

29 November 2021

# Malaysian Resources Corp.

Below for the 6<sup>th</sup> Time...

By Lum Joe Shen | [lumjs@kenanga.com.my](mailto:lumjs@kenanga.com.my)

9MFY21 CNL of RM59m came below expectations on: (i) weak property and construction contributions impacted by FMCO and (ii) taxes incurred despite registering losses. 9MFY21 sales of RM165m are broadly within our RM180m target as launches slated for 4QFY21 are deferred yet again. Current unbilled sales stood at RM0.94b while effective outstanding order-book stood at RM5.3b. Post results, we widen FY21E loss by 154% to RM75m and reduce FY22 earnings by 43%. Maintain MP with lower SoP-TP of RM0.345 (from RM0.405).

**Below expectation for the sixth time.** 3QFY21 core net loss (CNL) of RM32m dragged 9MFY21 CNL to RM59m – below our loss projection of RM30m and consensus's profit projection of RM1.7m. Despite already factoring for the FMCO lockdowns imposed from June till mid-August 2021, losses incurred by its construction segment were wider-than-expected and property contributions were weak attributable to the low revenue which were unable to cover fixed costs and thus led to weaker-than-expected margins. Also, MRCB incurred taxes despite its losses which deviated against our positive tax projections. No dividends declared as dividends are normally dished out in the 4<sup>th</sup> quarter.

**3QFY21 sales of RM58m led 9MFY21 property sales to RM165m – broadly within our RM180m target** as initially planned launches from Kwasa Sentral (GDV of RM275m) in 4QFY21 have been deferred yet again. To recap, management had initially guided for three launches (with GDV of RM1b) in the beginning of the year; scaled down to one property launch in August 2021 (during its 2QFY21 briefing) and has now entirely deferred all its launches. Given its weak sales, **current unbilled sales have deteriorated consecutively for nine quarters from a high of RM1.76b (in 2QFY19) to RM0.94b currently.**

**Highlights. QoQ,** 3QFY21 CNL of RM32m was flat as it was equally affected by the FMCO. **YoY,** despite the less stringent MCO, 9MFY21 CNL of RM59m was worse off compared to 9MFY20 CNL of RM0.5m due to the lower revenue recognised (-34%) on lower brought forward unbilled sales of RM1.1b (vs. RM1.6b) and effective outstanding order-book\* of RM0.9b (vs. RM1.2b) at the start of the period.

*\*We derive effective outstanding order-book by deducting: (i) idling projects i.e..Bukit Jalil-related contracts worth RM11b and Finas worth RM170m, (ii) Kwasa Utama C8 contract worth RM2.9b which is a complete pass-through, and (iii) LRT3 which is parked at the JV level from its unbilled outstanding order-book as of FY20.*

**Outlook.** During its quarterly briefing, management revealed that they had purchased a land in Surfer's Paradise, Brisbane Australia for AUD17m earmarked for an AUD296m development to be launched in 2023. While land/GDV ratio is extremely appealing at 5.7%, execution remains the key for earnings delivery. As of 3QFY21, effective outstanding order-book stood at RM5.3b (of which RM4.4b or 84% is derived from LRT3 which is now consolidated given the recent 50% acquisition stake from GKENT).

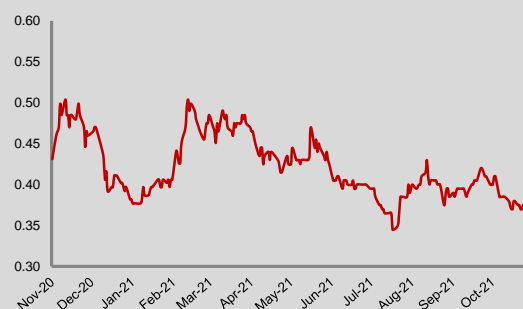
**Widen FY21E CNL to RM75m (from RM29m previously) and lower FY22E earnings by 43% to RM27.9m** after factoring for reduced margins given the high cost structure within both its construction and property segment which limits earnings delivery given the lack of revenue drivers.

**Maintain MP on a lowered SoP-TP of RM0.345** (from RM0.405) after (i) halving PBV valuation for its investment properties to 0.5x, (ii) factoring for lower construction earnings, and (iii) removing the value of its facilities management unit from our SOP as contributions from this unit has been minimal. The high cost structure coupled with inefficient deployment of resources to generate revenue is likely to weigh down on its earnings for the foreseeable future.

