

"2023 results were a positive surprise due to investment property sales"

Share price performance



	1M	3M	12M
Absolute (%)	-10.0	37.6	88.7
Rel KLICI (%)	-12.3	28.7	76.7

	BUY	HOLD	SELL
Consensus	3	5	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US\$m)	2613.5/550.2
Avg daily vol - 6mth (m)	37.3
52-wk range (RM)	0.29-0.71
Est free float	38.3%
Stock Beta	1.35
Net cash/(debt) (RMm)	(726.8)
ROE (2023E)	1.7%
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 Sustainalytics

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Malaysian Resources Corp (MRC MK)

HOLD (maintain)

Up/Downside: -6.8%

Price Target: RM0.55

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

Lumpy investment property sale gain in 4Q23

- Core net profit jumped 56% yoy to RM101m in 2023, mainly due to higher property development earnings and low effective tax rate
- We raise 2023-25E core EPS by 18% to reflect higher property progress billings and order book replenishment
- We reiterate our HOLD call with a higher 12-month target price (TP) of RM0.55, based on narrower 40% discount to raised RNAV

Positive surprise

MRC's core net profit of RM101m (+56% yoy) in 2023 was 162% above consensus forecast of RM39m and 26% above our estimate of RM79m. Revenue contracted by 22% yoy to RM2.51bn in 2023, mainly due to lower construction (-22% yoy) and property development (-22% yoy) revenue as several major construction and property development projects were completed last year. LRT3 progress billings rose to 88% of contract value in 2023, while property sales jumped 74% yoy to RM831m, contributed by sales of inventory units of TRIA 9 Seputeh and Sentral Suites condominiums, which were completed in 2Q23. Estimated PAT gain of RM141m for the sale of Plaza Alam Sentra and Menara CelcomDigi overcame operational losses to post RM80m PAT in 4Q23.

Weaker property earnings

EBIT fell 8% yoy to RM212m in 2023 mainly due to lower revenue, especially for its property division. Construction EBIT jumped 25% yoy to RM87m in 2023 on the back of improved profitability for its LRT3 project. Property development EBIT fell 16% yoy to RM149m due to delayed earnings recognition for some inventory sales. Normalised effective tax rate of 24.7% in 2023 contributed to higher earnings. 2023 sales of RM831m exceeded its sales target of RM500m in 2023, driven by strong inventories/unsold unit sales. We expect MRC's high remaining order book of RM15.7bn and higher 2024 target sales of RM800m (includes RM300m target sales for its just-launched VISTA condominium in Australia) to sustain 2024-26E earnings. MRC will focus on clearing its completed unsold units with estimated book value of RM485m.

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. 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 RM0.92 from RM0.88 previously, mainly to reflect lower net debt at end-4Q23. Based on lower 40% discount (50% previously) to RNAV, we lift our TP to RM0.55 from RM0.44 previously. Upside/ downside risks: higher/lower property sales and volatility in construction earnings.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	3,205.1	2,514.1	2,647.6	2,024.1	2,168.0
EBITDA (RMm)	289.8	279.3	233.3	207.7	236.9
Pretax profit (RMm)	154.3	134.2	109.1	101.8	160.1
Net profit (RMm)	64.8	101.0	74.4	66.6	101.2
EPS (sen)	1.5	2.3	1.7	1.5	2.3
PER (x)	40.6	26.1	35.4	39.6	26.0
Core net profit (RMm)	64.8	101.0	74.4	66.6	101.2
Core EPS (sen)	1.5	2.3	1.7	1.5	2.3
Core EPS growth (%)	519.0	55.8	(26.4)	(10.5)	52.1
Core PER (x)	40.6	26.1	35.4	39.6	26.0
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	1.7	1.7	1.7	1.7	1.7
EV/EBITDA	26.4	12.0	11.7	12.9	13.9

