

"6M23 results were within expectations"

### Share price performance



	1M	3M	12M
Absolute (%)	16.9	47.5	28.6
Rel KLCI (%)	16.3	41.4	33.4

	BUY	HOLD	SELL
Consensus	2	6	-

Source: Bloomberg

### Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US\$m)	2,010.4/432.7
Avg daily vol - 6mth (m)	19.0
52-wk range (RM)	0.28-0.46
Est free float	38.3%
Stock Beta	0.98
Net cash/(debt) (RMm)	(1,530.4)
ROE (2023E)	1.2%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	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 Sustainalytics

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## Malaysian Resources Corp (MRC MK)

**HOLD (maintain)**

Up/Downside: -4.4%

**Price Target: RM0.43**

Previous Target (Rating): RM0.33 (HOLD)

### Within expectations and better 2H23 performance

- Core net profit fell by 31% yoy to RM19.3m in 6M23, mainly due to lower construction and property development earnings
- We maintain our earnings forecasts assuming a better 2H23 performance due to timing differences for earnings from inventory sales
- We reiterate our HOLD call with a higher 12-month target price (TP) of RM0.43, based on a narrower 50% discount to lifted RNAV

#### Within expectations

MRC's core net profit of RM19m (-31% yoy) in 6M23 is equivalent to just 35-39% of consensus and our full-year forecasts of RM50-55m. Revenue contracted by 11% yoy to RM1.34bn in 6M23, mainly due to lower construction revenue as the Klang Valley MRT Line 2 (MRT2) and Damansara-Shah Alam Elevated Highway Package CB2 (DASH) projects were completed last year. LRT3 progress billings rose to 82% of contract value in 6M23, while property sales declined 10% yoy to RM253m. TRIA 9 Seputeh and Sentral Suites condominiums were completed in 2Q23, which led to timing differences in earnings recognition for some units sold that will flow through to 3Q23.

#### Weaker construction and property earnings

EBIT plunged 23% yoy to RM76.5m in 6M23 mainly due to lower revenue, especially for its construction division. Construction EBIT fell 23% yoy to RM43m in 6M23 with the completion of several major projects in 2022. Property development EBIT fell 24% yoy to RM33m due to delayed earnings recognition for some inventory sales. MRC maintained sales target of RM500m in 2023, supported by selective new planned property launches and more aggressive inventories/unsold unit sales. We expect MRC's high remaining order book of RM16.4bn and unbilled sales of RM43m to sustain 2023-24E earnings. MRC will focus on clearing its completed unsold units with book value of RM587m and indicative market value of RM750m.

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

Current tender book of RM30bn mainly for Klang Valley MRT Line 3 (all 3 packages) bids. Potential earnings upside from the proposed sale of Menara CelcomDigi to Sentral REIT for RM450m with potential proforma net gain of RM52.6m (not factored in our forecast), which is pending shareholders' approval in 4Q23. There are trading opportunities for the stock due to potential positive news flows, but on a fundamental basis, we believe the stock remains a HOLD given its earnings volatility. We raise RNAV/share to RM0.85 from RM0.82 previously, mainly to reflect lower net debt at end-2Q23. Based on 50% discount (60% previously) to RNAV, we lift our TP to RM0.43 from RM0.33 previously. Upside/downside risks: higher/lower property sales and volatility in construction earnings.

#### Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,448.5	3,205.1	3,042.1	2,818.6	1,772.6
EBITDA (RMm)	157.4	289.8	215.6	241.7	225.6
Pretax profit (RMm)	61.3	154.3	85.4	120.4	122.6
Net profit (RMm)	15.8	64.8	55.1	77.0	76.3
EPS (sen)	0.4	1.5	1.2	1.7	1.7
PER (x)	126.4	31.0	36.5	26.1	26.3
Core net profit (RMm)	10.4	64.8	55.1	77.0	76.3
Core EPS (sen)	0.2	1.5	1.2	1.7	1.7
Core EPS growth (%)	NA	519.0	(15.1)	39.7	(0.8)
Core PER (x)	191.9	31.0	36.5	26.1	26.3
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	2.2	2.2	2.2	2.2	2.2
EV/EBITDA	28.2	22.4	12.2	16.1	13.5

Chg in EPS (%)

Affin/Consensus (x)

