Malaysian Resources Corp (MRC MK)

HOLD (maintain)
Up/Downside: 0.0%

Price Target: RM0.44
Previous Target (Rating): RM0.43 (HOLD)

Below expectations; expect lumpy gain in 4Q23

- **Core net profit fell by 60% yoy to RM20.8m in 9M23, mainly due to lower property development earnings and high effective tax rate**
- **We raise 2023E core EPS by 44% to reflect the expected gain from sale of Menara CelcomDigi in 4Q23 but cut 2024-25E core EPS by 18-26% due to delayed new property project launches and order book replenishment**
- **We reiterate our HOLD call with a higher 12-month target price (TP) of RM0.44, based on 50% discount to raised RNAV**

Below expectations

MRC's core net profit of RM20.8m (-60% yoy) in 9M23 is equivalent to just 38-44% of consensus and our full-year forecasts of RM47-55m. Revenue contracted by 22% yoy to RM1.85bn in 9M23, mainly due to lower construction and property development revenue as several major construction and property development projects were completed last year. LRT3 progress billings rose to 85% of contract value in 9M23, while property sales jumped 34% yoy to RM459m. 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 4Q23.

Weaker property earnings

EBIT plunged 33% yoy to RM117m in 9M23 mainly due to lower revenue, especially for its property division. Construction EBIT jumped 43% yoy to RM88m in 9M23 on the back of improved profitability for its LRT3 project. Property development EBIT fell 71% yoy to RM36m due to delayed earnings recognition for some inventory sales. High effective tax rate of 70.9% in 9M23 contributed to lower earnings. 10M23 sales of RM513m has exceeded its initial sales target of RM500m in 2023, driven by strong inventories/unsold unit sales. We expect MRC's high remaining order book of RM16.1bn and planned new launches to sustain 2023-25E earnings. MRC will focus on clearing its completed unsold units with book value of RM555m 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. We factor in the estimated proforma net gain of RM52.6m in 2023E from the proposed sale of Menara CelcomDigi to Sentral REIT for RM450m. 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 RM0.88 from RM0.85 previously, mainly to reflect lower net debt at end-3Q23. Based on the same 50% discount to RNAV, we lift our TP to RM0.44 from RM0.43 previously. Upside/ downside risks: higher/lower property sales and volatility in construction earnings.

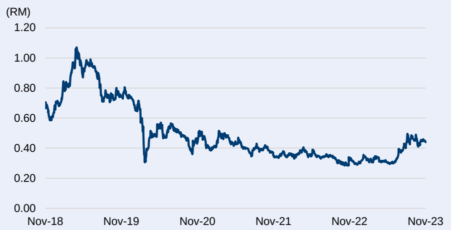
Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,448.5	3,205.1	2,996.0	2,540.8	1,767.0
EBITDA (RMm)	157.4	289.8	294.1	256.7	201.9
Pretax profit (RMm)	61.3	154.3	161.1	129.6	87.5
Net profit (RMm)	15.8	64.8	79.2	62.8	56.6
EPS (sen)	0.4	1.5	1.8	1.4	1.3
PER (x)	123.6	30.3	24.8	31.3	34.8
Core net profit (RMm)	10.4	64.8	79.2	62.8	56.6
Core EPS (sen)	0.2	1.5	1.8	1.4	1.3
Core EPS growth (%)	NA	519.0	22.2	(20.8)	(9.9)
Core PER (x)	187.6	30.3	24.8	31.3	34.8
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	2.3	2.3	2.3	2.3	2.3
EV/EBITDA	27.9	22.2	12.0	11.7	13.0
Chg in EPS (%)			+43.9	-18.5	-25.9
Affin/Consensus (x)			1.7	0.9	0.7

Source: Company, Bloomberg, Affin Hwang forecasts

"9M23 results below expectations"

Share price performance



	1M	3M	12M
Absolute (%)	1.1	4.8	37.5
Rel KLCI (%)	0.7	4.4	41.1

	BUY	HOLD	SELL
Consensus	3	5	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	1,965.7/419.9
Avg daily vol - 6mth (m)	31.5
52-wk range (RM)	0.29-0.52
Est free float	38.3%
Stock Beta	1.08
Net cash/(debt) (RMm)	(1,352.5)
ROE (2023E)	1.7%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200) ESG Rank	Top 26-50%
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 Sustainalytics

