

01 September 2022

Malaysian Resources Corp.

Weak Property Margins Weigh

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

MRCB's 1HFY22 CNP missed expectations on weak property margins and unexpected associate losses, despite sales beating expectations upon the launching of *VIVO 9 Seputeh* in 2Q. We raise our FY22F sales assumption by two-thirds to RM500m but reduce the margins. We cut our FY22F net profit by 44%, lower our SoP-based TP by 9% to RM0.34 (from RM0.375) after rationalising our property segment's valuation to RNAV from PBV. Maintain MARKET PERFORM.

Below expectations. 1HFY22 CNP missed expectations at only 20% of our full-year forecast and 23% of full-year consensus estimates. The variance against our forecast came largely from sub-par property margins and losses from 49%-owned associate UEMB-MRCB JV.

YoY, 1HFY22 revenue more than tripled thanks to its construction division which fully consolidated the LRT3 contract upon acquiring GKENT's 50% stake (previously LRT3 was 50%-equity accounted at MRCB's JV level) and recovered from a pandemic stricken period a year ago. Consequently, 1HFY22 CNP returned to the black from losses.

Outlook. 1HFY22 sales of RM250m came above our full-year assumption of RM300m (but within its internal target of RM500m) due to strong sales from the RM188m *VIVO 9 Seputeh development* (completed commercial units) launched in 2QFY22. For the rest of the year, MRCB will be launching Kwasa Sentral Plot F (RM328m GDV) and Bandar Seri Iskandar (RM30m GDV). The company is deferring the launch of its Australian project (worth GDV of RM900m) to FY23. Given the weak sales over the past four years, its unbilled sales have depleted to RM707m as at end-2QFY22 (vs. a peak of RM1.76b in 2QFY19).

YTD contract wins stood at RM380m. MRCB is currently tendering for all three MRT3's civil main contractor (CMC) packages where awards are anticipated to be out in early-FY23. We maintain our RM500m replenishment target. We estimate that as at end-2QFY22, its effective construction outstanding orderbook stood at RM5.2b (of which RM3.8b is from LRT3). Our estimation is arrived at after deducting: (i) idling projects i.e. Bukit Jalil-related contracts worth RM11b and Finas worth RM170m, and (ii) Kwasa Utama C8 contract worth RM2.9b from which MRCB only earns a fee.

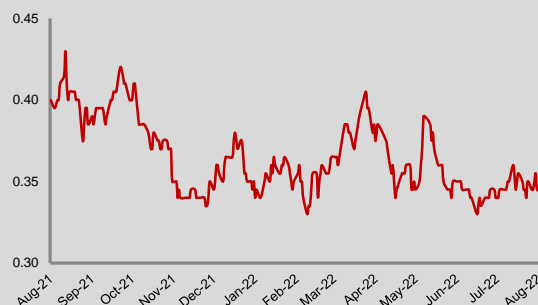
Forecasts. We cut our FY22F net profit by 44% largely to reflect reduced property margins, which are partially cushioned by our revised FY22F sales assumption of RM500m which is two-thirds higher than before. We also lower our SoP-based TP by 9% to RM0.34 (from RM0.375) after: (i) rationalising its property segment's valuation to RNAV (at an 80% discount due to low realisability of its GDV) from PBV, and (ii) updating our TP for **SENTRAL (UP; TP: RM0.79)**. There is no adjustment to our TP based in ESG given a 3-star rating as appraised by us (see Page 5). While MRCB is poised to benefit from the potential rollout of public infrastructure projects ahead of the 15th General Election, there is room for improving its project execution to ensure delivery of earnings. Maintain **MARKET PERFORM**.

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.

