

02 September 2024

# Malaysian Resources Corp

## Chugging Along

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MRCB's 1HFY24 earnings exceeded expectations, mainly due to chunky showing from the construction division making good progress. Order book replenishment of its construction division will be underpinned by a tender book of RM34b. Meanwhile 1HFY24 property sales of RM497.4m are on track to meet its RM800m target backed by RM1.9b of new launches. We raise our FY24F earnings by 36%, raise TP by 82% to RM0.62 (from RM0.34), and upgrade to OP (from MP) as we like the stock for its participation in, and ability to secure, high value construction projects.

1HFY24 core net profit of RM54.2m exceeded our forecast at 88% and 128% of our full-year forecast and full-year consensus estimates, respectively. The variance came largely from better-than-expected construction margins, thanks to more aggressive progress billing for the LRT3 and Muara Sg Pahang Phase 3 flood mitigation projects.

YoY, revenue slid 37% on lower contributions from its engineering, construction, and environment arm on lower billings related to LRT3 that has achieved 96% progress and Muara Sg Pahang Phase 2 flood mitigation project in 2QFY24. However, the segment's operating margins multiplied to 16.5% (+11.9 ppts), thanks to higher margins enjoyed during the tail-end of these projects that mostly contributed to the 180% leap in 1HFY24 earnings.

Separately, we note that MRCB's property development segment reported losses due to lumpier handovers in 1HFY23 for the Sentral Suites completion where the year was mostly supported by unsold units there.

QoQ. Due to lower billings related to LRT3 and flood mitigation project, 2QFY24 revenue declined by 22% but net profit surged by c.1,600%. We gather that 1QFY24 was also hampered by higher effective taxes which could have partially reversed during the current period.

The key takeaways from its analyst briefing are as follows:

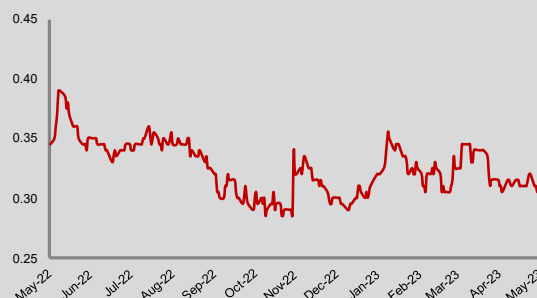
1. It achieved RM497.4m (+97% YoY) property sales in 1HFY24, on track to meet its internal sales target of RM800m (which is consistent with our assumption). As at end-1HFY24, its unbilled sales stood at a low of RM558.7m.
2. On its engineering, construction, and environment arm, YTD, the group was awarded the Phase 2 Sungai Langat flood mitigation project with contract value of RM250m, with target completion within six years. Under negotiation with value amounting to RM4.0-RM5.0b are construction projects of five LRT3 stations and other related infra, redevelopment of Stadium Shah Alam, and redevelopment of KL Sentral Station. We anticipate its operating margins to ease from 1HFY24 high base as progress works for the other projects kick in.
3. At present, its tender book stands at RM34b per the company, where MRCB also noted its key projects being: (i) Penang Airport Expansion, and (ii) Pan Borneo Package (24-km stretch), and (iii) MRT3, among others.

**Forecasts.** We raise our FY24F earnings by 36%. Also incorporating updated valuation assumptions, we raise TP by 82% to RM0.62 (from RM0.34) and upgrade it to OP (from MP) as we like the stock for its participation in, and ability to secure, high value construction projects.