## MARKET PERFORM ↔

Price : **RM0.350**  
Target Price : **RM0.345** ↓

### Share Price Performance



KLCI 1,512.22  
YTD KLCI chg -7.1%  
YTD stock price chg -26.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,563.6
Shares Outstanding	4,467.5
52-week range (H)	0.53
52-week range (L)	0.35
3-mth avg daily vol:	5,895,732
Free Float	39%
Beta	1.6

### Major Shareholders

Employees Provident Fund Board	36.2%
GapurnaSdnBhd	15.5%
LembagaTabung Haji	5.8%

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1199.5	817.6	2909.3
EBIT	-117.3	-27.9	94.8
PBT	-152.9	-71.9	31.8
<b>Net Profit</b>	<b>-176.0</b>	<b>-74.9</b>	<b>27.9</b>
<b>Core PATAMI</b>	<b>-0.8</b>	<b>-74.9</b>	<b>27.9</b>
Consensus (NP)	n.a.	1.7	46.9
Earnings Revision	n.a.	154%	-43%
Core EPS (sen)	0.0	-1.7	0.6
Core EPS growth (%)	-97	8801	-137
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.0	1.0	1.0
PER (x)	-1836.2	-20.6	55.3
PBV (x)	0.3	0.4	0.3
Net Gearing (x)	0.5	0.0	1.2
Return on Asset (%)	0.0	-0.9	0.3
Return on Equity (%)	-3.7	-1.6	0.6
Net Div. Yield (%)	2.9	2.9	2.9

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<b>Result Highlight</b>								
<b>FYE Dec (RM m)</b>	<b>3Q21</b>	<b>2Q21</b>	<b>QoQ</b>	<b>3Q20</b>	<b>YoY</b>	<b>9M21</b>	<b>9M20</b>	<b>YoY</b>
Revenue	137.9	225.7	-39%	297.6	-54%	590.3	890.6	-34%
Expenses	-163.9	-262.6	-38%	-296.8	-45%	-647.4	-880.6	-26%
Other operating income	9.5	8.1	17%	15.0	-37%	26.7	33.2	-20%
<b>Operating Profit</b>	<b>-16.5</b>	<b>-28.7</b>	<b>-42%</b>	<b>15.9</b>	<b>-204%</b>	<b>-30.3</b>	<b>43.2</b>	<b>-170%</b>
Associate	4.6	4.8	-4%	-11.7	n.a.	13.6	11.4	19%
JV	4.6	5.9	-22%	4.3	7%	15.3	-2.2	n.a.
<b>EBIT</b>	<b>-7.3</b>	<b>-18.0</b>	<b>-59%</b>	<b>-0.8</b>	<b>816%</b>	<b>-1.4</b>	<b>52.4</b>	<b>-103%</b>
Interest costs	-22.8	-20.2	13%	7.6	-399%	-61.2	-37.5	63%
<b>PBT</b>	<b>-30.1</b>	<b>-38.2</b>	<b>-21%</b>	<b>-6.8</b>	<b>341%</b>	<b>-62.6</b>	<b>15.0</b>	<b>-518%</b>
Income Tax	-1.9	-1.5	28%	0.8	-336%	-5.1	-15.5	-67%
<b>PAT</b>	<b>-32.0</b>	<b>-39.7</b>	<b>-19%</b>	<b>-0.1</b>	<b>25469%</b>	<b>-67.7</b>	<b>-0.5</b>	<b>12778%</b>
MI	0.2	-7.3	n.a.	0.9	-79%	-8.4	0.0	-59843%
<b>PATAMI</b>	<b>-32.2</b>	<b>-32.4</b>	<b>-1%</b>	<b>0.0</b>	<b>n.a.</b>	<b>-59.4</b>	<b>-0.5</b>	<b>10895%</b>
DPS (sen)	0	0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	-12%	-13%		5%		-5%	5%	
Pretax margin	-17%	-9%		3%		-10%	-4%	
CNP margin	-23%	-14%		0%		-10%	0%	
Effective tax	132%	189%		-90%		102%	-40%	

