

30 May 2023

# Malaysian Resources Corp

## Chugging Along

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MRCB's 1QFY23 earnings met our forecast but missed market expectation. 1QFY23 property sales of RM85m are on track to meet our RM500m target backed by RM1.5b of new launches. Meanwhile, order book replenishment of its construction division will be underpinned by a tender book of RM30b. We maintain our forecasts, TP of RM0.34, and MARKET PERFORM call.

1QFY23 net profit of RM8.5m met our forecast at 26% of our full-year forecast but missed market expectation at only 11% of the full-year consensus estimate.

1QFY23 revenue slid 8% on lower jobs in hand upon the completion of DASH highway a year ago. However, its core net profit fell by a larger 40% due to: (i) higher interest costs (+20%) on higher borrowings and interest rates, (ii) lower associate income from SENTRAL REIT (-51%), and (iii) a higher effective tax rate (+2ppts).

The key takeaways from its analyst briefing yesterday are as follows:

1. It achieved RM85.1m property sales in 1QFY23, on track to meet its internal sales target of RM500m (which is consistent with our assumption). In Apr 2023, it launched its "26 Vista in Surfers Paradise" apartment project in Gold Coast, Australia with a GDV totalling AUD391m (RM1.2b) and targets to launch ResidensiTujuh in Kwasa Sentral (GDV of RM329m) by the end of the year. As at end-1QFY23, its unbilled sales stood at a low of RM220m.
2. Its immediate priority is to monetise completed unsold stock which stood at RM379m as at end-1QFY23. It expects foreign buyers to return following the opening of international borders.
3. YTD, it has yet to secure any new construction job against our full-year assumption of RM1b. At present, its tender book stands at RM30b (based on open tenders) with the key tenders being: (i) all the three MRT3 main civil contractor packages, and (ii) a power plant in Kulim.
4. It is in negotiations with the Selangor State Government for the reconstruction contract of the Shah Alam Stadium with payment consideration via land swaps. As at end-1QFY23, we estimate its effective outstanding construction order book to be RM3.4b (of which RM2.5b is from LRT3). Our estimate is arrived after deducting: (i) idling projects i.e. Bukit Jalil-related contracts worth RM11b, (ii) Finas contract worth RM170m, and (iii) Kwasa Utama C8 project from which MRCB only earns a fee.

**Forecasts.** Maintained.

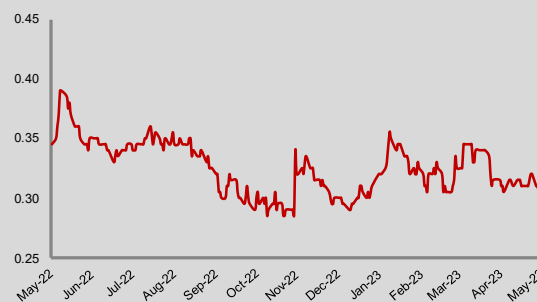
We also maintain our SoP-based TP of RM0.34 (see Page 3) based on 80% discount to its property RNAV, higher than peers' 60%-65% range to reflect the company's weak execution capabilities and slow turnaround of its land banks. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We like MRCB for: (i) its prime matured lands at close proximity to public transportation, 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. Maintain **MARKET PERFORM**.

## MARKET PERFORM ↔

Price: **RM0.305**  
Target Price: **RM0.34** ↔

### 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%
GapurnaSdnBhd	15.5%
Lembaga Tabung Haji	5.7%

### Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	3205.1	2367.0	1895.0
EBIT	253.4	144.8	174.8
PBT	154.3	36.8	74.8
<b>Net Profit</b>	<b>64.8</b>	<b>31.5</b>	<b>58.0</b>
<b>Core Net Profit</b>	<b>46.8</b>	<b>31.5</b>	<b>58.0</b>
Consensus (NP)	-	70.6	82.0
Earnings Revision	-	-	-
Core EPS (sen)	1.1	0.7	1.3
Core EPS growth (%)	-140	-33	84
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.02	1.02	1.03
PER (x)	30.6	45.5	24.7
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.3	0.3
Return on Asset (%)	0.5	0.4	0.7
Return on Equity (%)	1.0	0.7	1.3
Net Div. Yield (%)	3.1	3.1	3.1

