

Malaysia

HOLD (no change)

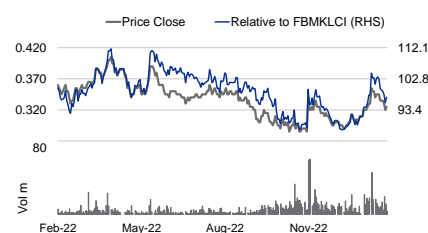
Consensus ratings*: Buy 2 Hold 6 Sell 0

Current price:	RM0.325
Target price:	RM0.35
Previous target:	RM0.34
Up/downside:	7.7%
CGS-CIMB / Consensus:	-7.0%
Reuters:	MYRS.KL
Bloomberg:	MRC MK
Market cap:	US\$327.7m
	RM1,452m
Average daily turnover:	US\$0.88m
	RM3.85m
Current shares o/s:	4,468m
Free float:	42.1%

*Source: Bloomberg

Key changes in this note

- FY23-24F EPS cut by 10-11%.
- TP raised to RM0.35.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.8	12.1	-11
Relative (%)	6.6	10.4	-2.9

Major shareholders	% held
EPF	33.5
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	7.8

Analyst(s)



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Malaysian Resources Corp

Core earnings turnaround in FY22

- FY22 results were slightly below expectations despite a profit turnaround.
- Ramp-up in infra billings was driven by LRT 3; property EBIT was stronger.
- Maintain Hold rating with a higher TP (60% discount to RNAV).

FY22 results slightly below expectations; strong profit turnaround

MRCB posted a strong profit turnaround in FY22, with a RM65m core net profit vs. RM118m core net loss in FY21 (excluding RM123.7m land compensation gain and RM9.9m gain from the acquisition of LRT 3 JV). The overall performance in FY22 was driven by: 1) high construction progress achieved by key development projects, namely Sentral Suites – a commercial and residential (88-89%) project - and TRIA 9 Seputeh (88.3%), and 2) ramp-up in construction billings for the LRT 3 project, which achieved 81% physical completion as at end-FY22. Nevertheless, we deem FY22 results as slightly below expectations, at 97-98% of our and consensus full-year forecasts, due to lower-than-expected construction EBIT margin of 3% (vs. our forecast of 5%) and higher-than-expected effective tax rates (under provision in prior years). 4QFY22 revenue fell 3% both yoy and qoq due to the completion of other construction contracts, while FY22 revenue jumped 121% yoy, reflecting the full consolidation of LRT 3. For FY22, the group achieved RM488m in property sales (including unsold inventory), below its target of RM500m, while unbilled sales stood at RM537m (Sentral Suites made up 57%). The group declared a 1 sen DPS for FY22, below our forecast of 1.2 sen.

Construction tenders as the main focus in FY23F

Key takeaways from the results conference call: 1) The group's construction tender book largely comprises its tender for all four MRT 3 packages, including systems works (pre-qualification tender), but it was unable to divulge more details on the progress of the tenders, despite an article in Edge Weekly highlighting that MRCB's bids have advanced to the stage where technical track record and pricing criteria are being evaluated, 2) The group expects construction EBIT margin of 3% in FY22 to sustain in FY23F, anchored by the 25-30% balance portion of the LRT 3 project, which is expected to be completed in FY24F, 3) Labour shortage issues and higher labour cost remain manageable, as this can be redeployed from completed projects, 4) Other contract tenders were status quo, including the Shah Alam Stadium project (ongoing direct negotiations with the Selangor government and pending definitive agreements) and other flood mitigation projects, and 5) The group targets flattish property sales in FY23F.

