

**HLIB Research**

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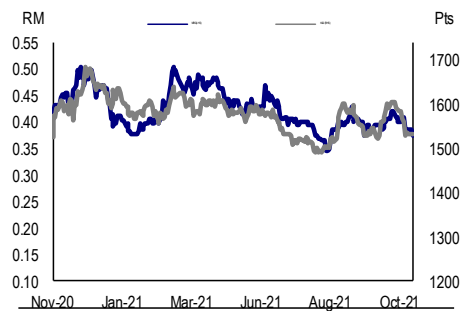
**HOLD** (Maintain)

**Target Price: RM0.43**
**Previously: RM0.43**
**Current Price: RM0.35**

Capital upside	22.9%
Dividend yield	0.6%
Expected total return	23.5%

**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	-3.8	2.7	-11.8
Relative	-1.9	-0.2	-12.6

**Stock information**

Bloomberg ticker	MRC MK
Bursa code	1651
Issued shares (m)	4412
Market capitalisation (RM m)	1564
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	5.8%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	3	-30.9	57
EPS - core (sen)	0.1	-0.7	1.3
P/E (x)	487.4	NA	26.9

# Malaysian Resources Corporation

## Still in the red

MRCB's 9MFY21 core LATAMI of -RM59.4m were below our and consensus expectations caused by weak margins. A pick-up in productivity levels is ongoing but path to normality is gradual with lingering supply chain issues. LRT3 project's stronger execution provides a more certain RM40-50m p.a. earnings contribution going forward (100% stake). MRCB could secure a flood mitigation project worth RM300-400m next year on previous guidance. Property sales are on track to match last year's. Cut FY21 forecasts to core loss of -RM30.9m and FY22-23 by -10%. Maintain HOLD with unchanged TP of RM0.43. The stock lacks upside catalysts besides cheap valuation. Downside risks: Covid-19 /setbacks and political uncertainties.

**Below expectations.** MRCB reported 3QFY21 results with revenue of RM137.9m (-38.9% QoQ, -53.7% YoY) and core LATAMI of -RM32.2m (vs core LATAMI of -RM32.4m in 2QFY21; core PATAMI of RM0.9m in 3QFY20). This brings 9MFY21 to core LATAMI of -RM59.4m. We deem the results below our and consensus expectations (we projected FY21 core PATAMI of RM15.4m; while consensus projected core PATAMI of RM1.7m).

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

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

**QoQ.** Core LATAMI stayed flattish at -RM32.2m despite a revenue decline of -38.9% due to the build-up in construction progress which were billed during the quarter. Key reason for the decline in top-line performance was a slowdown in settlements for 1060 Carnegie, which saw only 1 unit settled in the quarter due to lockdowns down under (vs 35 units in 2QFY21). While Australia has progressively loosened restrictions, the project is left with 1 unit to settle and at ~90% take-up, contribution should taper off.

**YoY.** MRCB fell into the red from marginal profit in 3QFY20 as Malaysia re-entered strict lockdowns in early part of 3QFY21 with labour shortages and supply chain issues to contend with this time even as restrictions progressively loosened through the quarter.

**YTD.** MRCB registered a much bigger core LATAMI of -RM32.2m in 9MFY21 (negligible loss in 9MFY20) as its property and construction divisions were more severely affected by lockdowns, supply chain issues and labour shortages this year. We gather that the company is currently running at 60% productivity due to the aforementioned issues.

**Construction.** MRCB's outstanding orderbook stands at RM19.9bn, boosted by additional RM4.4bn 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 RM9.0bn, translating to 18x cover based on FY20 construction revenue. We are positive on the LRT3 transaction as it is better executed and enhances earnings by RM20-25m p.a. (additional 50% stake). While we believe the worse is over, execution remains hampered by supply chain issues such as labour shortage unless rectification measures can be accelerated by the authorities. Based on previous tender guidance, MRCB maintains a RM2.1bn tenderbook (75% building/complexes), and is looking to secure a c.RM300-400m flood mitigation project. The likelihood of securing the job is decent; we expect contract win next year as part of our RM500m assumption.

**Property.** Unbilled sales amounts to RM941m representing 1.5x cover on FY20 property revenue. 9MFY21 sales achieved came in at RM165m (46% from 1060 Carnegie), on pace to match our expectation of RM200m for the year. Management is delaying its launches at KL and PJ Sentral worth about RM750m, by our estimates. MRCB is also looking to launch new projects in Australia (GDV: c.RM300m) to fill the gap left by 1060 Carnegie moving forward.

**Forecast.** Slash FY21 forecasts to core LATAMI of -RM30.9m and FY22-23 earnings by -10.4%/-9.5% after recalibrating margin assumptions.

**Maintain HOLD, TP: RM0.43.** Maintain HOLD with an unchanged SOP-driven TP of RM0.43. Our TP implies a FY22-23 P/E multiple of 33.2x/28.7x. The stock lacks upside catalysts apart from cheap valuation. Its low P/B trading multiple of 0.34x might cushion further downside. Key upside catalysts: MRT3 rollout & better execution; Downside risks: Covid-19 variants/setbacks and political uncertainties.