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**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>								
<b>FYE Dec (RM m)</b>	<b>1Q23</b>	<b>4Q22</b>	<b>QoQ</b>	<b>1Q22</b>	<b>YoY</b>	<b>1Q23</b>	<b>1Q22</b>	<b>YoY</b>
Revenue	742.2	833.9	-11%	810.7	-8%	742.2	810.7	-8%
Expenses	-706.0	-787.9	-10%	-765.8	-8%	-706.0	-765.8	-8%
Other operating income	11.7	17.0	-31%	7.5	57%	11.7	7.5	57%
<b>Operating Profit</b>	<b>47.9</b>	<b>63.0</b>	<b>-24%</b>	<b>52.3</b>	<b>-8%</b>	<b>47.9</b>	<b>52.3</b>	<b>-8%</b>
Associate	1.8	3.1	-42%	3.7	-51%	1.8	3.7	-51%
JV	-1.3	-1.3	3%	-1.0	27%	-1.3	-1.0	27%
<b>EBIT</b>	<b>48.4</b>	<b>64.9</b>	<b>-25%</b>	<b>55.0</b>	<b>-12%</b>	<b>48.4</b>	<b>55.0</b>	<b>-12%</b>
Interest costs	-27.9	-27.1	3%	-23.2	20%	-27.9	-23.2	20%
<b>PBT</b>	<b>20.6</b>	<b>37.7</b>	<b>-46%</b>	<b>31.8</b>	<b>-35%</b>	<b>20.6</b>	<b>31.8</b>	<b>-35%</b>
Income Tax	-12.0	-24.6	-51%	-17.8	-33%	-12.0	-17.8	-33%
<b>PAT</b>	<b>8.6</b>	<b>13.1</b>	<b>-35%</b>	<b>14.0</b>	<b>-39%</b>	<b>8.6</b>	<b>14.0</b>	<b>-39%</b>
MI	0.1	0.1	14%	-0.1	n.a.	0.1	-0.1	n.a.
<b>Net Profit</b>	<b>8.5</b>	<b>13.0</b>	<b>-35%</b>	<b>14.0</b>	<b>-40%</b>	<b>8.5</b>	<b>14.0</b>	<b>-40%</b>
DPS (sen)	0	0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	6%	8%		6%		6%	6%	
Pretax margin	-4%	-3%		-3%		-4%	-3%	
CNP margin	1%	2%		2%		1%	2%	
Effective tax	-58%	-65%		-56%		-58%	-56%	

Source: Company, Kenanga Research

<b>Segmental breakdown</b>								
<b>External Revenue</b>	<b>1Q23</b>	<b>4Q22</b>	<b>QoQ</b>	<b>1Q22</b>	<b>YoY</b>	<b>1Q23</b>	<b>1Q22</b>	<b>YoY</b>
Prop Dev & Investment	268.0	261.1	3%	186.6	44%	268.0	186.6	44%
Construction	458.5	558.7	-18%	612.5	-25%	458.5	612.5	-25%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	12.3	13.0	-6%	9.5	30%	12.3	9.5	30%
Others	3.5	1.1	221%	2.1	64%	3.5	2.1	64%
	<b>742.2</b>	<b>833.9</b>	<b>-11%</b>	<b>810.7</b>	<b>-8%</b>	<b>742.2</b>	<b>810.7</b>	<b>-8%</b>
<b>Operating Profit (Net of EI)</b>								
Prop Dev & Investment	33.3	52.0	-36%	21.1	58%	33.3	21.1	58%
Construction	7.2	8.7	-17%	25.7	-72%	7.2	25.7	-72%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	-0.1	-0.5	-76%	2.2	-105%	-0.1	2.2	-105%
Others	4.3	-1.4	n.a.	2.1	110%	4.3	2.1	110%
<b>Subtotal</b>	<b>44.7</b>	<b>58.8</b>	<b>-24%</b>	<b>51.0</b>	<b>-12%</b>	<b>44.7</b>	<b>51.0</b>	<b>-12%</b>
Unallocated Corp Expense	-2.3	-2.9	-21%	-1.7	37%	-2.3	-1.7	37%
Finance Income	5.5	7.1	-23%	3.0	81%	5.5	3.0	81%
<b>Core Operating Profit</b>	<b>47.9</b>	<b>63.0</b>	<b>-24%</b>	<b>52.3</b>	<b>-8%</b>	<b>47.9</b>	<b>52.3</b>	<b>-8%</b>
<b>Core OP Margins</b>								
Prop Dev & Investment	12%	20%		11%		12%	11%	
Construction	2%	2%		4%		2%	4%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	-1%	-4%		23%		-1%	23%	
Others	124%	-129%		97%		124%	97%	
<b>Total</b>	<b>6%</b>	<b>7%</b>		<b>6%</b>		<b>6%</b>	<b>6%</b>	

