

Malaysian Resources Corp.

Buoyed by Sale of Commercial Units

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MRCB's 9MFY22 results beat our forecast (due to strong profits from the sale of completed commercial units in Vivo 9 Seputeh) but met market expectations. It has lined up RM4.5b worth of property launches in the next two years with promising job win prospects underpinned by a tender book of RM30b. We raise our FY22-23F earnings by 60-44% but keep our RNAV-based TP of RM0.34. Maintain MARKET PERFORM.

9MFY22 core net profit of RM34m already exceeded our full-year forecast by 21% but met market expectations at 64% of the full-year consensus estimate. The variance against our forecast came largely from stronger-than-expected profits from the sale of its completed commercial units in Vivo 9 Seputeh (worth RM165m).

9MFY22 revenue more than quadrupled thanks to: (i) 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 (ii) recovery from a pandemic-stricken period a year ago. Alongside stronger margins from its construction and property development business, 9MFY22 core net profit returned to the black from losses.

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

1. With 9MFY22 sales of RM342m, it is on track to meet our FY22F property sales assumption as well as its own internal target of RM500m. For the rest of the year, the company has no further planned launches. However, moving into FY23-24, it has lined up RM4.5b worth of launches at (i) Kwasa Sentral, (ii) KL Sentral, (iii) PJ Sentral, (iv) Bukit Jalil Sentral, (v) Gold Coast, Australia, and (vi) Auckland, New Zealand. While the launch pipeline is huge, we note that MRCB has the tendency to defer and miss launch targets.
2. It has secured RM380m worth of construction contracts YTD which is within our full-year assumption of RM500m. At present, its tender book stands at RM30b (based on open tenders) with the key projects being: (i) all the three MRT3's civil main contractor packages, and (ii) a power plant in Kulim. At the same time, the company is also eyeing projects through direct negotiation comprising: (i) a flood mitigation project, (ii) the Shah Alam Stadium refurbishment project, and (iii) a waste-to-energy power plant.
3. In 3QFY22, MRCB's construction progress for LRT3 was impeded by the underperformance from certain work package contractors in which MRCB had to step in for rescue works. This explains the sequentially weaker construction revenue and margins during the quarter. MRCB remains confident that it will still achieve the targeted 80% physical completion by year-end (vs. 77% at present).

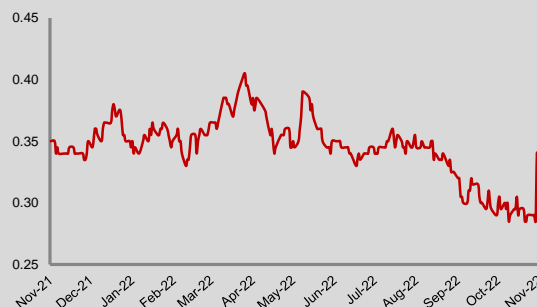
Forecasts. We raise our FY22 and FY23F net profit by 60% and 44%, respectively, to reflect higher property margins arising from further sales of high margin commercial units. MRCB currently has c.RM95m worth of commercial units left in Vivo 9 Seputeh (RM30m) and Sentral Suites (RM65m).

We maintain our SoP-based TP of RM0.34 (see Page 3) based on an 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).

MARKET PERFORM ↔

Price: RM0.32
Target Price: RM0.34 ↔

Share Price Performance



KLCI 1,488.80
YTD KLCI chg -5.0%
YTD stock price chg -9.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,429.6
Shares Outstanding	4,467.5
52-week range (H)	0.41
52-week range (L)	0.28
3-mth avg daily vol:	9,531,772
Free Float	38%
Beta	1.0

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	3182.5	2367.0
EBIT	150.0	176.5	144.8
PBT	61.3	68.5	36.8
Net Profit	15.8	45.5	31.5
Core PATAMI	-117.8	45.5	31.5
Consensus (NP)	n.a.	43.9	62.1
Earnings Revision	n.a.	60%	44%
Core EPS (sen)	-2.7	1.0	0.7
Core EPS growth (%)	13903	-139	-31
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.02	1.02	1.02
PER (x)	-13.1	33.9	49.0
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.3	0.3
Return on Asset (%)	-1.3	0.5	0.4
Return on Equity (%)	-2.6	1.0	0.7
Net Div. Yield (%)	2.9	2.9	2.9

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We like MRCB for: (i) its prime plots of matured lands with close proximity to public transportations, (ii) its healthy balance sheet with a net gearing of 0.3x, providing gearing headroom for taking on PPP/PFI projects, and (iii) it being well-positioned to secure MRT3 work packages given its track record in public rail projects. However, it certainly has room for improvement in terms of project execution. 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.

