

HLIB Research

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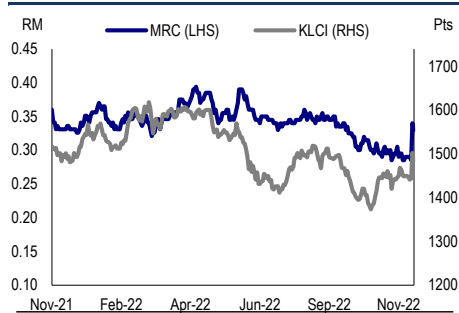
HOLD (Maintain)

Target Price: **RM0.37**
Previously: **RM0.37**
Current Price: **RM0.325**

Capital upside	13.8%
Dividend yield	3.1%
Expected total return	16.9%

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	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1452
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)	51.2	66.2	80.2
EPS - core (sen)	1.1	1.5	1.8
P/E (x)	28.4	21.9	18.1

Malaysian Resources Corporation

Better-than-expected ending

MRCB's FY22 core PATAMI of RM51.2m (SPLY: -RM93.0m) beat our but disappointed consensus expectations. Deviation was due to stronger than expected property contribution. We expect the stadium refurbishment contract to materialise this year while MRT3 awards could come in from mid-2023 onwards. MRCB plans to launch ~RM1.5bn worth of property projects in FY23. Tweak FY23 & 24 earnings by -8.0% & -4.5%. Maintain HOLD with unchanged SOP-driven TP of RM0.37.

Above expectations. MRCB reported 4QFY22 results with revenue of RM833.9m (-3.0% QoQ, -2.8% YoY) and core PATAMI of RM13.0m (-45.1% QoQ; vs core LATAMI of -RM33.7m in 4QFY21). This brings FY22 core PATAMI to RM51.2m (vs core LATAMI of -RM93.0m in FY21). Results beat our expectations but came in below consensus at 111% and 85% of full year forecasts respectively. The beat was driven by higher than expected property contribution. FY22 core PATAMI was adjusted for RM18m gain on SIDEC land injection which occurred in 2QFY22.

Dividends. First and final DPS of 1 sen was declared (FY21: 1 sen; FY22: 1 sen).

QoQ. Core PATAMI decreased by -45.1% despite only a slight decline in revenue (-3.0%) stemming from weaker margin mix as property division saw a considerable drop of -18.8% and -46.4% for its revenue and EBIT respectively. The falloff was due to higher sales of completed inventory in 3QFY22 with the RM165m recognition of VIVO commercial units being the largest driver, in our view. Sales of inventory from VIVO have since slowed to ~RM45m in 4QFY22. Sequentially, E&C revenue grew by 6.9% as LRT3 progress normalised achieving 81% physical progress as at 31-Dec-22. Recall that 3QFY22 was marred by safety audits and underperforming subcontractors.

YoY/YTD. Core PATAMI returned back to profitability on a YoY and YTD basis as 4QFY21 and FY21 was severely impacted by various versions of MCO resulting in significant loss of operating days.

Construction. Outstanding orderbook stands at RM17.3bn, adjusting for idle Bukit Jalil project, active orderbook is RM6.4bn (2.9x cover based on FY22 E&C revenue). MRCB finished FY22 with only the RM380m flood mitigation project as its sole contract win. We are expecting the finalisation of the Shah Alam Sports Complex redevelopment this year. The state government has previously guided for works to commence in 1QCY23 where payment is by land swap. The project will likely comprise of Shah Alam Stadium, Malawati Stadium and Shah Alam Mini Stadium redevelopments potentially costing well in excess of RM1bn. Nevertheless, there are still further steps like incorporation of public feedback, study on monetisation potential of land consideration and project costing which could delay commencement (vs above timeline). For comparison the Bukit Jalil regeneration project awarded back in 2015 costed RM1.6bn. Given that the upcoming MRT3 could be undertaken without the PFI component, this could allay fears of significant balance sheet deterioration and cash call needs if MRCB is successful in its MRT3 bid. Management has also refuted a recent article by The Edge which reported MRCB's CMC301 bid at RM2.9bn. We look to the upcoming Budget 2023 for more clarity on MRT3 and increased scope of LRT3 (~RM1bn).