Maintain Hold rating with a higher TP

We cut FY23-24F EPS by 10-11% on weaker revenue and lower construction EBIT margin. We introduce FY25F numbers. Reiterate Hold as we see limited upside to share price from contract awards and new tenders over the short term. TP is raised to RM0.35 (60% discount to RNAV) as we update balance sheet items. Upside risks: favourable newsflow on MRT 3 awards from Budget 2023 retabing. Downside risks: project delays.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (RMm)	1,448	3,205	3,256	3,223	3,255
Operating EBITDA (RMm)	(53.1)	189.5	243.5	241.0	240.5
Net Profit (RMm)	15.03	64.85	65.17	72.94	73.30
Core EPS (RM)	0.003	0.015	0.015	0.016	0.016
Core EPS Growth		329%	0%	12%	0%
FD Core P/E (x)	105.5	24.6	24.5	21.9	21.8
DPS (RM)	0.010	0.010	0.010	0.012	0.013
Dividend Yield	3.08%	3.08%	3.08%	3.69%	3.85%
EV/EBITDA (x)	NA	12.99	10.05	10.07	10.01
P/FCFE (x)	11.76	16.53	18.03	15.26	14.89
Net Gearing	29.8%	32.2%	32.5%	32.6%	32.6%
P/BV (x)	0.32	0.32	0.33	0.33	0.34
ROE	0.33%	1.43%	1.45%	1.65%	1.69%
% Change In Core EPS Estimates			(9.6%)	(11.2%)	
CGS-CIMB/Consensus EPS (x)			0.91	0.82	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	4QFY22	4QFY21	yoy % chg	3QFY22	qoq % chg	4QFY22 Cum	4QFY21 Cum	yoy % chg	Prev. FY22F	Comments
Revenue	833.9	858.2	(2.8)	860.0	(3.0)	3,205.1	1,448.5	121.3	3,145.6	1) Ramp-up in LRT 3 construction progress
Operating costs	(761.3)	(693.2)	9.8	(768.4)	(0.9)	(2,915.3)	(1,285.6)	127	(2,958.0)	2) Completion of other major construction jobs
EBITDA	72.6	164.9	(56)	91.6	(20.7)	289.8	162.8	78.0	232.4	3) Property dev't revenue grew 84% yoy
EBITDA margin (%)	8.7	19.2	(55)	10.6	(18.2)	9.0	11.2	(19.6)	7.4%	
Depn & amort.	(16.7)	(15.8)	5.5	(16.8)	(0.4)	(60.2)	(54.2)	11.1	(58.5)	
EBIT	55.9	149.1	(63)	74.8	(25.3)	229.6	108.6	111.3	173.9	
Interest expense	(27.1)	(27.5)	(1.3)	(24.3)	11.6	(99.1)	(88.7)	11.7	(92.8)	Total debt of RM2.1bn at end-Dec
Associates & JV	1.8	2.4	(23.8)	2.2	(17.6)	5.6	31.3	(82.2)	6.2	End-Dec net gearing: 0.32x
Exceptionals	-	133.6	(100.0)	-	nm	-	133.6	(100.0)	-	Mainly land compensation gain in FY21
Pretax profit	37.7	123.9	(69.5)	56.7	(33.4)	154.3	61.3	151.8	110.7	
Tax	(24.6)	(49.5)	(7.0)	(41.2)	(40)	(100.8)	(54.6)	84.6	(55.4)	
Tax rate (%)	65.3	39.9	63.5	72.7	(10)	65.3	89.0	(26.7)	50%	
Minority interests	(0.1)	0.8	(112.5)	8.2	(101)	11.3	9.1	24.1	11.4	
Net profit	13.0	75.2	(82.7)	23.7	(45.1)	64.8	15.8	309.7	66.8	FY22 core net profit made up 97-98% of our
Core net profit	13.0	(58.4)	122.3	23.7	(45.1)	64.8	(117.8)	155.1	66.8	and consensus full-year estimate
EPS (sen)	0.3	1.7	(82.7)	0.5	(45.3)	1.5	0.4	302.8	1.5	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Segmental breakdown (excluding associates and JV profit)

