

28 November 2024

Malaysian Resources Corp

Sales On Track

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MRCB's 9MFY24 earnings met expectations but beat the streets mainly due to chunky showing from the construction division making good progress with a remaining order book of RM26b. Meanwhile, 9MFY24 property sales of RM637.3m are on track to meet its RM800m target. We maintain our earnings but cut our TP to RM0.56 (from RM0.62) as we lower our valuation for the construction sector owing to poor tender book visibility post-lapse of MRT 3 tender.

9MFY24 core net profit of RM63.0m met our full-year forecasts at 80% but beat full-year consensus estimates at 93%, respectively.

YoY, revenue slid 31% on lower contributions from the engineering, construction, and environment division due to lower billings for the LRT3 project, as well as from the property development and investment segment, where major projects were completed in CY23 and new projects are still in their early stages. However, operating margins increased to 11% (+3.7 ppts) thanks to higher margins following certain construction projects having delayed recognitions with the completion of their final accounts.

Separately, we note that MRCB's property development segment reported losses due to lumpier handovers in 9MFY23 for the Sentral Suites completion where the year was mostly supported by unsold units there.

QoQ, 3QFY24 revenue rose by 15% but net profit declined by 83% mainly due to by higher operating expense tied similarly to the construction sector's project progress during the current period.

The key takeaways from its analyst briefing are as follows:

1. It achieved RM637.3m property sales in 9MFY24, on track to meet its internal sales target of RM800m (which is consistent with our assumption). As at end-9MFY24, its unbilled sales stood at a low of RM630.5m.
2. On its engineering, construction, and environment division, the group secured the Phase 2 Sungai Langat flood mitigation project year-to-date, valued at RM25.0m, with a targeted completion timeline of six years. Currently, the group is negotiating contracts worth RM4b–RM5b, which include the construction of five LRT3 stations and related infrastructure, the redevelopment of Stadium Shah Alam (which is currently undergoing its demolition phase), and the redevelopment of KL Sentral (expected to amount to RM1b in contract value) which would contribute in FY25.
3. At present, its order book stands at RM26b with noted key projects being: (i) Penang Airport Expansion, and (ii) Pan Borneo Package (24-km stretch),

Forecasts. Maintained.

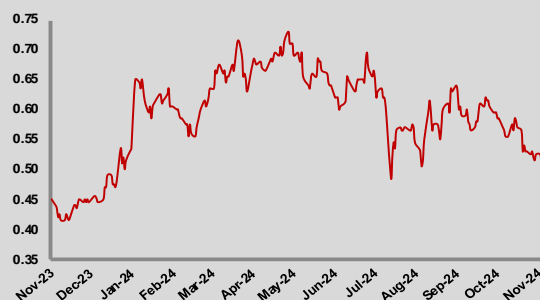
Owing to uncertainties surrounding the re-tendering process of MRT 3, we hold a more conservative view on the long-term prospects within the construction sector. This prompts us to lower our valuations to 11x PER (from 15x PER), closely in line with the valuations of smaller cap contractors.

With our maintained 70% discount to property RNAV (higher than industry average of 50%), **we derived a lower SoP-based TP of RM0.56 (from RM0.62).**

MARKET PERFORM ↔

Price: **RM0.53**
Target Price: **RM0.56** ↓

Share Price Performance



KLCI 1,604.25
YTD KLCI chg 10.3%
YTD stock price chg 18.0%

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | MRC MK Equity |
| Market Cap (RM m) | 2,345.4 |
| Shares Outstanding | 4,467.5 |
| 52-week range (H) | 0.73 |
| 52-week range (L) | 0.42 |
| 3-mth avg daily vol: | 15,181,940 |
| Free Float | 38% |
| Beta | 1.7 |

Major Shareholders

| | |
|--------------------------------|-------|
| Employees Provident Fund Board | 36.2% |
| Gapurna Sdn Bhd | 15.5% |
| Lembaga Tabung Haji | 5.4% |

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 |
| Net Profit | 101.0 | 78.9 | 64.0 |
| Core Net Profit | -66.2 | 78.9 | 64.0 |
| Consensus (NP) | - | 67.9 | 66.6 |
| Earnings Revision (%) | - | - | - |
| 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) | -35.8 | 31.1 | 38.4 |
| PBV (x) | 0.5 | 0.5 | 0.5 |
| Net Gearing (x) | 0.2 | 0.2 | 0.2 |
| Net Div. Yield (%) | 1.9 | 1.9 | 1.9 |

