

HLIB Research

PP 9484/12/2012 (031413)

Edwin Woo, CFA
ckwoo@hlib.hongleong.com.my
(603) 2083 1718
BUY (from Hold)

Target Price: RM0.67
Previously: RM0.71
Current Price: RM0.55

Capital upside	21.8%
Dividend yield	2.8%
Expected total return	24.6%

Sector coverage: Construction

Company description: MRCB is primarily involved in property development (with a niche in TODs) and construction.

Share price


Historical return (%)	1M	3M	12M
Absolute	-14.5	-23.7	17.8
Relative	-17.2	-26.5	2.7

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4468
Market capitalisation (RM m)	3105
3-mth average volume ('000)	20,119
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

EPF	36.2%
Gapurna	15.5%
LTH	5.6%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI - core (RM m)	-32.0	85.8	54.0
EPS - core (sen)	-0.7	1.9	1.2
P/E (x)	NM	28.6	45.5

Malaysian Resources Corporation

Beats expectations

MRCB's 1HFY24 core PATAMI of RM54.2m was a significant beat. This was due to final account recognition of old projects. Construction segment could benefit from release of cost buffers for LRT3 (Ph1) in coming quarters. LRT3 Ph2 looks set to take off with major approval obtained. There were some delays in FY24 local property launches into FY25. We change FY24f/25f/26f core PATAMI forecasts by +193.7%/ -6.5%/ -14.0%. Upgrade to BUY with lower SOP-driven TP of RM0.67. Recent share price decline of -25% tilts risk reward to the upside at a low P/B multiple of 0.53x (similar peers ~0.8x-1.2x).

Beats expectations. MRCB reported 2QFY24 results with revenue of RM372.2m (-21.8% QoQ, -37.8% YoY) and core PATAMI of RM51.2m (17x QoQ, 370.9% YoY). This brings 1HFY24 core PATAMI to RM54.2m, increasing by 180.1%. Results were significantly above our and consensus expectations at 186%/135% of full year forecasts. Positive deviation came from stronger than expected construction margins as final accounts were finalised for past projects.

EIs. No adjustments made to 1HFY24 numbers.

Dividends. No DPS declared.

QoQ/YoY. Significant profit improvements on a QoQ and YoY basis were mainly due exceptional construction segment contribution coming from final account recognition of past projects. This was partially dragged by property division sinking into losses in 2QFY24 due to delays in strata title issuance for completed inventory sales. MRCB's upcoming handover of its LRT Phase 1 project could allow some cost buffers to be released.

YTD. Likewise, core PATAMI surged by 180.1% despite lower revenue of -36.8% was driven by final account recognition on the construction side. This was coupled with lower finance costs (-10.4%) and lower effective tax rates (1HFY23: 52.5%; 1HFY24: 21.1%).

Orderbook. Outstanding orderbook stands at RM15.7bn – after adjusting for Bukit Jalil project, active orderbook is RM4.7bn (2.7x cover based on FY23 E&C revenue). MRCB secured its first project in FY24, being the RM250m Sungai Langat, Phase 2 flood mitigation project.

Pipeline. The revived scopes of the LRT3 (Phase 2) has been given Cabinet approval while MRCB has started undertaking preparatory works. The VO looks set to be finalised and could add RM1.5bn-2bn to MRCB's existing RM4.7bn active orderbook. The government also intends for KL Sentral redevelopment project (>RM1bn) to commence works by year end. Further, development of Shah Alam stadium project is guided to be formalised in 4Q24. In our view, MRCB is poised to participate in the upcoming Penang LRT and coming HSR announcements could also catalyse share price. Given delays in contract conversion YTD, we are cutting FY24 contract awards assumptions.

Property. Sales for 1HFY24 came in at RM497.4m – within expectations. 53% came from its Australian project Vista (take-up YTD: 32%). According to management, the project is benefitting from strong demand resulting to upward revision in prices. Similarly, unbilled sales of RM558.7m came mostly from Vista (86%). We note that MRCB's launch plans for FY24 has been reduced from RM3.6bn to RM1.9bn (Fig.2). Among the delayed launches are Phase 1A & 1B of Bukit Jalil Sentral (GDV: RM900m) and office tower at Lot F, KL Sentral (GDV: RM1.5bn). Nevertheless,

Lifestyle Suites at Lot R, KL Sentral (GDV: RM205m) has been upsized and brought forward into 4Q24. Overall in FY24, MRCB will only be launching RM605m worth of projects domestically while ~RM2.9bn is intended for the local market next year. We believe the delays could impact our divisional forecasts for FY25.

Forecast. We change FY24f/25f/26f core PATAMI forecasts by +193.7%/-6.5%/-14.0% adjusting for a final account recognition in FY24f, cutting of construction replenishment assumptions and delays in launches.

Upgrade to BUY, TP: RM0.67. We upgrade the stock to a BUY (from Hold) with slightly lower SOP driven TP of RM0.67 (from RM0.71). Recent share price decline of -25% tilts risk reward to the upside at a low P/B multiple of 0.53x (similar peers ~0.8x-1.2x). MRCB benefits from better project pipeline visibility and value unlocking initiatives. Key upside catalysts: contract wins, and HSR newsflow; Downside risks: margins, execution, property sales slowdown and political uncertainties