Revenue	4QFY22	4QFY21	YoY	FY22	FY21	YoY	Comments
Property development	261.1	152.2	72%	914.6	498.1	84%	Higher construction progress; higher revenue recognition
Engineering, construction & environment	558.7	697.1	-20%	2,233.6	903.6	147%	LRT 3 project at 81% completion rate; completion of other projects
Facilities management & parking	13.0	8.5	53%	46.4	34.6	34%	Reflective of economic reopening post-lockdown
Investment holding and others	1.1	0.3	213%	10.4	12.2	-15%	Lumpy recurring revenue
Total	833.9	858.1	-3%	3,205.1	1,448.5	121%	
EBIT	4QFY22	4QFY21	YoY	FY22	FY21	YoY	
Property development	52.0	135.8	-62%	176.7	153.4	15%	RM123.7m land compensation gain in 4QFY21
Engineering, construction & environment	8.7	10.9	-21%	69.9	(40.7)	-272%	Ramp-up in LRT 3 construction
Facilities management & parking	(0.5)	(2.9)	-83%	(0.5)	(1.3)	-61%	Likely impacted by higher cost and labor shortage
Investment holding and others	(1.4)	6.8	-121%	(5.4)	5.9	-191%	Profits tend to be lumpy
Total	58.8	150.7	-61%	240.7	117.2	105%	
EBIT margins	4QFY22	4QFY21	YoY	FY22	FY21	% pts	
Property development	20%	89%	-69%	19%	31%	-37%	Margins likely not sustainable due to higher material costs
Engineering, construction & environment	2%	2%	0%	3%	-5%	8%	Margins expected to sustain at 3% level in FY23F
Facilities management & parking	-4%	-34%	30%	-1%	-4%	3%	Lumpy margins
Investment holding and others	-129%	1963%	-2092%	-52%	49%	-207%	
Total	7%	18%	-11%	8%	8%	-7%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: RNAV


	Land bank		GDV	Stake	Value	Value
Ongoing property development	(Acres)	(m sq ft)	(RM m)	(%)	(RM psf)	(RM m)
Bukit Jalil KL Sports City	76.1	3.3	20,700.0	17%	350.0	197.2
Kwasa Sentral (Kwasa Damansara)	64.1	2.8	8,606.0	70%	180.0	351.8
Cyberjaya City	113.3	4.9	5,350.0	70%	100.0	345.5
KL Sentral - Lot F	5.7	0.2	2,993.0	100%	750.0	186.2
Semarak City - Setapak	27.4	1.2	2,977.0	100%	250.0	298.4
Penang Sentral - phases 3 & 7	16.7	0.7	2,100.0	70%	120.0	61.1
PJ Sentral - Nilaitera	7.8	0.3	1,656.0	100%	350.0	118.9
Lot 349, KL Sentral (service apartments)	4.9	0.2	1,413.0	100%	850.0	181.4
Q Sentral Office Tower	1.9	0.1	1,228.0	66%	900.0	49.2
Lot 94 Jalan Kia Peng	1.9	0.1	1,012.0	100%	500.0	41.4
9 Seputeh - Old Klang Road	8.0	0.3	795.0	100%	200.0	69.7
Pulai Johor	67.5	2.9	770.0	100%	35.0	102.9
PJ Sentral - Tower 1	0.0	0.0	700.0	100%	550.0	0.0
Penang Sentral - phases 1 & 2	6.0	0.3	590.0	100%	120.0	31.4
PJ Sentral - Tower 5	0.0	0.0	455.0	100%	550.0	0.0
PJ Sentral - Celcom Tower	2.3	0.1	428.0	100%	450.0	45.1
Suria Subang	3.2	0.1	401.0	100%	200.0	27.9
Seri Iskandar - phase 3	159.0	6.9	350.0	70%	10.0	48.5
Seri Iskandar - Phase 2	245.0	10.7	321.0	70%	5.0	37.4
Rahman Putra - phase 3	4.6	0.2	307.0	100%	20.0	4.0
Canegie - Melbourne	1.0	0.0	305.0	100%	450.0	19.6
Selbourne 2 - Shah Alam	2.4	0.1	198.0	100%	200.0	20.9
Rahman Putra - phase 2	4.1	0.2	175.0	100%	20.0	3.6
Rahman Putra - phase 1	5.5	0.2	84.0	100%	20.0	4.8
Total	828.4	36.1	53,914.0			2,246.8
				Stake		
Construction Net profit (FY24) at 15x P/E				100%		330.0
Sentral REIT (market capitalisation based on TP)				28%		259.9
Property investments (4Q22)						1,275.0
Associates & investments (4Q22)						740.7
Net working capital (4Q22)						874.5
Total borrowings (3Q22)						(2,057.0)
Total RNAV (RM m)						3,669.9
No. of shares (m)						4,412.0
New free warrants (10-years)						438.5
Proceeds from new warrants @RM1.25 strike price						548.1
FD no.of shares (m)						4,850.6
FD RNAV (RM m)						4,218.1
FD RNAV/share (RM)						0.87
Discount to RNAV (%)						60%
Target price (RM/share)						0.35