**OUTPERFORM** ↑

Price: **RM0.55**  
Target Price: **RM0.62** ↑

### Share Price Performance



KLCI 1,404.93  
YTD KLCI chg -6.1%  
YTD stock price chg 3.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	1,362.6
Shares Outstanding	4,467.5
52-week range (H)	0.40
52-week range (L)	0.28
3-mth avg daily vol:	8,404,203
Free Float	38%
Beta	1.0

### Major Shareholders

Employees Provident Fund Board	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.7%

### Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	2,537.5	1,743.5	2,279.6
Operating Profit	212.0	172.0	149.0
Profit Before Tax	134.2	109.3	88.6
<b>Net Profit</b>	<b>101.0</b>	<b>78.9</b>	<b>64.0</b>
<b>Core Net Profit</b>	<b>-66.2</b>	<b>78.9</b>	<b>64.0</b>
Consensus (NP)	-	40.0	58.6
Earnings Revision (%)	-	+36	NEW
Core EPS (sen)	-1.5	1.8	1.4
Core EPS Growth (%)	-202.0	219.2	-18.9
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	1.0	1.0	1.0
PER (x)	-37.1	31.1	38.4
PBV (x)	0.5	0.5	0.5
Net Gearing (x)	0.2	0.2	0.2
Net Div. Yield (%)	1.8	1.8	1.8

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We also raise our SoP-based TP by 82% to RM0.62 (from RM0.34) based on a 70% discount to its property RNAV (from 80%), to reflect the company's execution capabilities and turn-around of its land banks. We had also refreshed our applied FY25F PER for the construction sector to 15.0x (from 10.0x), being at a discount from large-cap peers' 20.0x PER valuations ascribed from the sector's re-rating in line with more investment-driven projects. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We like MRCB for: (i) its prime matured lands that are close to public transportations, and (ii) it being well-positioned to secure MRT3 work packages given its track record in public rail projects. However, there is room for improvement in terms of project execution. Upgrade to **OUTPERFORM** from **MARKET PERFORM**.

**Risks to our call include:** (i) sustained weak flows of construction jobs from both the public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials

<b>Result Highlights</b>								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
<b>Revenue</b>	<b>372.2</b>	<b>476.2</b>	<b>-21.8%</b>	<b>599.3</b>	<b>-37.9%</b>	<b>848.4</b>	<b>1,341.6</b>	<b>-36.8%</b>
Expenses	-314.8	-445.9	-29.4%	-569.2	-44.7%	-760.7	-1,275.1	-40.3%
Other Operating Income	14.8	10.2	44.9%	9.7	52.6%	25.0	21.4	17.0%
<b>Operating Profit</b>	<b>72.2</b>	<b>40.5</b>	<b>78.2%</b>	<b>39.9</b>	<b>80.9%</b>	<b>112.7</b>	<b>87.8</b>	<b>28.3%</b>
Finance Costs	-26.9	-23.9	12.8%	-28.9	-6.7%	-50.8	-56.7	-10.4%
Share of Results of Associates	4.4	3.8	14.6%	5.4	-19.8%	8.2	7.2	12.8%
Share of Results of JV	-1.2	-1.5	-15.9%	-1.2	5.3%	-2.7	-2.5	8.2%
<b>Profit before tax</b>	<b>48.4</b>	<b>19.0</b>	<b>155.1%</b>	<b>15.3</b>	<b>216.1%</b>	<b>67.3</b>	<b>35.8</b>	<b>87.8%</b>
Taxation	2.9	-16.0	-118.3%	-4.4	-166.9%	-13.1	-16.3	-19.9%
MI	-0.1	0.1	-304.0%	-0.1	67.2%	-0.1	-0.2	-69.0%
<b>PATAMI</b>	<b>51.2</b>	<b>3.0</b>	<b>1604.9%</b>	<b>10.9</b>	<b>370.9%</b>	<b>54.2</b>	<b>19.3</b>	<b>180.1%</b>
<b>Core PATAMI</b>	<b>51.2</b>	<b>3.0</b>	<b>1604.9%</b>	<b>10.9</b>	<b>370.9%</b>	<b>54.2</b>	<b>19.3</b>	<b>180.1%</b>
Operating Profit Margin	19.4%	8.5%		6.7%		13.3%	6.5%	
Pretax Margin	13.0%	4.0%		2.6%		7.9%	2.7%	
Net Margin	13.8%	0.6%		1.8%		6.4%	1.4%	
Effective Tax Rate	-6.0%	84.4%		28.6%		19.4%	45.6%	

