Malaysian Resources Corp (MRC MK)

HOLD (maintain)
Up/Downside: -2.8%

Price Target: RM0.35
Previous Target (Rating): RM0.38 (HOLD)

Operational challenges remain

- **MRC turned around to report core net profit of RM10.4m in 2021 from core net loss of RM1.7m in 2020, mainly due to land sales and fair value gains**
- **It faced closure of most construction sites and property-sales galleries, and building-material supply disruptions in 2021, which slowed progress billings for both its construction and property development projects**
- **We lift our 2022E core EPS by 2% as we assume higher construction earnings. We maintain our HOLD call and trim our target price to RM0.35, based on an unchanged 60% discount to RNAV**

Results were above expectations

MRC reported a core net profit of RM10.4m in 2021, which was above expectations. Our 2021 core net loss forecast was RM34.5m and consensus net loss estimate was RM39.6m. We were surprised by the 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). There was also a RM9.9m profit arising from the re-measurement of its investment in the Klang Valley LRT Line 3 (LRT3) project following the completion of its acquisition of George Kent's 50% stake in the JV for RM53m in October 2021. Excluding the one-off gains MRC remained in the red operationally due to the operational disruptions affecting its construction and property development projects.

Focus on executing ongoing projects

After consolidating the LRT3 project, its remaining order book excluding the Bukit Jalil project that has not kicked off is RM8.8bn, which will sustain its activities over the next 2-3 years. The construction division incurred an operating loss of RM40.7m in 2021. MRC will focus on executing its ongoing projects and turning around its construction business in 2022 while selective bidding for new projects such as a flood mitigation project in Pahang (tender book of RM580m). MRC achieved sales of RM309.8m in 2021 and set target sales at RM500m in 2022. Unbilled sales of RM923m will support revenue in 2022E.

Maintaining our HOLD call

We expect MRC to turn around operationally in 2022E as progress billings accelerate for its property and construction projects. Consolidating 100% of earnings from the LRT3 project will also lift construction earnings in 2022. We maintain our HOLD call but trim our 12-month TP to RM0.35 (from RM0.38), based on an unchanged 60% discount on our lower RNAV (reflecting lower property development division valuation and higher net debt at end-2021). Upside risk: faster-than-expected launch of its Kwasa Damansara project; downside risk: slower-than-expected progress billings due to construction site closures.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	1,199.5	1,448.5	2,287.2	2,563.0	2,882.7
EBITDA (RMm)	118.7	157.4	182.3	214.2	257.1
Pretax profit (RMm)	(153.7)	61.3	54.9	91.5	159.3
Net profit (RMm)	(177.4)	15.8	36.9	62.4	108.3
EPS (sen)	(4.0)	0.4	0.8	1.4	2.4
PER (x)	NA	101.1	43.6	25.8	14.8
Core net profit (RMm)	(1.7)	10.4	36.9	62.4	108.3
Core EPS (sen)	(0.0)	0.2	0.8	1.4	2.4
Core EPS growth (%)	77.9	15.6	30.2	22.6	33.2
Core PER (x)	NA	153.5	43.6	25.8	14.8
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	23.5	19.5	15.7
Chg in EPS (%)			2.2	(0.1)	New
Affin/Consensus (x)			1.0	1.3	-

Source: Company, Bloomberg, Affin Hwang forecasts

"Turned around in 2021 due to land sale and fair value gains"

Share price performance

	1M	3M	12M
Absolute (%)	4.4	4.4	-14.5
Rel KLCI (%)	-1.8	-1.7	-16.1

	BUY	HOLD	SELL
Consensus	1	9	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	1,586.0/377.8
Avg daily vol - 6mth (m)	4.1
52-wk range (RM)	0.33-0.53
Est free float	38.8%
Stock Beta	1.56
Net cash/(debt) (RMm)	(1,353.5)
ROE (CY22E)	0.8%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	

