

HLIB Research

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HOLD

 (Maintain)

Target Price: RM0.42
Previously: RM0.44
Current Price: RM0.43

Capital upside	-2.3%
Dividend yield	0.4%
Expected total return	-1.9%

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	1.2	-5.7	-37.4
Relative	1.7	-6.4	-41.3

Stock information

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1900
3-mth average volume ('000)	5973
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

EPF	35.9%
Gapurna	15.5%
LTH	5.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	(1)	25	52
EPS - core (sen)	(0.0)	0.6	1.2
P/E (x)	NA	75.1	36.3

Malaysian Resources Corporation

Below expectations

MRCB's 1QFY21 core earnings of RM5.2m were below our and consensus expectations. Operations were hampered by labour shortages and SOP constraints. Productivity so far has been sub-60%. MRCB's outstanding orderbook stands at c.RM17.0bn translating to a tremendous c.32x cover made up of long dated jobs. Property sales are on pace with last year and could be sustained. Cut FY21-22 earnings by 12-36%. Maintain HOLD with lower TP of RM0.42. Our TP implies a FY21/22 P/E multiple of 74.0x/35.8x/32.0x.

Below expectations. MRCB reported 1QFY21 results with revenue of RM226.6m (-27% QoQ, -47% YoY) and core earnings of RM5.2m (against core loss of -RM0.3m in 4QFY20; -67% YoY). The results were below our/consensus expectations coming in at 13/15% of full year forecast. Results shortfall was largely due to weaker than expected construction billings.

Dividends. No DPS were declared during the quarter. Dividends are typically declared in 4Q.

QoQ. 1QFY21 performance return to the black from core loss of -RM0.3m in 4QFY20 largely on the back of a lower taxes as well as operating margin improvements at property and facilities management segments. This more than offset a -27% fall in revenue, resulting from declines in all segments.

YoY. MRCB suffered a -67% contraction at the bottom-line dragged by a -47% loss of revenue. All segments saw revenue contraction: construction (-52%), property (-44%) and facilities management (-30%). Recall that MRCB had to close multiple sites toward the end of 2020 whereby the impact on billings and progress continued into 1QFY21. The imposition of MCO2.0 and labour shortage has resulted in construction productivity of sub 60%. Also, 1QFY20 performance were also boosted by the handover and settlement of 1060 Carnegie project.

Construction. MRCB's outstanding orderbook stands at c.RM17bn (excluding LRT3 as it is equity accounted), translating to a sizable c.32x cover on FY20 construction revenue (inflated by slow 2020 billings) which are comprised of long term projects. We gather that most of MRCB sites would be allowed to work under the lockdown but productivity levels would be subpar mainly due to labour shortages, SOPs and possible supply chain issues. However, it is noteworthy that MRCB has yet to receive official confirmation for work today. All of this points toward weaker performance in the coming quarters. On tenders, MRCB has not placed any new tenders so far with new sizable jobs (>RM150m) scarce.

Property. Unbilled sales amounts to RM1.0bn representing 1.6x cover on FY20 property revenue. 1QFY21 sales achieve came in at RM52m (2/3rd from 1060 Carnegie), on pace to match FY20 figures. 1060 Carnegie should continue to boost property contribution having reached 90% take-up YTD. Management will be looking to review launch plans in the coming weeks; possible delays from some in light of new developments. On a positive note, HOC has been extended to end 2021 which would undoubtedly support MRCB's property division. Some launch plans previously banded by management amounted to GDV of RM1.0bn comprising developments like Kwasa Sentral (RM275m), PJ Sentral (RM524m) and KL Sentral (RM229m). Adding to this, MRCB is sitting on completed unsold inventory of RM451m.

Forecast. Slash FY21-23 earnings by -35.2/15.1/12.0% after toning down billings and margin assumptions.

Maintain HOLD, TP: RM0.42. Maintain HOLD with lower SOP-driven TP of RM0.42 (from RM0.44) post-earnings adjustment. Our TP implies a FY21-23 P/E multiple of 74.0x/35.8x/32.0x. The stock lacks upside catalysts while its low P/B multiple of 0.41x could support share price.

