

2 Sep 2024

Buy

Price
 RM0.55

Target Price
 RM0.95

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	2,457.1
52-week high/low (RM)	0.74 / 0.39
Avg daily turnover (RMm)	14.9
KLCI (pts)	1,609.5

Source: Bloomberg, CIMB Securities

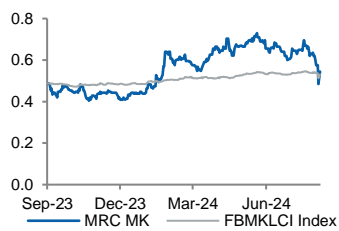
Major Shareholder (%)

EPF	(36.2%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.4%)
Free Float	42.9

Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	(18.1)	(9.6)	44.9
Rel Market (%)	(18.5)	(14.0)	31.2



Source: Bloomberg, CIMB Securities

Analyst

Mak Hoy Ken
 03 21710509
 hoyken.mak@cimb.com

Malaysian Resources Corporation

After 2Q earnings beat, here comes the big-ticket jobs

2Q24 earnings exceeded both consensus and our expectations by a wide margin due to higher-than-expected profit margins and lower tax rate. We expect MRCB's orderbook momentum to accelerate over the next three quarters, as it moves closer to crystallize RM4bn-RM5bn worth of new jobs. After landing a RM250m flood contract in Sg. Langat, we firmly believe that more large-scale prospects could come MRCB's way - LRT 3 VO's, redevelopment of Shah Alam Stadium (KSSA) and KL Sentral expansion.

Financial Highlights

FYE Dec	2022	2023	2024F	2025F	2026F
Revenue (RMm)	3,205.1	2,514.1	1,549.8	1,755.2	2,260.3
Core net profit (RMm)	64.8	(66.2)	59.0	63.0	83.6
Core EPS (Sen)	1.7	(1.2)	1.5	1.5	2.0
EPS growth (%)	nm	nm	nm	5.7	27.3
DPS (Sen)	1.0	1.0	0.5	0.6	1.0
Core PE (x)	31.8	nm	37.8	35.7	28.1
Div yield (%)	1.8	1.8	0.9	1.1	1.8
ROE (%)	1.4	2.2	1.3	1.4	1.8
Net Gearing (%)	33.6	18.1	18.7	23.3	22.2
PBV(x)	0.5	0.5	0.5	0.5	0.5

Source: Company, CIMB Securities

2Q earnings outperforms by a wide margin

MRCB delivered a very strong set of results in 2Q24, as core profit soared to RM51m vs only RM3m in 1Q24. This was mainly attributable to (i) cost savings from some of its old projects following the finalization of their accounts; (ii) contributions from LRT 3; and (iii) favourable tax credits of RM2m vs an effective tax rate of 29% in the preceding quarter. The robust 2Q24 earnings helped lift 1H24 core profit to RM54m, comfortably surpassing our previous full-year estimates of RM15m (consensus: 96%). As expected, no dividends were declared during the quarter under review.

Robust construction earnings offset weaker property performance

Besides the higher returns from the abovementioned finalization of certain project accounts, the construction division was boosted by the advanced progress of LRT 3 works (physical completion: 96% as of June 2024) and rising contributions from Phase 3 of the Muara Sg. Pahang flood mitigation program, which commands higher margins. Accordingly, 1H24 construction EBIT jumped 2.5x yoy to reach RM106m (2Q24 EBIT: +5x qoq at RM88m), leading to significant improvements in construction EBIT margins (16.5% in 1H24 vs 4.6% in 1H23). On the flip side, property EBIT turned negative in 2Q24 at -RM26m (1Q24: +RM11m) mainly on delays in the recognition of completed units from Sentral Suites (March 2023) and TRIA 9 Seputeh (May 2023), which are pending receipt of their strata titles. Unsurprisingly, 2Q24 property revenue slipped 27% qoq, and was down 54% yoy in 1H24.

New orderbook worth RM4bn-RM5bn coming its way soon?

MRCB's current tenderbook stands at RM34bn, as it pursues several cornerstone projects worth RM4bn-RM5bn that are at advanced stages of negotiations. Fresh from winning a RM250m contract (Sg. Langat Phase 2 flood mitigation works) in 2Q24, the group is expecting a final decision to be made on the LRT 3 Variation Orders (VO's) that includes the five reinstated stations by Oct 2024, following its endorsement by the cabinet. Similarly, we expect the KSSA redevelopment project – potentially worth over RM1bn - to be finalized soon as demolition work on the existing Shah Alam Stadium is already well underway.

