

HLIB Research

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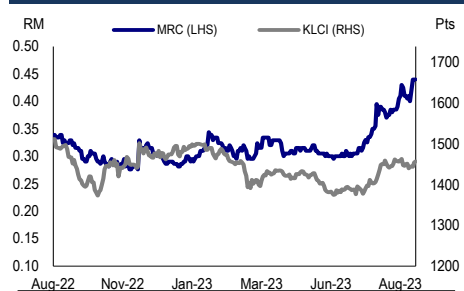
BUY (from Hold)

Target Price: RM0.55
Previously: RM0.34
Current Price: RM0.45

Capital upside	22.2%
Dividend yield	1.3%
Expected total return	23.5%

Sector coverage: Construction

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

Share price


	1M	3M	12M
Historical return (%)			
Absolute	14.3	44.3	25.7
Relative	13.8	38.3	30.5

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	2010
3-mth average volume ('000)	28873
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

EPF	35.9%
Gapurna	15.5%
LTH	5.6%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	46.6	48.4	68.1
EPS - core (sen)	1.0	1.1	1.5
P/E (x)	43.1	41.5	29.5

Malaysian Resources Corporation

Getting to work

MRCB's 1HFY23 core PATAMI of RM19.3m was within our and consensus estimates. Property contribution should kick into higher gear sequentially. Project pipeline looks better anchored by direct negotiated projects. Other potential jobs are WTE, MRT3, flood mitigation, IMBRT, LRT3 VOs & aero-train. Its long idle Bukit Jalil contract could also start moving next year. Property launches of RM4.0bn is slated for FY24. Tweak FY24f/FY25f earnings forecasts by +3.2%/+19.1%. Upgrade to BUY (from Hold) with higher SOP-driven TP of RM0.55. We see better project pipeline, stronger news flow potential, value unlocking initiatives and movement in its long idle Bukit Jalil project.

Inline. MRCB reported 2QFY23 results with revenue of RM599.3m (-19.3% QoQ, -14.4% YoY) and core PATAMI of RM10.9m (28.3% QoQ, -363.1% YoY). This brings 1HFY23 core PATAMI to RM19.3m, increasing by 95.3%. Results came in within our and consensus expectations at 39.9% and 38.7% of full year forecasts respectively. We expect stronger property recognition going forward.

EIs. We have adjusted 2QFY22 core PATAMI by gain on land injection worth RM18.2m.

Dividends. No DPS was declared. Dividends are usually declared in the final quarter.

QoQ. Core PATAMI increased by 28.3% driven by lower effective tax rates in the quarter, falling by -20ppts. MRCB saw decline of 25.6% at the PBT level on the back of marginal contribution from property division (EBIT – 2QFY23: -RM0.4m; 1QFY23: RM33.3m). Weakness came on the back of completion of Sentral Suites (March-23) & TRIA 9 Seputeh (May-23) resulting in reduction in progressive billing contribution. There are three property projects under construction adopting progressive billing method (ex. Vista) now carrying a total GDV of RM297m. Remaining quarters will likely rely on sale of inventories (RM587.1m).

YoY. MRCB returned to the black (from core loss of -RM4.1m in 2QFY22 after removing RM18.2m gain). Improvement was driven by higher E&C margins, higher share of associates (2QFY22 was depressed by losses at its E&C associate) and lower taxes.

YTD. Core PATAMI increased by 95.3% driven by higher contribution mix from property division coupled with segmental margin accretion. In our view, this was driven by slow construction progress in 1HFY22.

Orderbook. Outstanding orderbook stands at RM16.5bn – after adjusting for Bukit Jalil project, active orderbook is RM5.4bn (2.4x cover based on FY22 E&C revenue). There have been no meaningful contract awards YTD.

Pipeline. Nonetheless, there are two direct negotiated jobs in the pipeline such as Shah Alam Stadium redevelopment (>RM1bn) and KL Sentral redevelopment (>RM1bn). The former is expected to be finalised once suitable land is identified while for the latter, MRCB will be entering negotiations which could stretch a maximum two years. According to management, stadium development and land consideration transfer will be done in phases, preventing balance sheet stress. Taking cue from recent developments on WTE projects, we believe that there could be potential developments on its long pursued WTE project (RM1.5-2.0bn). Other than the above and MRT3 (bid for all civil packages), potential source of jobs are: flood mitigation (RM1.0bn), KLIA Aerotrains, LRT3 VOs, IMBRT (<RM300m) and power plant (<RM400m).

Property. Going forward, property launches are expected to pick-up. Launches for the remainder of FY23 is Residensi Tujuh in Kwasa carrying an estimated GDV of RM329m, having recently launched the RM1.2bn VISTA project (Australia). Target launches for FY24 totals a GDV of RM4.0bn (RM2.3bn in Malaysia) consisting: (i) Auckland, NZ – GDV: RM1.7bn (ii) Parcel A 9 Seputeh – GDV: RM400m (iii) Phase 1 Bukit Jalil Sentral – GDV: 900m (equity accounted) and (iv) Lot F, KL Sentral – RM1.0bn. Its Bukit Jalil Sentral project is a self-generated contract which could cost ~RM400-500m. This could also mean its long idle Bukit Jalil contract (~RM10bn) could start moving progressively. Unbilled sales stands at RM43m with bookings to be converted into SPA at RM170m. As at end July-23, property sales stood at RM313.2m tracking along its RM500m target. Property earnings is guided to be stronger sequentially while MRCB’s new launch cycle next year could lift segment contribution. Apart from its ongoing asset disposal (net gain ~RM50m), MRCB is actively managing its landbank for further monetisation (1,153 acres; GDV: RM33bn).

