28 November 2024

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM0.525 @ 27 November 2024**

"Sanguine order book prospects marred by expected earnings volatility"

Share price performance

	1M	3M	12M
Absolute (%)	-10.3	-0.9	19.3
Rel KLCI (%)	-9.5	2.0	7.7

	BUY	HOLD	SELL
Consensus	5	1	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	2,345.4/527.7
Avg daily vol - 6mth (m)	17.8
52-wk range (RM)	0.41-0.74
Est free float	38.3%
Stock Beta	1.72
Net cash/(debt) (RMm)	(1,252.8)
ROE (2024E)	1.2%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	

Key Shareholders

EPF	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.4%
KWAP	3.9%

Source: Bloomberg, Affin Hwang, Bursa Malaysia

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Malaysian Resources Corp (MRC MK)

HOLD (upgrade)
Up/Downside: -0.2%

Price Target: RM0.52
Previous Target (Rating): RM0.52 (SELL)

Fairly valued for now; upgrade to Hold

- **Core net profit jumped 203% yoy to RM63m in 9M24, while revenue declined 31% yoy, continuing the trend of higher profit recognition for legacy projects**
- **Order book replenishment prospects incrementally positive, with tender and direct negotiation outcomes for several projects likely to be known soon**
- **We upgrade our call to a HOLD with an unchanged TP of RM0.52 following a retracement in share price, still based on a 40% discount to RNAV as earnings volatility remains a key concern for the stock**

Above market expectation but within ours

MRC's 9M24 core earnings came in at RM63m (+203% yoy), comprising 93% of consensus 2024 forecast of RM67.9m and 79% of our estimate of RM79.5m, which we deem above market expectations but within ours. 9M24 revenue contracted 31% yoy despite the jump in earnings, continuing the previous quarter's trend of increased profit recognition from ongoing projects near the tail end – mainly the Klang Valley Light Rail Transit Phase 3 (LRT3). 9M24 construction and property revenue fell 26% yoy and 49% yoy respectively, owing to the lack of construction order book replenishment during the year and slower property sales in 9M24. Given the lack of new construction projects won during the year and the delayed launches of its property projects in Malaysia, we do not foresee a bump in earnings during 4Q24.

Incrementally positive order book prospects

Notably, MRC's tender book has now been revised downwards to RM3bn from RM34bn previously, as the MRT3 tender expired, while bids for the Pan Borneo Highway WP34 package and the Sungai Damansara flood mitigation project were unsuccessful. Nevertheless, prospects for replenishment of its active RM4bn order book seems rosy, with tenders submitted for 3 packages of Large-Scale Solar Plants and the Penang Airport Expansion project. Other projects under negotiation are the redevelopment of Stadium Shah Alam and KL Sentral Station each worth about RM1bn, and 5 LRT3 stations and depot worth over RM1.5bn. For the property segment, unsold units with an estimated book value of RM716m will likely sustain 2024-26E earnings. The segment saw delay in new launches due to DBKL's mandatory requirement to submit independent geotechnical reports for all new projects in light of recent sinkhole incidents.

