

01 June 2022

Malaysian Resources Corp.

1QFY22 Above Expectations

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1QFY22 CNP of RM14m beat expectations on stronger than expected margins from its property division and LRT3. Nonetheless, sales of RM23m trailed expectations. Meanwhile, MRCB announced a RM380m contract – exceeding our RM300m replenishment target. Consequently, we raise our replenishment target to RM500m. With earnings exceeding expectations and higher than expected replenishment, we increase FY22E earnings 4.2x to RM51m and lift FY23E to RM22m (previously loss estimate of RM4m). Keep MP with higher SoP-TP of RM0.375 (from RM0.345).

A positive surprise. After underperforming for 7 previous consecutive quarters, MRCB actually came in above expectations in 1QFY22 with a CNP of RM14m against our/consensus full year estimate of RM10m/RM35m. The positive deviation stemmed from stronger operating profits (OP) from its construction division and property division on higher than expected margins. No dividends were declared as expected. **Nonetheless**, 1QFY22 sales of RM23m trails our/managements FY22 sales target of RM300m/RM500m as MRCB has yet to launch any developments out of their targeted planned launches this year. Given its weak sales in the past four years, **current unbilled sales have deteriorated consecutively for 11 quarters from a high of RM1.76b (in 2QFY19) to RM0.818b currently.**

QoQ, 1QFY22 CNP of RM14m surged back to the black (from a CNL of RM58m in 4QFY21) on stronger OP from its property development (+8.7x) and construction segment (+1.35x). The property OP was way stronger as revenue increased 22% which improved OP margins by 10ppt on operating leverage effect. Meanwhile, construction segment was stronger on better OP margins (+2ppt) as LRT3 billings which command stronger margins improved. **YoY**, 1QFY22 CNP increased 170% mainly from stronger construction OP given the 50% increased stake (to 100% currently) in the LRT3 project since 4Q21.

Launch pipeline. During its quarterly briefing, management allude to a higher FY22E launch target of RM1.7b (compared to initial guidance of RM843m in the previous quarter) from: (i) Kwasa Sentral (RM328m), (ii) Tower 5 in PJ Sentral (RM486m), Bandar Seri Iskandar (RM30m) (iv) Ipoh Raya Integrated Park (GDV unknown) and (v) Gold Coast project (RM900m). Despite the higher guidance, we choose to remain conservative and keep our FY23E target of RM300m as MRCB has missed on their sales and launch targets consecutively for the past four years since FY18.

A new contract win, finally. After a lull in contract replenishment since FY19, MRCB clinched the Sungai Pahang Rehabilitation project (worth RM380m). According to management, this contract would like 4-5 years and is expected to deliver strong double digit PBT margins. Consequently, we raise our FY22E replenishment target to RM500m (from RM300m). As of March-22, effective outstanding orderbook* stood at RM5.3b (of which RM4.2b is from LRT3).

Strong MRT3 contender. Being the largest Bumiputera contractor with relevant experience and balance sheet strength, we think MRCB stands a good chance to secure MRT3 related projects which could see awards as early as 1QCY23.

Turning the corner? While 1Q earnings exceeded expectations and prospects seems to be rosier, we have yet to be convinced that earnings delivery can be sustainable. We acknowledge that LRT3 contributions might continue to provide stable margins but its property arms unbilled sales would be dried up by FY23 – hampering earnings delivery from that front. Even if they manage to launch all the intended launches this year, the segment would still see weak earnings contributions next year as the new projects would only be at the initial stages of construction and may only see significant earnings contributions in FY24. Nonetheless, with the current high industry inflation coupled with headwinds which would pressure margins, we see little chance MRCB following through with their launch target.

Increase FY22/23E CNP to RM51m/RM22m on (i) higher FY22E replenishment, and (ii) stronger margins from LRT3 and property. Consequently, **maintain MP on higher SoP-TP of RM0.375 (from RM0.345).**

MARKET PERFORM ↔

Price : RM0.360
Target Price : RM0.375 ↑

Share Price Performance



KLCI 1,570.10
YTD KLCI chg 0.2%
YTD stock price chg 1.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,608.3
Shares Outstanding	4,467.5
52-week range (H)	0.47
52-week range (L)	0.33
3-mth avg daily vol:	4,809,677
Free Float	39%
Beta	1.3

Major Shareholders

Employees Provident Fund Board	36.2%
Gapurna Sdn Bhd	15.5%
Lembaga Tabung Haji	5.7%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	1448.5	3035.5	2244.7
EBIT	150.0	171.3	131.1
PBT	61.3	63.3	23.1
Net Profit	15.8	50.7	21.9
Core PATAMI	-117.8	50.7	21.9
Consensus (NP)	n.a.	34.5	59.5
Earnings Revision	n.a.	422%	649%
Core EPS (sen)	-2.7	1.2	0.5
Core EPS growth (%)	13903%	-149%	-57%
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.02	1.02	1.02
PER (x)	-13.1	30.4	70.5
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.3	0.3
Return on Asset (%)	-1.3%	0.5%	0.2%
Return on Equity (%)	-2.6%	1.1%	0.5%
Net Div. Yield (%)	2.9%	2.9%	2.9%

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*We derive effective outstanding order-book by deducting: (i) idling projects i.e. Bukit Jalil-related contracts worth RM11b & Finas worth RM170m, and (ii) Kwasa Utama C8 contract worth RM2.9b which is a complete pass-through.

