21 February 2023

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM0.33 @ 20 February 2023**

Malaysian Resources Corp (MRC MK)

HOLD (maintain)
Up/Downside: +6.1%

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

"2022 results were below our expectations"

Lower inventory sales in 4Q22

- **MRC saw a strong recovery in core earnings (+522% yoy) to RM64.8m in 2022 as operations normalised post-pandemic, resulting in higher progress billings for property and construction divisions**
- **We cut core EPS by 31-33% in 2023-24E due to slower property launches and lower remaining contract value of the Klang Valley LRT Line 3 (LRT3) project**
- **We reiterate our HOLD call with an unchanged 12-month target price (TP) of RM0.35, based on a 60% discount to RNAV**

Below our expectations

MRC reported a core net profit of RM64.8m (522% yoy) in 2022, which was 10% below our forecast of RM72.4m but 8% above consensus estimate of RM60.2m. Revenue jumped 121% yoy to RM3.2bn in 2022 with the consolidation of the 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 2022 was driven by the ramp-up in LRT3 progress billings (75% financial completion) and higher property sales of RM488m (+57% yoy). However, core net profit fell 44% qoq to RM13m in 4Q22, mainly due to lower inventory sales compared to 3Q22.

Construction arm has turned around

EBIT jumped 122% yoy to RM229.6m in 2022, tracking the strong revenue growth. Construction division recorded EBIT of RM70m in 2022 compared to LBIT of RM41m in 2021. Higher earnings contribution came from the LRT3 project after acquiring the balance 50% stake from George Kent. It saw better property development EBIT of RM177m (+15% yoy) due to higher progress billings for ongoing projects, higher inventory sales and land sale gain. Property sales of RM488m were slightly below its target of RM500m in 2022. MRC maintained target sales of RM500m in 2023, supported by selective new planned property launches and more aggressive inventories/unsold unit sales. We expect MRC's high remaining order book of RM17.4bn (includes RM10.1bn Bukit Jalil Sentral project that has not started) and high unbilled sales of RM537m to sustain 2023E earnings.

Good prospects to expand order book but earnings risks remain

MRC is negotiating a land swap deal to redevelop Shah Alam Stadium and the surrounding area for the Selangor state government, 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	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,448.5	3,205.1	3,042.1	2,818.6	1,772.6
EBITDA (RMm)	157.4	289.8	223.6	247.3	226.2
Pretax profit (RMm)	61.3	154.3	93.4	126.5	123.9
Net profit (RMm)	15.8	64.8	64.5	86.3	82.1
EPS (sen)	0.4	1.5	1.4	1.9	1.8
PER (x)	92.7	22.7	22.9	17.1	17.9
Core net profit (RMm)	10.4	64.8	64.5	86.3	82.1
Core EPS (sen)	0.2	1.5	1.4	1.9	1.8
Core EPS growth (%)	NA	519.0	(0.6)	33.8	(4.8)
Core PER (x)	140.7	22.7	22.9	17.1	17.9
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	3.0	3.0	3.0	3.0	3.0
EV/EBITDA	23.8	19.0	10.3	13.0	10.9
Chg in EPS (%)			-33.3	-30.6	New
Affin/Consensus (x)			1.0	0.9	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Share price performance