MARKET PERFORM ↔

Price : RM0.35
Target Price : RM0.34 ↓

Share Price Performance



KLCI 1,512.05
YTD KLCI chg -3.5%
YTD stock price chg -1.4%

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)	0.43
52-week range (L)	0.33
3-mth avg daily vol:	3,811,789
Free Float	38%
Beta	1.2

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	2022F	2023F
Turnover	1448.5	3035.5	2244.7
EBIT	150.0	141.2	131.1
PBT	61.3	33.2	23.1
Net Profit	15.8	28.5	21.9
Core PATAMI	-117.8	28.5	21.9
Consensus (NP)	n.a.	43.9	62.1
Earnings Revision	n.a.	-44%	0%
Core EPS (sen)	-2.7	0.6	0.5
Core EPS growth (%)	13903	-124	-2
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.02	1.02	1.01
PER (x)	-13.1	54.3	70.5
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.3	0.3
Return on Asset (%)	-1.3	0.3	0.2
Return on Equity (%)	-2.6	0.6	0.5
Net Div. Yield (%)	2.9	2.9	2.9



01 September 2022

Results Highlight (All adjusted to core)								
FYE Dec (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Revenue	700.4	810.7	-14%	225.7	210%	1511.1	452.5	234%
Expenses	-674.7	-765.8	-12%	-262.6	157%	-1440.6	-483.5	198%
Other operating income	10.0	7.5	34%	8.1	23%	17.4	17.2	1%
Operating Profit	35.7	52.3	-32%	-28.7	n.a.	88.0	-13.8	n.a.
Associate	-0.1	3.7	-102%	4.8	-101%	3.6	9.0	-60%
JV	-1.0	-1.0	0%	5.9	-118%	-2.1	10.7	-119%
EBIT	34.5	55.0	-37%	-18.0	n.a.	89.5	5.9	1409%
Interest costs	-24.4	-23.2	5%	-20.2	21%	-47.7	-38.5	24%
PBT	10.1	31.8	-68%	-38.2	n.a.	41.9	-32.5	n.a.
Income Tax	-17.1	-17.8	-4%	-1.5	1069%	-34.9	-3.3	973%
PAT	-7.0	14.0	-150%	-39.7	-82%	6.9	-35.8	n.a.
MI	-3.1	-0.1	4971%	-7.3	-57%	-3.2	-8.6	-63%
PATAMI	-3.9	14.0	-128%	-32.4	-88%	10.1	-27.2	n.a.
DPS (sen)	0	0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	5%	6%		-13%		6%	-3%	
Pretax margin	-3%	-3%		-17%		-3%	-8%	
CNP margin	-1%	2%		0%		1%	-6%	
Effective tax	-41%	-137%		4%		-88%	85%	

Source: Company, Kenanga Research

Segmental breakdown								
External Revenue	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Prop Dev & Investment	145.3	186.6	-22%	142.8	2%	331.9	274.9	21%
Construction	539.8	612.5	-12%	72.0	650%	1152.3	156.4	637%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	11.3	9.5	20%	9.0	26%	20.8	17.9	16%
Others	4.0	2.1	86%	2.0	95%	6.1	3.3	87%
	700.4	810.7	-14%	225.7	210%	1511.1	452.5	234%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	4.1	21.1	-80%	3.3	23%	25.2	16.5	53%
Construction	30.1	25.7	17%	-31.3	n.a.	55.7	-33.0	n.a.
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	-0.3	2.2	-116%	0.1	-375%	1.8	0.6	228%
Others	0.5	2.1	-77%	-5.0	n.a.	2.5	-0.6	n.a.
	34.3	51.0	-33%	-32.9	n.a.	85.3	-16.6	n.a.
Unallocated Corp Expense	-2.8	-1.7	69%	1.3	-312%	-4.5	-4.0	13%
Finance Income	4.2	3.0	38%	2.9	43%	7.2	6.7	6%
Core Operating Profit	35.7	52.3	-32%	-28.7	n.a.	88.0	-13.8	n.a.
Core OP Margins								
Prop Dev & Investment	3%	11%		2%		8%	6%	
Construction	6%	4%		-44%		5%	-21%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	-3%	23%		1%		9%	3%	
Others	12%	97%		-248%		42%	-19%	
Total	5%	6%		-15%		6%	-4%	