Figure #1 Quarterly results comparison

FYE Dec	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Revenue	599.3	476.2	372.2	(21.8)	(37.9)	1,341.6	848.4	(36.8)
EBIT	39.9	40.5	72.2	78.2	80.9	87.8	112.7	28.3
Finance cost	(28.9)	(23.9)	(26.9)	12.8	(6.7)	(56.7)	(50.8)	(10.4)
Share of JVs and associates	4.3	2.3	3.1	33.9	(26.7)	5.6	12.4	123.5
PBT	15.3	19.0	48.4	155.1	216.1	35.8	67.3	87.8
PAT	10.9	3.0	51.3	1,637.2	369.2	19.5	54.2	178.0
Core PATMI	10.9	3.0	51.2	1,604.9	370.9	19.3	54.2	180.1
Reported PATMI	10.9	3.0	51.2	1,604.9	370.9	19.3	54.2	180.1
Core EPS (sen)	0.2	0.1	1.1	1,604.9	370.9	0.4	1.2	180.1
EBIT margin (%)	6.7	8.5	19.4			6.5	13.3	
PBT margin (%)	2.6	4.0	13.0			2.7	7.9	
PATMI margin (%)	1.8	0.6	13.8			1.4	6.4	

Bursa, HLIB Research

Figure #2 Property launch pipeline

Future Launches			
2024			
The Symphony Center, Auckland	2Q & 4Q	~RM1,314 mil (NZD452 mil)	78
9 Seputeh, Parcel A	4Q	RM400 mil	490
Lifestyle Suites at Lot R, KL Sentral CBD	4Q	RM205 mil	494
Total 2024		RM1,919 mil	1,062 units
2025			
Office Tower at Lot F, KL Sentral CBD	1Q	RM1,500 mil	TBD
20 Queen Street, Southport	1Q	~RM517 mil (AUD175 mil)	180
Bledisloe House, Auckland City Center	2Q	~RM398 mil (NZD137 mil)	En Bloc
Tower 5, PJ Sentral	2Q	RM482 mil	TBD
Phase 1A and 1B, Bukit Jalil Sentral	TBC	RM900 mil	1,200
Total 2025		RM3,797 mil	1,380 units

Company

Figure #3 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	Per Share
Construction - FY25 earnings	32	12	388	0.09
Property development - NPV of profits		10%	1,972	0.44
Property investment - fair value			1,155	0.26
Stake in Sentral REIT at RM0.75 TP	897	28%	250	0.06
Sum of parts			3,765	0.84
Discount			-20%	(0.17)
Target price			3,012	0.67

HLIB Research

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	534	972	1,257	1,229	1,136
Receivables	2,476	2,065	1,696	2,240	2,794
PPE	779	734	708	733	757
Investment properties	1,535	1,108	1,088	1,108	1,128
Others	3,596	3,551	3,264	3,268	3,272
Assets	9,229	8,845	8,127	8,751	9,312
Debts	2,057	1,802	1,902	2,002	2,102
Payables	1,996	1,838	1,011	1,522	1,967
Others	640	605	605	605	605
Liabilities	4,692	4,245	3,517	4,129	4,674
Shareholder's equity	4,531	4,594	4,611	4,627	4,650
Minority interest	6	6	(2)	(6)	(12)
Equity	4,537	4,600	4,609	4,622	4,638

Cash Flow Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Profit before taxation	136	1	167	90	133
Depreciation & amortisation	83	86	57	59	60
Changes in working capital	(13)	150	(159)	(90)	(160)
Taxation	(101)	(33)	(74)	(32)	(51)
Others	(100)	288	-	-	-
CFO	6	492	(8)	26	(18)
Net capex	(92)	510	(80)	(80)	(80)
Others	80	(178)	-	-	-
CFI	(12)	332	(80)	(80)	(80)
Changes in borrowings	125	(255)	100	100	100
Issuance of shares	-	-	-	-	-
Dividends paid	(44)	(45)	(45)	(69)	(38)
Others	(88)	(90)	-	-	-
CFF	(7)	(390)	55	31	62
Net cash flow	(13)	434	(33)	(22)	(36)
Forex	-	0	-	-	-
Others	(32)	4	318	(6)	(57)
Beginning cash	579	534	972	1,257	1,229
Ending cash	534	972	1,257	1,229	1,136

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	3,205	2,537	2,056	2,882	3,726
EBIT	211	79	206	131	178
Associates & JV	6	12	19	19	19
Profit before tax	136	1	167	90	133
Tax	(101)	(33)	(74)	(32)	(51)
Net profit	35	(32)	93	58	82
Minority interest	11	(0)	(7)	(4)	(6)
PATMI (core)	46.6	(32.0)	85.8	54.0	75.5
Exceptionals	18	133	-	-	-
PATMI (reported)	65	101	86	54	76

Valuation & Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Core EPS (sen)	1.0	(0.7)	1.9	1.2	1.7
P/E (x)	52.7	n.m.	28.6	45.5	32.5
DPS (sen)	1.0	1.0	1.5	0.8	1.2
Dividend yield	1.8%	1.8%	2.8%	1.5%	2.2%
BVPS (RM)	1.0	1.0	1.0	1.0	1.0
P/B (x)	0.5	0.5	0.5	0.5	0.5
EBITDA margin	9.2%	6.5%	12.8%	6.6%	6.4%
EBIT margin	6.6%	3.1%	10.0%	4.6%	4.8%
PBT margin	4.2%	0.0%	8.1%	3.1%	3.6%
Net margin	1.5%	-1.3%	4.2%	1.9%	2.0%
ROE	1.0%	-0.7%	1.9%	1.2%	1.6%
ROA	0.5%	-0.4%	1.0%	0.6%	0.8%
Net gearing	33.6%	18.1%	14.0%	16.7%	20.8%

Assumptions

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Contracts secured	380	-	4,000	3,000	2,000
Property sales	488	831	1,000	1,500	1,000

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 01 September 2024, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 01 September 2024, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.