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision

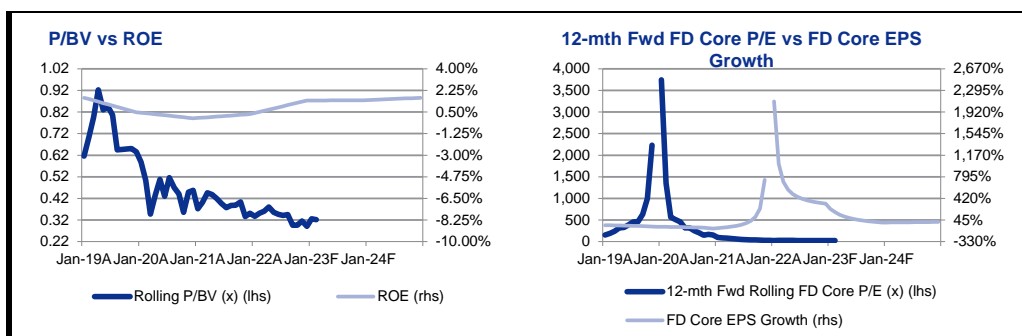
RM m	2022A	2023F			2024F			2025F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	3,146	3,256	3,256	0%	3,321	3,223	-3%	#N/A	3,255	#N/A
EBITDA	232	243	243	0%	251	241	-4%	#N/A	240	#N/A
Core pretax profit	111	120	113	-6%	126	109	-13%	#N/A	109	#N/A
Core net profit	66.8	72	65	-10%	82	73	-11%	#N/A	73	#N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Refinitiv ESG Scores	
	