	1M	3M	12M
Absolute (%)	4.8	12.1	-11.0
Rel KLCI (%)	6.8	10.2	-3.1

	BUY	HOLD	SELL
Consensus	2	6	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	1,474.3/327.8
Avg daily vol - 6mth (m)	10.2
52-wk range (RM)	0.28-0.41
Est free float	38.0%
Stock Beta	1.06
Net cash/(debt) (RMm)	(1,462.5)
ROE (2023E)	1.4%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
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: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q21	3Q22	4Q22	QoQ % chg	YoY % chg	2021	2022	YoY % chg	Comment
Revenue	**858.1**	**860.0**	**833.9**	***(3.0)***	***(2.8)***	**1,448.5**	**3,205.1**	***121.3***	Higher yoy due to consolidation of LRT3 project revenue, and high property (+84% yoy) and building services (+34% yoy) revenue.
Op costs	(703.1)	(768.8)	(761.3)	*(1.0)*	*8.3*	(1,291.0)	(2,915.3)	*125.8*	Higher yoy due to consolidation of LRT3 project cost.
EBITDA	**155.0**	**91.3**	**72.6**	***(20.4)***	***(53.2)***	**157.4**	**289.8**	***84.1***	
EBITDA margin (%)	*18.1*	*10.6*	*8.7*	*(1.9ppt)*	*(9.4ppt)*	*10.9*	*9.0*	*(1.8ppt)*	
Depreciation	(15.8)	(16.8)	(16.7)	*(0.4)*	*5.5*	(54.2)	(60.2)	*11.1*	
EBIT	**139.2**	**74.5**	**55.9**	***(25.0)***	***(59.8)***	**103.2**	**229.6**	***122.4***	
EBIT margin (%)	*16.2*	*8.7*	*6.7*	*(2.0ppt)*	*(9.5ppt)*	*7.1*	*7.2*	*0.1ppt*	Recovering construction EBIT margin, while property margin normalised.
Int expense	(27.5)	(24.3)	(27.1)	*11.6*	*(1.3)*	(88.7)	(99.1)	*11.7*	
Int and other inc	(0.1)	4.0	7.1	*79.4*	*N*	10.0	18.3	*82.0*	
Associates	2.4	2.2	1.8	*(17.6)*	*(23.8)*	31.3	5.6	*(82.2)*	LRT3 project was re-classified as a subsidiary in 4Q21 and 1Q22, leading to lower joint-venture earnings.
Exceptional items	9.9	0.0	0.0	*0.0*	*0.0*	5.4	5.4	*0.0*	
Pretax profit	**123.9**	**56.4**	**37.7**	***(33.1)***	***(69.5)***	**61.3**	**154.3**	***151.8***	
Tax	(49.5)	(41.2)	(24.6)	*(40.2)*	*(50.2)*	(54.6)	(100.8)	*84.6*	
Tax rate (%)	*40.7*	*76.0*	*68.6*	*(7.5ppt)*	*27.9ppt*	*89.0*	*65.3*	*(23.7ppt)*	Tax on dividends from MRCB REIT increased its effective tax rate.
Minority interests	0.8	8.2	(0.1)	*NA*	*NA*	9.1	11.3	*24.0*	
Net profit	**75.2**	**23.4**	**13.0**	***(44.3)***	***(82.7)***	**15.8**	**64.8**	***309.6***	Below expectations.
EPS (sen)	1.7	0.5	0.3	*(45.3)*	*(82.7)*	0.4	1.5	*302.8*	
Core net profit	**65.3**	**23.4**	**13.0**	***(44.3)***	***(80.1)***	**10.4**	**64.8**	***521.9***	Below 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	697.1	321.6	558.7	*73.7*	*(19.9)*	903.6	2,233.6	*147.2*
Property	152.2	522.6	261.1	*(50.0)*	*71.6*	498.1	914.6	*83.6*
Building services	8.5	12.6	13.0	*3.4*	*53.2*	34.6	46.4	*34.1*
Investment holding	0.3	3.2	1.1	*(66.2)*	*212.9*	0.0	0.0	-
Total	**858.1**	**860.0**	**833.9**	**(3.0)**	**(2.8)**	**1,436.3**	**3,194.7**	**122.4**

Source: Affin Hwang, Company

Fig 3: Segmental operating profit

FYE Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg
Construction	10.9	5.5	8.7	*56.6*	*(20.7)*	(40.7)	69.9	*(271.6)*
Property	135.8	81.4	52.0	*(36.1)*	*(61.7)*	153.4	176.7	*15.2*
Building services	(2.9)	(1.9)	(0.5)	*(74.7)*	*(83.4)*	(1.3)	(0.5)	*(61.4)*
Investment holding	5.3	(10.3)	(4.3)	*(58.2)*	*(181.1)*	(2.7)	(16.5)	*519.1*
Total	**149.1**	**74.8**	**55.9**	**(25.3)**	**(62.5)**	**108.6**	**229.6**	**111.3**

Source: Affin Hwang, Company

Fig 4: Segmental operating profit margin

FYE Dec (RMm)	4Q21	3Q22	4Q22	*QoQ % chg*	*YoY % chg*	2021	2022	*YoY % chg*
Construction	1.6	1.7	1.5	*(0.2)*	*(0.0)*	(4.5)	3.1	*NA*
Property	89.2	15.6	19.9	*4.3*	*(69.3)*	30.8	19.3	*(11.5)*
Building services	(33.7)	(14.9)	(3.6)	*11.2*	*30.1*	(3.9)	(1.1)	*2.7*
Investment holding	**17.4**	**8.7**	**6.7**	***(2.0)***	***(10.7)***	**7.5**	**7.2**	***(0.3)***
Total	1.6	1.7	1.5	*(0.2)*	*(0.0)*	(4.5)	3.1	*NA*

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segment	New value (RMm)
Property development	3,245
Property investment	1,453
Construction	160
Car Park & REIT	403
Total	**5,262**
Net cash/(debt)	(1,353)
RNAV	**3,908**
No. of shares	4,468
RNAV / share	**0.87**
Target price @ 60% discount	**0.35**

Source: Affin Hwang estimates

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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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