

HLIB Research
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Malaysian Resources Corporation

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BUY (Maintain)

Target Price: RM0.44
Previously: RM0.46
Current Price: RM0.35

Capital upside	25.7%
Dividend yield	2.5%
Expected total return	28.2%

Sector coverage: Construction

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

Share price



	1M	3M	12M
Historical return (%)			
Absolute	2.9	-1.4	-9.1
Relative	-3.0	1.0	-8.6

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1564
3-mth average volume ('000)	3662
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

EPF	35.9%
Gapurma	15.5%
LTH	5.7%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	-104.0	46.1	83.1
EPS - core (sen)	-2.3	1.0	1.9
P/E (x)	nm	33.9	18.8

Labour woes showing up

MRCB's 1HFY22 core PATAMI of RM14.5m (SPLY: -RM27.2m) was below expectations at 24%/23% of our/consensus forecasts due to high effective tax rates. Labour woes are starting to impact execution of its projects. Nonetheless, our forecasts have factored this in. Post-flood mitigation award, there could be wins from WTE project, Shah Alam job, expanded scope in LRT3 and MRT3 jobs going forward. We consider MRCB to be a strong contender for MRT3 subcontracts being a key player in railway infrastructure. Cut FY22/23/24 earnings by -24.2%/ -4.6%/ -4.5%. Maintain our trading oriented BUY rating with lower SOP-driven TP of RM0.44. Its low P/B trading multiple of 0.35 (bottom 10% based on 5 year trading range) presents an attractive risk reward, in our view.

Below expectations. MRCB reported 2QFY22 results with revenue of RM700.4m (-13.6% QoQ, +210.3% YoY) and core PATAMI of RM0.4m (-97.0% QoQ; vs core LATAMI of -RM32.4m in 2QFY22). This brings 1HFY22 core PATAMI to RM14.5m (vs core LATAMI of -RM27.2m in 1HFY21). We consider the results below our/consensus expectations at 24%/23% of full year forecasts. The miss was driven by higher than expected effective tax rates. We have adjusted 2QFY22/1HFY22 earnings for RM18m SIDEC land injection gain on an after tax basis (24%). No adjustments made for 2QFY21/1HFY21 earnings.

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

QoQ. Core PATAMI declined -97.0% (adjusted for the above land gain) due to weaker contribution from its property segment (Revenue: -22.1% QoQ; EBIT: -80.4% QoQ). The segment was partly impacted by sales cancellation amounting to RM33m (TRIA & Sentral Suites) resulting in differences in recognition timing as these sales were eventually replaced. Recognition is likely to materialise later in the year. MRCB also recorded RM165.1m sales of commercial units from VIVO which may be recognised toward the backend of FY22. Construction top-line declined -11.9% QoQ dragged by slower LRT3 progress with acute labour shortage impacting the project. We note that its physical progress for the LRT3 project has declined from 6% in 4QFY21 to 3% in 2QFY22. We think shortages could only start to ease in FY23.

YoY/YTD. Core PATAMI returned back to profitability on a YoY and YTD basis as 2QFY21 and 1HFY21 was severely impacted by various versions of MCO.

Construction. MRCB's outstanding orderbook stands at RM18.4bn which is roughly 20.7x cover on FY21 construction revenue. In addition to the flood mitigation project (RM380m) awarded early in the year, MRCB is in the midst of finalising details of the refurbishment contract of Shah Alam complexes with the state government (reportedly worth >RM787m). This aside, the company is also trying to formalise its WTE project (TPC>RM1bn) and could possibly land a higher orderbook from LRT3 project through increased scope. We also anticipate possible contract wins from the upcoming MRT3 in early-2023. Turnkey tender submission deadline for the project has been delayed by roughly a month, coupled with possible elections this may delay awards. Separately, MRCB is in the midst of a legal challenge to recover its receivables written down in 2020 (~RM170m) which upon recovery, may boost headline profitability sometime in the future.

Property. Unbilled sales are roughly unchanged amounting to RM706.7m representing 1.6x cover on FY21 property revenue. Sales for 1HFY22 came in above expectations at RM250.1m (~RM227m in 2QFY22) driven primarily by aforementioned sales of commercial units at VIVO. Nonetheless, we keep our sales assumptions of RM400m unchanged as we reckon higher inflation and rate hikes

could dent buyer sentiment. On notable launches, MRCB is only looking to launch Kwasa Plot F (RM325m) and SIDEC in 4QFY22. MRCB's ~RM900m Australian project has been delayed into FY23, we think due to 125 bps rate hike done by RBA starting in May-22. Further delays to the above timeline may depend on future rate stabilisation.

