

**HLIB Research**

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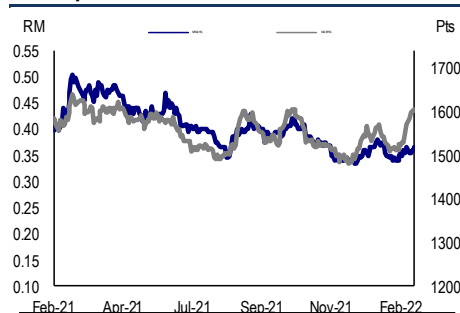
**HOLD** (Maintain)

**Target Price:** **RM0.38**
**Previously:** **RM0.38**
**Current Price:** **RM0.355**

Capital upside	7.0%
Dividend yield	2.8%
Expected total return	9.8%

**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	-2.7	-1.4	-9.9
Relative	-6.3	-6.2	-11.4

**Stock information**

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1586
3-mth average volume ('000)	7446
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

**Major shareholders**

EPF	36.2%
Gapurma	15.5%
LTH	5.8%

**Earnings summary**

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	-93.0	55.5	62.3
EPS - core (sen)	-2.1	1.2	1.4
P/E (x)	nm	28.6	25.4

# Malaysian Resources Corporation

## Finishes in the red

MRCB's FY21 core LATAMI of -RM93.0m were below our and consensus expectations driven by misses in margins. Path to normality remains an ongoing and gradual process amidst ongoing challenges. Nonetheless, LRT3 project's stronger execution provides a more certain RM40-50m p.a. earnings contribution going forward (100% stake). MRCB could secure a project worth RM300 this year. Maintain forecasts. Maintain HOLD with unchanged TP of RM0.38. The stock lacks upside catalysts besides low P/B valuation. Downside risks: Covid-19 setbacks, costs pressure and political uncertainties.

**Below expectations.** MRCB reported 4QFY21 results with revenue of RM858.1m (+522.4% QoQ, +177.8% YoY) and core LATAMI of -RM33.7m (vs core LATAMI of -RM32.2m in 3QFY21; core LATAMI of -RM0.3m in 4QFY20). This brings FY21 performance to core LATAMI of -RM93.0m (FY20: -RM0.8m). We deem the results below our and consensus expectations (we projected FY21 core LATAMI of -RM33.3m; while consensus projected core LATAMI of -RM39.6m).

**Els.** 4QFY21 is adjusted for: 1) gain on land injection (RM123.7m), 2) re-measurement profit (RM9.9m) and 3) assuming a tax on the above land gain assumed at guided 20%.

**Deviations.** Earnings miss was driven by miss in profitability margins.

**Dividends.** DPS of 1 sen was declared during the quarter going ex. on 27 Apr-22.

**QoQ.** Core LATAMI remains largely unchanged at -RM33.7m despite construction and property divisions returning to the black at the EBIT level as well as full consolidation of the LRT3 project (RM14m operating profit contribution), mainly due to higher assumed taxes.

**YoY.** MRCB's losses widened significantly with operations yet to fully regain ground in 4QFY21 resulting from operating caps in place as well as worsened labour situation in 2021 vs 2020 which also resulted in weaker contribution from the property segment.

**YTD.** MRCB registered a much bigger core LATAMI of -RM93.0m in FY21 (negligible loss in FY20) as its property and construction divisions were more severely affected by lockdowns, supply chain issues and labour shortages this year. According to management, lockdowns and restrictions were more severe in 2021 vs 2020 further exacerbated by worsened labour supply and supply chain challenges which affected ramp up when restrictions were eventually loosened.

**Construction.** MRCB's outstanding orderbook stands at RM19.8bn, boosted by additional RM3.7bn of unbilled LRT3 project acquired post-purchase of remaining 50% stake in MRCB-GK. Excluding the RM10bn idle Bukit Jalil project, unbilled orderbook stands at RM8.8bn. Indications are that its Bukit Jalil contract may start contributing in FY23. Tenderbook has declined to RM508m as certain projects were delayed or shelved. Management hopes to secure a c.RM300m project should things turn out well. The company is also working on other opportunities including highway projects in East Malaysia.

