

**HLIB Research**

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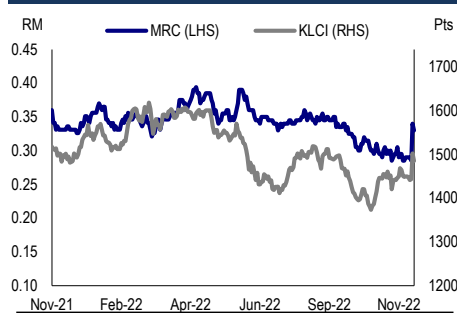
**HOLD** (from Buy)

**Target Price: RM0.37**
**Previously: RM0.44**
**Current Price: RM0.32**

Capital upside	15.6%
Dividend yield	2.6%
Expected total return	18.2%

**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	13.8	-7.0	-10.8
Relative	10.7	-6.4	-8.8

**Stock information**

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1430
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)	FY21	FY22f	FY23f
PATMI - core (RM m)	-104.0	46.0	72.0
EPS - core (sen)	-2.3	1.0	1.6
P/E (x)	nm	31.1	19.9

# Malaysian Resources Corporation

## Property saves the day

MRCB's 9MFY22 core PATAMI of RM38.2m (SPLY: -RM59.4m) beat our but was within consensus expectations. Deviation was due to lumpy recognition of property sales. We expect stadium refurbishment contract to materialise early next year while there could be delays on MRT3 and WTE. 9MFY22 property sales of RM342m are better than expected. MRCB plans to launch ~RM2.1bn worth of property projects in FY23. Cut FY23 & 24 earnings by -13.4% & -2.0%. Downgrade to HOLD with a lower SOP-driven TP of RM0.37. Our downgrade is due to increased uncertainty on the timing of mega infra catalysts as well as volatile earnings profile.

**Beats expectations.** MRCB reported 3QFY22 results with revenue of RM860.0m (+22.8% QoQ, +523.7% YoY) and core PATAMI of RM23.7m (+56x QoQ; vs core LATAMI of -RM32.2m in 3QFY22). This brings 9MFY22 core PATAMI to RM38.2m (vs core LATAMI of -RM59.4m in 9MFY21). Results beat our expectations but came in within consensus at 82% and 72% respectively. The beat was driven by higher than expected property contribution.

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

**QoQ.** Core PATAMI increased 56x resulting from weaker property contribution in 2QFY22 which in turn accelerated in 3QFY22. The improved segmental performance was due to recognition of commercial unit inventory from VIVO amounting to RM165m. This was enough to offset weaker productivity and profitability on the construction side as the LRT3 progress was dragged by safety audits and underperforming subcontractors. MRCB has since stepped in to speed up the progress.

**YoY/YTD.** Core PATAMI returned back to profitability on a YoY and YTD basis as 3QFY21 and 9MFY21 was severely impacted by various versions of MCO resulting in significant loss of operating days.

**Construction.** MRCB's outstanding orderbook stands at RM17.9bn, adjusting for idle Bukit Jalil project, active orderbook is RM6.9bn (2.9x cover based on cumulative trailing four quarters E&C revenue). We reckon MRCB could finish FY22 with only the flood mitigation project (RM380m) as its sole contract win given delays on MRT3, WTE and Shah Alam stadium redevelopment due to GE15. The Selangor MB is looking to start stadium redevelopment works in 1QCY23 and has appointed MRCB for the job. Nonetheless, no concrete details have been shared as both sides are still ironing the fine print. Based on news reports, MRCB will be compensated through land swap. We are anticipating delays for MRT3 and WTE with a new government installed. The latter is a direct negotiated project and has been affected by frequent changes in administrations.

**Property.** Unbilled sales are roughly unchanged amounting to RM624.0m representing 1.1x cover on FY21 property revenue. Sales for 9MFY22 came in above expectations at RM342.2m (~RM92m in 3QFY22) contributed by TRIA 9 Seputeh, Sentral Suites – residential and Alstonia. We understand that as of Oct-22, sales figure is closer to RM380m. Nonetheless, we keep our sales assumptions of RM400m unchanged due to sentiment dampener from rate hikes. In the near term, MRCB will focus on clearing completed inventories (RM269m) where recognition is faster. Moving into FY23, MRCB plans to launch projects with RM1.3bn GDV in 1QFY23 and another RM856m in 4QCY23. It is worth noting its Australian project (RM900m) will only start contributing financially upon handover.

**Forecast.** Despite the results beat, we cut FY23 & 24 earnings by -13.4% & -2.0% after adjusting margin and replenishment assumptions.

**Downgrade to HOLD, TP: RM0.37.** Downgrade to HOLD with a lower SOP-driven TP of RM0.37 (from RM0.44) post earnings adjustments. Our downgrade is due to increased uncertainty on the timing of mega infra catalysts as well as volatile earnings profile. Key upside catalysts: contract wins; Downside risks: margins, execution, property sales slowdown and political uncertainties.

