

01 March 2022

# Malaysian Resources Corp.

## FY21A Below Expectations

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FY21 CNL of RM118m came below expectations on: (i) higher than-expected-tax rates, and (ii) weaker-than-expected margins likely due to insufficient revenue generation to cover fixed costs. A 1.0 sen dividend declared is in line. FY21A sales of RM310m is above expectation due to a surge prior to the end of HOC. Management target FY22E sales of RM500m backed by RM843m of launches. Nonetheless, we are less optimistic and only targets RM300m. Lower FY22E CNP by 65% to RM10m and introduce FY23E CNL of RM4m. Maintain MP with unchanged SoP-TP of RM0.345.

**Below expectations for the seventh consecutive time.** 4QFY21 core net loss of RM58.4m<sup>^</sup> (refer overleaf for CNL reconciliation with headline profit) dragged FY21 CNL to RM118m – below our/consensus loss projection of RM75m/RM40m. The underperformance stemmed from two key reasons; First, **tax rates were higher than expected** due to distortion from a one-off gain worth RM134m which we excluded from our core bottom-line computations. Secondly, **margins derived from both its property and construction arms were weaker-than-expected** due to insufficient revenue generation to cover fixed costs as property unbilled sales and outstanding order-book continued to dwindle amidst weak sales and replenishment over the past two years. The 1.0 sen dividend declared is inline.

**Meanwhile, 4QFY21 sales of RM145m led FY21 property sales to RM310m – above our RM180m target** attributable to the ramp-up of purchases from last minute buying prior to the end of the Home Ownership Campaign (HOC) in Dec 2021.

**Highlights. QoQ,** 4QFY21 CNL of RM58.4m deteriorated against a CNL of RM32m mainly due to the higher-than-expected tax rates incurred from one-off gain recognised this quarter as explained above. **YoY,** despite the less stringent MCO, FY21 CNL of RM118m was worse off compared to FY20 CNL of RM1m due to: (i) higher tax rates as mentioned, and (ii) lower revenue\* from lower brought forward unbilled sales of RM1.1b (vs. RM1.6b) and effective outstanding order-book\*\* of RM0.9b (vs. RM1.2b) at the start of the period.

\*Note that 4QFY21 revenue seems much higher vs. historical trend as consolidation of LRT3 revenue happened during 4Q21. Stripping off LRT3 revenue for a like-for-like comparison would show that FY21A revenue is actually lower YoY.

\*\*We derive effective outstanding order-book by deducting: (i) idling projects i.e. Bukit Jalil-related contracts worth RM11b and Finas worth RM170m, (ii) KwasaUtama C8 contract worth RM2.9b which is a complete pass-through, and (iii) LRT3 which is parked at JV level in FY20.

**Management guides FY22E sales of RM500m** backed by launches worth RM843m from (i) Kwasa Sentral (RM328m), (ii) Tower 5 in PJ Sentral (RM486m) and Bandar Seri Iskandar (RM30m). We are less optimistic against management's guidance and only targets FY22E sales of RM300m (raised from RM200m). This is because MRCB has missed on their sales and launch targets consecutively for the past four years since FY18.

Given its weak sales in the past four years, **current unbilled sales have deteriorated consecutively for ten quarters from a high of RM1.76b (in 2QFY19) to RM0.923b currently.**

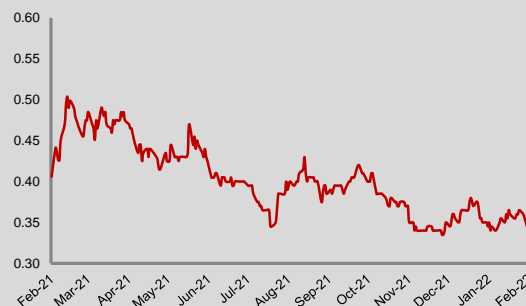
**Little visibility past LRT3 and Sentral Suites.** These two key construction and property projects are MRCB's key earnings driver for the next two years. LRT3 makes up 86% of current construction order-book of RM4.388b and Sentral Suites makes up 66% of their property unbilled sales of RM0.923b. If MRCB does not replenish contracts and launch more property projects to drive sales in the near term, its bottom-line would likely be in the red once these projects are completed due to insufficient contributions to cover overheads and fixed costs.

**Lower FY22E CNP by 65% to RM10m** in anticipation of weaker margins. Introduce FY23E CNL of RM4m as we expect revenue generation to fall drastically post FY22 as LRT3 and Sentral Suites are nearing completion. **Maintain MP on an unchanged SoP-TP of RM0.345.** The group's high cost structure coupled with inefficient deployment of resources to generate revenue is likely to weigh down on its earnings for the foreseeable future.