Source: Company, Kenanga Research

01 September 2022

Sum of Parts				
Project		Remaining Land Bank	GDV left (RM m)	NPV of profits (effective)
TOD				
KL Sentral	100%	5.70	3949	80
PJ Sentral Garden City	100%	11.91	2700	55
Penang Sentral	100%	21.88	2698	13
Cyberjaya City Centre	70%	41.45	5350	18
KwasaSentral	70%	64.30	10851	37
Commercial Developments				
Pulai Land Johor	100%	67.52	770	16
Residential Developments				
9 Seputeh	100%	17.63	2680	55
Sentral Suites	100%	4.75	1632	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
Others				
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
			33040	348
Unbilled Sales				
MRCB	100%		923	62
Shareholders Fund for property (FY21)				4234.4
Total RNAV (RM m)				4645.0
Discount to RNAV				80%
<hr/>				
Property RNAV				929
Engineering and Construction	100%	10x PER	32	320
Sentral REIT	27.90%	In-House TP of RM0.79		236
<hr/>				
Total SoTP				1486
Number of shares				4412
<hr/>				
SoTP/share				0.34
<hr/>				
BV/share (1 yrFwd)				1.02
EPS (1yr Fwd)				0.01
ROE				0.63%
Implied PBV (x)				0.33

Source: Company, Kenanga Research

01 September 2022

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	0.670	0.830	23.88%	1,972.7	Y	10/2022	8.0	8.0	-1.3%	-0.2%	8.4	7.4	0.4	4.9%	4.0	6.0%
IOI PROPERTIES GROUP BHD	OP	0.990	1.60	61.62%	5,451.1	Y	06/2023	13.5	14.3	4.2%	5.9%	7.3	6.9	0.3	4.0%	3.0	3.0%
MAH SING GROUP BHD	MP	0.610	0.600	-1.64%	1,480.9	Y	12/2022	6.2	5.8	41.5%	-6.0%	9.9	10.5	0.4	4.9%	3.0	4.9%
MALAYSIAN RESOURCES CORP BHD	MP	0.350	0.340	-2.86%	1,563.6	Y	12/2022	0.6	0.5	-75.8%	-23.2%	58.3	70.0	0.3	0.6%	1.0	2.9%
SIME DARBY PROPERTY BHD	OP	0.480	0.550	14.58%	3,264.4	Y	12/2022	3.5	3.8	68.9%	9.8%	13.8	12.6	0.3	2.5%	2.0	2.7%
SP SETIA BHD	UP	0.750	0.580	-22.67%	3,056.6	Y	12/2022	6.6	5.6	64.4%	-14.6%	11.4	13.4	0.2	2.9%	2.0	5.1%
SUNWAY BHD	OP	1.64	2.05	25.00%	8,018.1	Y	12/2022	8.6	14.4	29.3%	67.5%	20.5	12.2	0.8	4.4%	3.0	1.8%
UEM SUNRISE BHD	MP	0.295	0.320	8.47%	1,492.3	Y	12/2022	(0.9)	(0.6)	-139.3%	-165.2%	N.A.	N.A.	0.2	-0.6%	0.0	0.0%
UOA DEVELOPMENT BHD	MP	1.72	1.75	1.74%	4,140.8	Y	12/2022	9.1	10.6	-5.6%	16.2%	12.3	11.5	0.7	3.9%	10.0	7.6%
Simple Average								6.1	6.9	-1.5%	-12.2%	17.7	18.1	0.4	3.0%		3.8%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★		
	Corporate Social Responsibility	★	★	★	
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★		
	Corruption-Free Pledge	★	★		
	Carbon-Neutral Initiatives	★	★	★	
SPECIFIC	Digital Transformation	★	★	★	
	Adoption of Green Financing	★	★		
	Waste Management	★	★	★	
	Flora and Fauna Preservation	★	★	★	
	Green Building Planning	★	★	★	
	Supply Chain Auditing	★	★		
OVERALL		★	★	★	

☆ 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.**

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