Likewise, we expect finer details of the planned expansion of KL Sentral (~RM1bn) to be ironed by the first quarter of FY25F.

Maintain Buy with a higher TP of RM0.95

Post its 2Q24 results, we revised upwards our SOP-based TP on MRCB to RM0.95 (previously: RM0.88) and raise FY24F/25F/26F core profit by 295%/5%/3% to RM59m/RM63m/RM84m. Our new target price incorporates higher new contract wins of RM3bn for FY24F (+20% vs RM2.5bn previously). We also update for (i) actual FY23 figures, which have been audited; and (ii) the market value of Sentral REIT (Hold, TP=RM0.84).

Taken together, we continue to rate MRCB as our top alpha pick for the sector. Furthermore, the stock is trading at a steep 71% discount vs our revised SOTP, and at P/BV of only 0.5x - at parity to historical mean. The key re-rating catalyst stems from the imminent conversion of RM4bn-RM5bn worth of large job opportunities. Conversely, we consider any further delays in the monetization of its Transit-Oriented-Developments (TOD) to be a key de-rating catalyst.

Exhibit 1: Financial results

YE 31 Dec (RM m)	1H23	1H24	% YoY	1Q24	2Q24	% QoQ
Turnover	1,341.6	848.4	(36.8)	476.2	372.2	(21.8)
Net operating cost/income	(1,265.1)	(750.5)		(441.6)	(308.9)	
EBIT	76.5	97.8	27.9	34.6	63.2	83.0
Interest Expense	(56.7)	(50.8)		(23.9)	(26.9)	
Interest Income	11.4	14.9		6.0	8.9	
Pre-Exceptionals Profit	31.1	61.9		16.6	45.2	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	31.1	61.9		16.6	45.2	
Associates/JVs	4.7	5.5		2.3	3.1	
Pretax Profit	35.8	67.3	87.8	19.0	48.4	155.0
Taxation	(16.3)	(13.1)		(16.0)	2.9	
Minority Interest/disc.ops	(0.2)	(0.1)		0.1	(0.1)	
Net Profit	19.3	54.2	180.1	3.0	51.2	n/m
Core Net Profit	19.3	54.2	180.1	3.0	51.2	n/m
Core EPS (sen)	0.4	1.2		0.1	1.1	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.01	1.03		1.03	1.03	
EBIT Margin (%)	5.7	11.5		7.3	17.0	
Pretax Margin (%)	2.7	7.9		4.0	13.0	
Effective Tax (%)	45.6	19.4		84.4	(6.0)	
Segmental Breakdown (RM m)						
Turnover						
Construction	940.5	642.6	(31.7)	360.3	282.3	(21.7)
Property development & investment	369.5	169.4	(54.2)	98.1	71.3	(27.3)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	24.6	27.4	11.3	13.3	14.1	5.9
Investment holding & Others	7.0	9.0	27.8	4.5	4.5	0.2
Total	1,341.6	848.4	(36.8)	476.2	372.2	(21.8)
EBIT						
Construction	43.1	105.8	145.7	17.8	88.0	395.8
Property development & investment	32.9	(14.5)	n/m	11.2	(25.7)	n/m
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	(1.8)	5.2	n/m	3.8	1.4	(62.3)
Investment holding & Others	45.3	107.1	136.2	19.6	87.6	347.7
Total	76.5	97.8	27.9	34.6	63.2	83.0
EBIT margin (%)						
Construction	4.6	16.5		4.9	31.2	
Property development & investment	8.9	(8.6)		11.5	(36.1)	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	(7.5)	18.9		28.3	10.1	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	5.7	11.5		7.3	17.0	

