

HLIB Research

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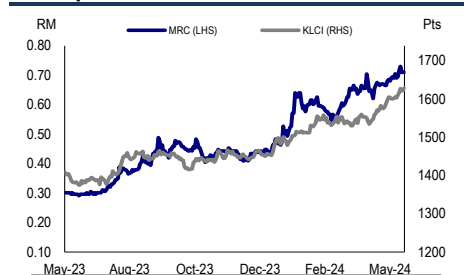
HOLD (from Buy)

Target Price: **RM0.67**
Previously: **RM0.67**
Current Price: **RM0.695**

| | |
|-----------------------|-------|
| Capital upside | -3.6% |
| Dividend yield | 0.8% |
| Expected total return | -2.8% |

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 | 3.7 | 18.8 | 127.9 |
| Relative | 1.9 | 15.4 | 113.1 |

Stock information

| | |
|------------------------------|--------|
| Bloomberg ticker | MRC MK |
| Bursa code | 1651 |
| Issued shares (m) | 4468 |
| Market capitalisation (RM m) | 3105 |
| 3-mth average volume ('000) | 37,395 |
| 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 | 29.2 | 57.5 |
| EPS - core (sen) | -0.7 | 0.7 | 1.3 |
| P/E (x) | NM | 106.3 | 54.0 |

Malaysian Resources Corporation

Time for a rest

MRCB's 1QFY24 core PATAMI of RM3.0m missed our and consensus estimates due to lower-than-expected construction contribution. Pipeline visibility continues to be strong anchored by LRT3 Phase 2 and KL Sentral. Other potential jobs are Penang LRT and HSR. Property launches of RM3.6bn is slated for FY24. There are other monetisation initiatives in the works. Cut FY24f/25f earnings by -45.0%/-3.5%. Downgrade to HOLD with unchanged SOP-driven TP of RM0.67 post-share price run-up.

Missed expectations. MRCB reported 1QFY24 results with revenue of RM476.2m (-28.8% QoQ, -35.8% YoY) and core PATAMI of RM3.0m (vs core LATAMI of -RM87.0m in 4QFY23, -64.6% YoY). Results came in below our and consensus expectations at 5.9%/5.3% of full year forecasts. Negative deviation stemmed from lower-than-expected contribution from construction segment.

EIs. We adjust FY23 numbers for: (i) RM59.5m gain on disposal for Menara CelcomDigi and (ii) RM107.7m disposal gain from Plaza Alam Sentral and adjoining land. No adjustments made to FY24 numbers.

Dividends. No DPS declared.

QoQ. Performance returned to the black on account of stronger contributions from all segments at the operating level. Construction improved despite lower revenue as previously expensed costs were reversed with projects at tail end. Meanwhile improvements on the property side was, in our view, was mainly due to heavier marketing costs incurred for its Vista project recognised in 4QFY23.

YoY. Core PATAMI declined by -64.6% in part due to lower revenue of -35.8% which was slightly offset by higher EBIT margins (+2.0%) – seen at construction and facilities management side. Nevertheless, the higher tax rate compounded the YoY deterioration.

Orderbook. Outstanding orderbook stands at RM15.3bn – after adjusting for Bukit Jalil project, active orderbook is RM4.3bn (2.5x cover based on FY23 E&C revenue). The company is still waiting to convert on its first project in FY24.

Pipeline. Going forward, we expect the revived scopes of the LRT3 (Phase 2) to be finalised soon and could add RM1.5bn-2bn to MRCB's active orderbook. We believe the project is expected to commence soon and scopes have been expanded since the last update. KL Sentral redevelopment project (>RM1bn) also looks set to be finalised as government expects work to commence by end-CY24. Further developments on the Shah Alam stadium should be in FY25. MRCB is poised to participate in upcoming Penang LRT and coming HSR announcements could also catalyse share price. Overall, MRCB is setting an ambitious RM5bn target for FY24.

