

01 June 2021

Malaysian Resources Corp.

1QFY21 Below Expectations

By Lum Joe Shen | lumjs@kenanga.com.my

1QFY21 CNP of RM5.2m disappointed due to weaker-than-expected margins from its construction division, and our overly optimistic recovery projections which is unlikely to pan out now given the fresh lockdowns. 1QFY21 sales of RM52m is also considered below our RM600m target as management scaled back earlier planned launches of RM1b. Slash FY21E/FY22E earnings by 82%/37% but keep OP on unchanged SoP-TP valuation of RM0.65 (base rolled forward). Still sees value in the name for its prime landbanks and potential to spearhead PFI related projects.

Below expectations. 1QFY21 CNP of RM5.2m came below expectations accounting for 9%/14% of ours/consensus full-year estimates. This negative deviation stems from: (i) weaker-than-expected margin from its construction division, and (ii) our overly optimistic recovery projections which is unlikely to pan out now given the fresh lockdowns (MCO 3.0 and FMCO) imposed which would impede productivity. No dividends declared as dividends normally dished out in the 4th quarter.

1QFY21 property sales of RM52m is also deemed below our RM600m target as management has indicated that they may no longer launch the full RM1b properties initially set out in FY21 given the lingering uncertainties. To recap, MRCB had previously planned to launch: (i) Kwasa Sentral apartments (RM275m GDV), (ii) Lot J @ KL Sentral (RM229m GDV), and (iii) Tower 5 at PJ Sentral (RM524m GDV).

However, the only development they are committed to launch this year now would only be the Kwasa Sentral apartments. Consequently, we downgrade our FY21E sales to RM250m (from RM600m) but raise our FY22E sales to RM580m (from RM400m) in view of MRCB deferring the launches. **Current unbilled sales stood at RM1.0b (1.5x cover) while outstanding construction order-book stood at RM20.3b.**

Highlights. QoQ, 1QFY21 CNP of RM5.2m rebounded from a core net loss position of RM0.3m mainly due to lower income tax by RM5.8m (-76%). Meanwhile, 1QFY21 CNP declined 67% YoY attributable to the lower revenue registered from both its construction (-52%) and property division (-44%). The property division revenue was lower because 1QFY20 was the quarter whereby 1060 Carnegie (Melbourne) was completed and saw higher settlement number of 59 units vs 7 units settled in 1QFY21. Meanwhile, its construction division revenue recognition is sub-optimal due to MCO 2.0 which led to losses at the operating levels.

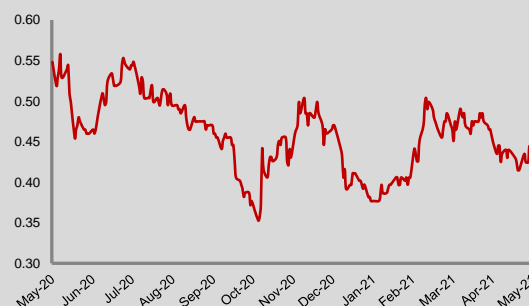
Slash FY21E/FY22E earnings by 82%/37% on lowered construction margins and progress billings to cater for the FMCO lockdowns coupled with lower FY21E sales of RM250m (from RM600m).

Call and TP. While we cut earnings in a major way this quarter, we continue to keep our **OP call on unchanged SoP-TP of RM0.65** after rolling valuation base year forward. We reiterate our stance that there is immense value in MRCB's land banks, located within prime areas and strongly believe that its healthy balance sheet (0.26x gearing as of 1QFY21) and Bumiputera contractor status gives them good potential to spearhead PFI-related projects.

OUTPERFORM ↔

Price : **RM0.430**
Target Price : **RM0.650** ↔

Share Price Performance



KLCI	1,583.55
YTD KLCI chg	-2.7%
YTD stock price chg	-9.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,921.0
Shares Outstanding	4,467.5
52-week range (H)	0.58
52-week range (L)	0.36
3-mth avg daily vol:	11,189,500
Free Float	37%
Beta	1.6

Major Shareholders

Employees Provident Fund Board	35.9%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.9%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1199.5	824.9	926.6
EBIT	-117.3	46.5	67.0
PBT	-152.9	7.8	45.5
Net Profit	-176.0	10.6	42.2
Core PATAMI	-0.8	10.6	40.2
Consensus (NP)	31.6	38.0	60.7
Earnings Revision	-114%	-82%	-37%
Core EPS (sen)	0.0	0.2	0.9
Core EPS growth (%)	-97%	-1365%	278%
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.0	1.1	1.1
PER (x)	-2255.9	178.3	47.1
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	0.4	0.2	0.2
Return on Asset (%)	0.0	0.1	0.5
Return on Equity (%)	-3.6	0.2	0.9
Net Div. Yield (%)	2.3	2.3	2.3

01 June 2021

Risks to our call include: (i) lower-than-expected property sales, (ii) snap elections, (iii) resurgence of Covid-19, and (iv) tighter lending environment.