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Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	3Q23 Comment
Revenue	**860.0**	**599.3**	**503.7**	**(16.0)**	**(41.4)**	**2,371.1**	**1,845.3**	**(22.2)**	Lower yoy, mainly due to lower construction and property revenue.
Op costs	(768.8)	(549.0)	(495.0)	(9.8)	(35.6)	(2,154.0)	(1,680.4)	(22.0)	
EBITDA	**91.3**	**50.3**	**8.7**	**(82.7)**	**(90.5)**	**217.2**	**165.0**	**(24.0)**	
EBITDA margin (%)	*10.6*	*8.4*	*1.7*	*(79.4)*	*(83.7)*	*9.2*	*8.9*	*(2661.2)*	Pressure on profit margin due to rising construction costs.
Depreciation	(16.8)	(16.3)	(14.8)	(9.4)	(11.7)	(43.5)	(47.9)	10.0	
EBIT	**74.5**	**34.0**	**(6.1)**	**(117.9)**	**(108.2)**	**173.7**	**117.1**	**(32.6)**	Lower construction (-20% yoy) and property development (-30% yoy) earnings.
EBIT margin (%)	*8.7*	*5.7*	*n.m.*	*n.m.*	*n.m.*	*7.3*	*6.3*	*(1.0)*	
Int expense	(24.3)	(28.9)	(30.2)	4.5	24.2	(71.9)	(86.9)	20.8	Higher net debt with new RM450m SUKUK issuance in 1Q23.
Int and other inc	4.0	5.9	52.7	792.5	1,227.4	11.1	17.0	52.9	
Associates	2.2	4.3	2.2	(48.3)	0.0	3.7	7.3	94.2	
Exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pretax profit	**56.4**	**15.3**	**18.7**	**22.1**	**(66.9)**	**116.6**	**54.5**	**(53.2)**	
Tax	(41.2)	(4.4)	(17.2)	293.0	(58.3)	(76.2)	(33.5)	(56.0)	
Tax rate (%)	*76.0*	*39.6*	*104.3*	*163.3*	*37.1*	*58.4*	*45.6*	*(12.8)*	Tax on dividends from Sentral REIT increased its effective tax rate in 1Q23.
Minority interests	8.2	(0.1)	(0.0)	(34.4)	(100.5)	11.4	(0.2)	(101.8)	
Net profit	**23.4**	**10.9**	**1.5**	**(86.6)**	**(93.8)**	**51.8**	**20.8**	**(59.9)**	Below expectations.
EPS (sen)	0.5	0.2	0.0	(87.5)	(94.3)	1.2	0.5	(59.5)	
Core net profit	**23.4**	**10.9**	**1.5**	**(86.6)**	**(93.8)**	**51.8**	**20.8**	**(59.9)**	Below expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Engineering & construction	321.6	482.0	397.5	5.1	(10.7)	1,674.9	1,338.0	(20.1)
Property development & investment	522.6	101.5	90.0	(62.1)	(30.1)	653.5	459.5	(29.7)
Building services	12.6	12.3	12.6	0.3	8.9	33.4	37.2	11.4
Investment holding & others	3.2	3.5	3.7	0.7	(11.2)	9.3	10.7	14.6
Total	**860.0**	**599.3**	**503.7**	**(19.3)**	**(14.4)**	**2,371.1**	**1,845.3**	**(22.2)**

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Engineering & construction	5.5	35.8	44.6	396.2	19.2	61.3	87.6	43.1
Property development & investment	81.4	(0.4)	2.7	NA	(101.7)	124.6	35.7	(71.4)
Building services	(1.9)	(1.7)	(1.4)	1,423.0	393.1	(0.0)	(3.3)	8,055.0
Investment holding & others	(10.3)	0.3	(5.3)	NA	(110.9)	(12.2)	(3.0)	(75.7)
Total	**74.8**	**34.0**	**40.6**	**(24.0)**	**(13.9)**	**173.7**	**117.1**	**(32.6)**

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE 31 Dec (%)	3Q22	2Q23	3Q23	QoQ ppt	YoY ppt	9M22	9M23	YoY ppt
Engineering & construction	1.7	7.4	11.2	3.8	9.5	3.7	6.6	2.9
Property development & investment	15.6	NA	3.0	NA	(12.5)	19.1	7.8	(11.3)
Building services	NA	NA	NA	NA	NA	NA	NA	NA)
Total	**8.7**	**5.7**	**8.1**	**2.4**	**(0.6)**	**7.3**	**6.3**	**(1.0)**

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	3,171	3,239	(2)
Property investment	1,530	1,530	0
Construction	160	160	0
Car Park & REIT	403	403	0
Total	**5,264**	**5,333**	**(1)**
Net cash/(debt)	(1,352)	(1,530)	(12)
RNAV	**3,912**	**3,802**	**3**
No. of shares	4,468	4,468	0
RNAV / share	**0.88**	**0.85**	**3**
Target price @ 60% discount	**0.44**	**0.43**	**3**

Source: Affin Hwang estimates

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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