

“Weak earnings in 1Q24 due to lack of new property launches over the past few years”

### Share price performance



	1M	3M	12M
Absolute (%)	3.7	18.8	127.9
Rel KLCI (%)	1.8	14.8	98.3

	BUY	HOLD	SELL
Consensus	3	4	-

Source: Bloomberg

### Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US\$m)	3,104.9/660.3
Avg daily vol - 6mth (m)	30.6
52-wk range (RM)	0.29-0.74
Est free float	38.1%
Stock Beta	1.42
Net cash/(debt) (RMm)	(914.5)
ROE (2024E)	1.2%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	31.5 (-2.1 yoy)

### Key Shareholders

EPF	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.6%
KWAP	3.9%

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

### Loong Chee Wei, CFA

T (603) 2146 7548

E cheewei.loong@affingroup.com

## Malaysian Resources Corp (MRC MK)

**SELL (downgrade)**

Up/Downside: -25.7%

**Price Target: RM0.52**

Previous Target (Rating): RM0.55 (HOLD)

### Downgrade to SELL on valuation grounds

- Core net profit plunged 96% yoy and 65% qoq to RM3m in 1Q24, mainly due to lower property development earnings and high effective tax rate
- We cut 2024-26E core EPS by 10-25% to reflect lower property profit margins due to high marketing expenses for its VISTA condominium project
- We downgrade our call to SELL with a lower 12-month target price (TP) of RM0.52, based on 40% discount to reduced RNAV

### Negative surprise

MRC's core net profit of RM3m (-96% yoy) in 1Q24 was just 4-5% of consensus' full-year forecast of RM56.7m and our previous estimate of RM74.4m. Revenue contracted by 36% yoy and 29% qoq to RM476.2m in 1Q24, mainly due to lower construction (-22% yoy) and property development (-63% yoy) revenue as several major construction and property development projects are at the tail end/completed. LRT3 progress billings rose to 90% of contract value in 1Q24, while property sales more than doubled yoy to RM268.1m, contributed by sales of inventory units of TRIA and VIVO, 9 Seputeh, Sentral Suites condominiums, and Astonia. VISTA achieved RM352.7m sales to date (38% take-up rate) in 1Q24 and take-up rate has increased to 46% at end-April. However, earnings recognition for the project is on completion in 2026.

### Weaker property earnings

EBIT fell 19% yoy and 64% qoq to RM34.6m in 1Q24 mainly due to lower revenue, especially for its property division. Construction EBIT jumped 146% yoy to RM17.8m in 1Q24 on the back of improved profitability for its LRT3 project. Property development EBIT fell 66% yoy to RM11.2m. High effective tax rate of 96.7% in 1Q24 due to deferred tax provisions. MRC maintained its target property sales of RM800m. Good prospects to win new contracts with ongoing negotiations for RM1bn Shah Alam Stadium and RM1bn KL Sentral Station re-development projects (involves land swap Private Finance Initiative proposals), and RM1.5bn from an additional 5 station works for LRT3. In addition, MRC has a tender book of RM33bn, which includes MRT Phase 3 and flood mitigation projects. We expect MRC's high remaining order book of RM15.3bn to sustain 2024-26E earnings. MRC will focus on clearing its completed unsold units with estimated book value of RM470m.

### Good prospects to expand order book but earnings risks remain

We downgrade our call to SELL from Hold previously following the rally in the share price and PER valuations are not attractive. We cut RNAV/share to RM0.87 from RM0.92 previously, mainly to reflect higher net debt at end-1Q24. Based on the same 40% discount to RNAV, we reduce our TP to RM0.52 from RM0.55 previously. Upside risks: higher property sales and construction earnings.

### Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	3,205.1	2,514.1	2,626.2	1,970.6	2,061.0
EBITDA (RMm)	289.8	279.3	205.8	194.6	214.7
Pretax profit (RMm)	154.3	134.2	81.6	88.5	137.3
Net profit (RMm)	64.8	101.0	56.0	59.6	90.1
EPS (sen)	1.5	2.3	1.3	1.3	2.0
PER (x)	48.2	31.0	55.8	52.4	34.7
Core net profit (RMm)	64.8	101.0	56.0	59.6	90.1
Core EPS (sen)	1.5	2.3	1.3	1.3	2.0
Core EPS growth (%)	519.0	55.8	(44.5)	6.4	51.1
Core PER (x)	48.2	31.0	55.8	52.4	34.7
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	1.4	1.4	1.4	1.4	1.4
EV/EBITDA	29.5	13.7	13.4	17.1	17.5