**Property.** Unbilled sales are roughly unchanged amounting to RM923m representing 1.9x cover on FY21 property revenue. FY21 sales came in at RM309.8m where 47% were achieved in 4QFY21 due to last minute buying ahead of HOC expiry. MRCB is targeting sales worth RM500m for FY22, mainly aided by launches at Kwasa (GDV: RM328m) and PJ Sentral (GDV: RM296m).

**Forecast.** Maintained as we expect ramp up going forward.

**Maintain HOLD, TP: RM0.38.** Maintain HOLD with an unchanged SOP-driven TP of RM0.38. Our TP implies a FY22-23 P/E multiple of 30.6x/27.2x. The stock lacks upside catalysts apart from low valuation. Its low P/B trading multiple of 0.35x might cushion further downside. Key upside catalysts: MRT3 rollout & better execution; Downside risks: Covid-19 variants/setbacks, costs pressure and political uncertainties.

**Figure #1** Quarterly results comparison

FYE Dec	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	308.9	137.9	858.1	522.4	177.8	1,199.5	1,448.5	20.8
EBIT	14.9	(16.5)	15.4	nm	3.5	58.0	(14.9)	nm
Finance cost	(17.7)	(22.8)	(27.5)	nm	nm	(55.2)	(88.7)	nm
Share of JVs and associates	10.3	9.2	2.4	(74.0)	(76.8)	19.5	31.3	60.4
PBT	7.4	(30.1)	(9.7)	nm	nm	22.4	(72.3)	nm
PAT	(0.0)	(32.0)	(34.4)	nm	nm	(0.6)	(102.1)	nm
Core PATMI	(0.3)	(32.2)	(33.7)	nm	nm	(0.8)	(93.0)	nm
Reported PATMI	26.9	(32.2)	75.2	nm	179.6	(177.3)	15.8	nm
Core EPS (sen)	(0.0)	(0.7)	(0.8)	nm	nm	(0.0)	(2.1)	nm
EBIT margin (%)	4.8	(12.0)	1.8			4.8	(1.0)	
PBT margin (%)	2.4	(21.8)	(1.1)			1.9	(5.0)	

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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 - FY22 earnings	15	8	121	0.03
LRT3 - NPV			82	0.02
Property development - NPV of profits		8%	1,284	0.27
Property investment - book value			1,445	0.30
Stake in Sentral REIT at RM0.95 TP	1,018	28%	284	0.06
<b>Firm value</b>			<b>3,216</b>	<b>0.67</b>
Less: Net debt			(1,381)	(0.29)
<b>Target price</b>			<b>1,836</b>	<b>0.38</b>

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**Figure #3 Financial forecast**

<b>FYE Dec (RM m)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22f</b>	<b>FY23f</b>
Revenue	1,319.4	1,199.5	1,448.5	3,360.9	3,253.9
EBIT	17.4	48.8	(14.9)	102.9	84.5
PBT	(2.0)	26.4	(72.3)	77.9	89.7
PAT	(36.3)	3.4	(102.1)	61.3	69.4
PATMI – Core	(31.3)	3.2	(93.0)	55.5	62.3
PATMI – Reported	23.7	(177.3)	15.8	55.5	62.3
Core EPS (sen)	(0.7)	0.1	(2.1)	1.2	1.4
P/E (x)	n.m.	503.0	n.m.	28.6	25.4
DPS (sen)	1.0	1.0	1.0	1.0	2.0
Yield (%)	2.8%	2.8%	2.8%	2.8%	5.6%
BVPS (RM/share)	1.1	1.0	1.0	1.0	1.0
P/B (x)	0.3	0.3	0.4	0.4	0.4
ROE (%)	-0.7%	0.1%	-2.1%	1.2%	1.4%
Net Gearing (%)	27.4%	30.4%	30.6%	22.1%	22.6%

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## Stock rating guide

<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.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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