Chg in EPS (%)	+18.5	+17.7	New
Affin/Consensus (x)	1.2	0.9	-

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg	4Q23 Comment
Revenue	833.9	503.7	668.8	32.8	(19.8)	3,205.1	2,514.1	(21.6)	Lower yoy, mainly due to lower construction (-22% yoy) and property (-22% yoy) revenue.
Op costs	(761.3)	(447.8)	(554.5)	(18.4)	(41.8)	(2,915.3)	(2,234.8)	(23.3)	
EBITDA	72.6	56.0	114.3	11.2	(38.7)	289.8	279.3	(3.6)	Higher profit margin, boosted by gain on sale of 2 investment properties.
<i>EBITDA margin (%)</i>	<i>8.7</i>	<i>11.1</i>	<i>17.1</i>	<i>6.0ppt</i>	<i>8.4ppt</i>	<i>9.0</i>	<i>11.1</i>	<i>2.1ppt</i>	
Depreciation	(16.7)	(14.8)	(19.4)	31.4	16.4	(60.2)	(67.3)	11.8	Higher construction (+25% yoy) earnings, partly offset by property development (-16% yoy) earnings.
EBIT	55.9	41.2	94.9	130.4	69.7	229.6	212.0	(7.7)	
<i>EBIT margin (%)</i>	<i>6.7</i>	<i>8.2</i>	<i>14.2</i>	<i>6.0ppt</i>	<i>7.5ppt</i>	<i>7.2</i>	<i>8.4</i>	<i>1.3ppt</i>	
Int expense	(27.1)	(30.2)	(25.9)	(14.2)	(4.5)	(99.1)	(112.8)	13.8	Higher net debt with new RM450m SUKUK issuance in 1Q23.
Int and other inc	7.1	5.5	5.6	1.9	(21.9)	18.3	22.6	23.7	
Associates	1.8	2.2	5.2	134.1	184.0	5.6	12.4	123.5	
Exceptional items	0.0	0.0	0.0	0.0	0.0	5.4	5.4	0.0	
Pretax profit	37.7	18.7	79.7	326.9	111.2	154.3	134.2	(13.0)	
Tax	(24.6)	(17.2)	0.4	(102.0)	(101.4)	(100.8)	(33.2)	(67.1)	
<i>Tax rate (%)</i>	<i>68.6</i>	<i>104.3</i>	<i>(0.5)</i>	<i>64.7</i>	<i>28.2</i>	<i>65.3</i>	<i>24.7</i>	<i>(40.6ppt)</i>	Tax on dividends from Sentral REIT increased its effective tax rate in 1Q23.
Minority interests	(0.1)	(0.0)	0.2	NA	NA	11.3	(0.1)	(100.5)	
Net profit	13.0	1.5	80.2	>100	>100	64.8	101.0	55.8	Above expectations due to disposal of non-core assets.
EPS (sen)	0.3	0.0	1.8	>100	520.7	1.5	2.3	55.9	
Core net profit	13.0	1.5	80.2	>100	516.3	64.8	101.0	55.8	Above expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg
Engineering & construction	558.7	397.5	398.7	0.3	(28.6)	2,233.6	1,736.6	(22.3)
Property development & investment	261.1	90.0	252.4	180.3	(3.3)	914.6	711.9	(22.2)
Building services	13.0	12.6	14.1	11.9	7.9	46.4	51.3	10.4
Investment holding & others	1.1	3.7	3.7	1.0	239.0	0.0	0.0	0.0
Total	833.9	503.7	668.8	32.8	(19.8)	3,194.7	2,499.7	(21.8)

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg
Engineering & construction	8.7	44.6	(0.3)	NA	NA	69.9	87.3	24.9
Property development & investment	52.0	2.7	113.2	>100	117.5	176.7	148.8	(15.7)
Building services	(0.5)	(1.4)	0.9	NA	NA	(0.5)	(2.4)	359.4
Investment holding & others	(4.3)	(5.3)	(5.8)	10.4	35.5	(16.5)	(8.8)	(46.7)
Total	55.9	40.6	107.9	165.6	93.0	229.6	225.0	(2.0)

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE 31 Dec (%)	4Q22	3Q23	4Q23	QoQ ppt	YoY ppt	2022	2023	YoY ppt
Engineering & construction	1.5	11.2	(1.5)	3.8	9.5	3.1	5.0	1.9
Property development & investment	19.9	3.0	13.1	3.4	(12.5)	19.3	20.9	1.6
Building services	(3.6)	(11.3)	4.2	NA	NA	(1.1)	(4.6)	(3.5)
Total	6.7	8.1	15.8	2.4	(0.6)	7.2	9.0	1.8

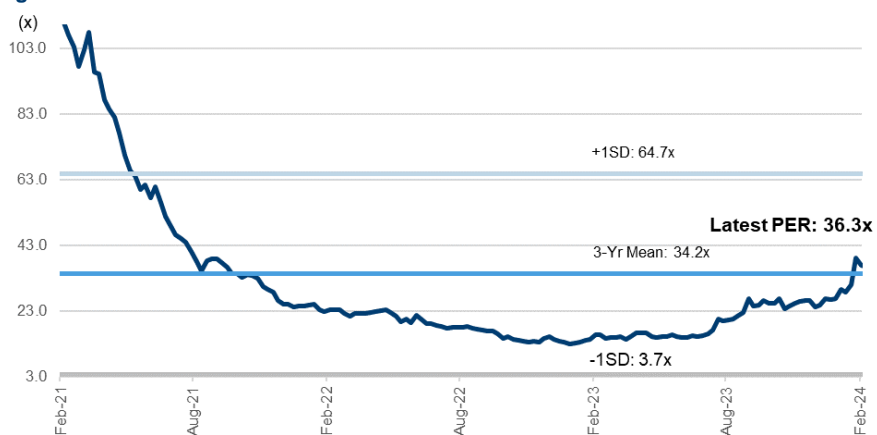
Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	3,163	3,171	(0)
Property investment	1,083	1,530	(29)
Construction	160	160	0
Car Park & REIT	435	403	8
Total	4,840	5,264	(8)
Net cash/(debt)	(727)	(1,352)	(46)
RNAV	4,113	3,912	5
No. of shares	4,468	4,468	0
RNAV / share	0.92	0.88	5
Target price @ 40% discount	0.55	0.44	26

Source: Affin Hwang estimates

Fig 6: 12-month forward PER



Source: Affin Hwang estimates, Bloomberg



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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