Forecast. Cut FY22/23/24 earnings by -24.2%/-4.6%/-4.5% after increasing tax rate assumptions and imputing weaker margins.

Maintain BUY, TP: RM0.44. Maintain our trading oriented BUY rating with lower SOP-driven TP of RM0.44 (from RM0.46) post-earnings adjustments based on mid-FY22 numbers. We see trading opportunities as contract news flow may accelerate going forward. Its low P/B trading multiple of 0.35 (bottom 10% based on 5 year trading range) presents an attractive risk reward in our view with most negatives priced in. Key upside catalysts: contract wins; Downside risks: margins, execution, property sales slowdown and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	225.7	810.7	700.4	(13.6)	210.3	452.5	1,511.1	234.0
EBIT	(28.7)	52.3	35.7	(31.9)	nm	(13.8)	88.0	nm
Finance cost	(20.2)	(23.2)	(24.4)	nm	nm	(38.5)	(47.7)	nm
Share of JVs and associates	10.7	2.6	(1.1)	nm	nm	19.8	1.5	(92.2)
PBT	(38.2)	31.8	10.1	(68.2)	nm	(32.5)	41.9	nm
PAT	(39.7)	14.0	(2.7)	nm	nm	(35.8)	11.3	nm
Core PATMI	(32.4)	14.0	0.4	(97.0)	nm	(27.2)	14.5	nm
Reported PATMI	(32.4)	14.0	14.1	0.5	nm	(27.2)	28.1	nm
Core EPS (sen)	(0.7)	0.3	0.0	(97.0)	nm	(0.6)	0.3	nm
EBIT margin (%)	(12.7)	6.5	5.1			(3.1)	5.8	
PBT margin (%)	(16.9)	3.9	1.4			(7.2)	2.8	
PATMI margin (%)	(14.4)	1.7	0.1			(6.0)	1.0	

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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 - mid-FY22 earnings	16	15	242	0.05
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			3,501	0.73
Less: Net debt			(1,353)	(0.28)
Target price			2,148	0.44

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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	796	819	872
Receivables	1,590	2,397	2,156	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	8,688	8,878	8,892
Debits	1,933	1,932	2,032	2,132	2,232
Payables	982	2,081	1,621	1,694	1,592
Others	846	651	510	510	510
Liabilities	3,760	4,665	4,163	4,336	4,333
Shareholder's equity	4,578	4,513	4,500	4,524	4,548
Minority interest	11	28	24	17	10
Equity	4,589	4,540	4,525	4,541	4,558

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Profit before taxation	26	(59)	91	120	124
Depreciation & amortisation	76	64	66	67	69
Changes in working capital	256	321	(120)	(29)	(0)
Taxation	(23)	(55)	(42)	(30)	(31)
Others	(93)	(464)	-	-	-
CFO	242	(193)	(4)	128	162
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)	(37)	(60)
Others	47	(47)	-	-	-
CFF	107	(67)	32	63	40
Net cash flow	130	49	(53)	111	122
Forex	-	-	-	-	-
Others	(107)	(11)	270	(88)	(69)
Beginning cash	517	540	579	796	819
Ending cash	540	579	796	819	872

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,199	1,448	3,028	3,171	3,032
EBIT	49	(11)	130	146	152
Associates & JV	20	31	16	20	20
Profit before tax	26	(59)	91	120	124
Tax	(23)	(55)	(42)	(30)	(31)
Net profit	3	(113)	50	90	93
Minority interest	(0)	9	(3)	(7)	(7)
PATMI (core)	3	(104)	46	83	86
Exceptionals	(179)	120	-	-	-
PATMI (reported)	(176)	16	46	83	86

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Core EPS (sen)	0.1	(2.3)	1.0	1.9	1.9
P/E (x)	495.9	n.m.	33.9	18.8	18.3
DPS (sen)	1.0	1.0	0.8	1.3	1.4
Dividend yield	2.8%	2.8%	2.4%	3.8%	3.9%
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	10.4%	3.6%	6.5%	6.7%	7.3%
EBIT margin	4.1%	-0.8%	4.3%	4.6%	5.0%
PBT margin	2.2%	-4.0%	3.0%	3.8%	4.1%
Net margin	0.3%	-7.2%	1.5%	2.6%	2.8%
ROE	0.1%	-2.3%	1.0%	1.8%	1.9%
ROA	0.0%	-1.2%	0.5%	0.9%	1.0%
Net gearing	30.4%	30.0%	27.5%	29.0%	29.9%

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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