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We like MRCB for: (i) its prime matured lands that are close to public transportations, and (ii) involvement in high value infrastructure projects (i.e. KL Sentral Redevelopment). However, there is room for improvement in terms of project execution. **Maintain MARKET PERFORM.** There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

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

Result Highlights

| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
|--------------------------------|--------------|--------------|---------------|--------------|---------------|----------------|----------------|---------------|
| FYE Dec (RM m) | FY24 | FY24 | Chg | FY23 | Chg | FY24 | FY23 | Chg |
| Revenue | 426.3 | 372.2 | 14.6% | 503.7 | -15.4% | 1,274.7 | 1,845.3 | -30.9% |
| Expenses | -411.9 | -314.8 | 30.8% | -467.2 | -11.8% | -1,172.6 | -1,742.3 | -32.7% |
| Other Operating Income | 17.1 | 14.8 | 15.6% | 9.7 | 75.8% | 42.2 | 31.1 | 35.4% |
| Operating Profit | 31.6 | 72.2 | -56.3% | 46.3 | -31.8% | 144.2 | 134.1 | 7.5% |
| Finance Costs | -31.9 | -26.9 | 18.3% | -30.2 | 5.6% | -82.7 | -86.9 | -4.8% |
| Share of Results of Associates | 3.8 | 4.4 | -12.9% | 3.8 | 0.7% | 12.0 | 11.0 | 8.6% |
| Share of Results of JV | -1.2 | -1.2 | -5.0% | -1.2 | -5.1% | -3.9 | -3.8 | 3.8% |
| Profit before tax | 2.3 | 48.4 | -95.2% | 18.7 | -87.5% | 69.6 | 54.5 | 27.7% |
| Taxation | 6.3 | 2.9 | 116.2% | -17.2 | -136.8% | -6.8 | -33.5 | -79.8% |
| MI | 0.2 | -0.1 | -303.9% | 0.0 | -620.0% | 0.2 | -0.2 | -175.0% |
| PATAMI | 8.9 | 51.2 | -82.7% | 1.5 | 506.8% | 63.0 | 20.8 | 203.1% |
| Core PATAMI | 8.9 | 51.2 | -82.7% | 1.5 | 506.8% | 63.0 | 20.8 | 203.1% |
| Operating Profit Margin | | | | | | | | |
| Pretax Margin | 7.4% | 19.4% | | 9.2% | | 11.3% | 7.3% | |
| Net Margin | 0.5% | 13.0% | | 3.7% | | 5.5% | 3.0% | |
| Effective Tax Rate | 2.1% | 13.8% | | 0.3% | | 4.9% | 1.1% | |

Source: Company, Kenanga Research

Segmental breakdown

| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
|-------------------------------------|--------------|--------------|---------------|--------------|---------------|----------------|----------------|---------------|
| External Revenue | FY24 | FY24 | Chg | FY23 | Chg | FY24 | FY23 | Chg |
| Property Dev. & Investment | 65.1 | 71.3 | -8.7% | 90.0 | -27.7% | 234.5 | 459.5 | -49.0% |
| Engineering, Construction | 342.2 | 282.3 | 21.2% | 397.5 | -13.9% | 984.8 | 1,338.0 | -26.4% |
| Facilities Management & Parking | 14.4 | 14.1 | 2.1% | 12.6 | 14.3% | 41.8 | 37.2 | 12.4% |
| Others | 4.6 | 4.5 | 3.3% | 3.7 | 26.9% | 13.6 | 10.7 | 27.5% |
| Subtotal | 426.3 | 372.2 | 14.6% | 503.7 | -15.4% | 1,274.7 | 1,845.3 | -30.9% |
| Operating Profit (Net of EI) | | | | | | | | |
| Property Dev. & Investment | -2.3 | -25.7 | -91.0% | 2.7 | -184.8% | -16.8 | 35.7 | -147.2% |
| Engineering, Construction | 39.1 | 88.0 | -55.6% | 44.6 | -12.3% | 144.9 | 87.6 | 65.3% |
| Facilities Management & Parking | 1.3 | 1.4 | -9.5% | -1.4 | -189.8% | 6.5 | -3.3 | -298.0% |
| Others | 6.6 | 3.9 | 69.6% | 1.2 | 457.5% | 18.5 | 5.0 | 267.5% |
| Subtotal | 44.6 | 67.6 | -34.0% | 47.1 | -5.3% | 153.0 | 125.1 | 22.3% |
| Operating Margins | | | | | | | | |
| Property Dev. & Investment | -3.6% | -36.1% | | 3.0% | | -7.2% | 7.8% | |
| Engineering, Construction | 11.4% | 31.2% | | 11.2% | | 14.7% | 6.6% | |
| Facilities Management & Parking | 8.9% | 10.1% | | -11.3% | | 15.5% | -8.8% | |
| Others | 141.2% | 86.0% | | 32.1% | | 136.2% | 47.3% | |
| Total | 10.5% | 18.2% | | 9.3% | | 12.0% | 6.8% | |

