

HLIB Research

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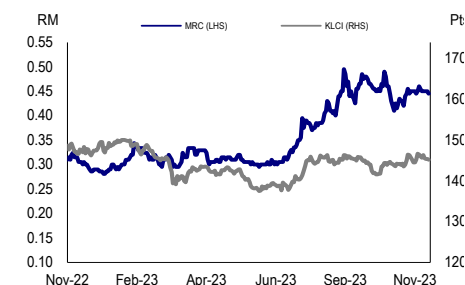
BUY (Maintain)

Target Price: RM0.54
Previously: RM0.55
Current Price: RM0.44

Capital upside	22.7%
Dividend yield	0.9%
Expected total return	23.6%

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	2.3	6.0	39.1
Relative	1.6	5.4	42.4

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1966
3-mth average volume ('000)	36,642
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	32.7	57.1
EPS - core (sen)	1.0	0.7	1.3
P/E (x)	42.2	60.1	34.4

Malaysian Resources Corporation

A taxing quarter

MRCB's 9MFY23 core PATAMI of RM20.8m was below our and consensus estimates due to higher than expected taxes. Plans are underway to optimise tax going into FY24. Pipeline visibility is strong anchored by LRT3 Phase 2 and redevelopment of Shah Alam Stadium and KL Sentral. Other potential jobs are water infra, MRT3, flood mitigation and IMBRT. Property launches of RM4.0bn is slated for FY24. There could be monetisation initiatives going forward. Cut FY23f/24f/25f earnings by -32.5%/-16.1%/-16.5% baking in higher tax rates. Maintain BUY with SOP-driven TP of RM0.54. MRCB benefits from better project pipeline visibility and value unlocking initiatives.

Missed. MRCB reported 3QFY23 results with revenue of RM503.7m (-16.0% QoQ, -41.4% YoY) and core PATAMI of RM1.5m (-86.6% QoQ, -93.8% YoY). This brings 9MFY23 core PATAMI to RM20.8m, decreasing by -38.1%. Results came in below our and consensus expectations at 42.9% and 44.0% of full year forecasts respectively. Deviations to our forecast came from higher than expected effective tax rate as 9MFY23 PBT came in above expectations at 82% of forecasts. Looking ahead, MRCB's 4QFY23 headline will likely be boosted by disposal gain of ~RM52m.

Els. We have adjusted 9MFY22 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 fell by -86.6% even as operational profitability improved across all segments (PBT: +22.1%). The drag came from substantial increase in taxes with effective tax rates higher by 66.8%. Sequentially, the higher tax rates were due to previous under provision (submission in 3QFY23). We expect this to taper off in 4QFY23 vs elevated levels seen this quarter. MRCB is undertaking a comprehensive review in order to optimise tax going into 2024. Nevertheless, we anticipate the impact to be a gradual one.

YoY. Core PATAMI decreased by -93.8% driven by lower EBIT (-41.2%) and the abovementioned elevated tax rate. The deterioration in EBIT came from property segment as EBIT fell by -95.7%. We attribute this to high base in 3QFY22 as the quarter saw recognition of commercial unit inventory from VIVO amounting to RM165m (revenue). This was also exacerbated by completion of notable property projects in Mar-23 & May-23. On the brighter side, E&C segment improved by 8x (EBIT) driven by the LRT3 project.

YTD. Core PATAMI decreased by -38.1% dragged by its property division (EBIT: -59.7%) resulting from 100% completion of its Sentral Suites and TRIA in 1HFY23. This more than offset stronger E&C performance (EBIT: +43.1%) which was driven by LRT3 progress.

Orderbook. Outstanding orderbook stands at RM16.1bn – after adjusting for Bukit Jalil project, active orderbook is RM5.1bn (2.3x cover based on FY22 E&C revenue). There have been no meaningful contract awards YTD.

Pipeline. In the near term, we expect the revived scopes of the LRT3 (Phase 2) to be finalised in early 2024 and could add >RM1.5bn to MRCB's active orderbook. Phase 2 is expected to be up and running by 2QCY27, which could mean that works should start in 1H24. LRT3 aside, there are two jobs in the pipeline, being Shah Alam Stadium redevelopment (>RM1bn) and KL Sentral redevelopment (>RM1bn). The stadium job will start in 2024, broken up into multiple phases to ease land

monetisation. As for KL Sentral, works could start in 2025 once terms are finalised. MRCB's has RM30bn worth of outstanding tenders with notable projects being MRT3 and water infra (RM1bn).

Property. Launches worth RM4bn have been planned for FY24 (see Fig. 2 for breakdown) having launched RM1.6bn for FY23. 10M23 sales of RM512.7m have exceeded our expectations with a remaining RM240m to be converted to SPAs. Sales contribution from VISTA is expected to kick in stronger going forward (GDV: RM1.17bn). MRCB is actively managing its landbank for further monetisation (1,153 acres; GDV: RM33bn).

Forecast. Cut FY23f/24f/25f earnings by -32.5%/-16.1%/-16.5% after adjusting for tax rate assumptions.