ESG in a nutshell	
<p>MRCB’s sustainability framework revolves around building livable and resilient communities, caring for the environment, and driving sustainable growth. Its sustainability focus areas include: 1) Internal action, 2) Sustainable impact, 3) Risk and governance, 4) Corporate social responsibility, and 5) Stakeholder engagement. All its ESG-related initiatives are aligned with the United Nations Sustainability Development Goals (UN-SDGs).</p>	
<p>Keep your eye on</p> <ol style="list-style-type: none"> 1) Key targets of the group’s 5-year sustainability roadmap include 1% yoy reduction in carbon intensity by 2022, 1% yoy reduction in energy, water and waste intensity by 2022, and net zero carbon by 2040. The roadmap is supervised by the group’s Sustainability Management Committee (SMC). 2) The government potentially repackaging new public transport infrastructure projects as “green infrastructure” under the 12th Malaysia Plan (12MP). New urban and interstate rail projects include the MRT 3 (Circle Line) and the KL-JB High Speed Rail (HSR). 	<p>Implications</p> <ol style="list-style-type: none"> 1) As an urban property developer with a niche in transit-oriented developments (TODs), the rollout of new rail public transport projects should bode well for MRCB, allowing it to expand its growth area in TODs – similar to KL Sentral. 2) Opportunities to increase its construction order book and to participate in new rail contract tenders should the MRT 3 and KL-JB HSR projects be implemented.
<p>ESG highlights</p> <ol style="list-style-type: none"> 1) The group’s transit-oriented developments (TODs), such as the MRT 2 and LRT 3, encourage the use of public transport, which reduces carbon emissions. 2) MRCB is a pioneer in Green Building developments; it received sustainability accreditation for various projects and has adopted various Green Building Certification criteria across all its developments. 3) Major sustainability ratings/certifications: Green Building Index (GBI), GreenRE, MyCrest, and BCA Green Mark. 4) Channelled RM1.4m of Covid-19-related donations to various government agencies, NGOs and the community in 2020. 	<p>Implications</p> <ol style="list-style-type: none"> 1) MRCB is the first contractor to achieve the 5-star Sustainable INFRASTAR rating by the Construction Industry Development Board (CIDB), which it received for the LRT 3 project. 2) It has selectively adopted Building Information Modelling (BIM) to reduce construction waste. It developed and deployed the MRCB Building System (MBS) which focuses on modular construction (aligned to six UN-SDGs).
<p>Trends</p> <ol style="list-style-type: none"> 1) MRCB is a constituent of the FTSE4Good Bursa Malaysia Index. It achieved a 3-star grading band under FTSE Russell (at the Jun 2021 review), similar to 2020. It has been an FTSE4Good constituent since 2017. 2) MSCI ESG rating: BBB. 3) To enhance its sustainability initiatives and ESG profile, the group said it will over the longer-term continue to focus on core sustainability issues, i.e. high dependency on foreign labour, environmental risks, and energy/material wastage (shifts towards sustainable construction methods). 	<p>Implications</p> <p>Recognition of best practices in governance/ESG includes:</p> <ol style="list-style-type: none"> 1) ISO 37001 – Anti-Bribery Management System 2) Ranked 38th for Overall Good Corporate Governance Disclosures in the MSWG-ASEAN CG Scorecard 3) Gold Award (2017/2018) recipient of the Australian Reporting Awards (ARA) 4) Recipient of the ASEAN Class Award for the 2019 ASEAN Corporate Governance Scorecard Assessment 5) Ranked 1st in Malaysian Institute of Corporate Governance’s Transparency in Corporate Reporting in 2019.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	1,448	3,205	3,256	3,223	3,255
Gross Profit	1,448	3,205	3,256	3,223	3,255
Operating EBITDA	(53)	189	243	241	240
Depreciation And Amortisation	(54)	(60)	(61)	(61)	(61)
Operating EBIT	(107)	129	183	180	180
Financial Income/(Expense)	(79)	(81)	(88)	(89)	(89)
Pretax Income/(Loss) from Assoc.	31	6	6	7	7
Non-Operating Income/(Expense)	216	100	12	12	11
Profit Before Tax (pre-EI)	61	154	113	109	109
Exceptional Items	0	0	0	0	0
Pre-tax Profit	61	154	113	109	109
Taxation	(55)	(101)	(60)	(49)	(49)
Exceptional Income - post-tax					
Profit After Tax	7	54	53	60	60
Minority Interests	9	11	12	13	14
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(1)				
Net Profit	15	65	65	73	73
Recurring Net Profit	15	65	65	73	73
Fully Diluted Recurring Net Profit	15	65	65	73	73

Cash Flow

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	(53.1)	189.5	243.5	241.0	240.5
Cash Flow from Invt. & Assoc.					
Change In Working Capital	67.4	(324.2)	(9.3)	(0.6)	2.1
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(64.6)	235.4	(25.0)	(26.3)	(27.6)
Net Interest (Paid)/Received	(78.7)	(80.8)	(88.4)	(89.3)	(89.1)
Tax Paid	(54.6)	(100.8)	(60.0)	(49.2)	(48.9)
Cashflow From Operations	(183.6)	(80.9)	60.7	75.7	77.1
Capex	(177.6)	(6.9)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(127.6)	0.0	(15.5)	(15.7)	(15.8)
Other Investing Cashflow	633.2	60.4	61.6	62.8	64.1
Cash Flow From Investing	328.0	53.4	36.1	37.2	38.3
Debt Raised/(repaid)	(9.6)	123.9	(8.4)	(8.3)	(8.2)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(19.7)	(44.7)	(44.7)	(53.6)	(55.8)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	(66.1)	(65.3)	(43.7)	(50.9)	(51.3)
Cash Flow From Financing	(95.4)	14.0	(96.8)	(112.8)	(115.3)
Total Cash Generated	49.0	(13.5)	0.0	(0.0)	(0.0)
Free Cashflow To Equity	134.8	96.5	88.4	104.5	107.1
Free Cashflow To Firm	233.1	71.6	195.8	212.8	215.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	579	594	600	612	624
Total Debtors	2,050	2,163	2,096	2,032	1,971
Inventories	858	785	793	801	809
Total Other Current Assets	147	34	34	35	35
Total Current Assets	3,633	3,577	3,523	3,480	3,439
Fixed Assets	704	696	699	702	703
Total Investments	2,242	2,276	2,196	2,120	2,048
Intangible Assets	216	195	195	195	195
Total Other Non-Current Assets	2,390	2,492	2,468	2,444	2,420
Total Non-current Assets	5,552	5,658	5,558	5,460	5,366
Short-term Debt	479	841	832	824	816
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	1,794	1,780	1,744	1,709	1,675
Other Current Liabilities	161	82	82	82	82
Total Current Liabilities	2,434	2,702	2,658	2,615	2,573
Total Long-term Debt	1,453	1,216	1,216	1,216	1,216
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	684	718	689	662	635
Total Non-current Liabilities	2,137	1,934	1,905	1,878	1,851
Total Provisions	74	63	65	67	69
Total Liabilities	4,645	4,699	4,628	4,560	4,493
Shareholders' Equity	4,513	4,530	4,447	4,374	4,306
Minority Interests	28	6	6	6	6
Total Equity	4,540	4,536	4,453	4,380	4,313

