

HLIB Research

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HOLD

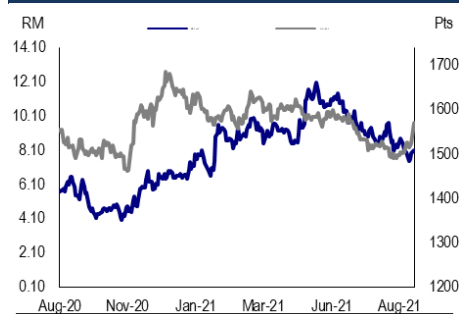
 (Maintain)

Target Price: **RM0.41**
Previously: **RM0.41**
Current Price: **RM0.395**

Capital upside	3.8%
Dividend yield	0.2%
Expected total return	4.0%

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%
Gapuma	15.5%
LTH	5.9%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	(1)	8.7	45.5
EPS - core (sen)	(0.0)	0.2	1.0
P/E (x)	NA	198.4	38.2

Malaysian Resources Corporation

Back in losses

MRCB's 1HFY21 core loss of -RM27m were below our and consensus expectations caused by slow billings and weak margins. Management anticipates a pick-up in productivity levels in the coming months but path to normality is gradual with lingering supply chain issues. The company could secure a flood mitigation project worth RM300-400m by year end. Property sales are on track to match last year's and would centre largely on ongoing projects with launches delayed. Slash FY21/22/23 earnings by -62.8/-9.8/-10.5%. Maintain HOLD with unchanged TP of RM0.41. The stock lacks upside catalysts and weak execution may pose a continued drag on near term performance while its low P/B trading multiple of 0.39x might cushion further downside.

Below expectations. MRCB reported 2QFY21 results with revenue of RM225.7m (-0.4% QoQ, 35.0% YoY) and core loss of -RM32.4m (vs core earnings of RM5.2m in 1QFY21; core loss of -RM17.1m in 2QFY20). This brings 1HFY21 to core loss of -RM27.2m. We deem the results below our and consensus expectations (we projected FY21 core earnings of RM21.1m; while consensus projected core earnings of RM20.8m).

Deviations. Both slow billings and weak margins resulted in results shortfall.

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

QoQ. 2QFY21 performance fell back into losses dragged by weaker margins on both construction and property segments on the back of lower productivity and higher cost pressure. Consequently, at the EBIT level, property profits declined by -74.5% while construction saw losses widening 19-fold. This was despite recording flattish revenue propped up by financial settlements for 35 units of its 1060 Carnegie project (vs 7 units achieved in 1QFY21). Settlements should slow in 3QFY21 with lockdowns in Melbourne as Australia strives for a "zero Covid" strategy.

YoY. Core loss widened by almost 2-fold despite achieving a higher revenue run rate due to weaker margins from material costs pressure, various SOP related costs and suboptimal phase of recognition for its projects.

YTD. Core loss widened to -RM27.2m in 1HFY21 from marginal loss in 1HFY20 brought about by revenue declines on both construction (-32%) and property (-18%) segments. In 1HFY21, its construction division was hampered by persistent site closures and operating days lost while its property division in addition to the aforementioned, recognised less units settled from its 1060 Carnegie project (1HFY21: 42 units; 1HFY20: 79 units)

Construction. MRCB's outstanding orderbook stands at c.RM15bn (ex-LRT3; equity accounted), translating to a sizable c.30x cover on FY20 construction revenue (inflated by slow 2020 billings) which are comprised of long term projects. Management anticipates a pick-up in productivity levels in the coming months as more workers are vaccinated. Nonetheless, execution could remain weak hampered by various supply chain issues such as labour and materials shortage. On tenders, MRCB maintains a RM2.1bn tenderbook (75% building/complexes), and is looking to secure a c.RM300-400m flood mitigation project. We reckon given the recent flooding events, there is a realistic chance of this materialising.

Property. Unbilled sales amounts to RM979m representing 1.6x cover on FY20 property revenue. 1HFY21 sales achieved came in at RM107m (62% from 1060

Carnegie), on track to meet our expectations of RM200m for the year. Management is delaying its launches at KL and PJ Sentral which carries GDV of RM750m, by our estimates. We are expecting lacklustre segmental performance as settlements from 1060 Carnegie could decelerate going forward.

Forecast. Slash FY21/22/23 earnings by -62.8/-9.8/-10.5% after toning down billings and margin assumptions.

