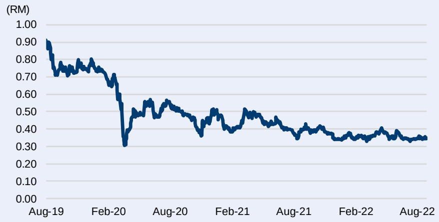
"6M22 results within expectations"

Share price performance



	1M	3M	12M
Absolute (%)	1.4	0.0	-11.4
Rel KLCI (%)	0.1	2.0	-6.2

	BUY	HOLD	SELL
Consensus	3	5	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	1,563.6/349.1
Avg daily vol - 6mth (m)	4.3
52-wk range (RM)	0.33-0.43
Est free float	38.0%
Stock Beta	1.15
Net cash/(debt) (RMm)	(1,325.5)
ROE (CY22E)	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	5.7%
KWAP	3.9%

Source: Bloomberg, Affin Hwang, Bursa

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Malaysian Resources Corp (MRC MK)

HOLD (maintain)
Up/Downside: 0%

Price Target: RM0.35
Previous Target (Rating): RM0.35 (HOLD)

Sustained earnings

- **MRC's 6M22 results were within our expectation with a core net profit of RM28m compared to a core net loss of RM27m in 6M21**
- **Sequentially, core net profit was flat at RM14m in 2Q22 despite lower revenue, boosted by land sale gain to a joint venture company**
- **We maintain our earnings forecasts and HOLD call with an unchanged 12-month target price (TP) of RM0.35, based on a 60% discount to RNAV**

Within expectations

MRC reported a core net profit of RM28m in 6M22, which comprised 52% of our full-year forecast of RM54m (within our expectation) and 58% of consensus estimate of RM48m (above market expectations). The consolidation of LRT3 revenue, following the re-classification of the entity undertaking the project as a subsidiary since 4Q21 from a joint venture in 1Q21, led to a 234% yoy surge in revenue to RM1.5bn in 6M22. The ramp-up of progress billings for the LRT3 project following the lifting of pandemic lockdowns and improved productivity also contributed to the higher construction revenue (contributing 76% of group revenue). But revenue eased 14% qoq, mainly due to lower progress billings for the LRT3 project, which was impacted by supply chain disruptions and labour shortage.

Higher operating profit

MRC saw a strong turnaround to post PBT of RM60m in 6M22 compared to a LBT of RM33m in 6M21 as its operations were not affected by pandemic lockdowns. Construction division recorded EBIT of RM56m in 6M22 compared to LBIT of RM33m in 6M21 with higher earnings contribution from the LRT3 project after acquiring the balance 50% stake from George Kent. It saw better property development (+162% yoy) due to higher progress billings for ongoing projects and the land sale gain. Stronger property sales in 2Q22 lifted total pre-sales to RM250m in 6M22, on track meet its 2022 target of RM500m. We expect MRC's high remaining order book of RM18.4bn (includes RM10.1bn Bukit Jalil Sentral project that has not started) and unbilled sales of RM706m as at end-2Q22 to support revenue growth in 2022-23.

Good prospects to expand order book but earnings risks remain

MRC is negotiating a land swap deal to build the new Shah Alam Stadium for the Selangor state government, increase its scope of works for LRT3 worth about RM1bn and tendering for all 3 packages of the Klang Valley MRT Line 3 project. There may be trading opportunities for the stock due to potential positive news flows, but on a fundamental basis, the stock remains a HOLD given its earnings volatility. Upside/downside risks: faster/slower progress billings for ongoing projects and higher/lower property sales.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	1,199.5	1,448.5	3,352.6	3,541.1	2,936.5
EBITDA (RMm)	118.7	157.4	201.8	252.3	268.1
Pretax profit (RMm)	(153.7)	61.3	78.2	139.4	183.3
Net profit (RMm)	(177.4)	15.8	54.1	97.8	126.1
EPS (sen)	(4.0)	0.4	1.2	2.2	2.8
PER (x)	NA	98.3	28.9	16.0	12.4
Core net profit (RMm)	(1.7)	10.4	54.1	97.8	126.1
Core EPS (sen)	(0.0)	0.2	1.2	2.2	2.8
Core EPS growth (%)	77.9	15.6	50.0	33.6	16.2
Core PER (x)	NA	149.2	28.9	16.0	12.4
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	2.9	2.9	2.9	2.9	2.9
EV/EBITDA	57.1	24.5	20.6	14.1	10.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.6	1.3