Source: Company, Kenanga Research

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| MRCB's Sum-of-Parts Valuation | | |
|---|--------------------|-----------------------------|
| Segment | Value (RMm) | Valuation Basis |
| Property Development & Investment | 1,762.6 | 70% discount to RNAV |
| Engineering, Construction & Environment | 735.0 | P/E of 11x on FY25 earnings |
| Facilities Management & Parking | 6.4 | P/E of 15x on FY25 earnings |
| Aggregate Valuation | 2,504.0 | |
| No of shares (m) | 4,467.5 | |
| FV per share (RM) | 0.56 | |

Source: Kenanga Research

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

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. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | | |
| PROPERTY DEVELOPERS | | | | | | | | | | | | | | | | | | | | | |
| IOI PROPERTIES GROUP BHD | UP | 2.00 | 1.67 | -16.5% | 11,012.3 | N | 06/2025 | 9.8 | 10.5 | 5.1% | 8.0% | 20.5 | 19.0 | 0.5 | 2.2% | 4.5 | 2.3% | | | | |
| MAH SING GROUP BHD | OP | 1.73 | 2.32 | 34.1% | 4,429.0 | Y | 12/2024 | 10.2 | 11.0 | 14.6% | 8.5% | 17.0 | 15.7 | 1.1 | 6.5% | 4.0 | 2.3% | | | | |
| MALYSIAN RESOURCES CORP BHD | MP | 0.525 | 0.560 | 6.7% | 2,345.4 | Y | 12/2024 | 1.8 | 1.4 | 19.2% | -18.9% | 73.9 | 39.8 | 0.5 | 1.7% | 1.0 | 1.9% | | | | |
| MKH BHD | OP | 1.19 | 1.81 | 52.1% | 686.8 | Y | 09/2024 | 13.8 | 16.2 | 8.8% | 16.7% | 8.6 | 7.4 | 0.3 | 4.1% | 6.0 | 5.0% | | | | |
| S P SETIA BHD | UP | 1.34 | 1.25 | -6.7% | 6,703.3 | Y | 12/2024 | 8.8 | 5.8 | 97.5% | -34.2% | 15.2 | 23.1 | 0.4 | 3.5% | 5.0 | 3.7% | | | | |
| SIME DARBY PROPERTY BHD | OP | 1.47 | 1.58 | 7.5% | 9,997.2 | Y | 12/2024 | 8.0 | 8.1 | 36.7% | 1.4% | 18.4 | 18.1 | 0.9 | 5.2% | 2.8 | 1.9% | | | | |
| SUNWAY BHD | UP | 4.90 | 3.35 | -31.6% | 27,876.5 | Y | 12/2024 | 14.7 | 15.4 | 27.2% | 5.0% | 33.3 | 31.7 | 1.9 | 6.7% | 6.0 | 1.2% | | | | |
| UOA DEVELOPMENT BHD | MP | 1.85 | 1.79 | -3.2% | 4,854.0 | Y | 12/2024 | 9.1 | 9.2 | 2.2% | 1.3% | 20.3 | 20.1 | 0.8 | 3.9% | 10.0 | 5.4% | | | | |
| SECTOR AGGREGATE | | | | | 67,904.6 | | | | | 33.5% | -0.8% | 22.7 | 22.9 | 0.8 | 4.2% | | 3.0% | | | | |

Source: Kenanga Research

Stock ESG Ratings:

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

☆ 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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