Maintain HOLD, TP: RM0.41. Maintain HOLD with an unchanged SOP-driven TP of RM0.41. Our TP implies a FY22-23 P/E multiple of 40.1x/33.3x. The stock lacks upside catalysts and weak execution may pose a continued drag on near term performance while its low P/B trading multiple of 0.39x might cushion further downside. Key upside catalysts: MRT3 rollout; Downside risks: Covid-19 setbacks and political uncertainties.

Figure #1 Quarterly results comparison

FYE Dec	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	167.2	226.7	225.7	(0.4)	35.0	592.9	452.5	(23.7)
EBIT	(8.6)	14.9	(28.7)	NM	NM	27.3	(13.8)	(150.6)
Finance cost	(13.1)	(18.2)	(20.2)	NM	NM	(25.7)	(38.5)	NM
Share of JVs and associates	2.2	9.1	10.7	17.3	380.1	5.8	19.8	240.6
PBT	(19.5)	5.7	(38.2)	NM	NM	7.3	(32.5)	NM
PAT	(17.0)	3.9	(39.7)	NM	NM	(1.3)	(35.8)	NM
Core PATMI	(17.1)	5.2	(32.4)	NM	NM	(1.5)	(27.2)	NM
Reported PATMI	(219.6)	5.2	(32.4)	NM	NM	(204.0)	(27.2)	NM
Core EPS (sen)	(0.4)	0.1	(0.7)	NM	NM	(0.0)	(0.6)	NM
EBIT margin (%)	(5.1)	6.6	(12.7)			4.6	(3.1)	
PBT margin (%)	(11.7)	2.5	(16.9)			1.2	(7.2)	

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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	16	10	160	0.03
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 Sentral REIT at RM0.98 TP	1,007	28%	281	0.06
Firm value			3,415	0.71
Less: Net debt			(1,411)	(0.29)
Target price			2,004	0.41

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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	1,493	1,434	1,497
Receivables	2,049	954	762	1,127	1,154
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
Assets	8,481	7,622	7,616	8,012	8,164
Debits	1,828	1,928	2,028	2,128	2,228
Payables	1,011	578	461	726	742
Others	818	510	510	510	510
Liabilities	3,658	3,016	2,999	3,364	3,480
Shareholder's equity	4,792	4,572	4,578	4,609	4,648
Minority interest	32	34	40	39	36
Equity	4,823	4,606	4,617	4,648	4,684

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Profit before taxation	(2)	26	4	48	65
Depreciation & amortisation	69	60	47	49	51
Changes in working capital	(628)	735	87	(129)	(13)
Taxation	(34)	(23)	-	(2)	(7)
Others	349	-	-	-	-
CFO	(246)	799	138	(34)	95
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)	(3)	(14)
Others	(202)	-	-	-	-
CFF	72	23	56	97	86
Net cash flow	(35)	742	114	(17)	101
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	552	517	1,354	1,493	1,434
Ending cash	517	1,354	1,493	1,434	1,497

Income Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,319	1,199	908	1,463	1,504
EBIT	17	49	(9)	35	28
Associates & JV	7	20	38	41	40
Profit before tax	(2)	26	4	48	65
Tax	(34)	(23)	-	(2)	(7)
Net profit	(36)	3	4	46	57
Minority interest	5	(0)	5	(1)	(3)
PATMI (core)	(31)	3	9	45	55
Exceptionals	55	(179)	-	-	-
PATMI (reported)	24	(176)	9	45	55
Consensus - PATMI			21	50	67
HLIB/ Consensus			42.0%	91.7%	81.6%

Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Core EPS (sen)	(0.7)	0.1	0.2	1.0	1.2
P/E (x)	n.m.	550.1	198.4	38.2	31.7
DPS (sen)	1.8	1.0	0.1	0.3	0.4
Dividend yield	4.5%	2.5%	0.2%	0.8%	0.9%
BVPS (RM)	1.09	1.04	1.04	1.05	1.06
P/B (x)	0.36	0.38	0.38	0.38	0.37
EBITDA margin	6.6%	9.1%	4.2%	5.8%	5.3%
EBIT margin	1.3%	4.1%	-1.0%	2.4%	1.8%
PBT margin	-0.2%	2.2%	0.4%	3.3%	4.3%
Net margin	-2.4%	0.3%	1.0%	3.1%	3.6%
ROE	-0.6%	0.1%	0.2%	1.0%	1.2%
ROA	-0.4%	0.0%	0.1%	0.6%	0.7%
Net gearing	27.4%	12.5%	11.7%	15.0%	15.7%

Assumptions

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Contracts secured	150	-	350	500	500
Property sales	537	187	200	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.

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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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