

HLIB Research

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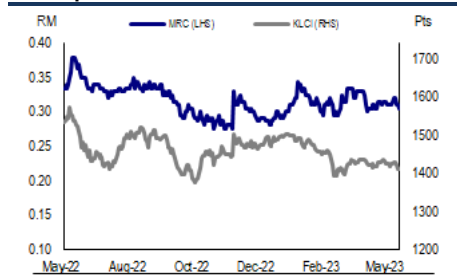
HOLD (Maintain)

Target Price: **RM0.36**
Previously: **RM0.37**
Current Price: **RM0.30**

Capital upside	18.0%
Dividend yield	2.0%
Expected total return	20.0%

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	4.8	12.1	-9.7
Relative	6.6	10.4	-1.6

Stock information

Bloomberg ticker	MRCB MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1363
3-mth average volume ('000)	3662
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

EPF	35.9%
Gapurna	15.5%
LTH	5.7%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	46.6	48.4	66.0
EPS - core (sen)	1.1	1.1	1.5
P/E (x)	29.2	28.1	20.7

Malaysian Resources Corporation

Weak start

MRCB's 1QFY23 core PATAMI of RM8.5m (-34.9% QoQ, -39.6% YoY) missed our and consensus estimates. Deviation was due to lower margin profit mix. We expect the stadium refurbishment contract to materialise this year while MRT3 awards could come in from mid-2023 onwards. MRCB was recently shortlisted for a flood mitigation project. Property launches of RM1.5bn is on track. Cut FY23f/24f earnings forecasts by -26.8%/-21.4% and introduce FY25f earnings of RM70.1m. Maintain HOLD with lower SOP-driven TP of RM0.36.

Missed expectations. MRCB reported 1QFY23 results with revenue of RM742.2m (-11.0% QoQ, -8.4% YoY) and core PATAMI of RM8.5m (-34.9% QoQ, -39.6% YoY). Results came in below our and consensus expectations at 13% and 12% of full year forecasts respectively. Results missed despite revenue coming in within as MRCB reported a lower profit margin mix driven by higher-than-expected relative contribution from the construction segment.

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

QoQ. Core PATAMI decreased by -34.9% falling in tandem with lower revenue (-11.0%) in the quarter resulting from the completion of DASH projects in 4QFY22. This was reflected in the -17.9% QoQ decline in E&C revenue. Progress on the LRT3 project was satisfactory achieving a physical completion of 84% as at end 1QFY23, on track towards a targeted 90% by the end of FY23.

YoY. Core PATAMI contracted by -39.6% for reasons similar to the above where E&C division oversaw completion of MRT2 and DASH packages in FY22. This was partially offset by stronger contribution from its property & investment division as Sentral Suites achieved 100% completion (handover to begin in stages) while other key projects achieved advanced stages of completion (TRIA: 96%; Alstonia: 61%).

Construction. Outstanding orderbook stands at RM16.9bn – after adjusting for idle Bukit Jalil project, active orderbook is RM6.0bn (2.7x cover based on FY22 E&C revenue). Replenishment in FY22 was relatively weak with the RM380m flood mitigation project as its sole contract win. Management still expects the finalisation of the Shah Alam redevelopment in 2HFY23, to be in excess of RM1bn, by our estimates. To this end, we gather that MRCB has not commenced feasibility studies on potential parcels which we believe could take time. Nevertheless, recent news flow suggests gradual progress as the state government has identified 10 sites for potential land swap consideration. In addition to MRT3 tenders, MRCB is also shortlisted for a flood mitigation package but tenders are yet to be submitted. We believe this is part of GoM's RM10.9bn flood mitigation project scheme to be rolled out in 2H23. As for a potential increase in scope of LRT3 (~RM1-2bn), the orderbook impact to MRCB could take place in FY24 once funding arrangements are finalised. On the earnings front, management is guiding for patchy E&C recognition moving forward due to nature of systems works (LRT3).

Property. Unbilled sales are at RM220.3m representing a thin 0.2x cover on FY22 property revenue. Sales for 1QFY23 came in at RM85.1m and the company has chalked up RM112.5m of sales by end Apr-23. Its key Australian development project, VISTA was launched in Apr-23, slightly delayed we believe due to uncertain market conditions. Nonetheless, we gather the project saw strong interest (pre-launch) even amidst the rate hikes due to the project's attractive location and palatable price points (mid-market). It is worth noting its Australian project (~RM1.2bn) will only start contributing financially upon handover. The other project to be launched in FY23 will be Residensi Tujuh in Kwasa carrying an estimated GDV of RM329m.

Forecast. We cut FY23f/24f earnings forecasts by -26.8%/-21.4% and introduce FY25f earnings of RM70.1m.

