

"1Q22 results were above expectations"

Share price performance



	1M	3M	12M
Absolute (%)	-6.5	1.4	-16.3
Rel KLCI (%)	-4.7	3.9	-15.6

	BUY	HOLD	SELL
Consensus	1	7	-

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US\$m)	1,608.3/367.3
Avg daily vol - 6mth (m)	3.4
52-wk range (RM)	0.33-0.47
Est free float	38.9%
Stock Beta	1.26
Net cash/(debt) (RMm)	(1,367.8)
ROE (CY22E)	1.2%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	
ESG Rank	Top 26-50%
ESG Risk Rating	33.6 (-6.7 yoy)

Key Shareholders

EPF	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.7%
KWAP	3.7%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Loong Chee Wei, CFA

T (603) 2146 7548

E cheewei.loong@affinhwang.com

Malaysian Resources Corp (MRC MK)

HOLD (maintain)

Up/Downside: -2.8%

Price Target: RM0.35

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

Earnings recovery underway

- MRC's 1Q22 results were above market and our expectations. Core net profit jumped 170% yoy to RM14m in 1Q22 from a low base in 1Q21
- The full consolidation of the Light Rail Transit Phase 3 (LRT3) project after acquiring the balance 50% stake from George Kent lifted its construction earnings
- We raise 2022-23E core EPS by 16-57% assuming higher construction earnings. We maintain our HOLD call with unchanged 12-month target price (TP) of RM0.35, based on a 60% discount to RNAV

Surprise jump in construction profit

MRC reported a core net profit of RM14.0m in 1Q22, which comprised 38-41% of consensus and our previous full-year forecasts of RM34.5-36.9m. We were surprised by the surge in construction earnings. Revenue jumped 258% yoy to RM810.7m, mainly due to 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. 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, which increased more than 6-fold to RM612.5m (contributing 76% of group revenue). But overall revenue eased 6% qoq, mainly due to lower progress billings for the LRT3 project.

Higher operating profit

PBT jumped 456% yoy to RM31.8m in 1Q22, mainly driven by higher construction and property development (+61% yoy) earnings. MRC reported construction earnings of RM25.7m in 1Q22 compared to RM1.6m loss in 1Q21. But PBT fell 79% qoq, mainly due to the absence of a RM123.7m gain on disposal of its 661.3-acre land in Perak into a joint-venture company to be owned by MRC (70% stake) and Perbadanan Kemajuan Negeri Perak (30% stake). MRC saw slow property sales of RM23m in 1Q22 but we gather sales to date have increased to about RM200m with the recovery in demand for high-rise properties in Kuala Lumpur. We expect MRC's high remaining order book of RM18.5bn (includes RM10.1bn Bukit Jalil Sentral project that has not started) and unbilled sales of RM818m as at end-1Q22 will support revenue growth in 2022-23.

Good prospects to expand order book but earnings risks remain

MRC has renewed the Sungai Pahang rehabilitation project with contract value of RM380m and will look to tender for the 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	101.1	29.7	16.4	12.8
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	153.5	29.7	16.4	12.8
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	2.8	2.8	2.8	2.8	2.8
EV/EBITDA	57.9	24.9	20.9	14.3	10.3

Chg in EPS (%)	+46.6	+56.8	+16.4
Affin/Consensus (x)	1.6	1.6	1.7

Source: Company, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg	Comment
Revenue	226.7	858.1	810.7	(5.5)	257.6	Higher yoy due to consolidation of LRT3 project revenue and higher property revenue (+41% yoy).
Op costs	(207.9)	(703.1)	(747.0)	6.2	259.3	Higher yoy due to consolidation of LRT3 project cost..
EBITDA	18.8	155.0	63.7	(58.9)	239.1	
<i>EBITDA margin (%)</i>	<i>8.3</i>	<i>18.1</i>	<i>7.9</i>	<i>(10.2ppt)</i>	<i>(0.4ppt)</i>	
Depreciation	(13.0)	(15.8)	(14.4)	(8.8)	10.9	
EBIT	5.8	139.2	49.3	(64.6)	752.1	
Int expense	(18.2)	(27.5)	(23.2)	(15.5)	27.2	
Int and other inc	9.1	(0.1)	3.0	NA	(66.9)	
Associates	9.1	2.4	2.6	10.9	(70.9)	LRT3 project was re-classified as a subsidiary in 4Q21 and 1Q22, leading to lower joint-venture earnings.
Exceptional items	0.0	9.9	0.0	(99.9)	NA	
Pretax profit	5.7	123.9	31.8	(74.4)	456.0	
Tax	(1.8)	(49.5)	(17.8)	(64.0)	894.2	
<i>Tax rate (%)</i>	<i>(53.1)</i>	<i>40.7</i>	<i>61.1</i>	<i>20.4ppt</i>	<i>114.2ppt</i>	
Minority interests	1.3	0.8	0.1	(91.7)	(95.1)	
Net profit	5.2	75.2	14.0	(81.3)	169.8	Above expectations.
EPS (sen)	0.1	1.7	0.3	(81.5)	158.3	
Core net profit	5.2	65.3	14.0	(78.5)	169.7	Above expectations. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg
Construction	24.4	(18.7)	10.9	NA	(55.2)
Property	12.3	1.2	135.8	>100	999.8
Building services	1.2	1.0	(2.9)	NA	NA
Investment holding	0.9	3.7	6.8	85.0	674.4
Total	38.8	(12.9)	150.7	NA	288.5

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg
Construction	(1.6)	10.9	25.7	135.2	(1,661.2)
Property	13.1	135.8	21.1	(84.5)	60.6
Building services	4.4	(2.9)	2.2	NA	(50.5)
Investment holding	(10.6)	6.8	(17.2)	NA	61.9
Total	5.7	150.7	31.8	(78.9)	456.0

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE Dec (%)	1Q21	4Q21	1Q22	QoQ ppt chg	YoY ppt chg
Construction	(1.9)	3.7	4.2	0.5	NA
Property	9.9	24.4	11.3	(13.1)	1.4
Building services	49.6	(33.7)	23.1	NA	(26.5)
Total	2.5	17.6	3.9	(13.6)	1.4

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	New value (RMm)
Property development	3,204
Property investment	1,453
Construction	160
Car Park & REIT	403
Total	5,220
Net cash/(debt)	(1,353)
RNAV	3,867
No. of shares	4,406
RNAV / share	0.88
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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 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

