29 November 2021

Out**think.** Out**perform.**

AFFIN HWANG INVESTMENT BANK

Results Note | **RM0.35 @ 26 November 2021**

"Losses in 9M21 due to pandemic disruptions impacting operations"

Share price performance

	1M	3M	12M
Absolute (%)	-12.5	-11.4	-22.2
Rel KLCI (%)	-8.3	-7.1	-17.1

	BUY	HOLD	SELL
Consensus	1	8	-

Stock Data

Sector	Construction
Issued shares (m)	4,467.5
Mkt cap (RMm)/(US$m)	1,563.6/368.9
Avg daily vol - 6mth (m)	6.1
52-wk range (RM)	0.35-0.53
Est free float	38.8%
Stock Beta	1.62
Net cash/(debt) (RMm)	(1,243.6)
ROE (2021E)	0.3%
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	5.8%
KWAP	3.7%

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

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Malaysian Resources Corp (MRC MK)

HOLD (maintain)
Up/Downside: +8.6%

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

Sustained losses

- **MRC incurred a core net loss of RM27m in 9M21 as the full lockdown disrupted its operations especially the construction division in 2Q21-3Q21**
- **It faced closure of most construction sites and property-sales galleries, and building-material supply disruptions in 9M21, which slowed progress billings for both its construction and property development projects**
- **We lower our forecasts to a core net loss of RM34.5m in 2021E and reduce our core earnings by 27-33% for 2022-23E assuming a slower recovery. We maintain our HOLD call and TP of RM0.38, based on a 60% discount to RNAV**

Results were below expectations

MRC incurred a core net loss of RM32.2m in 3Q21 (loss of RM32.4m in 2Q21) due to the continued adverse impact of the pandemic lockdowns. The results were below expectations. It incurred a core net loss of RM59.4m in 9M21 compared to consensus full-year profit forecast of RM1.7m and our previous estimate of RM14.3m. The 9M21 core net loss was larger than the RM1m core net loss in 9M20. Revenue plunged 34% yoy to RM590.3m in 9M21 due to the construction site closures in May-August 2021 due to pandemic lockdowns. Slow construction progress led to lower property revenue (-29% yoy) and operating profit (-49% yoy). Construction revenue was down 43% yoy but the operating loss fell 74% yoy to RM52m in 9M21, mainly due to the absence of a RM197m provision made for the impairment of contract assets in 9M20.

Slow property sales and construction progress billings

The closure of sales galleries and weak property buyer sentiment held back MRC's sales. MRC achieved property sales of RM165m in 9M21, which is substantially lagging its initial sales target of RM600m in 2021. Its high unbilled property sales of RM941m and construction remaining order book of RM19.9bn (includes 100% of LRT3 project) should support 2021-23E earnings. MRC completed the acquisition of the remaining 50% stake it does not own in Setia Utama LRT 3 Sdn Bhd for RM53m from George Kent on 13 October 2021.

