

HLIB Research
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BUY (Maintain)

Target Price: RM0.67
Previously: RM0.70
Current Price: RM0.585

Capital upside	14.5%
Dividend yield	1.7%
Expected total return	16.2%

Sector coverage: Construction

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

Share price



Stock information

Bloomberg ticker	MRCB MK
Bursa code	1651
Issued shares (m)	4468
Market capitalisation (RM m)	2613
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)	-66.2	50.7	56.9
EPS - core (sen)	-1.5	1.1	1.3
P/E (x)	NM	51.6	45.9

Malaysian Resources Corporation

Property drags

MRCB's FY23 core loss of -RM66.2m was below our and consensus estimates due to higher than expected costs from property segment. 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 and flood mitigation. Property launches of RM3.6bn is slated for FY24. There could be monetisation initiatives going forward. Cut FY24f/25f earnings by -11.3%/-18.3%. Maintain BUY with SOP-driven TP of RM0.67. MRCB benefits from better project pipeline visibility and potential monetisation.

Missed. MRCB reported 4QFY23 results with revenue of RM668.8m (32.8% QoQ, -19.8% YoY) and core LATAMI of -RM87.0m (vs core PATAMI of RM1.5m in 3QFY23, and core PATAMI of RM13.0m in 4QFY22). This brings FY23 core LATAMI to -RM66.2m (vs core PATAMI of RM46.6m in FY22). Results came in below our and consensus expectations (HLIBf: RM32.7m; consensus: RM38.6m). Deviations to our forecast came from lower than expected margins.

EIs. We have adjusted FY22 core PATAMI for gain on land injection worth RM18.2m. 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.

Dividends. DPS 1 sen going ex. on 30-Apr-24 was declared, similar to last year.

QoQ. Performance turned core loss of -RM87.0m as construction contribution turned marginal while property segment sank into losses. We reckon the former could be due to margin markdown on its construction projects while the latter was due to marketing costs incurred for its Vista project (GDV: RM1.5bn) – earnings only booked upon handover.

YoY. Similarly, performance turned to core loss from core PATAMI of RM13.0m in 4QFY22 due to weaker construction (completion of DASH and MRT2 packages in FY22) and property segments (completion of Sentral Suites and TRIA 9 Seputeh in 1HFY23 while 4QFY23 incurred substantial marketing costs at Vista).

YTD. Performance sank into losses mainly due to property sinking into operational losses – reasons mentioned above. Exacerbating this is the higher finance costs (+13.8%) due to rate hikes done by BNM in 2023.

Orderbook. Outstanding orderbook stands at RM15.7bn – after adjusting for Bukit Jalil project, active orderbook is RM4.8bn (2.8x cover based on FY23 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 soon and could add >RM1.5bn to MRCB's active orderbook. KL Sentral job could be finalised in mid-2024 while Shah Alam stadium redevelopment will commence demolition this year. There are also potential wins from flood mitigation and road projects in Sabah. Not to mention the company has submitted multiple tenders for MRT3 and there looks to be room for participation in Penang LRT (Penang Sentral is the transport hub). Management is not discounting the possibility of achieving RM5bn worth of contract wins in FY24 (HLIBf: RM3bn).

Property. MRCB achieved sales of RM831.3m in FY23 coming in above our expectations. Unbilled sales stands at RM234.9m considering that most sales have come from completed units. Cognisant of this, management is embarking on a new

launch cycle in FY24, aiming for RM3.6bn, a major chunk coming from NZ (see Fig. 2 for breakdown). Positively, the company observed strong demand for its Vista project in 4QFY23. MRCB is actively managing its landbank for further monetisation (1,153 acres; GDV: RM33bn).

Forecast. Cut FY24f/25f earnings by -11.3%/-18.3% after adjusting for margins.

Maintain BUY, TP: RM0.67. Maintain BUY with lower SOP-driven TP of RM0.67 (from RM0.70) 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 0.57x, below the 0.7x to 1.2x range achieved in the previous upcycle. Key upside catalysts: contract wins & asset monetisation; Downside risks: margins, execution, property sales slowdown and political uncertainties

Figure #1 Quarterly results comparison

FYE Dec	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	833.9	503.7	668.8	32.8	(19.8)	3,205.1	2,514.1	(21.6)
EBIT	63.0	46.3	(66.8)	(244.2)	(205.9)	229.6	67.4	(70.7)
Finance cost	(27.1)	(30.2)	(25.9)	(14.2)	(4.5)	(99.1)	(112.8)	13.8
Share of JVs and associates	1.8	2.5	5.2	103.6	184.0	5.6	12.4	123.5
PBT	37.7	18.7	(87.5)	(568.4)	(331.7)	136.1	(33.0)	(124.2)
PAT	13.1	1.5	(87.1)	(5,908.2)	(764.5)	35.3	(66.1)	(287.2)
Core PATMI	13.0	1.5	(87.0)	(6,056.8)	(768.1)	46.6	(66.2)	(241.9)
Reported PATMI	13.0	1.5	80.2	5,395.2	516.3	64.8	101.0	55.8
Core EPS (sen)	0.3	0.0	(1.9)	(6,056.8)	(768.1)	1.0	(1.5)	(241.9)
EBIT margin (%)	7.6	9.2	(10.0)			7.2	2.7	
PBT margin (%)	4.5	3.7	(13.1)			4.2	(1.3)	
PATMI margin (%)	1.6	0.3	(13.0)			1.5	(2.6)	


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Figure #2 Property launch pipeline

2024 Launches			
The Symphony Center, Auckland	2Q	~1,300 (NZD452 mil)	78
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		RM3,600 mil	1,768 units
2025 Launches			
Bledisloe House, Auckland City Center	1Q	~0.4 bil (NZD137 mil)	En Bloc
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		RM1,584 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 - FY24 earnings	36	15	547	0.11
Property development - NPV of profits		12%	1,718	0.36
Property investment - book value			1,535	0.32
Stake in Sentral REIT at RM0.75 TP	897	28%	250	0.05
Sum of parts			4,050	0.84
Discount			-20% 	(0.17)
Target price			3,240	0.67

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Figure #4 Financial forecast

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	1,448.5	3,205.1	2,514.1	2,789.5	2,121.4
EBIT	(11.2)	211.3	67.4	145.4	154.9
PBT	(58.5)	136.1	(33.0)	89.3	95.5
PAT	(113.1)	35.3	(66.1)	54.2	61.1
PATMI – Core	(104.0)	46.6	(66.2)	50.7	56.9
PATMI – Reported	15.8	64.8	101.0	50.7	56.9
Core EPS (sen)	(2.3)	1.0	(1.5)	1.1	1.3
P/E (x)	n.m.	56.1	n.m.	51.6	45.9
DPS (sen)	1.0	1.0	1.0	1.0	1.0
Yield (%)	1.7%	1.7%	1.7%	1.7%	1.7%
BVPS (RM/share)	1.0	1.0	1.0	1.0	1.0
P/B (x)	0.6	0.6	0.6	0.6	0.6
ROE (%)	-2.3%	1.0%	-1.5%	1.1%	1.3%
Net Gearing (%)	30.0%	33.6%	16.0%	15.0%	15.0%

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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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