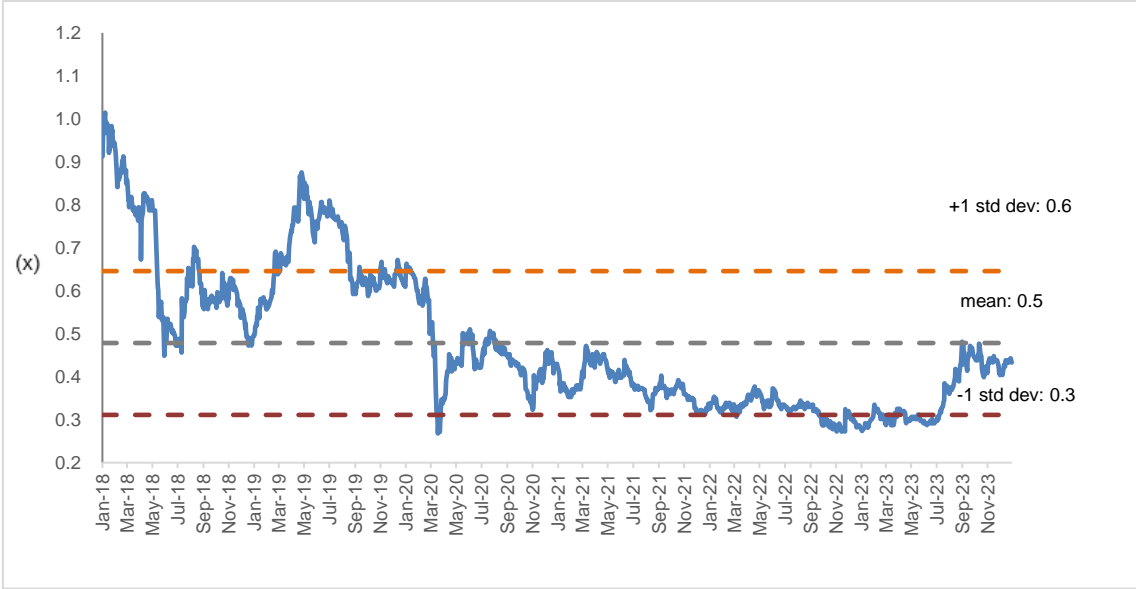
Source: Company, CIMB Securities

Exhibit 2: NAV calculation

Divisions/Operations	Size (acres)	psf	Value (RM)		Method	% of NAV	Effective stake (%)
			m	/share			
Landbank							
Suria Subang	3.3	300	43.6	0.01	Market value		
Selbourne 2, Shah Alam	2.4	200	20.6	0.00	Market value		
Metro Spectacular, Jln. Putra (51%)	10.1	300	67.0	0.01	Market value		
Bukit Beruntung	1.4	180	10.8	0.00	Market value		
Ipoh Raya	832.3	5	181.3	0.04	Market value		
Sub-total	849.4		323.4	0.07		3.5	
Development properties							
Development projects			6,802.6	1.39	NPV @ 9%		100.0
Sub-total			6,802.6	1.39		73.1	
Investment properties							
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Menara MRCB, Shah Alam		216,000	25.0	0.01	NPI@7.25%		100.0
Plaza Alam Sentral, Shah Alam		433,349	93.7	0.02	NPI@7.25%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	43.4	0.01	NPI@7%		100.0
Ascott Sentral (Lot 348), KL Sentral		143 rooms	78.7	0.02	RM0.6m/room		100.0
Sub-total			240.8	0.05		2.6	
Property management							
Quill Capita Management (QCM)			91.3	0.02	NPI@7%		41.0
Sub-total			91.3	0.02		1.0	
Construction & Facilities Management							
Construction			1,055.3	0.22	12x FY24F net profit		
Facilities management			186.5	0.04	Net book value as of FY23		
Bukit Jalil Sentral Management Contract			48.8	0.01	NPV@7.5%		
Sub-total			1,290.7	0.26		13.9	
Listed-investments							
Sentral REIT			261.2	0.05	Market Value		27.8
Sub-total			261.2	0.05		2.8	
Others			394.6	0.08	Net book value as of FY23		
Sub-total			394.6	0.08		4.2	
Gross NAV			9,404.6	1.92			
Net cash/(debt)			(647.5)	(0.13)	As of 31 December 2023		(7.0)
Proceeds from ESOS/warrant conversions			548.1	0.11	Warrants B exercise price: RM1.25		5.9
Total NAV			9,305.3	1.90		100.0	
FD no of shares			4,906.0				
NAV/share			1.90				
TP (less: 50% discount)			0.95				
Share price as of 30 Aug 2024			0.55				
Upside (%)			72.4				
FY24F Yield (%)			1.8				
Total Return (%)			74.2				
Discount to NAV (%)			(71.0)				
Implied FY24F PE (x)			61.7				

