

26 February 2021

Malaysian Resources Corp.

FY20 Below Expectations

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FY20 CNL of RM0.8m came in below expectations mainly due to higher-than-expected taxes. That said, we raise FY21E earnings by 6% after factoring in higher FY21E sales target of RM600m (from RM275m) – as guided by management. While construction execution remains the group's largest risk, we opine that upside potential still outweighs the downside risk at current share price levels given MRCB's status as the largest Bumiputera-led contractor in Malaysia coupled with its prime land banks. Maintain OP at RM0.65.

Below expectations on high taxes. 4QFY20 CNL of RM0.3m brought 9MFY20 core net loss (CNL) to RM0.5m – disappointing both our and consensus CNP expectations of RM6m each mainly due to higher-than-expected taxes. That said, the 1.0 sen dividend was unexpected. Meanwhile FY20 property sales of RM187m is within our RM165m target.

Highlights. QoQ, 4QFY20 CNL of RM0.3m was down marginally from a CNP of RM0.9m due to higher interest costs (+51%) and taxes (+10%). That said, these were cushioned by higher JV contributions arising from the LRT3 project.

Our biggest takeaway from the results read-through is that LRT3 contributions have shown a healthy comeback at RM6.5m in 4QFY20 as most renegotiations with its sub-contractors have concluded (remaining two more to sign), allowing for optimal earnings recognition. Such level of contributions were last seen in FY17 when MRCB-GK was under a PDP arrangement.

YoY performance bolstered by property. Despite the pandemic, FY20 core net loss of RM0.8m actually improved against FY19 CNL of RM31m mainly attributed to its property division which posted higher revenue and margins from: (i) recognition of Melbourne Carnegie 1060 in FY20, and (ii) higher degree of billings for Sentral Suites.

Property launches of RM1.0b lined up for the year. MRCB plans to launch RM1.0b worth of properties in FY21 namely: (i) Kwasa Sentral apartments (RM275m GDV), (ii) Lot J @ KL Sentral (RM229m GDV), and (iii) Tower 5 at PJ Sentral (RM524m GDV). On the back of these launches (of RM1b) coupled with unsold inventories worth RM469b, MRCB is targeting RM600m worth of sales for FY21E. Consequently, we raise our conservative FY21E sales target of RM265m to RM600 (to be in line with management). **Current unbilled sales** remain healthy at RM1.1b (1.5x cover) while outstanding construction order-book and tender-book stood at RM20.5b and RM2.5b, respectively.

Raise FY21E earnings marginally by 6% on higher sales target and introduce FY22E earnings of RM64m backed by a sales target of RM400m.

Maintain Outperform on unchanged SoP-TP of RM0.65. We believe the Covid-19 recovery narrative will gradually grow in prominence moving forward and lift the construction sector as a whole. Being the largest Bumiputera-led contractor in Malaysia, we believe MRCB would naturally be a beneficiary of pump-priming initiatives yet to come; hence, we still believe the upside potential still outweighs the downside risk at current share price levels.

Construction execution is the group's biggest risk. In the past three quarters, its construction segment was mired in losses largely due to the pandemic lockdowns leading to suboptimal recognition of revenue. While we expect this division to turn profitable again in FY21; we highlight that its construction work execution may not be inspiring as highlighted by the 3% EBIT margins (for the past five years) coupled with the large quarterly swings seen. We note that we have pencilled in RM35m operating contributions for its construction division for FY21.

OUTPERFORM ↔

Price : **RM0.415**
Target Price : **RM0.650** ↔

Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	-12.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,831.0
Shares Outstanding	4,412.0
52-week range (H)	0.67
52-week range (L)	0.28
3-mth avg daily vol:	8,222,534
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	1234.4	831.5
EBIT	-117.3	100.2	74.7
PBT	-152.9	78.5	73.9
Net Profit	-176.0	60.1	64.7
Core PATAMI	-0.8	58.8	64.0
Consensus (NP)	5.7	42.4	62.9
Earnings Revision	n.a.	6%	NEW
Core EPS (sen)	0.0	1.3	1.5
Core EPS growth (%)	-97	-7093	9
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.0	1.1	1.1
PER (x)	-2177.2	31.1	28.6
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	0.3	0.3	0.2
Return on Asset (%)	0.0	0.7	0.7
Return on Equity (%)	-3.6	1.2	1.3
Net Div. Yield (%)	2.4	2.4	2.4



