

"Foresee earnings volatility despite positive surprise"

Share price performance



	1M	3M	12M
Absolute (%)	-11.3	-20.9	22.2
Rel KLCCI (%)	-14.8	-24.4	5.7

	BUY	HOLD	SELL
Consensus	2	3	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US\$m)	2457.1/569.1
Avg daily vol - 6mth (m)	21.5
52-wk range (RM)	0.4-0.74
Est free float	38.3%
Stock Beta	1.53
Net cash/(debt) (RMm)	(1,230.1)
ROE (2024E)	1.2%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	30.1 (-1.4 yoy)

Key Shareholders

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

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Loong Chee Wei, CFA

T (603) 2146 7548

E cheewei.loong@affingroup.com

Lim Jia Zhen

T (603) 2146 7588

E jiazhen.lim@affingroup.com

Malaysian Resources Corp (MRC MK)

SELL (maintain)

Up/Downside: -5.5%

Price Target: RM0.52

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

1H24: high profit margin surprise

- Core net profit jumped 180% yoy in 1H24, mainly due to higher construction profit margin for its construction division
- We raise our 2024E core EPS by 42% from a low base to reflect higher revenue and profit margins for its construction and property development segments
- We maintain our SELL call and TP of RM0.52, based on a 40% discount to RNAV as we expect earnings volatility ahead

Positive surprise in 2Q24

MRC's core net profit of RM54m (+180% yoy) in 1H24 surpassed consensus' full-year forecast of RM40m and made up 97% of our previous estimate of RM56m. Despite the strong earnings, 1H24 revenue contracted by 37% yoy to RM848.4m on lower construction (-32% yoy) and property development (54% yoy) revenue as several major projects have been completed or are at the tail end. Klang Valley Light Rail Transit Phase 3 (LRT3) progress billings rose to 93% of contract value in 1H24, while property sales doubled yoy to RM497.4m, mainly contributed by sales of inventory units for TRIA and VIVO, 9 Seputeh, Sentral Suites condominium projects, and Alstonia. There was a delay in earnings recognition due to timing difference as a result of delays of strata title issuance for Sentral Suites and 9 Seputeh, which led to lower revenue for the segment.

Weaker property earnings

EBIT rose 28% yoy to RM98m in 1H24, contributed by a higher profit margin for its construction segment as MRC recognized lumpy cost savings from the finalisation of accounts for legacy projects. LRT3 and the Muara Sg Pahang Phase 3 flood mitigation projects also recorded higher profit margins. For context, construction EBIT jumped 146% yoy to RM105.8m due to the above reasons. Conversely, the property development segment recorded an LBIT of RM14.5m, in tandem with lower revenue recorded. MRC saw a recognition of deferred tax of RM9.2m in 2Q24, reducing its tax expense. MRC is the front runner for the RM1bn Shah Alam Stadium and RM1bn KL Sentral Station redevelopment projects. MRC also has an active tender book of RM34bn, which comprises MRT Phase 3 and some flood mitigation projects. MRC's active order book of RM4.7bn (excludes RM11bn Bukit Jalil project that has not started) and completed unsold units with an estimated book value of RM805m will likely sustain 2024-26E earnings.

Maintain SELL due to earnings volatility

Following the strong set of results, we raise our 2024-25E earnings by 4-42% to reflect higher profit margins and revenue recognition for both its construction and property development segment. Nevertheless, we maintain our SELL call due to the earnings volatility, and unattractive PER valuations. We maintain our 12-month TP of RM0.52, based on an unchanged 40% discount to RNAV/share of RM0.87. Upside risks: higher-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)	37.9	24.3	30.9	39.7	27.2
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)	37.9	24.3	30.9	39.7	27.2
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	1.8	1.8	1.8	1.8	1.8
EV/EBITDA	25.3	11.3	11.1	11.8	13.7
Chg in EPS (%)			41.8	3.7	-
Affin/Consensus (x)			2.0	1.1	1.2