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	21%	121%	2%	(1%)	1%
Operating EBITDA Growth	(67.8%)	N/A	28.5%	(1.0%)	(0.2%)
Operating EBITDA Margin	(3.67%)	5.91%	7.48%	7.48%	7.39%
Net Cash Per Share (RM)	(0.30)	(0.33)	(0.32)	(0.32)	(0.32)
BVPS (RM)	1.01	1.01	1.00	0.98	0.96
Gross Interest Cover	(1.21)	1.30	1.85	1.80	1.80
Effective Tax Rate	89.0%	65.3%	53.0%	45.0%	45.0%
Net Dividend Payout Ratio	220%	51%	51%	54%	56%
Accounts Receivables Days	252.9	156.8	147.3	141.8	133.0
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	(2.38%)	2.93%	4.06%	4.04%	4.06%
ROCE (%)	(1.48%)	2.23%	2.92%	2.92%	2.95%
Return On Average Assets	0.96%	1.46%	1.55%	1.66%	1.68%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue growth (%)	20.8%	121.3%	1.6%	-1.0%	1.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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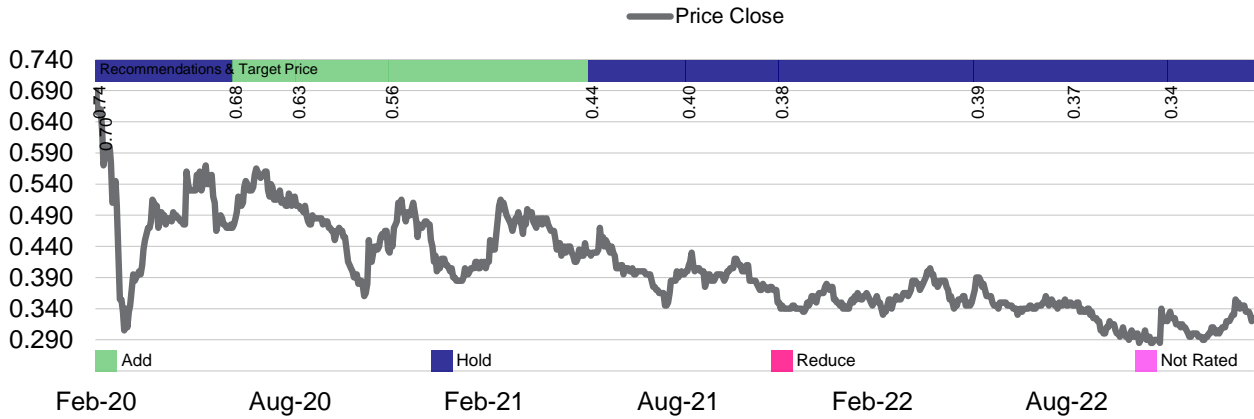
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645 companies under coverage for quarter ended on 31 December 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	64.8%	1.1%
Hold	27.0%	0.3%
Reduce	8.2%	0.0%

Spitzer Chart for stock being researched (2 year data)

Malaysian Resources Corp (MRC MK)



Recommendation Framework

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Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.