Forecast. Tweak FY24f/FY25f earnings forecasts by +3.2%/+19.1%. No change to FY23f. Estimates are lifted as we revise upwards replenishment assumptions.

Upgrade to BUY, TP: RM0.55. Upgrade to BUY (from Hold) with higher SOP-driven TP of RM0.55 (from RM0.34) after reducing SOP discount to 20% (from 50% previously) on account of better project pipeline, stronger news flow potential, value unlocking initiatives and movement in its long idle Bukit Jalil project. The stock trades at a still undemanding P/B multiple of 0.45x. Our TP implies a FY24f/25f P/E multiple of 36.0x/29.4x. (5 year average: 28.1x) Key upside catalysts: contract wins; Downside risks: margins, execution, property sales slowdown and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	700.4	742.2	599.3	(19.3)	(14.4)	1,511.1	1,341.6	(11.2)
EBIT	35.4	47.9	39.9	(16.8)	12.6	87.8	87.8	0.1
Finance cost	(24.4)	(27.9)	(28.9)	3.6	nm	(47.7)	(56.7)	nm
Share of JVs and associates	(1.1)	0.5	4.3	805.7	nm	1.5	4.7	207.4
PBT	9.9	20.6	15.3	(25.6)	55.0	41.6	35.8	(13.9)
PAT	(7.3)	8.6	10.9	27.4	nm	6.7	19.5	191.3
Core PATMI	(4.1)	8.5	10.9	28.3	nm	9.9	19.3	95.3
Reported PATMI	9.5	8.5	10.9	28.3	13.8	23.6	19.3	(18.0)
Core EPS (sen)	(0.1)	0.2	0.2	28.3	nm	0.2	0.4	95.3
EBIT margin (%)	5.1	6.5	6.7			5.8	6.5	
PBT margin (%)	1.4	2.8	2.6			2.8	2.7	
PATMI margin (%)	(0.6)	1.1	1.8			0.7	1.4	

Figure #2 Historical P/B multiple



Bloomberg

Figure #3 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	Per Share
Construction - FY24 earnings	46	10	463	0.10
Property development - NPV of profits		12%	1,074	0.22
Property investment - book value			1,535	0.32
Stake in Sentral REIT at RM0.81 TP	868	27.89%	242	0.05
Sum of parts			3,314	0.69
Discount			-20%	(0.14)
Target price			2,651	0.55

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Cash	579	534	645	630	743
Receivables	2,397	2,476	1,920	2,176	1,737
PPE	743	779	726	752	776
Investment properties	1,478	1,535	1,551	1,567	1,583
Others	3,564	3,596	3,620	3,645	3,671
Assets	9,205	9,229	8,605	8,937	8,627
Debts	1,932	2,057	2,157	2,257	2,357
Payables	2,081	1,996	1,253	1,464	1,027
Others	651	640	640	640	640
Liabilities	4,665	4,692	4,049	4,360	4,023
Shareholder's equity	4,513	4,531	4,553	4,580	4,614
Minority interest	28	6	2	(3)	(10)
Equity	4,540	4,537	4,555	4,577	4,603

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Profit before taxation	(59)	136	66	97	121
Depreciation & amortisation	64	83	67	68	70
Changes in working capital	321	(13)	(20)	(69)	52
Taxation	(55)	(101)	(14)	(23)	(31)
Others	(464)	(100)	-	-	-
CFO	(193)	6	99	72	213
Net capex	(86)	(92)	(80)	(80)	(80)
Others	395	80	-	-	-
CFI	309	(12)	(80)	(80)	(80)
Changes in borrowings	(1)	125	100	100	100
Issuance of shares	24	-	-	-	-
Dividends paid	(44)	(44)	(45)	(27)	(41)
Others	(47)	(88)	-	-	-
CFF	(67)	(7)	55	73	59
Net cash flow	49	(13)	74	66	192
Forex	-	-	-	-	-
Others	(11)	(32)	37	(80)	(80)
Beginning cash	540	579	534	645	630
Ending cash	579	534	645	630	743

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,448	3,205	2,400	2,790	2,121
EBIT	(11)	211	122	153	181
Associates & JV	31	6	18	19	19
Profit before tax	(59)	136	66	97	121
Tax	(55)	(101)	(14)	(23)	(31)
Net profit	(113)	35	52	74	91
Minority interest	9	11	(3)	(5)	(7)
PATMI (core)	(104.0)	46.6	48.4	68.1	83.5
Exceptionals	120	18	-	-	-
PATMI (reported)	16	65	48	68	83

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (sen)	(2.3)	1.0	1.1	1.5	1.9
P/E (x)	n.m.	43.1	41.5	29.5	24.1
DPS (sen)	1.0	1.0	0.6	0.9	1.1
Dividend yield	2.2%	2.2%	1.3%	2.0%	2.5%
BVPS (RM)	1.0	1.0	1.0	1.0	1.0
P/B (x)	0.4	0.4	0.4	0.4	0.4
EBITDA margin	3.6%	9.2%	7.9%	7.9%	11.8%
EBIT margin	-0.8%	6.6%	5.1%	5.5%	8.5%
PBT margin	-4.0%	4.2%	2.8%	3.5%	5.7%
Net margin	-7.2%	1.5%	2.0%	2.4%	3.9%
ROE	-2.3%	1.0%	1.1%	1.5%	1.8%
ROA	-1.2%	0.5%	0.5%	0.8%	1.0%
Net gearing	30.0%	33.6%	33.2%	35.5%	35.0%

Assumptions

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Contracts secured	-	380	1,500	3,000	3,000
Property sales	310	488	500	1,000	2,000

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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.
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