

HLIB Research

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Research Team
research@hlib.hongleong.com.my

(603) 2083 1723

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my

(603) 2083 1716

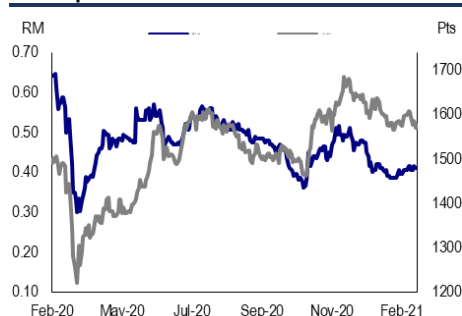
HOLD (Maintain)

Target Price: RM0.44
Previously: RM0.47
Current Price: RM0.415

Capital upside	6.0%
Dividend yield	2.4%
Expected total return	8.4%

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	1.2	-5.7	-37.4
Relative	1.7	-6.4	-41.3

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1831
3-mth average volume ('000)	5973
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

EPF	35.9%
Gapurna	15.5%
LTH	5.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	-1	34	74
EPS - core (sen)	(0.0)	0.8	1.7
P/E (x)	NA	53.3	24.6

Malaysian Resources Corporation

Below expectations

MRCB's FY20 core loss of -RM0.8m were below ours and consensus expectations. 4QFY20 operations were hampered by pockets of Covid-19 cases at its construction sites. MRCB's outstanding orderbook stands at c.RM17.0bn translating to a tremendous c.32x cover made up of long dated jobs. Unbilled sales amounts to RM1.1bn representing 1.7x cover on FY20 property revenue. Cut FY21-22 earnings by 19-36%. Maintain HOLD with lower TP of RM0.44. Our TP implies a FY21/22 P/E multiple of 56.3x/26.0x.

Below expectations. MRCB reported 4QFY20 results with revenue of RM308.9m (4% QoQ, -34% YoY) and core loss of -RM0.3m (against core earnings of RM0.9m and RM6.0m in 3QFY20 and 4QFY19 respectively). This brings FY20 to a marginal loss of -RM0.8m (vs core loss of -RM31.3m in FY19). The results were below our and consensus expectations (we projected FY20 core earnings of RM16.6m and consensus at RM8.8m). The results shortfall was largely due to weaker than expected construction and property contribution. FY20 core number has been adjusted for RM175.3m worth of impairments.

Dividends. DPS of 1.0 sen going ex on 29 April 2021 was declared (FY20: 1.0 sen; FY19: 1.0 sen).

QoQ/YoY. 4QFY20 turned into marginal core loss of -RM0.3m (against core earnings of RM0.9m and RM6.0m in 3QFY20 and 4QFY19 respectively). During the quarter, operations were hampered by various shutdowns of construction sites as Covid-19 cases began spreading in the construction industry. Imposition of SOP restrictions has also hampered construction productivity and consequently, billings for both construction and property development segments. We gather from management that so far in 2021, sites have operational with no cases detected.

YTD. Marginal core loss of -RM0.8m was recorded in FY20 narrowing from -RM31.3m in FY19 anchored by stronger property revenue contribution (+12%). This was due to handover of 1060 Carnegie project where 113 units were settled in FY20 out of 122 units sold. Property contribution in FY19 was also depressed resulting from suboptimal construction stage for its major property projects (after adjusting for disposal gain).

Construction. MRCB's outstanding orderbook stands at c.RM17bn (excluding LRT3 as it is equity accounted), translating to a sizable c.32x cover on FY20 construction revenue (inflated by slow 2020 billings) which are comprised of long term projects. MRCB's tenderbook stands at RM2.7bn of which RM734m were placed in 2020 and comprises of c.RM500m highway tenders in East Peninsular Malaysia. The company lost out on approximately 4 packages of ECRL tenders late last year. As for LRT3, earnings contribution is starting to pick up (FY20: RM8.1m; FY19: RM0.6m) having renegotiated with majority of subcontractors.

