

HLIB Research
PP 9484/12/2012 (031413)

Malaysian Resources Corporation

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BUY (Maintain)

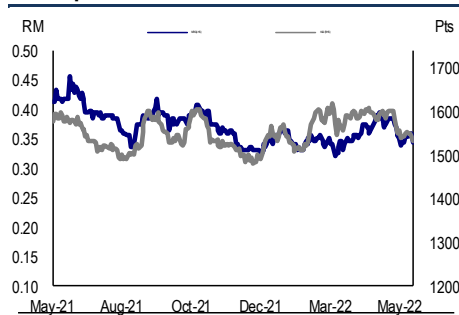
Target Price: RM0.46
Previously: RM0.43
Current Price: RM0.36

Capital upside	27.8%
Dividend yield	3.0%
Expected total return	30.8%

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	5.6	-1.3	-21.1
Relative	3.6	-3.5	-20.6

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1608
3-mth average volume ('000)	4912
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)	FY21	FY22f	FY23f
PATMI - core (RM m)	-104.0	60.9	87.1
EPS - core (sen)	-2.3	1.4	2.0
P/E (x)	nm	26.4	18.5

Good start

MRCB's 1QFY21 core PATAMI of RM14.0m were within our but beat consensus expectations at 25%/41% of forecasts. Management is guiding for gradual sequential improvement going forward. Having secured the flood mitigation project, there could be wins from WTE project and MRT3 going forward. We consider MRCB to be a strong contender for MRT3 civil packages being the largest listed Bumi contractor. Assets around RM500-600m have been earmarked for potential disposal (no timeline). Increase FY22/23/24 earnings by 9.8%/1.5%/3.6%. Maintain our trading oriented BUY rating with higher SOP-driven TP of RM0.46. Its low P/B trading multiple of 0.36 (bottom 10% based on 5 year trading range) presents an attractive risk reward, in our view.

Within expectations. MRCB reported 1QFY22 results with revenue of RM810.7m (-5.5% QoQ, 257.6% YoY) and core PATAMI of RM14.0m (vs core LATAMI of -RM33.7m in 4QFY21; 169.8% YoY). Results came in within our but beat consensus expectations at 25% and 41% of full year forecasts. No EIs was accounted for in the quarter.

Dividends. No DPS was declared (normally declared in 4Q).

QoQ. Performance returned to the black buoyed by much improved contributions from all segments. While group revenue fell by -5.5%, mainly dragged by slightly lower LRT3 recognition at the start of the year, EBIT margins recovered by 4.7ppts driven by blanket improvement across all segments. We reckon the higher contribution on the property side in part led to this margin accretion mix.

YoY. MRCB's core PATAMI improved by 2.7x with revenue increasing by 3.6x. We see 1QFY21 as a low base given that the quarter was plagued by MCO2.0. The YoY improvement is mainly construction and property led with the former boosted by the consolidation of LRT3 project.

Construction. MRCB's outstanding orderbook stands at RM18.9bn which is roughly 21.0x cover on FY21 construction revenue. The company recently received an LOA for Muara Sg. Pahang Phase 3 flood mitigation project worth RM380m. The project carries a "low double digit" margin with an execution period of 4-5 years. Tenderbook has depleted to RM35m post-award conversion of the aforementioned project. Tenders will likely increase with MRT3 tender briefing to be held soon (submission deadline: 30 Aug). We continue to see MRCB as a strong contender for the elevated packages as they are reserved for domestic only participation with 50% minimum Bumiputera participation in the JV-co (minimum effective stake: 31%). There has also been progress on MRCB's sizable WTE project, with service agreement to be formalised. The project will carry orderbook replenishment opportunity which is timely while waiting for MRT3 awards.

Property. Unbilled sales are roughly unchanged amounting to RM818m representing 1.6x cover on FY21 property revenue. Sales for 1QFY22 came in at only RM23m, nonetheless, management has indicated that sales momentum in April and May is far stronger and we think is still on track vs. our full year projections. Total launches for FY22 could come to RM1.7bn with ~RM900m coming from its Australian project. The rest would come from its soon to be launch integrated logistics hub development in Simpang Pulai, Kwasa and PJ Sentral. The Simpang Pulai project is located next to the NSE, stretches 683 acres and carries a potential GDV in excess of RM1bn. In a new development, the company has also earmarked Ascott Sentral and Menara Celcom as potential monetisation opportunities which would net the company RM500-600m.

Forecast. Increase FY22/23/24 earnings by 9.8%/1.5%/3.6%.

