

Malaysian Resources Corp.

Below Expectations Again

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

1HFY21 disappointed due to weaker-than-expected margins from both property and construction segments. In light of the numerous earnings disappointments stemming from weak execution capabilities, our initial thesis of the group (i) monetising their deep-valued land banks and (ii) capitalising its healthy balance sheet to secure potential PFI-related jobs could be in vain as it may not translate into meaningful shareholders' returns in the near future. After cutting FY21E/FY22E earnings by 377%/25%, we downgrade it to MP (from OP) with lower SoP-TP of RM0.395 (from RM0.65).

Below expectations. 2QFY21 core net loss (CNL) of RM32m dragged 1HFY21 into a CNL of RM27m – way below our and consensus's full-year profit projections of RM11m and RM20m, respectively. Despite already factoring for the FMCO lockdowns imposed in June, losses incurred by its construction division were wider-than-expected while property contributions were not as strong attributable to weaker-than-expected margins. No dividends declared as dividends are normally dished out in the 4th quarter.

2QFY21 sales of RM56m led 1HFY21 property sales to RM107m - also below our RM250m target as planned property launches are deferred further in view of the uncertainties. Based on management's latest guidance, MRCB will only launch the Kwasa Sentral apartments (GDV of RM275m) in 4QFY21 (previously guided at 3QFY21). Consequently, we reduce our FY21E sales target to RM180m. To recap, management had initially guided for RM1b worth of launches (from three developments) in the beginning of the year. **Current unbilled sales stood at RM1.0b while outstanding construction order-book stood at RM17.6b.**

Highlights. QoQ, 2QFY21 CNL of RM32m plunged from a CNP of RM5.2m due to wider losses in its construction division and weaker profits from its property division attributable to: (i) FMCO, (ii) site closures at construction sites from accidents and (iii) weaker margin project mix. Despite the less stringent MCO, 1HFY21 CNL of RM27m was worse off compared to 1HFY20 CNL of RM1.5m due to the lower revenue recognised (-24%) on lower brought forward unbilled sales of RM1.1b (vs. RM1.6b) and effective outstanding order-book* of RM2.3b (vs. RM3.2b) at the start of the period.

**We derive effective outstanding order-book by deducting (i) idling projects i.e. Bukit Jalil Sentral worth RM10b and (ii) LRT3 which is parked at the JV level from its unbilled outstanding order-book.*

Downgrade FY21E/FY22E earnings by 377%/25% on lowered margin assumptions for both construction and property coupled FY21E sales of RM180m (from RM250m).

Our change in view. After numerous earnings disappointment which reveals weak execution capabilities and unreliable earnings delivery, our initial thesis of the group capitalising on their deep-valued land banks and healthy balance sheet to secure potential PFI-related jobs could be in vain as it may not translate into meaningful shareholders' returns. Consequently, we **downgrade MRCB to MP (from OP) with a lower SoP-TP of RM0.395 (from RM0.65)** after reducing (i) its FY22 property PBV to 0.2x pegged to -2.0SD below mean (from 0.35x or -1.5SD) and (ii) lower construction PER of 7x (from 9x).

MARKET PERFORMANCE ↓

Price : **RM0.395**
Target Price : **RM0.395** ↓

Share Price Performance



KLCI	1,601.38
YTD KLCI chg	-1.6%
YTD stock price chg	-16.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK EQUITY
Market Cap (RM m)	1,764.7
Shares Outstanding	4,467.5
52-week range (H)	0.53
52-week range (L)	0.35
3-mth avg daily vol:	6,304,621
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)	2020A	2021E	2022E
Turnover	1199.5	817.6	919.2
EBIT	-117.3	-10.8	49.9
PBT	-152.9	-49.5	28.5
Net Profit	-176.0	-29.5	30.3
Core PATAMI	-0.8	-29.5	30.3
Consensus (NP)	n.a.	19.6	60.7
Earnings Revision	n.a.	-377%	-25%
Core EPS (sen)	0.0	-0.7	0.7
Core EPS growth (%)	-97%	3407%	-203%
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	1.0	1.0	1.0
PER (x)	-2072.2	-59.1	57.5
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	0.4	0.0	0.1
Return on Asset (%)	0.0	-0.3	0.3
Return on Equity (%)	-3.6	-0.6	0.6
Net Div. Yield (%)	2.5	2.5	2.5

