

"1Q21 was profitable but MCO 3.0 will hold back recovery"

## Share price performance



	1M	3M	12M
Absolute (%)	-4.4	3.6	-23.2
Rel KLCI (%)	-3.4	3.2	-28.6

	BUY	HOLD	SELL
Consensus	3	7	-

Source: Bloomberg

## Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US\$m)	1,921.0/465.3
Avg daily vol - 6mth (m)	9.8
52-wk range (RM)	0.36 – 0.58
Est free float	37.1%
Stock Beta	1.65
Net cash/(debt) (RMm)	(1,200.2)
ROE (CY21E)	0.4%
Derivatives	Yes
Shariah Compliant	Yes

## Key Shareholders

EPP	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.8%
KWAP	4.9%

Source: Affin Hwang, Bloomberg

## Loong Chee Wei, CFA

T (603) 2146 7548

E cheewe@affinhwang.com

## Malaysian Resources Corp (MRC MK)

**HOLD (maintain)**

Up/Downside: +9.3%

**Price Target: RM0.47**

Previous Target (Rating): RM0.45 (HOLD)

### Gradual recovery

- Core earnings of RM5.2m (-67% yoy) in 1Q21 was below market expectations but within ours. The impact of the Movement Control Order (MCO) 2.0 and some site closures due to Covid-19 infections adversely impacted work progress
- We maintain our earnings forecasts as the full lockdown under MCO 3.0 on 1-14 June 2021 will hold back earnings recovery. Prospects remain challenging due to weak property market and periodic disruptions to construction works
- We reiterate our HOLD call with a higher target price (TP) of RM0.47, based on 50% discount to RNAV

### Results were within our expectation

Core net profit of RM5.2m in 1Q21 comprised only 14% of consensus 2020 forecast of RM38m but 27% of our RM19m estimate. Revenue fell 47% yoy to RM226.7m, mainly due to lower construction (-52% yoy) and property (-44% yoy) revenues. Property revenue was lower due to lower contribution from its 1060 Carnegie project in Melbourne, as the number of units reaching financial settlement in 1Q21 was lower compared to 1Q20. PBT fell 79% yoy to RM5.7m in 1Q21 due to the lower revenue and profit margin squeeze due to lower operating leverage. On a qoq basis, PBT fell by a sharper 84% as the net exceptional gain of RM27.2m in 4Q20 did not recur in 1Q21. Property PBT fell 46% yoy to RM13.1m, while construction division incurred a loss of RM1.6m in 1Q21.

### Encouraging sales

MRCB achieved property sales of RM51.6m in 1Q21, 42% higher than the RM36.0m recorded in 1Q20. The 1060 Carnegie project contributed the highest sales of RM29.5m. However, the MCO 3.0 and job-loss concerns due to MCO 3.0's full lockdown could dampen buyer sentiment on property purchases. Its remaining unbilled property sales of RM1.2bn and construction remaining order book of RM20.4bn should support 2021-23E earnings.

### Maintain our HOLD call

We believe MRC will see a gradual earnings recovery in 2021 due to the challenging property market conditions and most of its property products are upmarket condominiums. It has set a sales target of RM600m for 2021 with new launches in KL Sentral, PJ Sentral and Kwasa Sentral. The expected acceleration in progress billings for its construction and property projects as COVID-19 lockdown restrictions ease should support an earnings recovery in 2H21. But earnings will be adversely impacted if the full lockdown under MCO 3.0 is prolonged. Maintain HOLD with a higher TP of RM0.47, based on 50% discount to RNAV (rolling forward valuation base year to 2022E). Upside risk: faster acceleration of Kwasa Damansara project; downside risk: slower-than-expected project billings.

### Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,319.4	1,199.5	1,403.7	1,656.0	1,860.5
EBITDA (RMm)	52.9	71.0	96.5	156.1	189.4
Pretax profit (RMm)	53.0	(152.9)	28.4	83.9	111.0
Net profit (RMm)	23.7	(176.1)	19.0	58.2	77.8
EPS (sen)	0.5	(4.0)	0.4	1.3	1.8
PER (x)	77.0	(10.4)	96.3	31.5	23.5
Core net profit (RMm)	(34.3)	(0.4)	19.0	58.2	77.8
Core EPS (sen)	(0.8)	(0.0)	0.4	1.3	1.8
Core EPS growth (%)	(66.6)	80.8	25.7	41.2	14.6
Core PER (x)	(53.4)	(4,133.2)	96.3	31.5	23.5
Net DPS (sen)	1.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	4.2	4.2	4.2	4.2	4.2
EV/EBITDA	25.6	60.9	45.7	35.6	22.8