-  
-  
-  
1.1  
1.1  
0.9

Source: Company, Bloomberg, Affin Hwang forecasts

**Fig 1: Results comparison**

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg	2Q23 Comment
<b>Revenue</b>	<b>700.4</b>	<b>742.2</b>	<b>599.3</b>	<b>(19.3)</b>	<b>(14.4)</b>	<b>1,511.1</b>	<b>1,341.6</b>	<b>(11.2)</b>	Lower yoy, mainly due to lower construction revenue following the completion of MRT3 and DASH Package CB2 last year.
Op costs	(638.6)	(689.7)	(549.0)	(20.4)	(14.0)	(1,385.5)	(1,232.1)	(11.1)	
<b>EBITDA</b>	<b>61.8</b>	<b>52.6</b>	<b>50.3</b>	<b>(4.3)</b>	<b>(18.6)</b>	<b>125.6</b>	<b>109.5</b>	<b>(12.8)</b>	Pressure on profit margin due to rising construction costs.
<i>EBITDA margin (%)</i>	<i>8.8</i>	<i>7.1</i>	<i>8.4</i>	<i>1.3</i>	<i>(0.4)</i>	<i>8.3</i>	<i>8.2</i>	<i>(0.1)</i>	
Depreciation	(12.3)	(10.1)	(16.3)	61.5	32.4	(26.8)	(33.1)	23.6	Lower construction (-23% yoy) and property development (-24% yoy) earnings.
<b>EBIT</b>	<b>49.5</b>	<b>42.5</b>	<b>34.0</b>	<b>(20.0)</b>	<b>(31.3)</b>	<b>98.8</b>	<b>76.5</b>	<b>(22.6)</b>	
<i>EBIT margin (%)</i>	<i>7.1</i>	<i>5.7</i>	<i>5.7</i>	<i>(0.1)</i>	<i>(1.4)</i>	<i>6.5</i>	<i>5.7</i>	<i>(0.8)</i>	
Int expense	(24.4)	(27.9)	(28.9)	3.6	18.1	(47.7)	(56.7)	19.0	Higher net debt with new RM450m SUKUK issuance in 1Q23.
Int and other inc	4.2	5.5	5.9	8.1	42.1	7.2	11.4	58.6	
Associates	(1.1)	0.5	4.3	805.7	NA	1.5	4.7	207.4	
Exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Pretax profit</b>	<b>28.1</b>	<b>20.6</b>	<b>15.3</b>	<b>(25.6)</b>	<b>(45.6)</b>	<b>59.9</b>	<b>35.8</b>	<b>(40.1)</b>	
Tax	(17.1)	(12.0)	(4.4)	(63.5)	(74.5)	(34.9)	(16.3)	(53.2)	Tax on dividends from Sentral REIT increased its effective tax rate in 1Q23.
<i>Tax rate (%)</i>	<i>58.7</i>	<i>59.6</i>	<i>39.6</i>	<i>(20.0)</i>	<i>(19.1)</i>	<i>58.4</i>	<i>45.6</i>	<i>(12.8)</i>	
Minority interests	3.1	(0.1)	(0.1)	NA	NA	3.2	(0.2)	NA	
<b>Net profit</b>	<b>14.1</b>	<b>8.5</b>	<b>10.9</b>	<b>28.3</b>	<b>(22.9)</b>	<b>28.1</b>	<b>19.3</b>	<b>(31.3)</b>	Within expectations.
EPS (sen)	0.3	0.2	0.2	26.3	(25.0)	0.6	0.4	(31.7)	
<b>Core net profit</b>	<b>14.1</b>	<b>8.5</b>	<b>10.9</b>	<b>28.3</b>	<b>(22.9)</b>	<b>28.1</b>	<b>19.3</b>	<b>(31.3)</b>	Within expectations. Exclude one-off gains.

Source: Affin Hwang, Company

**Fig 2: Segmental revenue**

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg
Engineering & construction	539.8	458.5	482.0	5.1	(10.7)	1,152.3	940.5	(18.4)
Property development & investment	145.3	268.0	101.5	(62.1)	(30.1)	331.9	369.5	11.3
Building services	11.3	12.3	12.3	0.3	8.9	20.8	24.6	18.5
Investment holding & others	4.0	3.5	3.5	0.7	(11.2)	6.1	7.0	15.2
<b>Total</b>	<b>700.4</b>	<b>742.2</b>	<b>599.3</b>	<b>(19.3)</b>	<b>(14.4)</b>	<b>1,511.1</b>	<b>1,341.6</b>	<b>(11.2)</b>

Source: Affin Hwang, Company

**Fig 3: Segmental operating profit**

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg
Engineering & construction	30.1	7.2	35.8	396.2	19.2	55.7	43.1	(22.8)
Property development & investment	22.1	33.3	(0.4)	NA	NA	43.2	32.9	(23.7)
Building services	(0.3)	(0.1)	(1.7)	1,423.0	393.1	1.8	(1.8)	NA
Investment holding & others	(2.3)	2.0	0.3	(87.6)	NA	(1.9)	2.3	NA
<b>Total</b>	<b>49.5</b>	<b>42.5</b>	<b>34.0</b>	<b>(20.0)</b>	<b>(31.3)</b>	<b>98.8</b>	<b>76.5</b>	<b>(22.6)</b>

Source: Affin Hwang, Company

**Fig 4: Segmental operating profit margin**

FYE 31 Dec (%)	2Q22	1Q23	2Q23	QoQ ppt	YoY ppt	6M22	6M23	YoY ppt
Engineering & construction	5.6	1.6	7.4	5.9	1.9	4.8	4.6	(0.3)
Property development & investment	15.2	12.4	(0.4)	(12.8)	(15.6)	13.0	8.9	(4.1)
Building services	(3.1)	(0.9)	(14.0)	(13.1)	(10.9)	8.8	(7.5)	(16.3)
<b>Total</b>	<b>7.1</b>	<b>5.7</b>	<b>5.7</b>	<b>(0.1)</b>	<b>(1.4)</b>	<b>6.5</b>	<b>5.7</b>	<b>(0.8)</b>

Source: Affin Hwang, Company

**Fig 5: RNAV and target price**

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	3,239	3,239	0
Property investment	1,530	1,530	0
Construction	160	160	0
Car Park & REIT	403	403	0
<b>Total</b>	<b>5,333</b>	<b>5,333</b>	<b>0</b>
Net cash/(debt)	(1,530)	(1,691)	(9)
<b>RNAV</b>	<b>3,802</b>	<b>3,642</b>	<b>4</b>
No. of shares	4,468	4,468	0
<b>RNAV / share</b>	<b>0.85</b>	<b>0.82</b>	<b>4</b>
<b>Target price @ 60% discount</b>	<b>0.43</b>	<b>0.33</b>	<b>31</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

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