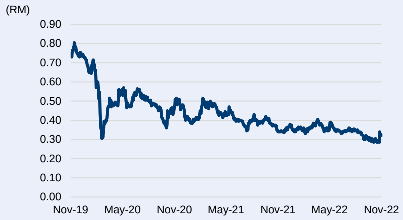
"9M22 results surprised on the upside"

Share price performance



	1M	3M	12M
Absolute (%)	6.7	-8.6	-5.9
Rel KLCI (%)	4.6	-7.1	-4.3

	BUY	HOLD	SELL
Consensus	3	5	-

Source: Bloomberg

Stock Data

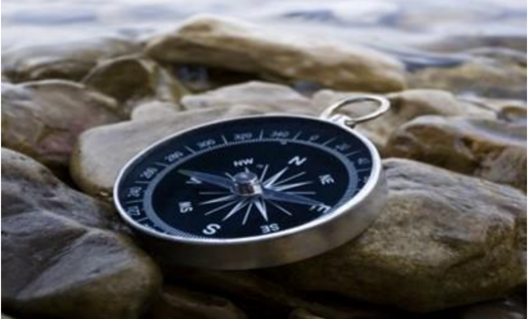
Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	1,429.6/321.5
Avg daily vol - 6mth (m)	6.6
52-wk range (RM)	0.28-0.41
Est free float	38.0%
Stock Beta	1.03
Net cash/(debt) (RMm)	(1,669.5)
ROE (2022E)	1.6%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Risk Rating	33.6 (NA yoy)

Key Shareholders

EPF	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.7%
KWAP	3.9%

Source: Affin Hwang, Bloomberg, 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: 9.4%

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

Strong sequential earnings

- **MRC's core earnings increased 66% qoq to RM23.4m in 3Q22, lifting the YTD figure to RM51.8m in 9M22, which was above expectations**
- **Strong turnaround to a core net profit of RM51.8m in 9M22 as operations normalised after pandemic lockdowns were lifted**
- **We raise core EPS by 34% in 2022E to reflect higher property inventory sales and construction EBIT margin. Maintain our HOLD call with an unchanged 12-month target price (TP) of RM0.35, based on a 60% discount to RNAV**

Above expectations

MRC reported a core net profit of RM52m in 9M22, which represents 96-97% of full-year consensus and our previous estimate of RM53-54m. Revenue increased 3-fold to RM2.37bn with the consolidation of LRT Line 3 (LRT3) project revenue (the entity undertaking the project was re-classified as a subsidiary from a joint venture in 2022), and higher property inventory sales. The improved operational performance in 9M22 was driven by the ramp-up in LRT3 progress billings, better EBIT margin on the back of improved productivity following the lifting of pandemic lockdowns, and higher property sales (+107% yoy).

Strong turnaround

MRC saw a strong turnaround to post PBT of RM117m in 9M22 compared to a LBT of RM63m in 9M21. Construction division recorded EBIT of RM125m in 9M22 compared to LBIT of RM52m in 9M21 with higher earnings contribution from the LRT3 project after acquiring the balance 50% stake from George Kent. It saw better property development EBIT (+248% yoy) due to higher progress billings for ongoing projects, higher inventory sales and land sale gain. Given high property sales of RM342m in 9M22, we believe MRC is on track to meet its 2022 target of RM500m. We expect MRC's high remaining order book of RM17.9bn (includes RM10.1bn Bukit Jalil Sentral project that has not started) and unbilled sales of RM624m as at end-3Q22 to support revenue growth in 2022-23E.

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, looking to increase its scope of works for LRT3 worth about RM1bn and submitted tenders for all 3 packages of the Klang Valley MRT Line 3 project. Current tender book is RM30bn. 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	3,119.8	3,414.8	2,916.9
EBITDA (RMm)	118.7	157.4	291.5	247.7	266.1
Pretax profit (RMm)	(153.7)	61.3	170.2	137.7	180.9
Net profit (RMm)	(177.4)	15.8	72.4	96.6	124.3
EPS (sen)	(4.0)	0.4	1.6	2.2	2.8
PER (x)	NA	89.9	19.7	14.8	11.5
Core net profit (RMm)	(1.7)	10.4	72.4	96.6	124.3
Core EPS (sen)	(0.0)	0.2	1.6	2.2	2.8
Core EPS growth (%)	77.9	15.6	71.1	16.3	16.1
Core PER (x)	NA	136.4	19.7	14.8	11.5
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	3.1	3.1	3.1	3.1	3.1
EV/EBITDA	54.5	23.4	18.1	9.1	10.2
Chg in EPS (%)			+33.7	-1.2	-1.4
Affin/Consensus (x)			1.4	1.4	1.5