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q21	1Q22	2Q22	QoQ % chg	YoY % chg	6M21	6M22	YoY % chg	6M22 Comment
Revenue	**225.7**	**810.7**	**700.4**	***(13.6)***	***210.3***	**452.5**	**1,511.1**	***234.0***	Higher yoy due to consolidation of LRT3 project revenue and higher property revenue (+23% yoy).
Op costs	(249.1)	(747.0)	(638.1)	*(14.6)*	*156.1*	(447.4)	(1,385.1)	*>100*	Higher yoy due to consolidation of LRT3 project cost.
EBITDA	**(23.4)**	**63.7**	**62.3**	***(2.3)***	***NA***	**5.0**	**126.0**	***>100***	
EBITDA margin (%)	*NA*	*7.9*	*8.9*	*1.0ppt*	*NA*	*1.1*	*8.3*	*7.2ppt*	
Depreciation	(12.6)	(14.4)	(12.3)	*(14.5)*	*(1.8)*	(25.6)	(26.8)	*4.6*	
EBIT	**(35.9)**	**49.3**	**49.9**	***1.2***	***NA***	**(20.5)**	**99.3**	***NA***	
EBIT margin (%)	*NA*	*6.1*	*7.1*	*1.0ppt*	*NA*	*(4.5)*	*6.6*	*NA*	
Int expense	(20.2)	(23.2)	(24.4)	*5.3*	*21.0*	(38.5)	(47.7)	*23.9*	
Int and other inc	7.3	3.0	3.7	*23.6*	*(48.7)*	6.7	6.7	*0.0*	
Associates	10.7	2.6	(1.1)	*NA*	*NA*	19.8	1.5	*(92.2)*	LRT3 project was re-classified as a subsidiary in 4Q21 and 1Q22, leading to lower joint-venture earnings.
Exceptional items	0.0	0.0	0.0	*0.0*	*0.0*	0.0	0.0	*0.0*	
Pretax profit	**(38.2)**	**31.8**	**28.1**	***(11.5)***	***NA***	**(32.5)**	**59.9**	***NA***	
Tax	(1.5)	(17.8)	(17.1)	*(3.7)*	*>100*	(3.3)	(34.9)	*973.4*	
Tax rate (%)	*NA*	*61.1*	*58.7*	*(2.4ppt)*	*NA*	*NA*	*58.4*	*NA*	Tax on dividends from MRCB REIT increased its effective tax rate.
Minority interests	7.3	0.1	3.1	*>100*	*(56.8)*	8.6	3.2	*(62.5)*	
Net profit	**(32.4)**	**14.0**	**14.1**	***0.5***	***NA***	**(27.2)**	**28.1**	***NA***	Within our expectation.
EPS (sen)	(0.7)	0.3	0.3	*3.2*	*NA*	(0.6)	0.6	*(203.3)*	
Core net profit	**(32.4)**	**14.0**	**14.1**	***0.5***	***NA***	**(27.2)**	**28.1**	***NA***	Within our expectation. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE Dec (RMm)	2Q21	1Q22	2Q22	QoQ % chg	YoY % chg	6M21	6M22	YoY % chg
Construction	72.0	612.5	539.8	*(11.9)*	*649.8*	156.4	1,152.3	*636.7*
Property	142.8	186.6	145.3	*(22.1)*	*1.8*	274.9	331.9	*20.7*
Building services	9.0	9.5	11.3	*19.6*	*26.1*	17.9	20.8	*16.2*
Investment holding	2.0	2.1	4.0	*86.0*	*94.9*	3.3	6.1	*87.1*
Total	**225.7**	**810.7**	**700.4**	**(13.6)**	**210.3**	**452.5**	**1,511.1**	**234.0**

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE Dec (RMm)	2Q21	1Q22	2Q22	QoQ % chg	YoY % chg	6M21	6M22	YoY % chg
Construction	(31.3)	25.7	30.1	*17.0*	*NA*	(33.0)	55.7	*NA*
Property	3.3	21.1	22.1	*5.0*	*562.1*	16.5	43.2	*162.4*
Building services	(3.9)	2.2	(0.3)	*NA*	*(90.9)*	0.6	1.8	*227.5*
Investment holding	6.0	0.4	(2.3)	*NA*	*NA*	(4.6)	(1.9)	*(57.8)*
Total	**(26.3)**	**49.3**	**49.5**	**0.3**	**NA**	**(20.5)**	**98.8**	**NA**

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE Dec (RMm)	2Q21	1Q22	2Q22	QoQ ppt	YoY ppt	6M21	6M22	YoY ppt
Construction	NA	4.2	5.6	*1.4*	NA	NA	4.8	NA
Property	2.3	11.3	15.2	*3.9*	*12.9*	6.0	13.0	*7.0*
Building services	NA	23.1	NA	NA	NA	3.1	8.8	*5.7*
Investment holding	NA	**6.1**	**7.1**	***1.0***	NA	NA	**6.5**	NA
Total	NA	4.2	5.6	*1.4*	NA	NA	4.8	NA

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	New value (RMm)
Property development	3,209
Property investment	1,453
Construction	160
Car Park & REIT	403
Total	**5,225**
Net cash/(debt)	(1,353)
RNAV	**3,872**
No. of shares	4,468
RNAV / share	**0.87**
Target price @ 60% discount	**0.35**

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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