Maintain BUY, TP: RM0.46. Maintain our trading oriented BUY rating with higher SOP-driven TP of RM0.46 post-earnings adjustments and rolling forward base to mid-FY22. We see MRCB as a MRT3 laggard play considering its weaker share price performance vs. peers. Its low P/B trading multiple of 0.36 (bottom 10% based on 5 year trading range) presents an attractive risk reward, in our view. Key upside catalysts: contract wins; Downside risks: margins, execution, property sales slowdown and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	226.7	858.1	810.7	(5.5)	257.6
EBIT	14.9	15.4	52.3	239.8	251.9
Finance cost	(18.2)	(27.5)	(23.2)	(15.5)	27.2
Share of JVs and associates	9.1	2.4	2.6	10.9	(70.9)
PBT	5.7	(9.7)	31.8	(427.8)	456.0
PAT	3.9	(34.4)	14.0	(140.6)	256.0
Core PATMI	5.2	(33.7)	14.0	(141.7)	169.8
Reported PATMI	5.2	75.2	14.0	(81.3)	169.8
Core EPS (sen)	0.1	(0.8)	0.3	(141.7)	169.8
EBIT margin (%)	6.6	1.8	6.5		
PBT margin (%)	2.5	(1.1)	3.9		
PATMI margin (%)	2.3	(3.9)	1.7		

Figure #2 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - mid-FY22 earnings	21	15	319	0.07
LRT3			101	0.02
Property development - NPV of profits		12%	1,381	0.29
Property investment - book value			1,478	0.31
Stake in Sentral REIT at RM1.00 TP	1,072	28%	299	0.06
Firm value			3,579	0.74
Less: Net debt			(1,353)	(0.28)
Target price			2,225	0.46

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash	540	579	821	823	877
Receivables	1,590	2,397	2,091	2,250	2,159
PPE	740	743	732	758	783
Investment properties	1,445	1,478	1,495	1,511	1,528
Others	3,564	3,564	3,325	3,346	3,369
Assets	8,349	9,205	8,643	8,881	8,896
Debits	1,933	1,932	2,032	2,132	2,232
Payables	982	2,081	1,574	1,694	1,592
Others	846	651	510	510	510
Liabilities	3,760	4,665	4,116	4,336	4,333
Shareholder's equity	4,578	4,513	4,503	4,528	4,553
Minority interest	11	28	24	17	9
Equity	4,589	4,540	4,527	4,545	4,563

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Profit before taxation	26	(59)	93	124	128
Depreciation & amortisation	76	64	66	67	69
Changes in working capital	256	321	(97)	(52)	(0)
Taxation	(23)	(55)	(27)	(30)	(31)
Others	(93)	(464)	-	-	-
CFO	242	(193)	34	110	166
Net capex	(70)	(95)	(80)	(80)	(80)
Others	(149)	404	-	-	-
CFI	(219)	309	(80)	(80)	(80)
Changes in borrowings	105	(1)	100	100	100
Issuance of shares	-	24	(24)	-	-
Dividends paid	(44)	(44)	(44)	(49)	(62)
Others	47	(47)	-	-	-
CFF	107	(67)	32	51	38
Net cash flow	130	49	(14)	81	123
Forex	-	-	-	-	-
Others	(107)	(11)	257	(79)	(69)
Beginning cash	517	540	579	821	823
Ending cash	540	579	821	823	877

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,199	1,448	2,930	3,171	3,032
EBIT	49	(11)	123	146	152
Associates & JV	20	31	24	24	24
Profit before tax	26	(59)	93	124	128
Tax	(23)	(55)	(27)	(30)	(31)
Net profit	3	(113)	65	94	97
Minority interest	(0)	9	(4)	(7)	(7)
PATMI (core)	3	(104)	61	87	90
Exceptionals	(179)	120	-	-	-
PATMI (reported)	(176)	16	61	87	90

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Core EPS (sen)	0.1	(2.3)	1.4	2.0	2.0
P/E (x)	510.1	n.m.	26.4	18.5	17.9
DPS (sen)	1.0	1.0	1.1	1.4	1.4
Dividend yield	2.7%	2.7%	3.0%	3.9%	4.0%
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	10.4%	3.6%	6.4%	6.7%	7.3%
EBIT margin	4.1%	-0.8%	4.2%	4.6%	5.0%
PBT margin	2.2%	-4.0%	3.2%	3.9%	4.2%
Net margin	0.3%	-7.2%	2.1%	2.7%	3.0%
ROE	0.1%	-2.3%	1.4%	1.9%	2.0%
ROA	0.0%	-1.2%	0.7%	1.0%	1.0%
Net gearing	30.4%	30.0%	26.9%	28.9%	29.8%

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Contracts secured	-	-	500	2,500	1,000
Property sales	187	310	400	400	400

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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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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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