

21 February 2023

Malaysian Resources Corp

Upbeat Outlook

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MRCB's FY22 results met our forecast but missed consensus estimate. Backed by RM1.5b new launches, it has set a property sales target of RM500m for FY23. The prospect of its construction division is upbeat, underpinned by a tender book of RM30b. We maintain our FY23F earnings, TP of RM0.34, MARKET PERFORM call, and introduce our FY24F numbers.

FY22 core net profit of RM46.8m met our forecast but missed the consensus estimate by 22%.

FY22 revenue more than doubled thanks to: (i) the consolidation of LRT3 contract after it acquired the remaining 50% stake of partner GKENT (previously LRT3 was 50%-equity accounted at MRCB's JV level), and (ii) recovery from a pandemic-stricken period a year ago. Coupled with stronger margins from both its construction and property development businesses, FY22 core net profit returned to the black.

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

- It has set a property sales target of RM500m in FY23 (consistent with our assumption) backed by RM1.5b new launches from: (i) Kwasa Sentral and (ii) Vista Gold Coast, Australia. Looking further into FY24 and FY25, the company has lined up another RM3.5b worth of launches at (i) PJ Sentral, (ii) Bukit Jalil Sentral, (iii) KL Sentral, and (vi) Auckland, New Zealand.

With RM488m sales registered in FY22, it has achieved its property sales target (as well as our assumption) of RM500m. However, we are mindful of its tendency to miss targets for new launches. As of FY22, unbilled sales stood at RM537m.

- YTD, it has secured RM380m worth of construction contracts which is slightly under 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 three MRT3 civil main contractor packages, and (ii) a power plant in Kulim. Meanwhile, it is currently in negotiations with the Selangor State Government for the reconstruction contract of the Shah Alam Stadium estimated at >RM1b with payment consideration via land swaps.

- For FY23, progress billings for LRT3 will decelerate upon the completion of major civil works portion and the start of the system works. For FY22, we estimate its effective outstanding construction order book to be RM4.1b (of which RM2.8b is from LRT3). Our estimation 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. We have penned in RM1b construction replenishment for FY23.

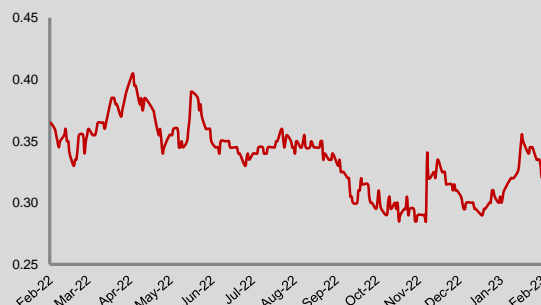
Forecasts. We maintain our FY23F net profit and introduce FY24F numbers implying property sales of RM600m and construction order book replenishment of RM1b.

We 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 landbanks. 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: RM0.325
Target Price: RM0.340 ↔

Share Price Performance



KLCI 1,473.46
YTD KLCI chg -1.5%
YTD stock price chg 10.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,451.9
Shares Outstanding	4,467.5
52-week range (H)	0.41
52-week range (L)	0.28
3-mth avg daily vol:	13,479,320
Free Float	38%
Beta	1.1

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)	2022A	2023F	2024F
Turnover	3205.1	2367.0	1895.0
EBIT	253.4	144.8	174.8
PBT	154.3	36.8	74.8
Net Profit	64.8	31.5	58.0
Core Net Profit	46.8	31.5	58.0
Consensus (NP)	60.2	68.3	87.7
Earnings Revision	n.a.	0%	NEW
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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We like MRCB for: (i) its prime plots of matured lands with close proximity to public transportation, (ii) its healthy balance sheet with a net gearing of 0.3x, and (iii) it being well-positioned to secure MRT3 work packages given its track record in public rail projects. However, it does have room for improvement in terms of project execution. Hence, our **MARKET PERFORM** rating is maintained.

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.