Result Highlight								
FYE Dec (RM m)	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
Revenue	226.7	308.9	-27%	425.8	-47%	226.7	425.8	-47%
Expenses	-220.9	-281.3	-21%	-397.7	-44%	-220.9	-397.7	-44%
Other operating income	9.1	14.5	-37%	7.9	16%	9.1	7.9	16%
Operating Profit	14.9	42.1	-65%	35.9	-59%	14.9	35.9	-59%
Interest costs	-18.2	-17.7	3%	-12.6	45%	-18.2	-12.6	45%
Associate	4.2	4.7	-11%	3.5	22%	4.2	3.5	22%
JV	4.9	5.5	-12%	0.1	3954%	4.9	0.1	3954%
PBT	5.7	34.6	-83%	26.9	-79%	5.7	26.9	-79%
Income Tax	-1.8	-7.5	-76%	-11.2	-84%	-1.8	-11.2	-84%
PAT	3.9	27.1	-86%	15.6	-75%	3.9	15.6	-75%
MI	-1.3	0.4	-444%	0.0	21183%	-1.3	0.0	21183%
PATAMI	5.2	26.7	-81%	15.6	-67%	5.2	15.6	-67%
Exceptional Items	0.0	27.0	-100%	0.0	n.a.	0.0	0.0	n.a.
Core PATAMI	5.2	-0.3	1828%	15.6	-67%	5.2	15.6	-67%
DPS (sen)	0	1	-100%	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	7%	14%		8%		7%	8%	
Pretax margin	3%	11%		6%		3%	6%	
CNP margin	2%	0%		4%		2%	4%	
Effective tax	-31%	-22%		-42%		-31%	-42%	

Source: Company, Kenanga Research

Segmental breakdown								
External Revenue	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
Prop Dev & Investment	132	164	-19%	236	-44%	132	236	-44%
Construction	84	152	-44%	175	-52%	84	175	-52%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	9	10	-12%	13	-30%	9	13	-30%
Others	1	1	-16%	2	-34%	1	2	-34%
	227	327	-31%	426	-47%	227	426	-47%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	13	12	6%	21	-36%	13	21	-36%
Construction	-2	-3	-38%	13	-113%	-2	13	-113%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	0	1	-64%	2	-82%	0	2	-82%
Others	4	1	400%	1	734%	4	1	734%
	16	12	39%	36	-55%	16	36	-55%
Unallocated Corp Expense	-5	1	-778%	-4	43%	-5	-4	43%
Finance Income	4	3	52%	4	8%	4	4	8%
Core Operating Profit	15	15	-1%	36	-59%	15	36	-59%
Core OP Margins								
Prop Dev & Investment	10%	8%		9%		10%	9%	
Construction	-2%	-2%		7%		-2%	7%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	5%	12%		19%		5%	19%	
Others	361%	60%		29%		361%	29%	
Total	7%	4%		8%		7%	8%	

Source: Company, Kenanga Research

01 June 2021

Sum of Parts					
MRCB SoP	Stake	PAT/Gross RNAV/NBV	Valuation Method	Valuations Multiple	Value (MYR)
Property Development	100%	5758	PBV	0.35	2015
Engineering and Construction Facilities	100%	18	PER	9	157
Management SENTRAL Reit	100%	61	PBV	0.8	49
Investment Properties	27.9%		In-House TP of RM0.98		291
	100%	358	PBV	1	358
Sum					2870
Number of Shares					4395
RNAV/share					0.65
FD number of shares					4834
FD RNAV/share					0.59
Target Price					0.65
FY22E Earnings (m)					40
Implied Fwd PER					71

Source: Company, Kenanga Research

This section is intentionally left blank

01 June 2021

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
ECO WORLD DEVELOPMENT	0.615	1,810.8	Y	10/2021	7.7	7.7	6.8	0.4	0.4	5.1%	3.4%	0.660	MP	
IOI PROPERTIES GROUP BHD	1.28	7,047.9	Y	06/2021	11.4	10.3	10.2	0.4	0.4	3.7%	2.3%	1.32	MP	
MAH SING GROUP BHD	0.915	2,221.3	Y	12/2021	65.4	13.9	10.4	0.6	0.6	5.3%	3.3%	1.05	OP	
MALAYSIAN RESOURCES CORP	0.430	1,921.0	Y	12/2021	N.A.	33.1	28.7	0.4	0.4	0.2%	2.3%	0.650	OP	
SIME DARBY PROPERTY BHD	0.620	4,216.5	Y	12/2021	N.A.	14.8	10.7	0.5	0.4	3.0%	2.1%	0.610	MP	
SP SETIA BHD	1.04	4,219.0	Y	12/2021	85.2	17.2	8.3	0.4	0.3	1.8%	3.7%	1.19	OP	
SUNWAY BHD	1.57	7,675.6	Y	12/2021	25.7	45.5	23.1	0.8	0.8	2.1%	0.9%	1.77	MP	
UEM SUNRISE BHD	0.415	2,099.3	Y	12/2021	N.A.	55.3	34.7	0.3	0.3	0.5%	0.0%	0.400	UP	
UOA DEVELOPMENT BHD	1.78	3,780.3	Y	12/2021	11.9	12.7	11.9	0.7	0.7	3.2%	7.3%	1.76	MP	
Simple Average					34.6	23.4	16.1	0.5	0.5	2.8%	2.8%			

Source: Bloomberg, Kenanga Research

01 June 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