**Figure #1** Quarterly results comparison

FYE Dec	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	137.9	700.4	860.0	22.8	523.7	590.3	2,371.1	301.7
EBIT	(16.5)	35.7	78.8	121.0	(577.3)	(30.3)	166.8	(650.0)
Finance cost	(22.8)	(24.4)	(24.3)	(0.6)	6.7	(61.2)	(71.9)	17.5
Share of JVs and associates	9.2	(1.1)	2.2	(299.7)	(76.0)	19.8	1.5	(92.2)
PBT	(30.1)	10.1	56.7	461.5	(288.5)	(62.6)	98.6	(257.5)
PAT	(32.0)	(2.7)	15.5	(669.8)	(148.5)	(67.7)	26.8	(139.5)
Core PATMI	(32.2)	0.4	23.7	5,501.7	(173.7)	(59.4)	38.2	(164.3)
Reported PATMI	(32.2)	14.1	23.7	68.0	(173.7)	(59.4)	51.8	(187.3)
Core EPS (sen)	(0.7)	0.0	0.5	5,501.7	(173.7)	(1.3)	0.9	(164.3)
EBIT margin (%)	(12.0)	5.1	9.2			(5.1)	7.0	
PBT margin (%)	(21.8)	1.4	6.6			(10.6)	4.2	
PATMI margin (%)	(23.3)	0.1	2.8			(10.1)	1.6	

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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	8	125	0.03
LRT3			86	0.02
Property development - NPV of profits		12%	1,200	0.25
Property investment - book value			1,478	0.31
Stake in Sentral REIT at RM0.88 TP	943	28%	263	0.05
<b>Firm value</b>			<b>3,153</b>	<b>0.65</b>
Less: Net debt			(1,353)	(0.28)
<b>Target price</b>			<b>1,799</b>	<b>0.37</b>

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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	799	844	893
Receivables	1,590	2,397	2,148	2,230	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
<b>Assets</b>	<b>8,349</b>	<b>9,205</b>	<b>8,682</b>	<b>8,882</b>	<b>8,913</b>
Debits	1,933	1,932	2,032	2,132	2,232
Payables	982	2,081	1,615	1,689	1,593
Others	846	651	510	510	510
<b>Liabilities</b>	<b>3,760</b>	<b>4,665</b>	<b>4,157</b>	<b>4,331</b>	<b>4,335</b>
Shareholder's equity	4,578	4,513	4,500	4,533	4,566
Minority interest	11	28	24	19	12
<b>Equity</b>	<b>4,589</b>	<b>4,540</b>	<b>4,525</b>	<b>4,551</b>	<b>4,578</b>

### Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Profit before taxation	26	(59)	91	102	121
Depreciation & amortisation	76	64	66	67	69
Changes in working capital	256	321	(117)	(16)	(14)
Taxation	(23)	(55)	(41)	(25)	(30)
Others	(93)	(464)	-	-	-
<b>CFO</b>	<b>242</b>	<b>(193)</b>	<b>(2)</b>	<b>129</b>	<b>146</b>
Net capex	(70)	(95)	(80)	(80)	(80)
Others	(149)	404	-	-	-
<b>CFI</b>	<b>(219)</b>	<b>309</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>
Changes in borrowings	105	(1)	100	100	100
Issuance of shares	-	24	(24)	-	-
Dividends paid	(44)	(44)	(44)	(37)	(40)
Others	47	(47)	-	-	-
<b>CFF</b>	<b>107</b>	<b>(67)</b>	<b>32</b>	<b>63</b>	<b>60</b>
<b>Net cash flow</b>	<b>130</b>	<b>49</b>	<b>(50)</b>	<b>112</b>	<b>126</b>
Forex	-	-	-	-	-
Others	(107)	(11)	270	(66)	(78)
Beginning cash	517	540	579	799	844
Ending cash	540	579	799	844	893

### Income Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
<b>Revenue</b>	<b>1,199</b>	<b>1,448</b>	<b>3,016</b>	<b>3,141</b>	<b>3,032</b>
EBIT	49	(11)	130	128	149
Associates & JV	20	31	16	20	20
<b>Profit before tax</b>	<b>26</b>	<b>(59)</b>	<b>91</b>	<b>102</b>	<b>121</b>
Tax	(23)	(55)	(41)	(25)	(30)
<b>Net profit</b>	<b>3</b>	<b>(113)</b>	<b>49</b>	<b>78</b>	<b>91</b>
Minority interest	(0)	9	(3)	(6)	(7)
<b>PATMI (core)</b>	<b>3</b>	<b>(104)</b>	<b>46</b>	<b>72</b>	<b>84</b>
Exceptionals	(179)	120	-	-	-
PATMI (reported)	(176)	16	46	72	84

### Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Core EPS (sen)	0.1	(2.3)	1.0	1.6	1.9
P/E (x)	453.4	n.m.	31.1	19.9	17.0
DPS (sen)	1.0	1.0	0.8	0.9	1.1
Dividend yield	3.1%	3.1%	2.6%	2.8%	3.5%
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%	6.2%	7.2%
EBIT margin	4.1%	-0.8%	4.3%	4.1%	4.9%
PBT margin	2.2%	-4.0%	3.0%	3.3%	4.0%
Net margin	0.3%	-7.2%	1.5%	2.3%	2.8%
ROE	0.1%	-2.3%	1.0%	1.6%	1.8%
ROA	0.0%	-1.2%	0.5%	0.8%	0.9%
Net gearing	30.4%	30.0%	27.4%	28.4%	29.3%

### Assumptions

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Contracts secured	-	-	380	2,500	1,000
Property sales	187	310	400	400	400

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
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