Property. Unbilled sales amounts to RM1.7bn representing 1.7x cover on FY20 property revenue. FY20 sales achieved amounts to RM187m whereby RM61m was achieved in 4Q20. This falls below management's target of RM250m for 2020. Looking ahead, management is targeting property sales of RM600m to be backed by launches amounting to GDV of RM1.0bn comprising developments like Kwasa Sentral (RM275m), PJ Sentral (RM524m) and KL Sentral (RM229m). Adding to this, MRCB is sitting on completed unsold inventory of RM469m. Management expects stronger contribution from TRIA and Sentral Suites as construction progresses.

Forecast. Slash FY21-22 earnings by -35.9% and -19.0% after toning down billings and margin assumptions.

Maintain HOLD, TP: RM0.44. Maintain HOLD with lower SOP-driven TP of RM0.44 (from RM0.47) post-earnings adjustment. Our TP implies a FY21/22 P/E multiple of 56.3x/26.0x. We reckon with the cancellation of KL-SG HSR and still challenging operating conditions, the stock is fairly priced.

Figure #1 Quarterly results comparison

FYE Dec	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	471.6	297.6	308.9	4	(34)	1,319.4	1,199.5	(9)
EBIT	26.8	15.9	14.9	(6)	(44)	34.0	58.0	71
Finance cost	(7.0)	(11.7)	(17.7)	51	154	(45.6)	(55.2)	21
Share of JVs and associates	0.7	3.5	10.3	196	1,441	5.9	9.3	57
PBT	20.4	7.6	7.4	(3)	(64)	(5.0)	22.4	nm
PAT	7.3	0.8	(0.0)	nm	nm	(36.3)	(0.6)	nm
Core PATMI	6.0	0.9	(0.3)	nm	nm	(31.3)	(0.8)	nm
Reported PATMI	6.0	0.9	26.9	2,824	346	17.7	(203.0)	
Core EPS (sen)	0.1	0.0	(0.0)	nm	nm	(0.7)	(0.0)	nm
EBIT margin (%)	5.7	5.3	4.8			2.6	4.8	
PBT margin (%)	4.3	2.6	2.4			(0.4)	1.9	



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Figure #2 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY21 earnings	17	13	223	0.05
LRT3 JV - annual average	16	10	161	0.03
Property development - NPV of profits		8%	1,440	0.30
Property investment - book value			1,418	0.29
Stake in MRCB-Quill REIT at RM0.96 TP	1,029	28%	287	0.06
Firm value			3,528	0.73
Less: Net debt			(1,411)	(0.29)
Target price			2,117	0.44

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Figure #3 Financial forecast sum

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	1,792.3	1,319.4	1,199.5	1,220.3	1,921.8
EBIT	42.5	17.4	58.0	32.6	71.2
PBT	44.6	(2.0)	22.4	36.9	91.6
PAT	24.3	(36.3)	(0.6)	34.9	78.5
PATMI – Core	22.8	(31.3)	(0.8)	34.2	74.0
PATMI – Reported	101.2	23.7	(203.0)	34.2	74.0
HLIB/ Consensus (%) – Core PATMI				-30%	5%
Core EPS (sen)	0.5	(0.7) 	(0.0)	0.8	1.7
P/E (x)	79.9	n.m.	109.7	53.3	24.6
EV/EBITDA (x)	40.8	37.6	46.3	40.9	27.1
DPS (sen)	1.8	1.8	1.0	1.0	1.0
Yield (%)	4.2%	4.2%	2.4%	2.4%	2.4%
BVPS (RM/share)	1.1	1.1	1.1	1.1	1.1
P/B (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	0.5%	-0.7%	0.0%	0.7%	1.5%
Net Gearing (%)	19.0%	27.4% 	27.4%	7.4%	10.8%

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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

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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.

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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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