Maintain HOLD, TP: RM0.36. Maintain HOLD with slightly lower SOP-driven TP of RM0.36. Our TP implies a FY23f/24f/25f P/E multiple of 32.9x/24.2x/22.8x. Key upside catalysts: contract wins; Downside risks: margins, execution, property sales slowdown and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	810.7	833.9	742.2	(11.0)	(8.4)
EBIT	52.3	63.0	47.9	(24.0)	(8.4)
Finance cost	(23.2)	(27.1)	(27.9)	2.7	20.0
Share of JVs and associates	2.6	1.8	0.5	(74.1)	(82.2)
PBT	31.8	37.7	20.6	(45.6)	(35.3)
PAT	14.0	13.1	8.6	(34.6)	(38.6)
Core PATMI	14.0	13.0	8.5	(34.9)	(39.6)
Reported PATMI	14.0	13.0	8.5	(34.9)	(39.6)
Core EPS (sen)	0.3	0.3	0.2	(34.9)	(39.6)
EBIT margin (%)	6.5	7.6	6.5		
PBT margin (%)	3.9	4.5	2.8		
PATMI margin (%)	1.7	1.6	1.1		

Figure #2 Launch pipelines

Property Projects in the Pipeline – RM5.0 Billion

2023 Launches			
VISTA, Surfer's Paradise, Gold Coast	1Q	~1,200 (AUD391 mil)	280
Kwasa Sentral Plot F (Residensi Tujuh)	1Q	329	573
Total 2023		RM1,529 mil	853 units
2024 Launches			
Bukit Jalil Sentral, Phase 1A	1Q	808	1,200
The Symphony Center, Auckland	2Q	~1,300 (NZD452 mil)	77
Lot J, KL Sentral 2024	4Q	229	266
Tower 5, PJ Sentral	4Q	486	340
Total 2024		RM2,823 mil	1,883 units
2025 Launches			
Tower 1, PJ Sentral	TBD	626	999
Total 2025		RM626 mil	999 units

MRCB

Figure #3 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY23 earnings	33	8	262	0.05
Property development - NPV of profits		12%	1,038	0.22
Property investment - book value			1,535	0.32
Stake in Sentral REIT at RM0.81 TP	868	28%	242	0.05
Firm value			3,077	0.64
Less: Net debt			(1,353)	(0.28)
Target price			1,724	0.36

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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	604	668
Receivables	2,397	2,476	1,920	2,258	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	9,000	8,552
Debts	1,932	2,057	2,157	2,257	2,357
Payables	2,081	1,996	1,253	1,528	1,027
Others	651	640	640	640	640
Liabilities	4,665	4,692	4,049	4,424	4,023
Shareholder's equity	4,513	4,531	4,553	4,579	4,537
Minority interest	28	6	2	(3)	(9)
Equity	4,540	4,537	4,555	4,576	4,529

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Profit before taxation	(59)	136	66	94	100
Depreciation & amortisation	64	83	67	68	70
Changes in working capital	321	(13)	(20)	(95)	78
Taxation	(55)	(101)	(14)	(22)	(24)
Others	(464)	(100)	-	-	-
CFO	(193)	6	99	45	223
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)	(40)
Others	(47)	(88)	-	-	-
CFF	(67)	(7)	55	73	60
Net cash flow	49	(13)	74	38	204
Forex	-	-	-	-	-
Others	(11)	(32)	37	(78)	(140)
Beginning cash	540	579	534	645	604
Ending cash	579	534	645	604	668

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,448	3,205	2,400	2,915	2,121
EBIT	(11)	211	122	150	159
Associates & JV	31	6	18	19	19
Profit before tax	(59)	136	66	94	100
Tax	(55)	(101)	(14)	(22)	(24)
Net profit	(113)	35	52	71	76
Minority interest	9	11	(3)	(5)	(6)
PATMI (core)	(104.0)	46.6	48.4	66.0	70.1
Exceptionals	120	18	-	-	-
PATMI (reported)	16	65	48	66	-

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (sen)	(2.3)	1.0	1.1	1.5	1.6
P/E (x)	n.m.	29.2	28.1	20.7	19.4
DPS (sen)	1.0	1.0	0.6	0.9	0.9
Dividend yield	3.2%	3.3%	2.0%	2.9%	3.1%
BVPS (RM)	1.0	1.0	1.0	1.0	1.0
P/B (x)	0.3	0.3	0.3	0.3	0.3
EBITDA margin	3.6%	9.2%	7.9%	7.5%	10.8%
EBIT margin	-0.8%	6.6%	5.1%	5.1%	7.5%
PBT margin	-4.0%	4.2%	2.8%	3.2%	4.7%
Net margin	-7.2%	1.5%	2.0%	2.3%	3.3%
ROE	-2.3%	1.0%	1.1%	1.4%	1.5%
ROA	-1.2%	0.5%	0.5%	0.7%	0.8%
Net gearing	30.0%	33.6%	33.2%	36.1%	37.2%

Assumptions

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