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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)	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Revenue	308.9	297.6	4%	471.6	-34%	1199.5	1319.4	-9%
Expenses	-281.3	-296.8	-5%	-457.3	-38%	-1364.4	-1328.2	3%
Other operating income	14.5	15.0	-4%	12.4	17%	47.6	100.8	-53%
Operating Profit	42.1	15.9	165%	26.8	57%	-117.3	92.0	-227%
Interest costs	-17.7	-11.7	51%	-7.0	154%	-55.2	-45.6	21%
Associate	4.7	4.3	11%	2.5	88%	16.2	11.2	44%
JV	5.5	-0.8	792%	-1.9	399%	3.4	-4.6	173%
PBT	34.6	7.6	354%	20.4	69%	-152.9	53.0	-389%
Income Tax	-7.5	-6.8	10%	-13.1	-42%	-23.0	-34.3	-33%
PAT	27.1	0.8	3305%	7.3	270%	-176.0	18.7	-1041%
MI	0.4	-0.1	397%	1.3	-71%	0.4	-5.0	108%
PATAMI	26.7	0.9	2802%	6.0	343%	-176.3	23.7	-843%
Exceptional Items	27.0	0.0	n.a.	0.0	n.a.	-175.5	55.0	-419%
Core PATAMI	-0.3	0.9	n.a.	6.0	-105%	-0.8	-31.3	n.a.
DPS (sen)	1	0	n.a.	1.0	0%	1.0	1.0	0%
EBIT margin	14%	5%		6%		-10%	7%	
Pretax margin	11%	3%		4%		-13%	4%	
CNP margin	0%	0%		1%		0%	-2%	
Effective tax	-22%	-90%		-64%		15%	-65%	

Source: Company, Kenanga Research

Segmental breakdown								
External Revenue	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Prop Dev & Investment	164	153	7%	195	-16%	653	567	15%
Construction	152	132	15%	259	-41%	515	680	-24%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	10	11	-12%	14	-29%	44	54	-18%
Others	1	1	4%	3	-57%	6	20	-71%
	327	298	10%	472	-31%	1217	1319	-8%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	12	12	5%	7	77%	52	22	139%
Construction	-3	-3	-12%	20	-113%	-4	23	-119%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	1	2	-51%	2	-48%	7	6	15%
Others	1	4	-80%	-3	134%	1	-4	122%
	12	16	-25%	26	-55%	56	47	18%
Unallocated Corp Expense	1	-7	111%	-5	114%	-14	-30	-53%
Finance Income	3	7	-65%	6	-56%	17	20	-15%
Core Operating Profit	15	16	-5%	27	-44%	58	37	57%
Core OP Margins								
Prop Dev & Investment	8%	8%		4%		8%	4%	
Construction	-2%	-2%		8%		-1%	3%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	12%	21%		16%		16%	11%	
Others	60%	317%		-77%		14%	-19%	
Total	4%	5%		6%		5%	4%	

Source: Company, Kenanga Research

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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%	26	PER	9	238
Management MQREIT	100%	61	PBV	0.8	49
	27.9%		In-House TP of RM0.83		248
Investment Properties	100%	358	PBV	1	358
				Sum	2908
				Number of Shares	4395
				RNAV/share	0.65
				FD number of shares	4834
				FD RNAV/share	0.60
				Target Price	0.65
				FY21E Earnings (m)	56
				Implied Fwd PER	52

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 Div Yld (%)		Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.				
<u>STOCKS UNDER COVERAGE</u>															
ECO WORLD DEVELOPMENT	0.495	1,457.5	Y	10/2021	6.2	6.2	5.5	0.3	0.3	5.1%	4.2%	0.490	MP		
IOI PROPERTIES GROUP BHD	1.38	7,598.5	Y	06/2021	12.3	11.1	11.0	0.4	0.4	3.7%	2.2%	1.32	MP		
MAH SING GROUP BHD	0.790	1,917.9	Y	12/2021	56.4	12.0	9.0	0.5	0.5	5.3%	3.8%	1.05	OP		
MALAYSIAN RESOURCES CORP	0.415	1,831.0	Y	12/2021	0.0	31.9	27.7	0.4	0.4	1.2%	2.4%	0.650	OP		
SIME DARBY PROPERTY BHD	0.575	3,910.5	Y	12/2021	5.5	54.2	13.7	0.4	0.4	0.8%	3.7%	0.540	UP		
SP SETIA BHD	0.915	3,711.9	Y	12/2021	15.3	228.8	13.1	0.3	0.3	-2.4%	0.1%	0.680	UP		
SUNWAY BHD	1.49	7,284.5	Y	12/2020	11.5	20.3	14.7	0.8	0.8	3.7%	2.5%	1.54	MP		
UEM SUNRISE BHD	0.405	2,048.7	Y	12/2020	5.9	59.8	18.7	0.2	0.2	0.4%	0.0%	0.430	UP		
UOA DEVELOPMENT BHD	1.79	3,801.6	Y	12/2021	9.7	9.9	9.4	0.7	0.7	7.0%	7.8%	1.82	OP		
Simple Average					13.6	48.3	13.6	0.5	0.4	2.8%	2.97%				

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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