Maintain BUY, TP: RM0.54. Maintain BUY with marginally lower SOP-driven TP of RM0.54 (from RM0.55) post-earnings adjustment. MRCB benefits from better project pipeline visibility and value unlocking initiatives. The stock trades at a still undemanding P/B multiple of 0.44x. Key upside catalysts: contract wins & asset monetisation; Downside risks: margins, execution, property sales slowdown and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	860.0	599.3	503.7	(16.0)	(41.4)	2,371.1	1,845.3	(22.2)
EBIT	78.8	39.9	46.3	16.1	(41.2)	166.6	134.1	(19.5)
Finance cost	(24.3)	(28.9)	(30.2)	4.5	24.2	(71.9)	(86.9)	20.8
Share of JVs and associates	2.2	4.3	2.5	(40.6)	15.0	3.7	7.3	94.2
PBT	56.7	15.3	18.7	22.1	(67.1)	98.4	54.5	(44.6)
PAT	15.5	10.9	1.5	(86.3)	(90.3)	22.2	21.0	(5.4)
Core PATMI	23.7	10.9	1.5	(86.6)	(93.8)	33.6	20.8	(38.1)
Reported PATMI	23.7	10.9	1.5	(86.6)	(93.8)	51.8	20.8	(59.9)
Core EPS (sen)	0.5	0.2	0.0	(86.6)	(93.8)	0.8	0.5	(38.1)
EBIT margin (%)	9.2	6.7	9.2			7.0	7.3	
PBT margin (%)	6.6	2.6	3.7			4.1	3.0	
PATMI margin (%)	2.8	1.8	0.3			1.4	1.1	

Figure #2 Property launch pipeline

2023 Launches		GDV	Units
VISTA, Surfer's Paradise, Gold Coast	2Q**	~1,200 (AUD391 mil)	280
Kwasa Sentral Plot F (Residensi Tujuh)	4Q	RM384 mil	573
Total 2023		RM1,584 mil	853 units
2024 Launches			
The Symphony Center, Auckland	2Q	~1,300 (NZD452 mil)	77
Bledisloe House, Auckland City Center	TBD	~0.4 bil (NZD137 mil)	En Bloc
Bukit Jalil Sentral, Phase 1A and 1B	4Q	RM900 mil	1,200
Lot F, KL Sentral CBD	4Q	RM1,000 mil	TBD
9 Seputeh, Parcel A	4Q	RM400 mil	490
Total 2024		RM4,000 mil	1,767 units
2025 Launches			
Lot R, KL Sentral CBD	2Q	RM72 mil	110
Tower 1, PJ Sentral	TBD	RM626 mil	900
Tower 5, PJ Sentral	TBD	RM486 mil	En Bloc
Total 2025		RM1,184 mil	1,010 units

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Figure #3 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	Per Share
Construction - FY24 earnings	44	10	438	0.09
Property development - NPV of profits		12%	1,074	0.22
Property investment - book value			1,535	0.32
Stake in Sentral REIT at RM0.75 TP	804	27.89%	224	0.05
Sum of parts			3,271	0.68
Discount			-20%	(0.14)
Target price			2,617	0.54

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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	627	618	729
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	8,585	8,924	8,613
Debits	1,932	2,057	2,157	2,257	2,357
Payables	2,081	1,996	1,240	1,460	1,027
Others	651	640	640	640	640
Liabilities	4,665	4,692	4,036	4,356	4,023
Shareholder's equity	4,513	4,531	4,546	4,569	4,597
Minority interest	28	6	3	(1)	(7)
Equity	4,540	4,537	4,549	4,568	4,590

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Profit before taxation	(59)	136	89	104	121
Depreciation & amortisation	64	83	67	68	70
Changes in working capital	321	(13)	(32)	(61)	56
Taxation	(55)	(101)	(54)	(42)	(46)
Others	(464)	(100)	-	-	-
CFO	(193)	6	70	68	201
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)	(18)	(34)
Others	(47)	(88)	-	-	-
CFF	(67)	(7)	55	82	66
Net cash flow	49	(13)	45	70	187
Forex	-	-	-	-	-
Others	(11)	(32)	48	(80)	(75)
Beginning cash	540	579	534	627	618
Ending cash	579	534	627	618	729

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	162	160	181
Associates & JV	31	6	12	19	19
Profit before tax	(59)	136	89	104	121
Tax	(55)	(101)	(54)	(42)	(46)
Net profit	(113)	35	35	61	75
Minority interest	9	11	(2)	(4)	(6)
PATMI (core)	(104.0)	46.6	32.7	57.1	69.6
Exceptionals	120	18	-	-	-
PATMI (reported)	16	65	33	57	70

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (sen)	(2.3)	1.0	0.7	1.3	1.6
P/E (x)	n.m.	42.2	60.1	34.4	28.2
DPS (sen)	1.0	1.0	0.4	0.8	0.9
Dividend yield	2.2%	2.3%	0.9%	1.7%	2.1%
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%	9.5%	8.2%	11.8%
EBIT margin	-0.8%	6.6%	6.8%	5.7%	8.5%
PBT margin	-4.0%	4.2%	3.7%	3.7%	5.7%
Net margin	-7.2%	1.5%	1.4%	2.0%	3.3%
ROE	-2.3%	1.0%	0.7%	1.3%	1.5%
ROA	-1.2%	0.5%	0.4%	0.7%	0.8%
Net gearing	30.0%	33.6%	33.7%	35.9%	35.4%

Assumptions

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Contracts secured	-	380	1,500	3,000	3,000
Property sales	310	488	550	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.
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.
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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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