**Figure #1** Quarterly results comparison

FYE Dec	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	297.6	225.7	137.9	(38.9)	(53.7)	890.6	590.3	(33.7)
EBIT	15.9	(28.7)	(16.5)	(42.5)	(203.9)	43.2	(30.3)	(170.3)
Finance cost	(11.7)	(20.2)	(22.8)	12.7	94.2	(37.5)	(61.2)	63.4
Share of JVs and associates	3.5	10.7	9.2	(13.8)	165.2	9.3	28.9	212.4
PBT	7.6	(38.2)	(30.1)	(21.3)	(494.6)	15.0	(62.6)	(518.3)
PAT	0.8	(39.7)	(32.0)	(19.5)	(4,120.3)	(0.5)	(67.7)	12,777.6
Core PATMI	0.9	(32.4)	(32.2)	(0.8)	(3,595.3)	(0.5)	(59.4)	10,874.5
Reported PATMI	0.9	(32.4)	(32.2)	(0.8)	(3,595.3)	(203.0)	(59.4)	(70.8)
Core EPS (sen)	0.0	(0.7)	(0.7)	(0.8)	(3,595.3)	(0.0)	(1.4)	10,874.5
EBIT margin (%)	5.3	(12.7)	(12.0)			4.8	(5.1)	
PBT margin (%)	2.6	(16.9)	(21.8)			1.7	(10.6)	

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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 - FY22 earnings	12	10	120	0.02
LRT3 - external valuation			106	0.02
Property development - NPV of profits		8%	1,440	0.30
Property investment - book value			1,418	0.29
Stake in Sentral REIT at RM0.98 TP	1,050	28%	293	0.06
<b>Firm value</b>			<b>3,377</b>	<b>0.70</b>
Less: Net debt			(1,321)	(0.27)
<b>Target price</b>			<b>2,055</b>	<b>0.43</b>

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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	1,354	1,401	1,132	1,205
Receivables	2,049	954	1,080	2,375	2,379
PPE	678	650	677	702	726
Investment properties	1,420	1,418	1,424	1,430	1,435
Others	3,383	3,180	3,207	3,236	3,267
<b>Assets</b>	<b>8,481</b>	<b>7,622</b>	<b>7,876</b>	<b>9,084</b>	<b>9,221</b>
Debits	1,828	1,928	2,028	2,128	2,228
Payables	1,011	578	760	1,835	1,833
Others	818	510	510	510	510
<b>Liabilities</b>	<b>3,658</b>	<b>3,016</b>	<b>3,298</b>	<b>4,473</b>	<b>4,571</b>
Shareholder's equity	4,792	4,572	4,531	4,571	4,618
Minority interest	32	34	46	40	32
<b>Equity</b>	<b>4,823</b>	<b>4,606</b>	<b>4,577</b>	<b>4,611</b>	<b>4,650</b>

### Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Profit before taxation	(2)	26	(43)	81	96
Depreciation & amortisation	69	60	47	49	51
Changes in working capital	(628)	735	35	(343)	(6)
Taxation	(34)	(23)	-	(17)	(22)
Others	349	-	-	-	-
<b>CFO</b>	<b>(246)</b>	<b>799</b>	<b>40</b>	<b>(230)</b>	<b>119</b>
Net capex	(34)	(80)	(80)	(80)	(80)
Others	174	-	-	-	-
<b>CFI</b>	<b>140</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>
Changes in borrowings	337	100	100	100	100
Issuance of shares	13	-	-	-	-
Dividends paid	(77)	(77)	(44)	(9)	(17)
Others	(202)	-	-	-	-
<b>CFF</b>	<b>72</b>	<b>23</b>	<b>56</b>	<b>91</b>	<b>83</b>
<b>Net cash flow</b>	<b>(35)</b>	<b>742</b>	<b>16</b>	<b>(219)</b>	<b>122</b>
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	552	517	1,354	1,401	1,132
Ending cash	517	1,354	1,401	1,132	1,205

### Income Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
<b>Revenue</b>	<b>1,319</b>	<b>1,199</b>	<b>1,391</b>	<b>3,361</b>	<b>3,368</b>
EBIT	17	49	(23)	106	91
Associates & JV	7	20	36	23	22
<b>Profit before tax</b>	<b>(2)</b>	<b>26</b>	<b>(43)</b>	<b>81</b>	<b>96</b>
Tax	(34)	(23)	-	(17)	(22)
<b>Net profit</b>	<b>(36)</b>	<b>3</b>	<b>(43)</b>	<b>63</b>	<b>74</b>
Minority interest	5	(0)	12	(6)	(8)
<b>PATMI (core)</b>	<b>(31)</b>	<b>3</b>	<b>(31)</b>	<b>57</b>	<b>66</b>
Exceptionals	55	(179)	-	-	-
PATMI (reported)	24	(176)	(31)	57	66

### Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Core EPS (sen)	(0.7)	0.1	(0.7)	1.3	1.5
P/E (x)	n.m.	487.4	n.m.	26.9	23.2
DPS (sen)	1.8	1.0	0.2	0.4	0.5
Dividend yield	5.0%	2.9%	0.6%	1.1%	1.3%
BVPS (RM)	1.09	1.04	1.03	1.04	1.05
P/B (x)	0.32	0.34	0.34	0.34	0.33
EBITDA margin	6.6%	9.1%	1.8%	4.6%	4.2%
EBIT margin	1.3%	4.1%	-1.6%	3.1%	2.7%
PBT margin	-0.2%	2.2%	-3.1%	2.4%	2.9%
Net margin	-2.4%	0.3%	-2.2%	1.7%	2.0%
ROE	-0.6%	0.1%	-0.7%	1.3%	1.4%
ROA	-0.4%	0.0%	-0.4%	0.7%	0.7%
Net gearing	27.4%	12.5%	13.8%	21.8%	22.1%

### Assumptions

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Contracts secured	150	-	-	500	500
Property sales	537	187	200	600	500



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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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