Results Highlight (All adjusted to core for easier reference)								
FYE Dec (RM m)	1Q22	4Q21	QoQ	1Q21	YoY	1Q22	1Q21	YoY
Revenue	810.7	858.1	-6%	226.7	258%	810.7	226.7	258%
Expenses	-765.8	-854.2	-10%	-220.9	247%	-765.8	-220.9	247%
Other operating income	7.5	11.5	-35%	9.1	-18%	7.5	9.1	-18%
Operating Profit	52.3	15.4	240%	14.9	252%	52.3	14.9	252%
Associate	3.7	3.6	3%	-18.2	n.a.	3.7	4.2	-13%
JV	-1.0	-1.2	-11%	4.2	-125%	-1.0	4.9	-122%
EBIT	55.0	17.8	209%	4.9	1030%	55.0	24.0	129%
Interest costs	-23.2	-27.5	-16%	5.7	-506%	-23.2	-18.2	27%
PBT	31.8	-9.7	n.a.	-1.8	n.a.	31.8	5.7	456%
Income Tax	-17.8	-49.5	-64%	3.9	-554%	-17.8	-1.8	894%
PAT	14.0	-59.1	n.a.	-1.3	n.a.	14.0	3.9	256%
MI	-0.1	-0.8	-92%	5.2	-101%	-0.1	-1.3	-95%
PATAMI	14.0	-58.4	n.a.	0.0	n.a.	14.0	5.2	170%
DPS (sen)	0	1	-100%	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	6%	2%		7%		6%	7%	
Pretax margin	-3%	-3%		3%		-3%	-8%	
CNP margin	2%	-7%		0%		2%	2%	
Effective tax	-137%	35%		-31%		-137%	-31%	

Source: Company, Kenanga Research

Segmental breakdown								
	1Q22	4Q21	QoQ	1Q21	YoY	1Q22	1Q21	YoY
External Revenue								
Prop Dev & Investment	186.6	152.7	22%	132.2	41%	186.6	132.2	41%
Construction	612.5	696.5	-12%	84.4	625%	612.5	84.4	625%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	9.5	8.5	11%	8.9	6%	9.5	8.9	6%
Others	2.1	0.3	511%	1.2	74%	2.1	1.2	74%
	810.7	858.1	-6%	226.7	258%	810.7	226.7	258%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	21.1	2.2	871%	13.1	61%	21.1	13.1	61%
Construction	25.7	10.9	135%	-1.6	n.a.	25.7	-1.6	n.a.
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	2.2	-2.9	n.a.	0.4	404%	2.2	0.4	404%
Others	2.1	6.8	-70%	4.4	-53%	2.1	4.4	-53%
	51.0	17.1	199%	16.3	212%	51.0	16.3	212%
Unallocated Corp Expense	-1.7	-1.5	8%	-5.3	-69%	-1.7	-5.3	-69%
Finance Income	3.0	-0.1	n.a.	3.8	-21%	3.0	3.8	-21%
Core Operating Profit	52.3	15.4	240%	14.9	252%	52.3	14.9	252%
Core OP Margins								
Prop Dev & Investment	11%	1%		10%		11%	10%	
Construction	4%	2%		-2%		4%	-2%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	23%	-34%		5%		23%	5%	
Others	97%	1957%		361%		97%	361%	
Total	6%	2%		7%		6%	7%	

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%	4902	PBV	0.2	980
Engineering and Construction	100%	32	PER	7	224
SENTRAL Reit	27.9%		In-House TP of RM0.94		269
Investment Properties	100%	358	PBV	0.5	179
				Sum	1653
				Number of Shares	4425
				Target Price	0.375
				FY22E Earnings (m)	51
				Implied Fwd PER	32.6

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.				
STOCKS UNDER COVERAGE														
ECO WORLD DEVELOPMENT	0.740	2,178.8	Y	10/2022	9.3	9.3	8.2	0.5	0.5	4.9%	5.4%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.01	5,561.2	Y	06/2022	8.9	8.7	7.8	0.3	0.3	3.4%	2.8%	1.65	OP	
MAH SING GROUP BHD	0.640	1,553.7	Y	12/2022	14.7	10.4	11.0	0.4	0.4	4.9%	4.7%	0.650	MP	
MALAYSIAN RESOURCES CORP	0.360	1,608.3	Y	12/2022	N.A.	30.0	72.0	0.3	0.3	1.1%	2.8%	0.375	MP	
SIME DARBY PROPERTY BHD	0.515	3,502.4	Y	12/2022	25.0	14.8	14.0	0.4	0.4	2.5%	2.5%	0.725	OP	
SP SETIA BHD	0.845	3,437.6	Y	12/2022	21.1	12.8	15.1	0.3	0.3	2.9%	4.5%	0.900	UP	
SUNWAY BHD	1.73	8,458.1	Y	12/2022	27.9	21.6	12.9	0.9	0.9	4.4%	1.7%	2.05	OP	
UEM SUNRISE BHD	0.330	1,669.3	Y	12/2022	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.90	4,420.3	Y	12/2022	12.7	13.6	12.7	0.7	0.7	3.9%	6.8%	1.76	MP	
Simple Average					17.1	15.1	19.2	0.5	0.4	3.0%	3.5%			

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:

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