Source: Company, Bloomberg, CIMB Securities

Exhibit 3: Historical P/BV band



Source: Company, Bloomberg, CIMB Securities

Income Statement

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Revenue	3,205.1	2,514.1	1,549.8	1,755.2	2,260.3
EBITDA	312.5	121.0	205.9	195.0	238.1
Depreciation/Amortisation	(82.9)	(76.2)	(75.3)	(78.2)	(81.1)
Operating income (EBIT)	229.6	44.8	130.6	116.8	157.0
Other income & associates	5.6	12.4	43.4	54.6	37.3
Net interest	(80.8)	(90.2)	(67.3)	(64.6)	(62.3)
Exceptional items	0.0	167.2	0.0	0.0	0.0
Pretax profit	154.3	134.2	106.8	106.7	132.1
Taxation	(100.8)	(33.2)	(40.3)	(35.5)	(38.7)
Minorities/pref dividends	11.3	(0.1)	(7.5)	(8.2)	(9.8)
Net profit	64.8	101.0	59.0	63.0	83.6
Core net profit	64.8	(66.2)	59.0	63.0	83.6

Balance Sheet

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Fixed assets	778.9	733.9	734.4	732.6	728.5
Intangible assets	194.8	177.0	169.8	162.7	155.6
Other long-term assets	4,707.6	4,537.6	4,620.6	4,714.4	4,790.5
Total non-current assets	5,681.3	5,448.5	5,524.9	5,609.7	5,674.6
Cash & equivalent	533.6	972.0	828.9	440.0	315.8
Stock	785.2	510.4	458.4	709.6	1,149.6
Trade debtors	2,155.6	1,965.0	1,188.9	1,298.4	1,176.6
Other current assets	72.9	114.2	105.0	95.5	85.8
Total current assets	3,547.3	3,561.7	2,581.1	2,543.5	2,727.8
Trade creditors	1,806.0	1,820.4	1,008.4	1,170.8	1,517.5
Short-term borrowings	840.8	311.0	210.8	190.3	169.8
Other current liabilities	50.5	23.4	23.4	23.4	23.4
Total current liabilities	2,697.3	2,154.8	1,242.7	1,384.6	1,710.8
Long-term borrowings	1,215.9	1,490.5	1,477.7	1,335.2	1,192.7
Other long-term liabilities	778.7	765.1	764.1	763.1	762.1
Total long-term liabilities	1,994.6	2,255.6	2,241.8	2,098.3	1,954.8
Shareholders' funds	4,531.2	4,594.1	4,608.4	4,649.1	4,705.9
Minority interests	5.5	5.6	13.1	21.2	31.0

Cash flow Statement

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Pretax profit	154.3	134.2	106.8	106.7	132.1
Depreciation/Amortisation	82.9	76.2	75.3	78.2	81.1
Net change in working capital	(88.5)	479.7	16.3	(198.3)	28.4
Others	(229.7)	(260.3)	(83.7)	(90.1)	(76.0)
Cash flow from operations	(80.9)	429.9	114.5	(103.5)	165.6
Capital expenditure	(82.4)	(50.9)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	0.0	450.0	0.0	0.0	0.0
Others	135.8	20.8	0.0	0.0	0.0
Cash flow from investing	53.4	419.9	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	122.2	(255.2)	(113.0)	(163.0)	(163.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(44.7)	(44.7)	(44.7)	(22.3)	(26.8)
Others	(63.6)	(144.4)	0.0	0.0	0.0
Cash flow from financing	14.0	(444.3)	(157.7)	(185.3)	(189.8)
Net cash flow	(13.5)	405.5	(143.1)	(388.8)	(124.2)
Cash b/f	515.9	501.6	907.3	764.2	375.4
Cash c/f	501.6	907.3	764.2	375.4	251.1

Key Ratios

FYE Dec	2022	2023	2024F	2025F	2026F
Revenue growth (%)	121.3	(21.6)	(38.4)	13.3	28.8
EBITDA growth (%)	nm	(61.3)	70.1	(5.3)	22.1
Pretax margins (%)	4.8	5.3	6.9	6.1	5.8
Net profit margins (%)	2.0	4.0	3.8	3.6	3.7
Interest cover (x)	2.8	0.5	1.9	1.8	2.5
Effective tax rate (%)	65.3	24.7	37.8	33.3	29.3
Net dividend payout (%)	68.9	44.2	37.9	42.5	53.4
Debtors turnover (days)	242	299	280	270	190
Stock turnover (days)	112	99	150	200	250
Creditors turnover (days)	253	277	330	330	330

Source: Bloomberg, CIMB Securities

DISCLAIMER

The content of this report (including the views, opinions and recommendations expressed and the information contained in this report) has been prepared by and belongs to CIMB Securities Sdn Bhd (formerly known as KAF Equities Sdn Bhd) ("**CIMB Securities**").