Source: Company, Kenanga Research

<b>Segmental breakdown</b>								
<b>External Revenue</b>	<b>3Q21</b>	<b>2Q21</b>	<b>QoQ</b>	<b>3Q20</b>	<b>YoY</b>	<b>9M21</b>	<b>9M20</b>	<b>YoY</b>
Prop Dev & Investment	71.0	142.8	-50%	153.0	-54%	345.9	489.4	-29%
Construction	50.0	72.0	-30%	131.7	-62%	206.5	363.2	-43%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	8.2	9.0	-8%	11.5	-28%	26.1	33.7	-22%
Others	8.6	2.0	322%	1.4	513%	11.8	4.2	179%
	<b>137.9</b>	<b>225.7</b>	<b>-39%</b>	<b>297.6</b>	<b>-54%</b>	<b>590.3</b>	<b>890.6</b>	<b>-34%</b>
<b>Core Operating Profit (Net of EI)</b>								
Prop Dev & Investment	1.2	3.3	-65%	11.8	-90%	17.6	39.8	-56%
Construction	-18.7	-31.3	-40%	-3.0	523%	-51.7	-1.7	2983%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	1.0	0.1	667%	2.4	-60%	1.5	5.7	-73%
Others	-0.3	-5.0	-95%	4.4	-106%	-0.9	-0.1	1089%
	<b>-16.8</b>	<b>-32.9</b>	<b>-49%</b>	<b>15.6</b>	<b>-208%</b>	<b>-33.4</b>	<b>43.8</b>	<b>-176%</b>
Unallocated Corp Expense	-3.1	1.3	-336%	-7.0	-56%	-7.1	-14.7	-52%
Finance Income	3.4	2.9	18%	7.3	-53%	10.2	14.1	-28%
<b>Core Operating Profit</b>	<b>-16.5</b>	<b>-28.7</b>	<b>-42%</b>	<b>15.9</b>	<b>-204%</b>	<b>-30.3</b>	<b>43.2</b>	<b>-170%</b>
<b>Core OP Margins</b>								
Prop Dev & Investment	2%	2%		8%		5%	8%	
Construction	-37%	-44%		-2%		-25%	0%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	12%	1%		21%		6%	17%	
Others	-3%	-248%		317%		-8%	-2%	
<b>Total</b>	<b>-12%</b>	<b>-15%</b>		<b>5%</b>		<b>-6%</b>	<b>5%</b>	

Source: Company, Kenanga Research

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<b>Sum of Parts</b>					
<b>MRCB SoP</b>	<b>Stake</b>	<b>PAT/Gross RNAV/NBV</b>	<b>Valuation Method</b>	<b>Valuations Multiple</b>	<b>Value (MYR)</b>
Property Development	100%	4902	PBV	0.2	980
Engineering and Construction	100%	12	PER	7	84
SENTRAL Reit	27.9%		In-House TP of RM0.94		281
Investment Properties	100%	358	PBV	0.5	179
				<b>Sum</b>	<b>1525</b>
				Number of Shares	4425
				<b>Target Price</b>	<b>0.345</b>
				FY22E Earnings (m)	28
				Implied Fwd PER	55

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net DivYld (%) 1-Yr. Fwd.	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<b><u>STOCKS UNDER COVERAGE</u></b>														
ECO WORLD DEVELOPMENT	0.855	2,517.4	Y	10/2021	10.7	10.7	9.5	0.5	0.5	3.7%	2.5%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.10	6,056.8	Y	06/2022	9.6	9.5	8.5	0.3	0.3	3.4%	2.5%	1.32	OP	
MAH SING GROUP BHD	0.735	1,784.4	Y	12/2021	52.5	15.3	11.1	0.5	0.5	3.9%	4.1%	0.850	MP	
MALAYSIAN RESOURCES CORP	0.350	1,563.6	Y	12/2021	N.A.	N.A.	58.3	0.3	0.3	-1.6%	2.9%	0.345	MP	
SIME DARBY PROPERTY BHD	0.650	4,420.5	Y	12/2021	31.0	28.3	12.7	0.5	0.5	1.7%	2.0%	0.735	MP	
SP SETIA BHD	1.30	5,288.4	Y	12/2021	144.4	41.9	10.4	0.4	0.4	0.9%	2.9%	1.19	UP	
SUNWAY BHD	1.68	8,213.6	Y	12/2021	27.1	34.3	20.7	0.9	0.8	3.0%	1.2%	2.05	OP	
UEM SUNRISE BHD	0.315	1,593.4	Y	12/2021	N.A.	N.A.	30.3	0.2	0.2	-0.9%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.70	3,955.0	Y	12/2021	11.3	12.1	11.3	0.7	0.7	3.0%	7.6%	1.76	OP	
<b>Simple Average</b>					<b>41.0</b>	<b>21.7</b>	<b>19.2</b>	<b>0.5</b>	<b>0.5</b>	<b>1.9%</b>	<b>2.9%</b>			

Source: Bloomberg, Kenanga Research

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**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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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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