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg	Comment
Revenue	**137.9**	**700.4**	**860.0**	***22.8***	***523.7***	**590.3**	**2,371.1**	***301.7***	Higher yoy due to consolidation of LRT3 project revenue and higher property revenue (+384% yoy).
Op costs	(145.0)	(638.1)	(768.2)	*20.4*	*429.7*	(592.4)	(2,153.0)	*263.4*	Higher yoy due to consolidation of LRT3 project cost.
EBITDA	**(7.1)**	**62.3**	**91.8**	***47.5***	***NA***	**(2.1)**	**218.2**	***NA***	
EBITDA margin (%)	*(5.2)*	*8.9*	*10.7*	*1.8ppt*	*NA*	(0.4)	9.2	*NA*	
Depreciation	(12.8)	(12.3)	(16.8)	*35.9*	*30.9*	(38.4)	(43.5)	*13.4*	
EBIT	**(19.9)**	**49.9**	**75.1**	***50.3***	***NA***	**(40.5)**	**174.6**	***NA***	
EBIT margin (%)	*(14.5)*	*7.1*	*8.7*	*1.6ppt*	*NA*	(6.9)	7.4	*NA*	Improved construction EBIT margin with consolidation of LRT3 project.
Int expense	(22.8)	(24.4)	(24.3)	*(0.6)*	*6.7*	(61.2)	(71.9)	*17.5*	
Int and other inc	3.4	3.7	3.4	*(8.0)*	*0.0*	10.2	10.2	*0.0*	
Associates	9.2	(1.1)	2.2	*NA*	*(76.0)*	28.9	3.7	*(87.1)*	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	**(30.1)**	**28.1**	**56.4**	***100.7***	***NA***	**(62.6)**	**116.6**	***NA***	
Tax	(1.9)	(17.1)	(41.2)	*140.4*	*>100*	(5.1)	(76.2)	*>100*	
Tax rate (%)	*(4.8)*	*58.7*	*76.0*	*17.4ppt*	*NA*	(5.6)	67.5	*NA*	Tax on dividends from MRCB REIT increased its effective tax rate.
Minority interests	(0.2)	3.1	8.2	*160.5*	*NA*	8.4	11.4	*36.2*	
Net profit	**(32.2)**	**14.1**	**23.4**	***65.7***	***NA***	**(59.4)**	**51.8**	***NA***	Above expectations.
EPS (sen)	(0.7)	0.3	0.5	*65.6*	*NA*	(1.3)	(1.3)	*0.0*	
Core net profit	**(32.2)**	**14.1**	**23.4**	***65.7***	***NA***	**(59.4)**	**51.8**	***NA***	Above expectations. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental revenue

FYE Dec (RMm)	3Q21	2Q22	3Q22	*QoQ % chg*	*YoY % chg*	9M21	9M22	*YoY % chg*
Construction	50.0	539.8	321.6	*(40.4)*	*542.7*	206.5	653.5	*216.5*
Property	71.0	145.3	522.6	*259.6*	*635.9*	345.9	1,674.9	*384.2*
Building services	8.2	11.3	12.6	*11.6*	*52.9*	26.1	33.4	*27.8*
Investment holding	8.6	4.0	3.2	*(18.7)*	*(62.4)*	0.0	0.0	*0.0*
Total	**137.9**	**700.4**	**860.0**	**22.8**	**523.7**	**590.3**	**2,371.1**	***301.7***

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE Dec (RMm)	3Q21	2Q22	3Q22	*QoQ % chg*	*YoY % chg*	9M21	9M22	*YoY % chg*
Construction	(18.7)	30.1	81.4	*171.0*	*NA*	(51.7)	124.6	*NA*
Property	1.2	22.1	5.5	*(75.0)*	*378.3*	17.6	61.3	*247.8*
Building services	1.0	(0.3)	(1.9)	*437.0*	*NA*	1.5	(0.0)	*NA*
Investment holding	3.7	(2.3)	(6.5)	*180.5*	*NA*	(0.9)	(4.0)	*348.2*
Total	**(12.9)**	**49.5**	**78.6**	**58.7**	**NA**	**(33.4)**	**181.9**	***NA***

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE Dec (RMm)	3Q21	2Q22	3Q22	*QoQ % chg*	*YoY % chg*	9M21	9M22	*YoY % chg*
Construction	NA	5.6	25.3	*19.8*	*NA*	NA	19.1	*NA*
Property	1.6	15.2	1.1	*(14.2)*	*(0.6)*	5.1	3.7	*(1.4)*
Building services	11.8	NA	NA	*NA*	*NA*	5.9	(0.1)	*(6.0)*
Investment holding	**NA**	**7.1**	**9.1**	***2.1***	***NA***	**NA**	**7.7**	***NA***
Total	NA	5.6	25.3	*19.8*	*NA*	NA	19.1	*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

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 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