Result Highlights (All adjusted to core)								
FYE Dec (RM m)	4Q22	3Q22	QoQ	3Q21	YoY	FY22	FY21	YoY
Revenue	833.9	860.0	-3%	137.9	505%	3205.1	1448.5	121%
Expenses	-787.9	-787.1	0%	-163.9	381%	-3015.6	-1501.6	101%
Other operating income	17.0	5.9	187%	9.5	79%	40.4	38.2	6%
Operating Profit	63.0	78.8	-20%	-16.5	n.a.	229.8	-14.9	n.a.
Associate	3.1	3.4	-8%	4.6	-33%	10.1	17.2	-41%
JV	-1.3	-1.2	10%	4.6	-128%	-4.6	14.1	-132%
EBIT	64.9	81.0	-20%	-7.3	n.a.	235.4	16.4	1335%
Interest costs	-27.1	-24.3	12%	-22.8	19%	-99.1	-88.7	12%
PBT	37.7	56.7	-33%	-30.1	n.a.	136.3	-72.3	n.a.
Income Tax	-24.6	-41.2	-40%	-1.9	1215%	-100.8	-54.6	85%
PAT	13.1	15.5	-15%	-32.0	n.a.	35.5	-126.9	n.a.
MI	0.1	-8.2	n.a.	0.2	-52%	-11.3	-9.1	24%
Net Profit	13.0	23.7	-45%	-32.2	n.a.	46.8	-117.8	n.a.
DPS (sen)	0	0	n.a.	0.0	n.a.	0.0	1.0	-100%
EBIT margin	8%	9%		-12%		7%	-1%	
Pretax margin	-3%	-3%		-17%		-3%	-6%	
CNP margin	2%	3%		-23%		1%	-8%	
Effective tax	-65%	-73%		6%		-74%	76%	

Source: Company, Kenanga Research

Segmental breakdown								
	4Q22	3Q22	QoQ	3Q21	YoY	FY22	FY21	YoY
External Revenue								
Prop Dev & Investment	261.1	321.6	-19%	71.0	268%	914.6	498.6	83%
Construction	558.7	522.6	7%	50.0	1016%	2233.6	903.0	147%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	13.0	12.6	3%	8.2	58%	46.4	34.6	34%
Others	1.1	3.2	-66%	8.6	-87%	10.4	12.2	-15%
	833.9	860.0	-3%	137.9	505%	3205.1	1448.5	121%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	52.0	81.4	-36%	1.2	4400%	158.7	19.8	702%
Construction	8.7	5.5	57%	-18.7	n.a.	69.9	-40.7	n.a.
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM & Parking	-0.5	-1.9	-75%	1.0	-149%	-0.5	-1.3	-61%
Others	-1.4	-6.5	-78%	-0.3	441%	-5.4	5.9	-191%
	58.8	78.6	-25%	-16.8	n.a.	222.7	-16.4	n.a.
Unallocated Corp Expense	-2.9	-3.7	-23%	-3.1	-7%	-11.1	-8.6	29%
Finance Income	7.1	4.0	79%	3.4	108%	18.3	10.0	82%
Core Operating Profit	63.0	78.8	-20%	-16.5	n.a.	229.8	-14.9	n.a.
Core OP Margins								
Prop Dev & Investment	20%	25%		2%		17%	4%	
Construction	2%	1%		-37%		3%	-5%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM & Parking	-4%	-15%		12%		-1%	-4%	
Others	-129%	-203%		-3%		-52%	49%	
Total	7%	9%		-12%		7%	-1%	

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
Total	1,486	
Paid-up Capital (m shares)	4,412	
TP/share (RM)	0.34	

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)
TOD				
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
Commercial Developments				
Pulai Land Johor	100	67.52	770	16
Residential Developments				
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
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
		1,008	33,040	348
Unbilled Sales	100		537	62
Property Shareholders Fund				4,234.4
Total RNAV (RM m)				4,645.0
Discount to RNAV				80%
Property RNAV				929

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	0.700	0.830	18.57%	2,061.1	Y	10/2023	8.3	8.4	2.1%	1.5%	8.8	7.8	0.4	5.0%	5.0	7.1%
IOI PROPERTIES GROUP BHD	OP	1.09	1.60	46.79%	6,001.7	N	06/2023	13.5	14.3	4.2%	5.9%	8.1	7.6	0.3	4.0%	3.0	2.8%
MAH SING GROUP BHD	OP	0.595	0.600	0.84%	1,444.5	Y	12/2022	6.2	6.6	41.5%	6.7%	9.6	9.0	0.4	4.9%	3.0	5.0%
MALAYSIAN RESOURCES CORP BHD	MP	0.325	0.340	4.62%	1,451.9	Y	12/2023	0.7	1.3	-32.7%	84.1%	45.8	24.6	0.3	0.7%	1.0	3.1%
SIME DARBY PROPERTY BHD	OP	0.470	0.550	17.02%	3,196.4	Y	12/2022	3.5	3.8	68.9%	9.8%	13.5	12.4	0.3	2.5%	2.0	2.8%
SP SETIA BHD	UP	0.635	0.380	-40.16%	2,587.9	Y	12/2022	4.2	4.4	4.9%	5.8%	15.1	14.4	0.2	2.2%	1.3	6.0%
UOA DEVELOPMENT BHD	MP	1.64	1.75	6.71%	3,948.2	Y	12/2022	10.4	10.6	7.7%	1.9%	11.7	10.9	0.6	4.4%	10.0	7.9%
Simple Average					28,563.1					18.3%	15.0%	12.5	10.9	0.4	3.7%		4.6%

Source: Kenanga Research

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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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