.5	12.9	22.0	(36.5)	55.5	37.9	(31.7)	
Segmental EBIT	28.0	(210.4)	15.6	>100	(44.3)	75.6	(158.7)	(>-100)	
Construction	1.8	(208.2)	(3.0)	(98.6)	(269.4)	3.3	(198.7)	(>-100)	
Property	22.8	2.0	11.8	>100	(48.6)	69.8	34.3	(50.8)	
Others	3.4	(4.2)	6.9	>100	>100	2.5	5.6	121.1	
EBIT margins	7.5%	-125.8%	5.3%	131.1	(2.3)	8.9%	-17.8%		
Construction	1.3%	-367.5%	-2.3%	365.2	(3.6)	0.8%	-54.7%		
Property	10.6%	2.0%	7.7%	5.6	(2.9)	18.8%	7.0%		
Others	17.0%	-39.7%	53.5%	93.2	36.5	4.6%	14.8%		

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	160.9
Surplus RNAV for property and investments	WACC of 11%	1,018.2
31% MQ REIT	TP: 0.87	259.2
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 8%	61.9
Shareholders' Funds (excluding construction)		4,762.09
Total RNAV		6,262.3
Share base		4,412.05
RNAV per share		1.42
Discount		60%
Target Price (MYR)		0.57

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Source: RHB, Bloomberg

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