Source: Company, Kenanga Research

<b>Segmental breakdown</b>								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
<b>External Revenue</b>								
Property Dev. & Investment	71.3	98.1	-27.3%	101.5	-29.8%	169.4	369.5	-54.2%
Engineering, Construction	282.3	360.3	-21.7%	482.0	-41.4%	642.6	940.5	-31.7%
Facilities Management & Parking	14.1	13.3	5.9%	12.3	14.4%	27.4	24.6	11.3%
Others	4.5	4.5	0.2%	3.5	27.5%	9.0	7.0	27.8%
<b>Subtotal</b>	<b>372.2</b>	<b>476.2</b>	<b>-21.8%</b>	<b>599.3</b>	<b>-37.9%</b>	<b>848.4</b>	<b>1,341.6</b>	<b>-36.8%</b>
<b>Operating Profit (Net of EI)</b>								
Property Dev. & Investment	-25.7	11.2	-329.0%	-0.4	N.M.	-14.5	32.9	-144.0%
Engineering, Construction	88.0	17.8	395.8%	35.8	145.7%	105.8	43.1	145.7%
Facilities Management & Parking	1.4	3.8	-62.3%	-1.7	-182.3%	5.2	-1.8	-382.3%
Others	3.9	8.1	-52.5%	-0.5	-956.3%	12.0	3.9	209.8%
<b>Subtotal</b>	<b>67.6</b>	<b>40.9</b>	<b>65.3%</b>	<b>33.3</b>	<b>103.0%</b>	<b>108.4</b>	<b>78.0</b>	<b>39.0%</b>
<b>Operating Margins</b>								
Property Dev. & Investment	-36.1%	11.5%		-0.4%		-8.6%	8.9%	
Engineering, Construction	31.2%	4.9%		7.4%		16.5%	4.6%	
Facilities Management & Parking	10.1%	28.3%		-14.0%		18.9%	-7.5%	
Others	86.0%	181.4%		-12.8%		133.6%	55.1%	
<b>Total</b>	<b>18.2%</b>	<b>8.6%</b>		<b>5.6%</b>		<b>12.8%</b>	<b>5.8%</b>	

Source: Company, Kenanga Research

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<b>MRCB's Sum-of-Parts Valuation</b>		
<b>Segment</b>	<b>Value (RM m)</b>	<b>Valuation Basis</b>
Property Development & Investment	1,762.6	70% discount to RNAV
Engineering, Construction & Environment	1,002.2	P/E of 15x on FY25 earnings
Facilities Management & Parking	6.4	P/E of 15x on FY25 earnings
<b>Aggregate Valuation</b>	<b>2,771.3</b>	
No of shares (m)	4,467.5	
<b>FV per share (RM)</b>	<b>0.62</b>	