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Result Highlight								
FYE Dec (RMm)	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Revenue	225.7	226.7	0%	167.2	35%	452.5	592.9	-24%
Expenses	-262.6	-220.9	19%	-388.6	-32%	-483.5	-786.3	-39%
Other operating income	8.1	9.1	-10%	10.3	-21%	17.2	18.1	-5%
Operating Profit	-28.7	14.9	-293%	-211.1	-86%	-13.8	-175.2	-92%
Interest costs	-20.2	-18.2	11%	-13.1	54%	-38.5	-25.7	49%
Associate	4.8	4.2	14%	3.7	29%	9.0	7.2	26%
JV	5.9	4.9	21%	-1.5	n.a.	10.7	-1.4	n.a.
PBT	-38.2	5.7	-769%	-222.0	-83%	-32.5	-195.2	-83%
Income Tax	-1.5	-1.8	-18%	2.6	-157%	-3.3	-8.7	-62%
PAT	-39.7	3.9	-1112%	-219.5	-82%	-35.8	-203.8	-82%
MI	-7.3	-1.3	470%	0.1	-5123%	-8.6	0.1	-6258%
PATAMI	-32.4	5.2	-723%	-219.6	-85%	-27.2	-204.0	-87%
Exceptional Items	0.0	0.0	n.a.	-202.5	n.a.	0.0	-202.5	n.a.
Core PATAMI	-32.4	5.2	-723%	-17.1	90%	-27.2	-1.5	1764%
DPS (sen)	0	0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	-13%	7%		-126%		-3%	-30%	
Pretax margin	-17%	3%		-133%		-7%	-33%	
CNP margin	-14%	2%		-10%		-6%	0%	
Effective tax	4%	-31%		-1%		10%	4%	

Source: Company, Kenanga Research

Segmental breakdown								
External Revenue	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Prop Dev & Investment	143	132	8%	100	43%	275	336	-18%
Construction	72	84	-15%	57	27%	156	231	-32%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	9	9	1%	10	-6%	18	22	-20%
Others	2	1	66%	1	105%	3	3	14%
	226	227	0%	167	35%	452	593	-24%
Core Operating Profit (Net of EI)								
Prop Dev & Investment	3	13	-75%	8	-56%	16	28	-41%
Construction	-31	-2	1805%	-11	179%	-33	1	-2595%
Infra concession	0	0	n.a.	0	n.a.	0	0	n.a.
FM&Parking	0	0	-71%	1	-85%	1	3	-83%
Others	-5	4	-214%	-5	0%	-1	-5	-86%
	-33	16	-302%	-8	317%	-17	28	-159%
Unallocated Corp Expense	1	-5	n.a.	-4	n.a.	-4	-8	-49%
Finance Income	3	4	-24%	3	-13%	7	7	-2%
Core Operating Profit	-29	15	-293%	-9	233%	-14	27	-151%
Core OP Margins								
Prop Dev & Investment	2%	10%		8%		6%	8%	
Construction	-44%	-2%		-20%		-21%	1%	
Infra concession	n.a.	n.a.		n.a.		n.a.	n.a.	
FM&Parking	1%	5%		9%		3%	15%	
Others	-248%	361%		-509%		-19%	-159%	
Total	-15%	7%		-5%		-4%	5%	

Source: Company, Kenanga Research

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 Facilities	100%	10	PER	7	68
Management SENTRAL Reit	100%	61	PBV	0.8	49
	27.9%		In-House TP of RM0.94		281
Investment Properties	100%	358	PBV	1	358
				Sum	1736
				Number of Shares	4395
				Target Price	0.395
				FY22E Earnings (m)	30
				Implied Fwd PER	57

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	0.710	2,090.5	Y	10/2021	8.9	8.9	7.9	0.5	0.4	3.7%	3.0%	0.850	OP	
IOI PROPERTIES GROUP BHD	1.28	7,047.9	Y	06/2022	11.2	11.0	9.9	0.4	0.4	3.4%	2.2%	1.32	MP	
MAH SING GROUP BHD	0.825	2,002.8	Y	12/2021	58.9	17.2	12.5	0.6	0.6	3.9%	3.6%	0.850	MP	
MALAYSIAN RESOURCES CORP	0.395	1,764.7	Y	12/2021	N.A.	N.A.	56.4	0.4	0.4	-0.6%	2.5%	0.395	MP	
SIME DARBY PROPERTY BHD	0.615	4,182.5	Y	12/2021	29.3	26.7	12.1	0.5	0.4	1.7%	2.1%	0.605	MP	
SP SETIA BHD	1.16	4,718.8	Y	12/2021	95.1	24.2	9.3	0.4	0.4	1.4%	3.3%	1.19	MP	
SUNWAY BHD	1.78	8,702.3	Y	12/2021	28.7	51.6	25.6	0.9	0.9	2.1%	0.8%	1.90	MP	
UEM SUNRISE BHD	0.370	1,871.6	Y	12/2021	N.A.	N.A.	35.6	0.3	0.2	-0.4%	0.0%	0.400	MP	
UOA DEVELOPMENT BHD	1.64	3,815.4	Y	12/2021	10.9	11.7	10.9	0.6	0.6	3.0%	7.9%	1.76	OP	
Simple Average					34.7	21.6	20.0	0.5	0.5	2.0%	2.8%			

Source: Bloomberg, Kenanga Research

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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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