Property. Unbilled sales are at RM536.5m representing 0.6x cover on FY22 property revenue. Sales for FY22 came in above expectations at RM487.9m (vs RM400m) contributed mainly by VIVO (44%), TRIA 9 Seputeh (21%) and Sentral Suites (15%). In spite of the rate hikes, MRCB's property sales have remained steady since Oct-22

at ~RM40m per month. For FY23, sales target stands at RM500m while MRCB will launch two projects by 1Q23 (VISTA: AUD391m; Residensi Tujuh, Kwasa: RM329m). It is worth noting its Australian project (~RM1.2bn) will only start contributing financially upon handover.

Forecast. Despite the results beat, we tweak FY23-24 earnings forecasts -8.0% and -4.5% in light of guidance and updating for associate's forecasts.

Maintain HOLD, TP: RM0.37. Maintain HOLD with unchanged SOP-driven TP of RM0.37. Our TP implies a FY23f/24f P/E multiple of 24.8x/20.5x. Key upside catalysts: contract wins; Downside risks: margins, execution, property sales slowdown and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	858.1	860.0	833.9	(3.0)	(2.8)	1,448.5	3,205.1	121.3
EBIT	15.4	78.8	63.0	(20.0)	309.3	(14.9)	229.8	(1,639.9)
Finance cost	(27.5)	(24.3)	(27.1)	11.6	(1.3)	(88.7)	(99.1)	11.7
Share of JVs and associates	2.4	2.2	1.8	(17.6)	(23.8)	31.3	5.6	(82.2)
PBT	(9.7)	56.7	37.7	(33.4)	(489.6)	(72.3)	136.3	(288.6)
PAT	(34.4)	15.5	13.1	(15.4)	(138.1)	(102.1)	39.9	(139.0)
Core PATMI	(33.7)	23.7	13.0	(45.1)	(138.7)	(93.0)	51.2	(155.0)
Reported PATMI	75.2	23.7	13.0	(45.1)	(82.7)	15.8	64.8	309.6
Core EPS (sen)	(0.8)	0.5	0.3	(45.1)	(138.7)	(2.1)	1.1	(155.0)
EBIT margin (%)	1.8	9.2	7.6			(1.0)	7.2	
PBT margin (%)	(1.1)	6.6	4.5			(5.0)	4.3	
PATMI margin (%)	(3.9)	2.8	1.6			(6.4)	1.6	

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Figure #2 Launch pipeline

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 - mid-FY22 earnings	16	9	141	0.03
LRT3			81	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 RM0.77 TP	825	28%	230	0.05
Firm value			3,131	0.65
Less: Net debt			(1,353)	(0.28)
Target price			1,777	0.37

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Figure #4 Financial forecast

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	1,199.5	1,448.5	3,205.1	2,913.3	3,032.3
EBIT	48.8	(11.2)	229.8	122.0	145.2
PBT	26.4	(58.5)	136.3	94.4	116.1
PAT	3.4	(113.1)	39.9	71.6	87.0
PATMI – Core	3.2	(104.0)	51.2	66.2	80.2
PATMI – Reported	(177.3)	15.8	64.8	66.2	80.2
Core EPS (sen)	0.1	(2.3)	1.1	1.5	1.8
P/E (x)	460.5	n.m.	28.4	21.9	18.1
DPS (sen)	1.0	1.0	1.0	1.0	1.0
Yield (%)	3.0%	3.0%	3.1%	3.1%	3.1%
BVPS (RM/share)	1.0	1.0	1.0	1.0	1.0
P/B (x)	0.3	0.3	0.3	0.3	0.3
ROE (%)	0.1%	-2.3%	1.1%	1.5%	1.8%
Net Gearing (%)	30.4%	30.0%	32.0%	27.8%	29.4%

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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.
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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.