Chg in EPS (%)	0.0	0.0	0.0
Affin/Consensus (x)	0.5	1.0	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	1Q21 Comment
<b>Revenue</b>	<b>425.8</b>	<b>308.9</b>	<b>226.7</b>	<b>(26.6)</b>	<b>(46.8)</b>	1Q21: Lower construction (-54% yoy), property development (-42% yoy) and building services(-30% yoy) revenues.
Op costs	(379.7)	(298.6)	(207.9)	(30.4)	(45.3)	
<b>EBITDA</b>	<b>46.0</b>	<b>10.3</b>	<b>18.8</b>	<b>81.8</b>	<b>(59.1)</b>	
<i>EBITDA margin (%)</i>	<i>10.8</i>	<i>3.3</i>	<i>8.3</i>	<i>4.9ppt</i>	<i>(2.5ppt)</i>	
Depreciation	(14.3)	(12.1)	(13.0)	7.5	(9.2)	
<b>EBIT</b>	<b>31.7</b>	<b>(1.8)</b>	<b>5.8</b>	<b>(428.7)</b>	<b>(81.7)</b>	Construction incurred a loss of RM1.6m, while property earnings fell 46% yoy.
Int expense	(15.5)	(17.7)	(18.2)	2.9	17.7	
Int and other inc	7.9	16.6	9.1	(45.4)	15.5	
Associates	3.6	10.3	9.1	(11.5)	154.0	LRT3 project contributed RM5.9m in 1Q21 compared to RM1.2m in 1Q20.
Exceptional items	0.0	27.2	0.0	(100.0)	0.0	
<b>Pretax profit</b>	<b>27.6</b>	<b>34.6</b>	<b>5.7</b>	<b>(83.5)</b>	<b>(79.3)</b>	
<b>Core pretax profit</b>	<b>27.6</b>	<b>7.4</b>	<b>5.7</b>	<b>(23.0)</b>	<b>(79.3)</b>	
Tax	(11.4)	(7.5)	(1.8)	(76.0)	(84.3)	
<i>Tax rate (%)</i>	<i>47.6</i>	<i>30.6</i>	<i>(53.1)</i>	<i>NA</i>	<i>NA</i>	
Minority interests	(0.1)	(0.3)	1.3	NA	NA	
<b>Net profit</b>	<b>16.1</b>	<b>26.9</b>	<b>5.2</b>	<b>(80.7)</b>	<b>(67.7)</b>	Within our expectation.
EPS (sen)	0.4	0.6	0.1	(80.3)	(65.7)	
<b>Core net profit</b>	<b>16.1</b>	<b>(0.3)</b>	<b>5.2</b>	<b>NA</b>	<b>(67.7)</b>	Within our expectation. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental operating profit

FYE Dec (RMm)	1Q20	3Q20	3Q20	QoQ % chg	YoY % chg
Construction	12.6	24.4	(1.6)	NA	NA
Property	24.2	12.3	13.1	6.3	(45.8)
Building services	2.4	1.2	4.4	269.4	85.3
Investment holding	(11.5)	0.9	(10.6)	NA	(8.1)
<b>Total</b>	<b>27.6</b>	<b>38.8</b>	<b>5.7</b>	<b>(85.3)</b>	<b>(79.3)</b>

Source: Affin Hwang, Company

Fig 3: Segmental operating profit margin

FYE Dec (%)	1Q20	4Q20	1Q21	QoQ ppt	YoY ppt
Construction	7.2	16.1	(1.9)	NA	NA
Property	10.2	8.5	9.9	1.5	(0.3)
Building services	18.8	11.8	49.6	37.8	30.8
<b>Total</b>	<b>6.5</b>	<b>12.6</b>	<b>2.5</b>	<b>(10.0)</b>	<b>(4.0)</b>

Source: Affin Hwang, Company

Fig 4: Change in RNAV and target price

Segment	RNAV (RMm)	Old value (RMm)	Change (%)
Property development	3,322	3,387	-2
Property investment	1,453	1,314	11
Construction	160	160	0
Car Park & REIT	403	403	0
<b>Total</b>	<b>5,338</b>	<b>5,264</b>	<b>1</b>
Net cash/(debt)	(1,200)	(1,311)	-8
<b>RNAV</b>	<b>4,138</b>	<b>3,953</b>	<b>5</b>
No. of shares	4,406	4,406	0
<b>RNAV / share</b>	<b>0.94</b>	<b>0.90</b>	<b>5</b>
<b>Target price @ 50% discount</b>	<b>0.47</b>	<b>0.45</b>	<b>5</b>

Source: Affin Hwang estimates and forecasts



## 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.

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

22nd Floor, Menara Boustead,  
69, Jalan Raja Chulan,  
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700  
F : + 603 2146 7630  
research@affinhwang.com

www.affinhwang.com