## MARKET PERFORM ↔

Price : RM0.355  
Target Price : RM0.345 ↔

### Share Price Performance



KLCI 1,608.28  
YTD KLCI chg 2.6%  
YTD stock price chg 0.0%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker MRC MK EQUITY  
Market Cap (RM m) 1,586.0  
Shares Outstanding 4,467.5  
52-week range (H) 0.53  
52-week range (L) 0.33  
3-mth avg daily vol: 2,023,315  
Free Float 39%  
Beta 1.6

### Major Shareholders

Employees Provident Fund Board 36.2%  
GapurnaSdnBhd 15.5%  
LembagaTabung Haji 5.8%

### Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	1448.5	2909.3	1815.1
EBIT	118.7	93.7	75.2
PBT	61.3	4.7	-13.8
<b>Net Profit</b>	<b>6.7</b>	<b>9.7</b>	<b>-4.0</b>
<b>Core PATAMI</b>	<b>-117.8</b>	<b>9.7</b>	<b>-4.0</b>
Consensus (NP)	-39.6	35.2	49.8
Earnings Revision	n.a.	-65%	NEW
Core EPS (sen)	-2.7	0.2	-0.1
Core EPS growth (%)	13903	-108	-141
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.0	1.0	1.0
PER (x)	-13.3	161.2	-392.8
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.5	1.5	0.8
Return on Asset (%)	-1.4	0.1	0.0
Return on Equity (%)	0.1	0.2	-0.1
Net Div. Yield (%)	2.8	2.8	2.8



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^We derive our core bottomline after reversing out (i) RM123.7m gains in relation to the 661-acre land injection into SIDEC (Subsidiary of MRCB) as part of a settlement with Perbadanan Kemajuan Negeri Perak and (ii) RM9.9m being the profit arising from the re-measurement of investment in the LRT3 JV.

**4QFY21 CNP reconciliation: RM75.2m [headline profit] – RM123.7m – RM9.9m = RM58.4m [CNP]**

<b>Results Highlight (All adjusted to core for easier reference)</b>								
<b>FYE Dec (RM m)</b>	<b>4Q21</b>	<b>3Q21</b>	<b>QoQ</b>	<b>4Q20</b>	<b>YoY</b>	<b>FY21</b>	<b>FY20</b>	<b>YoY</b>
Revenue	858.1	137.9	522%	308.9	178%	1448.5	1199.5	21%
Expenses	-854.2	-163.9	421%	-281.3	204%	-1501.6	-1161.9	29%
Other operating income	11.5	9.5	21%	14.5	-20%	38.2	20.6	85%
<b>Operating Profit</b>	<b>15.4</b>	<b>-16.5</b>	<b>n.a.</b>	<b>42.1</b>	<b>-63%</b>	<b>-14.9</b>	<b>58.2</b>	<b>-126%</b>
Associate	3.6	4.6	-23%	-17.7	n.a.	17.2	16.2	6%
JV	-1.2	4.6	-126%	4.7	-125%	14.1	3.4	320%
<b>EBIT</b>	<b>17.8</b>	<b>-7.3</b>	<b>n.a.</b>	<b>5.5</b>	<b>222%</b>	<b>16.4</b>	<b>77.8</b>	<b>-79%</b>
Interest costs	-27.5	-22.8	21%	34.6	-179%	-88.7	-55.2	61%
<b>PBT</b>	<b>-9.7</b>	<b>-30.1</b>	<b>-68%</b>	<b>-7.5</b>	<b>28%</b>	<b>-72.3</b>	<b>22.6</b>	<b>-420%</b>
Income Tax	-49.5	-1.9	2540%	27.1	-283%	-54.6	-23.0	137%
<b>PAT</b>	<b>-59.1</b>	<b>-32.0</b>	<b>85%</b>	<b>0.4</b>	<b>-16042%</b>	<b>-126.9</b>	<b>-0.5</b>	<b>27725%</b>
MI	-0.8	0.2	-483%	26.7	-103%	-9.1	0.4	-2468%
<b>PATAMI</b>	<b>-58.4</b>	<b>-32.2</b>	<b>82%</b>	<b>27.0</b>	<b>-316%</b>	<b>-117.8</b>	<b>-0.8</b>	<b>13903%</b>
DPS (sen)	1	0	n.a.	1.0	0%	1.0	1.0	0%
EBIT margin	2%	-12%		14%		-1%	5%	
Pretax margin	-3%	-17%		11%		-6%	-5%	
CNP margin	-7%	-23%		9%		-8%	0%	
Effective tax	35%	132%		-22%		82%	-41%	