Property. Sales for 1QFY24 came in at RM268.1m – within expectations. 52% came from its Australian project Vista (take-up as at Apr-24: 29%). Earnings contribution is expected to come in FY26 when the project achieves completion. Unbilled sales of RM387.3m are mostly from Vista, with domestic projects forming 9% of this. Sales of its local projects should gradually pick-up. While management embarks on a new launch cycle in FY24, the division could continue to see sluggish albeit improving earnings. MRCB continues to work on unlocking value from its assets. With regards to data centres, we believe the company could either monetise land or adopt a build-to-lease model to benefit from the boom. We note that MRCB owns 66.5 acres of commercial land in Pulai, Johor (NBV: ~RM26.7 psf; recent transactions have valued

industrial land in Pulau at RM120 psf). Other than land, the company is also looking to manage assets more proactively.

Forecast. We cut our FY24f/25f core PATAMI forecasts by -45.0%/-3.5% adjusting for a more gradual property billings schedule. Introduce FY26f core PATAMI of RM97.1m.

Downgrade to HOLD, TP: RM0.67. We downgrade the stock to a HOLD (from Buy) with unchanged SOP driven TP of RM0.67 post share price run-up. MRCB benefits from better project pipeline visibility and value unlocking initiatives. Key upside catalysts: contract wins, asset monetisation and HSR newsflow; Downside risks: margins, execution, property sales slowdown and political uncertainties

Figure #1 Quarterly results comparison

| FYE Dec | 1QFY23 | 4QFY23 | 1QFY24 | QoQ (%) | YoY (%) |
|-----------------------------|--------|--------|--------|---------|---------|
| Revenue | 742.2 | 668.8 | 476.2 | (28.8) | (35.8) |
| EBIT | 47.9 | (66.8) | 40.5 | (160.7) | (15.5) |
| Finance cost | (27.9) | (25.9) | (23.9) | (7.7) | (14.3) |
| Share of JVs and associates | 0.5 | 5.2 | 2.3 | (54.8) | 395.3 |
| PBT | 20.6 | (87.5) | 19.0 | (121.7) | (7.7) |
| PAT | 8.6 | (87.1) | 3.0 | (103.4) | (65.6) |
| Core PATMI | 8.5 | (87.0) | 3.0 | (103.5) | (64.6) |
| Reported PATMI | 8.5 | 80.2 | 3.0 | (96.3) | (64.6) |
| Core EPS (sen) | 0.2 | (1.9) | 0.1 | (103.5) | (64.6) |
| EBIT margin (%) | 6.5 | (10.0) | 8.5 | | |
| PBT margin (%) | 2.8 | (13.1) | 4.0 | | |
| PATMI margin (%) | 1.1 | (13.0) | 0.6 | | |

Bursa, HLIB Research

Figure #2 Property launch pipeline

| 2024 Launches | | | |
|---|-----|---------------------------|--------------------|
| The Symphony Center, Auckland | 2Q | ~RM1,314 mil (NZD452 mil) | 78 |
| Phase 1A and 1B, Bukit Jalil Sentral | 4Q | RM900 mil | 1,200 |
| Office Tower at Lot F, KL Sentral CBD | 4Q | RM1,000 mil | TBD |
| 9 Seputeh, Parcel A | 4Q | RM400 mil | 490 |
| Total 2024 | | RM3,614 mil | 1,768 units |
| 2025 Launches | | | |
| Bledisloe House, Auckland City Center | 1Q | ~RM398 mil (NZD137 mil) | En Bloc |
| Lifestyle Suites at Lot R, KL Sentral CBD | 2Q | RM174 mil | 110 |
| Tower 1, PJ Sentral | TBD | RM626 mil | 900 |
| Tower 5, PJ Sentral | TBD | RM486 mil | En Bloc |
| Total 2025 | | RM1,684 mil | 1,010 units |

Company

Figure #3 SOP valuation for MRCB

| Sum of Parts | RM m | PE (x) / WACC | Value to MRCB | Per Share |
|---------------------------------------|------|---------------|---------------|-------------|
| Construction - FY25 earnings | 39 | 15 | 590 | 0.12 |
| Property development - NPV of profits | | 10% | 2,062 | 0.43 |
| Property investment - fair value | | | 1,155 | 0.24 |
| Stake in Sentral REIT at RM0.75 TP | 897 | 28% | 250 | 0.05 |
| Sum of parts | | | 4,058 | 0.84 |
| Discount | | | -20% | (0.17) |
| Target price | | | 3,246 | 0.67 |