Results Highlight (All adjusted to core)								
FYE Dec (RM m)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Revenue	860.0	700.4	23%	137.9	524%	2371.1	590.3	302%
Expenses	-787.1	-674.7	17%	-163.9	380%	-2227.7	-647.4	244%
Other operating income	5.9	10.0	-41%	9.5	-38%	23.4	26.7	-13%
Operating Profit	78.8	35.7	121%	-16.5	n.a.	166.8	-30.3	n.a.
Associate	3.4	-0.1	n.a.	4.6	-27%	7.0	13.6	-49%
JV	-1.2	-1.0	13%	4.6	-126%	-3.3	15.3	-121%
EBIT	81.0	34.5	134%	-7.3	n.a.	170.5	-1.4	n.a.
Interest costs	-24.3	-24.4	-1%	-22.8	7%	-71.9	-61.2	18%
PBT	56.7	10.1	462%	-30.1	n.a.	98.6	-62.6	n.a.
Income Tax	-41.2	-17.1	140%	-1.9	2100%	-76.2	-5.1	1384%
PAT	15.5	-7.0	n.a.	-32.0	n.a.	22.4	-67.7	n.a.
MI	-8.2	-3.1	160%	0.2	-4279%	-11.4	-8.4	36%
PATAMI	23.7	-3.9	n.a.	-32.2	n.a.	33.8	-59.4	n.a.
DPS (sen)	0	0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	9%	5%		-12%		7%	-5%	
Pretax margin	-3%	-3%		-17%		-3%	-10%	
CNP margin	3%	-1%		-23%		1%	-10%	
Effective tax	-234%	-41%		132%		-137%	102%	

Source: Company, Kenanga Research

Segmental breakdown								
	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
External Revenue								
Prop Dev & Investment	321.6	145.3	121%	71.0	353%	653.5	345.9	89%
Construction	522.6	539.8	-3%	50.0	944%	1674.9	206.5	711%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	12.6	11.3	12%	8.2	53%	33.4	26.1	28%
Others	3.2	4.0	-19%	8.6	-62%	9.3	11.8	-21%
	860.0	700.4	23%	137.9	524%	2371.1	590.3	302%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	81.4	4.1	1876%	1.2	6946%	106.6	17.6	505%
Construction	5.5	30.1	-82%	-18.7	n.a.	61.3	-51.7	n.a.
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	-1.9	-0.3	437%	1.0	-292%	0.0	1.5	-103%
Others	-6.5	0.5	-1467%	-0.3	2413%	-4.0	-0.9	348%
	78.6	34.3	129%	-16.8	n.a.	163.9	-33.4	n.a.
Unallocated Corp Expense	-3.7	-2.8	33%	-3.1	20%	-8.2	-7.1	16%
Finance Income	4.0	4.2	-4%	3.4	16%	11.1	10.2	10%
Core Operating Profit	78.8	35.7	121%	-16.5	n.a.	166.8	-30.3	n.a.
Core OP Margins								
Prop Dev & Investment	25%	3%		2%		16%	5%	
Construction	1%	6%		-37%		4%	-25%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	-15%	-3%		12%		0%	6%	
Others	-203%	12%		-3%		-43%	-8%	
Total	9%	5%		-12%		7%	-6%	

Source: Company, Kenanga Research

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Sum-of-Parts Valuations				
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%
Property RNAV				929
Engineering and Construction	100%	10x PER	32	320
Sentral REIT	27.90%	In-House TP of RM0.79		236
Total SoTP				1486
Number of shares				4412
SoTP/share				0.34
BV/share (1 yrFwd)				1.02
EPS (1yr Fwd)				0.01
ROE				0.63%
Implied PBV (x)				0.33

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	0.680	0.830	22.06%	2,002.2	Y	10/2022	8.0	8.0	-1.3%	-0.2%	8.5	7.6	0.4	4.9%	5.0	7.4%
IOI PROPERTIES GROUP BHD	OP	1.13	1.60	41.59%	6,221.9	Y	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	0.530	0.600	13.21%	1,286.7	Y	12/2022	6.2	6.6	41.5%	6.7%	8.6	8.0	0.4	4.9%	3.0	5.7%
MALAYSIAN RESOURCES CORP BHD	MP	0.320	0.340	6.25%	1,429.6	Y	12/2022	1.0	0.7	-61.4%	-30.8%	32.0	45.7	0.3	0.9%	1.0	3.1%
SIME DARBY PROPERTY BHD	OP	0.485	0.550	13.40%	3,298.4	Y	12/2022	3.5	3.8	68.9%	9.8%	14.0	12.8	0.4	2.5%	2.0	2.7%
SP SETIA BHD	UP	0.695	0.380	-45.32%	2,847.8	Y	12/2022	4.2	4.4	4.9%	5.8%	16.5	15.8	0.2	2.2%	1.3	5.5%
SUNWAY BHD	OP	1.68	2.15	27.98%	8,213.6	Y	12/2022	10.1	14.7	52.1%	44.5%	16.6	11.5	0.8	5.7%	3.0	1.8%
UOA DEVELOPMENT BHD	MP	1.61	1.75	8.70%	3,876.0	Y	12/2022	10.4	10.6	7.7%	1.9%	11.5	10.7	0.6	4.4%	10.0	8.1%
Simple Average								7.1	7.9	14.6%	5.5%	14.5	15.0	0.4	3.7%		4.6%

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.**

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