Maintaining our HOLD call

MRC was allowed to reopen most construction sites in mid-August and expects to ramp up works to catch up on construction progress. We expect MRC to turn around in 4Q21 but earnings are unlikely to be sufficient to reverse the substantial losses incurred in 9M21. We maintain our HOLD call and 12-month TP of RM0.38, based on a 60% discount to RNAV. 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	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,319.4	1,199.5	1,132.8	1,433.6	1,748.8
EBITDA (RMm)	52.9	71.0	23.1	123.3	164.0
Pretax profit (RMm)	53.0	(152.9)	(44.6)	52.7	89.2
Net profit (RMm)	23.7	(176.1)	(34.5)	35.7	61.7
EPS (sen)	0.5	(4.0)	(0.8)	0.8	1.4
PER (x)	65.0	NA	(44.7)	43.3	25.0
Core net profit (RMm)	(34.3)	(0.4)	(34.5)	35.7	61.7
Core EPS (sen)	(0.8)	(0.0)	(0.8)	0.8	1.4
Core EPS growth (%)	NA	80.8	(45.1)	169.2	23.3
Core PER (x)	NA	NA	(44.7)	43.3	25.0
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	2.9	2.9	2.9	2.9	2.9
EV/EBITDA	23.2	55.5	41.3	133.1	25.3
Chg in EPS (%)			n.m	-32.5	-26.8
Affin/Consensus (x)			n.m	0.8	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q20	2Q21	3Q21	QoQ % chg	YoY % chg	9M20	9M21	YoY % chg	Comment
Revenue	**297.6**	**225.7**	**137.9**	***(38.9)***	***(53.7)***	**890.6**	**590.3**	***(33.7)***	9M21: Lower construction (-43% yoy), property development (-29% yoy) and building services (-23% yoy) revenue.
Op costs	(271.4)	(249.1)	(145.0)	*(41.8)*	*(46.6)*	(810.3)	(592.4)	*(26.9)*	
EBITDA	**26.2**	**(23.4)**	**(7.1)**	***(69.5)***	***NA***	**80.2**	**(2.1)**	***(102.6)***	
EBITDA margin (%)	*8.8*	*NA*	*NA*	*NA*	*NA*	9.0	NA	*NA*	
Depreciation	(17.6)	(12.6)	(12.8)	*1.9*	*(27.3)*	(45.4)	(38.4)	*(15.4)*	
EBIT	**8.6**	**(35.9)**	**(19.9)**	***(44.5)***	***NA***	**34.8**	**(40.5)**	***NA***	Construction incurred a loss of RM52m, while property earnings fell 49% yoy.
Int expense	(11.7)	(20.2)	(22.8)	*12.7*	*94.2*	(37.5)	(61.2)	*63.4*	
Int and other inc	7.3	7.3	3.4	*(52.8)*	*(52.8)*	14.1	10.2	*(28.1)*	
Associates	3.5	10.7	9.2	*(13.8)*	*165.2*	3.5	28.9	*735.0*	LRT3 project contributed RM18.8m in 9M21 compared to RM1.6m in 9M20.
Exceptional items	0.0	0.0	0.0	*0.0*	*0.0*	(202.5)	0.0	*(100.0)*	
Pretax profit	**7.6**	**(38.2)**	**(30.1)**	***(21.3)***	***NA***	**(187.5)**	**(62.6)**	***(66.6)***	
Tax	(6.8)	(1.5)	(1.9)	*27.7*	*(72.6)*	(15.5)	(5.1)	*(66.9)*	
Tax rate (%)	*164.2*	*NA*	*NA*	*NA*	*NA*	(8.1)	(5.6)	*2.5ppt*	
Minority interests	0.1	7.3	(0.2)	*NA*	*NA*	(0.0)	8.4	*NA*	
Net profit	**0.9**	**(32.4)**	**(32.2)**	***(0.8)***	***NA***	**(203.0)**	**(59.4)**	***(70.8)***	Below expectations.
EPS (sen)	0.0	(0.7)	(0.7)	*(1.4)*	*NA*	(4.6)	(1.3)	*(70.9)*	
Core net profit	**0.9**	**(32.4)**	**(32.2)**	***(0.8)***	***NA***	**(0.5)**	**(59.4)**	***>100***	Below expectations. Exclude one-off gains.

Source: Affin Hwang, Company

Fig 2: Segmental operating profit

FYE Dec (RMm)	3Q20	2Q21	3Q21	QoQ % chg	YoY % chg	9M20	9M21	YoY % chg
Construction	(3.0)	(31.3)	(18.7)	*(40.4)*	*>100*	(198.7)	(51.7)	*(74.0)*
Property	11.7	3.3	1.2	*(65.4)*	*(90.1)*	34.3	17.6	*(48.7)*
Building services	2.4	(3.9)	1.0	*NA*	*(60.1)*	5.7	1.5	*(73.0)*
Investment holding	4.4	6.0	3.7	*(38.7)*	*(16.9)*	(0.1)	(0.9)	*1,089.3*
Total	**15.6**	**(26.3)**	**(12.9)**	**(51.0)**	**NA**	**(158.7)**	**(33.4)**	***(79.0)***

Source: Affin Hwang, Company

Fig 3: Segmental operating profit margin

FYE Dec (%)	3Q20	2Q21	3Q21	QoQ ppt	YoY ppt	9M20	9M21	YoY ppt
Construction	NA	NA	NA	*NA*	*NA*	NA	NA	*NA*
Property	7.6	2.3	1.6	*(0.7)*	*(6.0)*	7.0	5.1	*(1.9)*
Building services	21.3	NA	11.8	*NA*	*(9.5)*	16.9	5.9	*(11.0)*
Total	**5.2**	**NA**	**NA**	***NA***	***NA***	**NA**	**NA**	***NA***

Source: Affin Hwang, Company

Fig 4: RNAV and target price

Segment	RNAV (RMm)
Property development	3,319
Property investment	1,453
Construction	160
Car Park & REIT	403
Total	**5,335**
Net cash/(debt)	(1,200)
RNAV	**4,135**
No. of shares	4,406
RNAV / share	**0.94**
Target price @ 60% discount	**0.38**

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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