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, you represent and warrant that you are entitled to receive this report in accordance with the restrictions in this report and agree to be bound by the limitations in this report. Any failure to comply with these limitations may constitute a violation of law.

This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, in whole or in part, to any other person.

This report is general in nature and has been prepared for information purposes only. It is intended for distribution in Malaysia by CIMB Securities to the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad generally and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report.

The information, views, opinions or recommendations in this report are not and should not be construed or considered as an offer, or solicitation to buy or sell, or an invitation to subscribe for, the securities of the company(ies), related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

You are advised to make your own independent evaluation of the information contained in this report, consider your own individual investment objectives, financial situation and particular needs and consult your own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. The securities of the company(ies) may not be eligible for subscription or sale in all jurisdictions or to all categories of investors.

CIMB Securities may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CIMB Securities has no obligation to update this report to include any material omission or in the event of a material change to the information contained in this report.

CIMB Securities does not accept any obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the contents of this report constitute all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and recommendations; and accordingly, CIMB Securities as well as its affiliates, related and associate corporations (and their respective directors, officers and/or employees) shall not be liable in any manner whatsoever for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any reliance thereon or usage of this report. In particular, CIMB Securities disclaims all responsibility and liability for the views, opinions and recommendations set out in this report.

Unless otherwise specified, this report is based upon sources or data which CIMB Securities considered to be reasonable, correct and reliable at the time of issue of this report. Such sources or data will, unless otherwise specified, for market data, be market data and prices available from the stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of your investments may go down and you may lose some or all of your investments.

This report may contain information obtained from third party content providers. Reproduction and distribution of third party contents in any form is prohibited except with the prior written consent of the related third party content provider.

Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such contents. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their contents.

CIMB Securities as well as its affiliates, related and associate corporations (and their respective directors, officers and/or employees) may own or have positions in securities of the company(ies) covered in this report or any securities related to it and may from time to time add to or dispose of, or may be materially interested in, any such securities.

Further, CIMB Securities as well as its affiliates, related and associate corporations do and seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers (for its own account or the account of its customers) and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit investment, advisory or other services from any company(ies) mentioned in this report.

CIMB Securities as well as its affiliates, related and associate corporations may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CIMB Securities may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst(s) responsible for the production of this report certifies that the views, opinions and recommendations expressed herein accurately and exclusively reflect his/her personal views, opinions and recommendations about any and all of the company(ies) or securities analysed in this report and were prepared independently and autonomously.

In reviewing this research report, you should be aware that any or all of the foregoing, among other things, may give rise to actual or potential conflicts of interest. Subject to the duties of confidentiality, additional information may be available, on request, at our sole discretion.

RATING GUIDE

Stock Rating	Definition
Buy	The stock's total return is expected to exceed 10% over the next twelve (12) months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
Reduce	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
	<i>Note: The total expected return of a stock is defined as the sum of: the percentage difference between the target price and the current price; and the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
Sector Rating	Definition
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

DISCLOSURE OF CONFLICTS OF INTEREST

Disclosure by CIMB Securities

CIMB Securities hereby declares that:

(a) CIMB Securities, CIMB Investment Bank Berhad and/or CIMB Bank Berhad has/have proprietary positions in the following securities of the company(ies) mentioned in this report:
MRCB

(b) CIMB Securities (only in respect of its Equities Research Department) received material benefit in relation to the production of this report for the following companies mentioned in this report:
Nil

Disclosure by Analyst(s)

The analyst(s) who prepared this report declares that:

(a) He/she received material benefit in relation to the production of this report for the following companies mentioned in this report:
Nil

(b) He/she has/have an interest in the securities in the following company(ies) recommended in this report:
Nil

(c) He/she serves as a director or board member of the following company(ies) mentioned in this report:
Nil

Information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/her coverage of company(ies) in the performance of his/her duties or the correlation between his/her views, opinions or recommendations and the performance of the securities of the company(ies) and may also participate in the solicitation of the businesses.

This report is distributed in Malaysia by CIMB Securities solely for the benefit of and for the exclusive use of the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad. Recipients of this report are to contact CIMB Securities at Level 14, Chulan Tower, No. 3, Jalan Conlay, 50450 Kuala Lumpur in respect of any matters arising from or in connection with this report. CIMB Securities has no obligation to update, revise or reaffirm its opinion or the information in this research report after the date of this report.

This report is not directed to or intended for distribution or publication outside of Malaysia. If you are outside Malaysia, you should have