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q23	1Q24	2Q24	QoQ % chg	YoY % chg	6M23	6M24	YoY % chg	Comment
Revenue	599.3	476.2	372.2	(21.8)	(37.9)	1,341.6	848.4	(36.8)	1H24: Lower yoy, mainly due to lower construction (-32% yoy) and property (-54% yoy) revenue.
Op costs	(549.0)	(434.1)	(296.0)	(31.8)	(46.1)	(1,232.1)	(728.8)	(40.8)	
EBITDA	50.3	42.1	76.1	80.8	51.3	109.5	119.5	9.1	
<i>EBITDA margin (%)</i>	<i>8.4</i>	<i>8.8</i>	<i>20.5</i>	<i>11.6</i>	<i>12.1</i>	<i>8.2</i>	<i>14.1</i>	<i>5.9</i>	Higher profit margin, boosted by gain on sale of 2 investment properties.
Depreciation	(16.3)	(7.6)	(12.9)	70.5	(21.1)	(33.1)	(21.7)	(34.3)	
EBIT	34.0	34.6	63.3	83.1	86.1	76.5	97.8	27.9	Higher construction (+146% yoy) PBT, partly offset by property development loss.
<i>EBIT margin (%)</i>	<i>5.7</i>	<i>7.3</i>	<i>17.0</i>	<i>9.7ppt</i>	<i>11.3ppt</i>	<i>5.7</i>	<i>11.5</i>	<i>5.8</i>	
Int expense	(28.9)	(23.9)	(26.9)	12.8	(6.7)	(56.7)	(50.8)	(10.4)	
Int and other inc	5.9	6.0	8.9	49.9	51.0	11.4	14.9	30.8	
Associates	4.3	2.3	3.1	33.9	(26.7)	4.7	5.5	15.2	
Exceptional items	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
Pretax profit	15.3	19.0	48.4	155.1	216.1	35.8	67.3	87.8	
Tax	(4.4)	(16.0)	2.9	NA	NA	(16.3)	(13.1)	(19.9)	
<i>Tax rate (%)</i>	<i>39.6</i>	<i>96.3</i>	<i>(6.5)</i>	<i>(102.7)</i>	<i>(46.1)</i>	<i>45.6</i>	<i>19.4</i>	<i>(26.1)</i>	Tax on dividends from Sentral REIT increased its effective tax rate in 1Q24.
Minority interests	(0.1)	0.1	(0.1)	NA	67.2	(0.2)	(0.1)	(69.0)	
Net profit	10.9	3.0	51.2	>100	370.9	19.3	54.2	180.1	Above expectations due to disposal of non-core assets.
EPS (sen)	0.2	0.1	1.2	>100	379.2	0.4	1.2	181.4	
Core net profit	10.9	3.0	51.2	>100	370.9	19.3	54.2	180.1	Above expectations, excludes exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	2Q23	1Q24	2Q24	QoQ % chg	YoY % chg	6M23	6M24	YoY % chg
Engineering & construction	482.0	360.3	282.3	(21.7)	(41.4)	940.5	642.6	(31.7)
Property development & investment	101.5	98.1	71.3	(27.3)	(29.8)	369.5	169.4	(54.2)
Building services	12.3	13.3	14.1	5.9	14.4	24.6	27.4	11.3
Investment holding & others	3.5	4.5	4.5	0.2	27.5	7.0	9.0	27.8
Total	599.3	476.2	372.2	(21.8)	(37.9)	1,341.6	848.4	(36.8)

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE 31 Dec (RMm)	2Q23	1Q24	2Q24	QoQ % chg	YoY % chg	6M23	6M24	YoY % chg
Engineering & construction	35.8	17.8	88.0	395.8	145.7	43.1	105.8	145.7
Property development & investment	(0.4)	11.2	(25.7)	(329.0)	>100	32.9	(14.5)	NA
Building services	(1.7)	3.8	1.4	(62.3)	NA	(1.8)	5.2	NA
Investment holding & others	0.3	1.8	(0.4)	(124.7)	(275.5)	2.3	1.4	(41.1)
Total	34.0	34.6	63.3	83.1	86.1	76.5	97.8	27.9

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE 31 Dec (%)	2Q23	1Q24	2Q24	QoQ ppt	YoY ppt	6M23	6M24	YoY ppt
Engineering & construction	7.4	4.9	31.2	26.3	23.7	4.6	16.5	11.9
Property development & investment	NA	11.5	NA	NA	NA	8.9	NA	NA
Building services	NA	28.3	10.1	(18.2)	NA	NA	18.9	NA
Total	5.7	7.3	17.0	9.7	11.3	5.7	11.5	5.8

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	RNAV (RMm)
Property development	3,128
Property investment	1,083
Construction	160
Car Park & REIT	435
Total	4,805
Net cash/(debt)	(915)
RNAV	3,890
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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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

Level 32, Menara AFFIN,
Lingkaran TRX,
55188 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
ahib.researchteam@affingroup.com

www.affinhwang.com