Source: Company, Kenanga Research

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MRCB's Sum-of-Parts Valuation		
Segment	Value (RMm)	Basis
Construction*	320	10x FY23F PER
Property	929	80% discount to RNAV
Sentral REIT (27.9%-owned)	236	TP of RM0.79
<b>Total</b>	<b>1,486</b>	
Paid-up Capital (m shares)	4,412	
<b>TP/share (RM)</b>	<b>0.34</b>	

Source: Kenanga Research

RNAV of MRCB's Property Development Projects				
Project	Stake (%)	Remaining Land Bank (acres)	Outstanding GDV (RM m)	Effective NPV of profits (RM m)
<b>TOD</b>				
KL Sentral	100	5.70	3,949	80
PJ Sentral Garden City	100	11.91	2,700	55
Penang Sentral	100	21.88	2,698	13
Cyberjaya City Centre	70	41.45	5,350	18
KwasaSentral	70	64.30	10,851	37
<b>Commercial Developments</b>				
Pulai Land Johor	100	67.52	770	16
<b>Residential Developments</b>				
9 Seputeh	100	17.63	2,680	55
Sentral Suites	100	4.75	1,632	21
Bukit Rahman Putra	100	14.18	642	13
Bandar Sri Iskandar (Ph 2C, 2D, 3)	100	57.40	849	4
Vista Street Project, Gold Coast	100	0.77	919	36
<b>Others</b>				
Suria Subang	100	3.20	0	0
Selbourne 2, Shah Alam	100	2.37	0	0
Metro Spectacular Land, Jalan Putra	100	10.06	0	0
Bukit Beruntung	100	1.38	0	0
Simpang Pulai Ipoh	100	683.32	0	0
		<b>1,008</b>	<b>33,040</b>	<b>348</b>
<b>Unbilled Sales</b>	100		<b>537</b>	<b>62</b>
Property Shareholders Fund				4,234.4
<b>Total RNAV (RM m)</b>				<b>4,645.0</b>
Discount to RNAV				80%
<b>Property RNAV</b>				<b>929</b>

Source: Company, Kenanga Research

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### Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. (%) 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
ECO WORLD DEVELOPMENT GROUP	OP	0.740	0.830	12.16%	2,179.0	Y	10/2023	8.3	8.4	2.1%	1.5%	9.3	8.2	0.5	5.0%	5.0	6.8%
IOI PROPERTIES GROUP BHD	OP	1.13	1.60	41.59%	6,222.0	N	06/2023	13.5	14.3	4.2%	5.9%	8.4	7.9	0.3	4.0%	3.0	2.7%
MAH SING GROUP BHD	OP	0.595	0.700	17.65%	1,444.0	Y	12/2023	6.6	7.0	1.9%	6.9%	7.5	7.2	0.4	5.5%	4.0	6.7%
MALAYSIAN RESOURCES CORP BHD	MP	0.305	0.340	11.48%	1,363.0	Y	12/2023	0.7	1.3	-32.7%	84.1%	43.0	23.1	0.3	0.7%	1.0	3.3%
SIME DARBY PROPERTY BHD	OP	0.460	0.550	19.57%	3,128.0	Y	12/2023	4.1	4.6	-16.5%	11.3%	11.2	10.0	0.3	3.0%	2.0	2.8%
SP SETIA BHD	UP	0.520	0.380	-26.92%	2,122.0	Y	12/2023	2.9	2.0	15.5%	-31.9%	17.9	26.0	0.2	1.8%	1.5	7.3%
UOA DEVELOPMENT BHD	MP	1.76	1.75	-0.57%	4,239.0	Y	12/2023	10.6	11.7	-2.7%	10.2%	12.6	11.7	0.7	4.5%	10.0	7.4%
<b>Simple Average</b>					<b>28,496.0</b>					<b>-1.2%</b>	<b>5.6%</b>	<b>15.9</b>	<b>15.1</b>	<b>0.4</b>	<b>3.8%</b>		<b>4.9%</b>

Source: Kenanga Research

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**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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