Upgrade to HOLD on valuation grounds

Following the recent decline in share price, we upgrade our call to a HOLD as we believe most of the negatives have been priced in at current levels. Despite the incrementally positive construction order book outlook, earnings volatility and unattractive PER valuations remain our key concerns. We maintain our 12-month TP of RM0.52, based on an unchanged 40% discount to RNAV/share of RM0.87. Up/downside risks: higher/lower-than-expected property sales and construction earnings.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	3,205.1	2,514.1	2,749.3	1,970.6	2,004.0
EBITDA (RMm)	289.8	279.3	239.5	197.6	214.1
Pretax profit (RMm)	154.3	134.2	115.0	91.6	137.6
Net profit (RMm)	64.8	101.0	79.5	61.8	90.3
EPS (sen)	1.5	2.3	1.8	1.4	2.0
PER (x)	36.2	23.2	29.5	37.9	26.0
Core net profit (RMm)	64.8	101.0	79.5	61.8	90.3
Core EPS (sen)	1.5	2.3	1.8	1.4	2.0
Core EPS growth (%)	519.0	55.8	(21.3)	(22.2)	46.0
Core PER (x)	36.2	23.2	29.5	37.9	26.0
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	1.9	1.9	1.9	1.9	1.9
EV/EBITDA	24.6	11.0	10.7	11.3	13.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.2	0.9	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9M23	9M24	YoY % chg	Comment
Revenue	**503.7**	**372.2**	**426.3**	**14.6**	**(15.4)**	**1,845.3**	**1,274.7**	***(30.9)***	9M24: Lower yoy, mainly due to lower construction (-26% yoy) and property (-49% yoy) revenue.
Op costs	(448.1)	(296.0)	(375.5)	**26.8**	**(16.2)**	(1,680.4)	(1,118.9)	*(33.4)*	
EBITDA	**55.6**	**76.1**	**50.9**	**(33.2)**	**(8.6)**	**165.0**	**155.8**	***(5.5)***	
EBITDA margin (%)	*11.0*	*20.5*	*11.9*	*(8.5)*	*0.9*	8.9	12.2	*3.3ppt*	Higher profit margin, boosted by high-margin LRT3 and flood mitigation projects
Depreciation	(14.8)	(12.9)	(10.4)	(19.5)	(29.9)	(47.9)	(32.1)	*(33.0)*	
EBIT	**40.8**	**63.3**	**40.5**	**(36.0)**	**(0.9)**	**117.1**	**123.7**	***5.7***	Higher construction (+65% yoy) earnings, partly offset by property development loss.
EBIT margin (%)	*8.1*	*17.0*	*9.5*	*(7.5ppt)*	*1.4ppt*	*6.3*	*9.7*	*3.4ppt*	
Int expense	(30.2)	(26.9)	(31.9)	18.3	5.6	(86.9)	(82.7)	*(4.8)*	
Int and other inc	5.5	8.9	(8.9)	(200.0)	(263.3)	17.0	20.5	*20.4*	
Associates	2.5	3.1	2.6	(16.0)	3.5	7.3	8.1	*11.1*	
Exceptional items	0.0	0.0	0.0	n.m	n.m	0.0	0.0	*n.m*	
Pretax profit	**18.7**	**48.4**	**2.3**	**(95.2)**	**(87.5)**	**54.5**	**69.6**	***27.7***	
Tax	(17.2)	2.9	6.3	116.2	(136.8)	(33.5)	(6.8)	*(79.8)*	
Tax rate (%)	*106.4*	*(6.5)*	*2,143.1*	*n.m*	*n.m*	70.9	11.0	*(59.9ppt)*	Deferred tax of RM5.7m and RM4.5m from its local and foreign operations respectively
Minority interests	(0.0)	(0.1)	0.2	(303.9)	(620.0)	(0.2)	0.2	*(175.0)*	
Net profit	**1.5**	**51.2**	**8.9**	**(82.7)**	**506.8**	**20.8**	**63.0**	***203.1***	
EPS (sen)	0.0	1.2	0.0	(97.4)	0.0	0.5	1.4	*200.0*	
Core net profit	**1.5**	**51.2**	**8.9**	**(82.7)**	**506.8**	**20.8**	**63.0**	***203.1***	Within expectations, excludes exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9M23	9M24	YoY *% chg*
Engineering & construction	397.5	282.3	342.2	21.2	(13.9)	1,338.0	984.8	*(26.4)*
Property development & investment	90.0	71.3	65.1	(8.7)	(27.7)	459.5	234.5	*(49.0)*
Building services	12.6	14.1	14.4	2.1	14.3	37.2	41.8	*12.4*
Investment holding & others	3.7	4.5	4.6	3.3	26.9	10.7	13.6	*27.5*
Total	**503.7**	**372.2**	**426.3**	**14.6**	**(15.4)**	**1,845.3**	**1,274.7**	***(30.9)***

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE 31 Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9M23	9M24	YoY *% chg*
Engineering & construction	44.6	88.0	39.1	(55.6)	(12.3)	87.6	144.9	*65.3*
Property development & investment	2.7	(25.7)	(2.3)	(91.0)	n.m	35.7	(16.8)	*NA*
Building services	(1.4)	1.4	1.3	n.m	n.m	(3.3)	6.5	*NA*
Investment holding & others	(5.3)	(0.4)	(12.1)	>100	130.4	(3.0)	(10.8)	*263.0*
Total	**40.6**	**63.3**	**25.9**	**(59.0)**	**(36.2)**	**117.1**	**123.7**	***5.7***

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE 31 Dec (%)	3Q23	2Q24	3Q24	QoQ ppt	YoY ppt	9M23	9M24	YoY *ppt*
Engineering & construction	11.2	31.2	11.4	(19.8)	0.2	6.6	14.7	*8.2*
Property development & investment	3.0	(36.1)	(3.6)	n.m	n.m	7.8	(7.2)	*n.m*
Building services	(11.3)	10.1	8.9	(1.1)	n.m	(8.8)	15.5	*n.m*
Total	**8.1**	**17.0**	**6.1**	**(10.9)**	**(2.0)**	**6.3**	**9.7**	***3.4***

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	Value (RMm)
Property development	3,140
Property investment	1,083
Construction	160
Car Park & REIT	435
Total	**4,817**
Net cash/(debt)	(915)
RNAV	**3,902**
No. of shares	4,468
RNAV / share	**0.87**
Target price @ 40% discount	**0.52**

Source: Affin Hwang forecasts

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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