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 534 | 972 | 1,262 | 1,196 | 1,001 |
| Receivables | 2,476 | 2,065 | 1,860 | 2,332 | 3,222 |
| 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 | 8,318 | 8,818 | 9,642 |
| Debits | 2,057 | 1,802 | 1,902 | 2,002 | 2,102 |
| Payables | 1,996 | 1,838 | 1,207 | 1,594 | 2,298 |
| Others | 640 | 605 | 605 | 605 | 605 |
| Liabilities | 4,692 | 4,245 | 3,714 | 4,201 | 5,004 |
| Shareholder's equity | 4,531 | 4,594 | 4,600 | 4,617 | 4,646 |
| Minority interest | 6 | 6 | 4 | 0 | (8) |
| Equity | 4,537 | 4,600 | 4,604 | 4,617 | 4,638 |

Cash Flow Statement

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|-----------------------------|-------------|--------------|-------------|-------------|--------------|
| Profit before taxation | 136 | 1 | 42 | 97 | 177 |
| Depreciation & amortisation | 83 | 86 | 57 | 59 | 60 |
| Changes in working capital | (13) | 150 | (149) | (129) | (266) |
| Taxation | (101) | (33) | (11) | (35) | (71) |
| Others | (100) | 288 | - | - | - |
| CFO | 6 | 492 | (61) | (8) | (100) |
| 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) | (23) | (40) |
| Others | (88) | (90) | - | - | - |
| CFF | (7) | (390) | 55 | 77 | 60 |
| Net cash flow | (13) | 434 | (86) | (11) | (121) |
| Forex | - | 0 | - | - | - |
| Others | (32) | 4 | 376 | (54) | (74) |
| Beginning cash | 579 | 534 | 972 | 1,262 | 1,196 |
| Ending cash | 534 | 972 | 1,262 | 1,196 | 1,001 |

Income Statement

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F | FY26F |
|--------------------------|----------------|--------------|---------------|--------------|--------------|--------------|
| Revenue | 1,448 | 3,205 | 2,537 | 2,306 | 3,022 | 4,376 |
| EBIT | (11) | 211 | 79 | 80 | 138 | 221 |
| Associates & JV | 31 | 6 | 12 | 19 | 19 | 19 |
| Profit before tax | (59) | 136 | 1 | 42 | 97 | 177 |
| Tax | (55) | (101) | (33) | (11) | (35) | (71) |
| Net profit | (113) | 35 | (32) | 30 | 62 | 106 |
| Minority interest | 9 | 11 | (0) | (1) | (4) | (9) |
| PATMI (core) | (104.0) | 46.6 | (32.0) | 29.2 | 57.5 | 97.1 |
| Exceptionals | 120 | 18 | 133 | - | - | - |
| PATMI (reported) | 16 | 65 | 101 | 29 | 57 | 97 |

Valuation & Ratios

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F | FY26F |
|----------------|-------|-------|-------|-------|-------|-------|
| Core EPS (sen) | (2.3) | 1.0 | (0.7) | 0.7 | 1.3 | 2.2 |
| P/E (x) | n.m. | 66.6 | n.m. | 106.3 | 54.0 | 32.0 |
| DPS (sen) | 1.0 | 1.0 | 1.0 | 0.5 | 0.9 | 1.5 |
| Dividend yield | 1.4% | 1.4% | 1.4% | 0.8% | 1.3% | 2.2% |
| BVPS (RM) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| P/B (x) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| EBITDA margin | 3.6% | 9.2% | 6.5% | 5.9% | 6.5% | 6.4% |
| EBIT margin | -0.8% | 6.6% | 3.1% | 3.5% | 4.6% | 5.1% |
| PBT margin | -4.0% | 4.2% | 0.0% | 1.8% | 3.2% | 4.0% |
| Net margin | -7.2% | 1.5% | -1.3% | 1.3% | 1.9% | 2.2% |
| ROE | -2.3% | 1.0% | -0.7% | 0.6% | 1.2% | 2.1% |
| ROA | -1.2% | 0.5% | -0.4% | 0.3% | 0.7% | 1.1% |
| Net gearing | 30.0% | 33.6% | 18.1% | 13.9% | 17.4% | 23.7% |

Assumptions

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F | FY26F |
|-------------------|------|------|------|-------|-------|-------|
| Contracts secured | - | 380 | - | 5,000 | 3,000 | 2,000 |
| Property sales | 310 | 488 | 831 | 1,000 | 2,000 | 1,000 |

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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. |

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