Chg in EPS (%)	-24.6	-10.4	-11.0
Affin/Consensus (x)	1.0	1.0	1.5

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg	Comment
<b>Revenue</b>	<b>742.2</b>	<b>668.8</b>	<b>476.2</b>	<b>(28.8)</b>	<b>(35.8)</b>	Lower yoy, mainly due to lower construction (-21% yoy) and property (-63% yoy) revenue.
Op costs	(689.7)	(554.5)	(434.1)	(21.7)	(37.1)	
<b>EBITDA</b>	<b>52.6</b>	<b>114.3</b>	<b>42.1</b>	<b>(63.2)</b>	<b>(19.9)</b>	
<i>EBITDA margin (%)</i>	<i>7.1</i>	<i>17.1</i>	<i>8.8</i>	<i>(8.3ppt)</i>	<i>1.8ppt</i>	High marketing costs for new VISTA project in Australia.
Depreciation	(10.1)	(19.4)	(7.6)	(61.1)	(25.3)	
<b>EBIT</b>	<b>42.5</b>	<b>94.9</b>	<b>34.6</b>	<b>(63.6)</b>	<b>(18.6)</b>	Lower property development (-66% yoy) earnings, partly offset by higher construction (+146% yoy) earnings
<i>EBIT margin (%)</i>	<i>5.7</i>	<i>14.2</i>	<i>7.3</i>	<i>(6.9ppt)</i>	<i>1.5ppt</i>	
Int expense	(27.9)	(25.9)	(23.9)	(7.7)	(14.3)	Higher net debt as it gears up for new property launches.
Int and other inc	5.5	5.6	6.0	6.9	9.0	
Associates	0.5	5.2	2.3	(54.8)	395.3	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
<b>Pretax profit</b>	<b>20.6</b>	<b>79.7</b>	<b>19.0</b>	<b>(76.2)</b>	<b>(7.7)</b>	
Tax	(12.0)	0.4	(16.0)	NA	33.7	
<i>Tax rate (%)</i>	<i>59.6</i>	<i>NA</i>	<i>96.3</i>	<i>NA</i>	<i>36.7</i>	Higher deferred tax due to non-deductible temporary differences and recognition of unabsorbed tax losses.
Minority interests	(0.1)	0.2	0.1	(67.3)	(146.7)	
<b>Net profit</b>	<b>8.5</b>	<b>80.2</b>	<b>3.0</b>	<b>(96.3)</b>	<b>(64.6)</b>	Below expectations.
EPS (sen)	0.2	1.8	0.1	(96.1)	(63.2)	
<b>Core net profit</b>	<b>8.5</b>	<b>80.2</b>	<b>3.0</b>	<b>(96.3)</b>	<b>(64.6)</b>	Below expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg
Engineering & construction	458.5	398.7	360.3	(9.6)	(21.4)
Property development & investment	268.0	252.4	98.1	(61.1)	(63.4)
Building services	12.3	14.1	13.3	(5.5)	8.3
Investment holding & others	3.5	3.7	4.5	21.4	28.1
<b>Total</b>	<b>742.2</b>	<b>668.8</b>	<b>476.2</b>	<b>(28.8)</b>	<b>(35.8)</b>

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg
Engineering & construction	7.2	(0.3)	17.8	NA	145.9
Property development & investment	33.3	113.2	11.2	(90.1)	(66.3)
Building services	(0.1)	0.9	3.8	319.6	(3,427.4)
Investment holding & others	2.0	(5.8)	1.8	NA	(12.0)
<b>Total</b>	<b>42.5</b>	<b>107.9</b>	<b>34.6</b>	<b>(68.0)</b>	<b>(18.6)</b>

Source: Affin Hwang, Company

**Fig 4: Segmental operating profit margin**

FYE 31 Dec (%)	1Q23	4Q23	1Q24	QoQ ppt	YoY ppt
Engineering & construction	1.6	(1.5)	4.9	NA	3.4
Property development & investment	12.4	13.1	11.5	(1.7)	(1.0)
Building services	(0.9)	4.2	28.3	24.1	29.2
<b>Total</b>	<b>5.7</b>	<b>15.8</b>	<b>7.3</b>	<b>(8.5)</b>	<b>1.5</b>

Source: Affin Hwang, Company

**Fig 5: RNAV and target price**

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	3,128	3,163	(1)
Property investment	1,083	1,083	0
Construction	160	160	0
Car Park & REIT	435	435	0
<b>Total</b>	<b>4,805</b>	<b>4,840</b>	<b>(1)</b>
Net cash/(debt)	(915)	(727)	26
<b>RNAV</b>	<b>3,890</b>	<b>4,113</b>	<b>(5)</b>
No. of shares	4,468	4,468	0
<b>RNAV / share</b>	<b>0.87</b>	<b>0.92</b>	<b>(5)</b>
<b>Target price @ 40% discount</b>	<b>0.52</b>	<b>0.55</b>	<b>(5)</b>

Source: Affin Hwang estimates



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Copyright © 2021 Sustainalytics. All rights reserved.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:  
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](mailto:ahib.researchteam@affingroup.com)

[www.affinhwang.com](http://www.affinhwang.com)