Key Shareholders

EPF	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.8%
KWAP	3.7%

Source: Bloomberg, Affin Hwang, Bursa

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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q20	3Q21	4Q21	QoQ % chg	YoY % chg	2020	2021	YoY % chg	Comment
Revenue	**308.9**	**137.9**	**858.1**	***522.4***	***177.8***	**1,199.5**	**1,448.5**	***20.8***	2021: Growth driven by property development revenue (+42% yoy), mainly from land-sale gains. Partly offset by lower construction (-3% yoy) and building services (-21% yoy) revenue.
Op costs	(298.6)	(145.0)	(703.1)	*384.8*	*135.5*	(1,080.7)	(1,291.0)	*19.5*	
EBITDA	**10.3**	**(7.1)**	**155.0**	***NA***	***1,399.5***	**118.7**	**157.4**	***32.6***	
EBITDA margin (%)	*3.3*	*(5.2)*	*18.1*	*23.2ppt*	*14.7ppt*	*9.9*	*10.9*	*1.0ppt*	
Depreciation	(12.1)	(12.8)	(15.8)	*23.6*	*30.7*	(60.2)	(54.2)	*(10.1)*	
EBIT	**(1.8)**	**(19.9)**	**139.2**	***NA***	***NA***	**58.5**	**103.2**	***76.5***	Construction incurred a loss of RM41m, while property earnings jumped 229% yoy.
Int expense	(17.7)	(22.8)	(27.5)	*20.7*	*55.0*	(69.3)	(88.7)	*28.0*	
Int and other inc	16.6	3.4	(0.1)	*NA*	*NA*	13.3	10.0	*(24.3)*	
Associates	10.3	9.2	2.4	*(74.0)*	*(76.8)*	19.5	31.3	*60.4*	LRT3 project contributed RM18.8m in 9M21 as JV earnings and RM14m in 4Q21 as subsidiary earnings.
Exceptional items	27.2	0.0	9.9	*100.0*	*(63.6)*	(175.7)	5.4	*NA*	
Pretax profit	**34.6**	**(30.1)**	**123.9**	***(511.8)***	***257.9***	**(153.7)**	**61.3**	***NA***	
Tax	(7.5)	(1.9)	(49.5)	*>100*	*563.2*	(22.9)	(54.6)	*138.8*	
Tax rate (%)	*30.6*	*(4.8)*	*40.7*	*NA*	*10.1ppt*	*(14.9)*	*89.0*	*NA*	
Minority interests	(0.3)	(0.2)	0.8	*NA*	*NA*	(0.8)	9.1	*NA*	
Net profit	**26.9**	**(32.2)**	**75.2**	***NA***	***179.6***	**(177.4)**	**15.8**	***NA***	Above expectations.
EPS (sen)	0.6	(0.7)	1.7	*NA*	*175.4*	(4.0)	0.4	*NA*	
Core net profit	**(0.3)**	**(32.2)**	**65.3**	***NA***	***NA***	**(1.7)**	**10.4**	***NA***	Above expectations. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental operating profit

FYE Dec (RMm)	4Q20	3Q21	4Q21	QoQ % chg	YoY % chg	2020	2021	YoY % chg
Construction	24.4	(18.7)	10.9	*NA*	*(55.2)*	(174.3)	(40.7)	*(76.6)*
Property	12.3	1.2	135.8	*>100*	*999.8*	46.7	153.4	*228.5*
Building services	1.2	1.0	(2.9)	*NA*	*(340.3)*	6.9	(1.3)	*NA*
Investment holding	0.9	3.7	6.8	*85.0*	*674.4*	0.8	5.9	*635.8*
Total	**38.8**	**(12.9)**	**150.7**	**(1,271.1)**	**288.5**	**(119.9)**	**117.2**	***NA***

Source: Affin Hwang, Company

Fig 3: Segmental operating profit margin

FYE Dec (%)	4Q20	3Q21	4Q21	QoQ ppt chg	YoY ppt chg	2020	2021	YoY ppt chg
Construction	16.1	(37.3)	3.7	*41.1*	*NA*	NA	NA	*NA*
Property	8.5	1.6	24.4	*22.7*	*15.9*	7.4	17.0	*9.6*
Building services	11.8	11.8	(33.7)	*(45.5)*	*NA*	15.7	(3.9)	*NA*
Total	**12.6**	**(9.3)**	**17.6**	***26.9***	***5.0***	**(10.0)**	**8.1**	***NA***

Source: Affin Hwang, Company

Fig 4: RNAV and target price

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	3,204	3,319	(3)
Property investment	1,453	1,453	0
Construction	160	160	0
Car Park & REIT	403	403	0
Total	**5,220**	**5,335**	**(2)**
Net cash/(debt)	(1,353)	(1,200)	13
RNAV	**3,867**	**4,135**	**(6)**
No. of shares (m)	4,468	4,406	1
RNAV / share	**0.87**	**0.94**	**(8)**
Target price @ 60% discount (RM)	**0.35**	**0.38**	**(8)**

Source: Affin Hwang estimates and forecasts

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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