Source: Company, Kenanga Research

<b>Segmental breakdown</b>								
<b>External Revenue</b>	<b>4Q21</b>	<b>3Q21</b>	<b>QoQ</b>	<b>4Q20</b>	<b>YoY</b>	<b>FY21</b>	<b>FY20</b>	<b>YoY</b>
Prop Dev & Investment	152.7	71.0	115%	163.7	-7%	498.6	653.1	-24%
Construction	696.5	50.0	1292%	151.6	359%	903.0	514.9	75%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	8.5	8.2	3%	10.1	-16%	34.6	43.8	-21%
Others	0.3	8.6	-96%	1.5	-76%	12.2	5.7	113%
	<b>858.1</b>	<b>137.9</b>	<b>522%</b>	<b>326.9</b>	<b>162%</b>	<b>1448.5</b>	<b>1217.5</b>	<b>19%</b>
<b>Core Operating Profit (Net of EI)</b>								
Prop Dev & Investment	2.2	1.2	88%	12.3	-82%	19.8	52.2	-62%
Construction	10.9	-18.7	n.a.	-2.6	n.a.	-40.7	-4.3	843%
Infra concession	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
FM&Parking	-2.9	1.0	-395%	1.2	-340%	-1.3	6.9	-119%
Others	6.8	-0.3	n.a.	0.9	674%	5.9	0.8	636%
	<b>17.1</b>	<b>-16.8</b>	<b>n.a.</b>	<b>11.8</b>	<b>45%</b>	<b>-16.4</b>	<b>55.6</b>	<b>-129%</b>
Unallocated Corp Expense	-1.5	-3.1	-51%	0.8	-297%	-8.6	-13.9	-38%
Finance Income	-0.1	3.4	-103%	2.5	-105%	10.0	16.6	-40%
<b>Core Operating Profit</b>	<b>15.4</b>	<b>-16.5</b>	<b>n.a.</b>	<b>15.1</b>	<b>2%</b>	<b>-14.9</b>	<b>58.2</b>	<b>-126%</b>
<b>Core OP Margins</b>								
Prop Dev & Investment	1%	2%		8%		4%	8%	
Construction	2%	-37%		-2%		-5%	-1%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	-34%	12%		12%		-4%	16%	
Others	1957%	-3%		60%		49%	14%	
<b>Total</b>	<b>2%</b>	<b>-12%</b>		<b>4%</b>		<b>-1%</b>	<b>5%</b>	

Source: Company, Kenanga Research

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<b>Sum of Parts</b>					
<b>MRCB SoP</b>	<b>Stake</b>	<b>PAT/Gross RNAV/NBV</b>	<b>Valuation Method</b>	<b>Valuations Multiple</b>	<b>Value (MYR)</b>
Property Development	100%	4902	PBV	0.2	980
Engineering and Construction	100%	12	PER	7	84
SENTRAL Reit	27.9%		In-House TP of RM0.94		281
Investment Properties	100%	358	PBV	0.5	179
				<b>Sum</b>	<b>1525</b>
				Number of Shares	4425
				<b>Target Price</b>	<b>0.345</b>
				FY22E Earnings (m)	10
				Implied Fwd PER	159

*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.				
<b>STOCKS UNDER COVERAGE</b>														
ECO WORLD DEVELOPMENT	1.05	3,091.6	Y	10/2022	13.1	13.1	11.7	0.7	0.6	4.9%	3.8%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.03	5,671.3	Y	06/2022	9.0	8.9	8.0	0.3	0.3	3.4%	2.7%	1.32	OP	
MAH SING GROUP BHD	0.675	1,638.7	Y	12/2022	15.4	12.9	11.6	0.5	0.5	4.3%	4.4%	0.650	MP	
MALAYSIAN RESOURCES CORP	0.355	1,586.0	Y	12/2022	N.A.	161.4	N.A.	0.3	0.3	0.2%	2.8%	0.345	MP	
SIME DARBY PROPERTY BHD	0.615	4,182.5	Y	12/2022	29.9	17.7	16.7	0.5	0.4	2.5%	2.1%	0.725	OP	
SP SETIA BHD	1.28	5,207.0	Y	12/2022	32.2	10.2	16.1	0.4	0.4	4.6%	3.0%	1.19	UP	
SUNWAY BHD	1.70	8,311.4	Y	12/2022	27.5	21.2	12.7	0.9	0.9	4.4%	1.8%	2.05	OP	
UEM SUNRISE BHD	0.325	1,644.0	Y	12/2022	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.75	4,071.3	Y	12/2022	11.7	12.5	11.7	0.7	0.7	3.9%	7.4%	1.76	MP	
<b>Simple Average</b>					<b>19.8</b>	<b>32.2</b>	<b>12.6</b>	<b>0.5</b>	<b>0.5</b>	<b>3.1%</b>	<b>3.1%</b>			

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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