Figure #1 Quarterly results comparison

FYE Dec	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	3MFY20	3MFY21	YoY (%)
Revenue	425.8	308.9	226.7	(27)	(47)	425.8	226.7	(47)
EBIT	35.9	14.9	14.9	(0)	(59)	35.9	14.9	(59)
Finance cost	(12.6)	(17.7)	(18.2)	3	45	(12.6)	(18.2)	45
Share of JVs and associates	3.6	10.3	9.1	(11)	154	3.6	9.1	154
PBT	26.9	7.4	5.7	(23)	(79)	26.9	5.7	(79)
PAT	15.6	(0.0)	3.9	(9,910)	(75)	15.6	3.9	(75)
Core PATMI	15.6	(0.3)	5.2	(1,822)	(67)	15.6	5.2	(67)
Reported PATMI	15.6	26.9	5.2	(81)	(67)	15.6	5.2	(67)
Core EPS (sen)	0.4	(0.0)	0.1	(1,822)	(67)	0.4	0.1	(67)
EBIT margin (%)	8.4	4.8	6.6			8.4	6.6	
PBT margin (%)	6.3	2.4	2.5			6.3	2.5	

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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 - FY21 earnings	16	13	202	0.04
LRT3 JV - annual average	12	10	117	0.02
Property development - NPV of profits		8%	1,440	0.30
Property investment - book value			1,418	0.29
Stake in MRCB-Quill REIT at RM0.96 TP	1,007	28%	281	0.06
Firm value			3,458	0.72
Less: Net debt			(1,411)	(0.29)
Target price			2,047	0.42

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Cash	517	1,440	1,413	1,408	1,490
Receivables	2,049	954	977	1,218	1,206
PPE	678	629	655	681	704
Investment properties	1,420	1,418	1,424	1,430	1,435
Others	3,383	3,180	3,207	3,236	3,267
Assets	8,481	7,697	7,746	8,063	8,191
Debits	1,828	1,928	2,028	2,128	2,228
Payables	1,011	680	610	792	781
Others	818	510	510	510	510
Liabilities	3,658	3,118	3,148	3,429	3,519
Shareholder's equity	4,792	4,544	4,562	4,598	4,639
Minority interest	32	35	36	35	33
Equity	4,823	4,579	4,598	4,633	4,672

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Profit before taxation	(2)	22	24	57	67
Depreciation & amortisation	69	60	47	49	51
Changes in working capital	(628)	826	(86)	(80)	3
Taxation	(34)	(23)	-	(4)	(6)
Others	349	-	-	-	-
CFO	(246)	886	(15)	23	114
Net capex	(34)	(80)	(80)	(80)	(80)
Others	174	-	-	-	-
CFI	140	(80)	(80)	(80)	(80)
Changes in borrowings	337	100	100	100	100
Issuance of shares	13	-	-	-	-
Dividends paid	(77)	(77)	(44)	(8)	(16)
Others	(202)	-	-	-	-
CFF	72	23	56	92	84
Net cash flow	(35)	828	(39)	35	119
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	552	517	1,440	1,413	1,408
Ending cash	517	1,440	1,413	1,408	1,490

Income Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,319	1,199	1,235	1,601	1,583
EBIT	17	58	17	41	24
Associates & JV	7	20	33	44	46
Profit before tax	(2)	22	24	57	67
Tax	(34)	(23)	-	(4)	(6)
Net profit	(36)	(1)	24	53	60
Minority interest	5	(0)	1	(1)	(2)
PATMI (core)	(31)	(1)	25	52	58
Exceptionals	55	(203)	-	-	-
PATMI (reported)	24	(203)	25	52	58
Consensus - PATMI			35	57	70
HLIB/ Consensus			71.8%	90.9%	82.8%

Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Core EPS (sen)	(0.7)	(0.0)	0.6	1.2	1.3
P/E (x)	n.m.	n.m.	75.1	36.3	32.5
DPS (sen)	1.8	1.0	0.2	0.4	0.4
Dividend yield	4.1%	2.3%	0.4%	0.8%	0.9%
BVPS (RM)	1.09	1.03	1.04	1.05	1.06
P/B (x)	0.39	0.42	0.41	0.41	0.41
EBITDA margin	6.6%	9.9%	5.2%	5.6%	4.8%
EBIT margin	1.3%	4.8%	1.4%	2.5%	1.5%
PBT margin	-0.2%	1.9%	1.9%	3.6%	4.2%
Net margin	-2.4%	-0.1%	2.0%	3.2%	3.7%
ROE	-0.6%	0.0%	0.6%	1.1%	1.3%
ROA	-0.4%	0.0%	0.3%	0.7%	0.7%
Net gearing	27.4%	10.7%	13.5%	15.7%	15.9%

Assumptions

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Contracts secured	150	-	250	500	500
Property sales	537	187	600	600	500

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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.

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