Source: Kenanga Research

<b>RNAV of MRCB's Property Development Projects</b>				
<b>Project</b>	<b>Stake (%)</b>	<b>Remaining Land Bank (acres)</b>	<b>Outstanding GDV (RM m)</b>	<b>Effective NPV of profit (RM m)</b>
<b><u>TOD</u></b>				
KL Sentral	100%	5.71	3,949.00	<b>194.1</b>
PJ Sentral Garden City	100%	11.91	2,700.00	<b>118.0</b>
Penang Sentral	100%	21.88	2,698.00	<b>82.1</b>
Cyberjaya City Centre	70%	29.02	3,745.00	<b>208.4</b>
Kwasa Sentral	70%	45.01	7,595.70	<b>345.0</b>
<b>Commercial Developments</b>				
Pulai Land Johor	100%	67.52	80.00	-
<b>Residential Developments</b>				
9 Seputeh	100%	17.63	2,158.00	<b>98.0</b>
Bukit Rahman Putra	100%	14.18	642.00	<b>34.3</b>
Bandar Sri Iskandar (Phase 2C, 2D, 3)	100%	57.40	849.00	<b>34.4</b>
VISTA Street Project, Gold Coast	100%	0.77	1,511.00	<b>104.9</b>
<b><u>Industrial Development</u></b>				
SIDEC (Ipoh Raya Integrated Park)	100%	810.57	-	-
<b><u>Others</u></b>				
Selbourne 2, Shah Alam	100%	2.37	-	-
Metro Spectacular Land, Jalan Putra	100%	10.06	-	-
Muara Tuang Land, Samarahan	100%	22.07	-	-
		<b>1,116.10</b>	<b>25,927.70</b>	<b>1,219.2</b>
<b>Unbilled Sales</b>	0.39			<b>29.1</b>
Property Shareholders Fund				4,655.8
<b>Total RNAV (RM m)</b>				<b>5,875.4</b>
Discount to RNAV				70%
<b>Discounted RNAV</b>				<b>1,762.6</b>

Source: Company, Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE		Net Div. (sen)		Net Div Yld	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
<b>PROPERTY DEVELOPERS</b>																					
ECO WORLD DEVELOPMENT GROUP	UP	1.55	1.41	-9.0%	4,570.5	Y	10/2024	9.7	10.0	5.2%	3.6%	16.0	15.4	0.9	5.9%	6.0	3.9%				
IOI PROPERTIES GROUP BHD	UP	2.07	1.71	-17.4%	11,397.7	N	06/2025	11.0	11.3	18.6%	2.2%	18.8	18.4	0.5	2.5%	4.5	2.2%				
MAH SING GROUP BHD	OP	1.63	1.88	15.3%	4,173.0	Y	12/2024	10.2	11.0	14.6%	8.5%	16.0	14.8	1.0	6.5%	4.0	2.5%				
MALAYSIAN RESOURCES CORP BHD	OP	0.550	0.620	12.7%	2,457.1	Y	12/2024	1.8	1.4	19.2%	-18.9%	77.5	41.7	0.5	1.7%	1.0	1.8%				
MKH BHD	OP	1.30	1.81	39.2%	750.6	Y	09/2024	13.8	16.2	8.8%	16.7%	9.4	8.0	0.4	4.1%	6.0	4.6%				
S P SETIA BHD	UP	1.10	0.900	-18.2%	5,344.6	Y	12/2024	12.8	5.3	185.9%	-58.5%	8.6	20.8	0.3	4.4%	5.0	4.5%				
SIME DARBY PROPERTY BHD	MP	1.40	1.36	-2.9%	9,521.2	Y	12/2024	6.7	7.0	13.9%	4.9%	21.0	20.0	0.9	4.4%	2.8	2.0%				
SUNWAY BHD	UP	4.10	2.66	-35.1%	23,195.7	Y	12/2024	14.6	14.7	26.0%	1.2%	28.2	27.8	1.6	6.0%	6.0	1.5%				
UOA DEVELOPMENT BHD	UP	1.83	1.79	-2.2%	4,801.5	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.2	17.6	0.8	4.5%	6.5	3.6%				
<b>SECTOR AGGREGATE</b>					<b>66,212.0</b>					<b>38.0%</b>	<b>-8.0%</b>	<b>19.1</b>	<b>20.7</b>	<b>0.8</b>	<b>4.4%</b>		<b>2.9%</b>				

Source: Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★		
	Corporate Social Responsibility	★	★	★	
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★		
	Corruption-Free Pledge	★	★		
	Carbon-Neutral Initiatives	★	★	★	
<b>SPECIFIC</b>	Digital Transformation	★	★	★	
	Adoption of Green Financing	★	★		
	Waste Management	★	★	★	
	Flora and Fauna Preservation	★	★	★	
	Green Building Planning	★	★	★	
	Supply Chain Auditing	★	★		
<b>OVERALL</b>		★	★	★	

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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