# Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

***Maintain* NEUTRAL**

## Pace of recovery to be hampered by MCO 2.0

***Revised* Target Price: RM0.43**
*(previously RM0.45)*

## KEY INVESTMENT HIGHLIGHTS

- **4QFY20 results rose by +344.4%yoy to RM26.8m, mainly due to the prompt resumption in construction activities**
- **Cumulatively, FY20 recorded a loss of -RM1.0m which was below ours and consensus expectations**
- **Given the resurgence of Covid-19 and movement restriction, we opine recovery momentum to be dampened**
- **Healthy construction order book of about RM20.5b to provide support to the group's earnings momentum in FY21**
- **Maintain NEUTRAL with a revised TP at RM0.43**

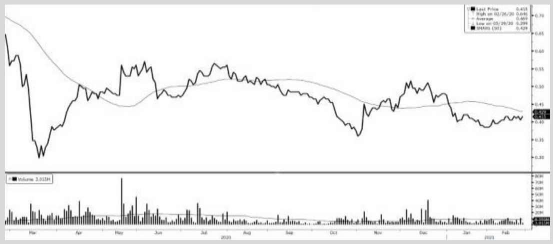
**Near breakeven.** Malaysian Resources Corporation Berhad (MRCB)'s 4QFY20 results posted a profit of RM26.8m (+344.4%yoy), mainly driven by higher profit from LRT3 worth about RM8.1m and profit of RM16.0m from Sentral REIT and Sentral REIT Management. However, the group still post a meagre loss of -RM1.0m for cumulative FY20 financial performance which came in below ours and consensus expectations. The existing strict Covid-19 standard operating procedures (SOPs) in place has led to lower-than-expected progress billings and delayed revenue recognition. Note that the losses excluded impairment provision of -RM175.3.5m which arise from the COVID-19 pandemic. Moving forward, we expect MRCB's construction and property business to recover at a slower pace in view of the resurgence of coronavirus and MCO2.0 in Malaysia in FY21.

**Revenue trending down slightly.** The group's FY20 revenue decreased by -9.1%yoy to RM1.2b, mainly as a result of lower revenue contribution of RM515.0m (-24.2%yoy) from the engineering, construction and environment segment. However, this was partially cushioned by higher revenue of RM635.0m (+12.1%yoy) from the property sector despite the advent of the ongoing Covid-19 outbreak during the period under review. The improvement, particularly contributed by the recognition of revenue from '1060 Carnegie' in Melbourne, 'Sentral Suites' and 'TRIA, 9 Seputeh'.

**Property division to support earnings momentum.** The group posted a lower FY20 normalised profit of RM51.0m (-33.9%yoy), after excluding the one-off gains on disposal of RM58.8m of the Group's entire 30% equity interest in One IFC Sdn Bhd recorded in 2QFY19. Nonetheless, the group achieved decent property sales of RM187.3m mainly from the completion of 1060 Carnegie in Melbourne as of FY20. With unbilled sales of RM1.1b, we believe that the property segment to book in higher revenue and profit into FY21 as construction progresses, especially at the Sentral Suites project which makes up 72% of the unbilled sales. Note that the Sentral Suites project is slated to be completed towards the end of 2021.

| RETURN STATISTICS | |
|---|---|
| Price @ 25th Feb 2020 (RM) | 0.415 |
| Expected share price return (%) | +3.6 |
| Expected dividend yield (%) | +2.4 |
| **Expected total return (%)** | +6.0 |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | +6.4 | +6.1 |
| 3 months | -12.6 | -2.5 |
| 12 months | -36.6 | -39.9 |

| KEY STATISTICS | |
|---|---|
| FBMLC KI | 1,581.54 |
| Syariah compliant | Yes |
| F4BGM Index | Yes |
| ESH Grading Band (Star rating) | ☆☆☆ |
| Issue shares (m) | 4405.9 |
| Estimated free float (%) | 37.3 |
| Market Capitalisation (RM'm) | 1,831.00 |
| 52-wk price range | RM0.28 - RM0.66 |
| Beta vs FBM KLCI (x) | 1.59 |
| Monthly velocity (%) | 26.05 |
| Monthly volatility (%) | 26.57 |
| 3-mth average daily volume (m) | 8.25 |
| 3-mth average daily value (RM'm) | 3.75 |
| Top Shareholders (%) | |
| Employees Provident Fund Board | 35.85 |
| Gapurna Sdn Bhd | 15.53 |
| Lembaga Tabung Haji | 5.9 |

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**Resurgence of Covid-19 to dampen the Construction segment.** The normalised FY20 financial performance fell by >-100.%yoy to -RM4.1m at the construction division. While we expect the partial resumption of work site operations to contribute to FY21 earnings, the resurgence of Covid-19 and extended lockdowns might cause slower work progress as compared to CMCO level given the stringent standard operating procedures (SOPs). This might lead to slower recovery in terms of progress billings in 1HFY21 before potentially rebounding to full operations in 2HFY21. Meanwhile, we opine that the group's current sizeable outstanding order book of RM20.5b, of which 91% are infra-related, to continue to provide support to the group's earnings momentum in the medium-to-longer term.

**Earnings estimates.** We are making no changes to our earnings estimates.

**Target price.** We are revising our TP to **RM0.43** *(previously 0.45)*. We peg a lower target PER of 31.0x *(previously 32.0x)* to the group's FY21 EPS of 1.4sen as the sentiments of the group's Malaysian building portfolio might be dampened on renewed Covid-19 outbreak. Note that the PER is about the group's two-year historical average.

**Maintain NEUTRAL.** In the near term, we expect that the group's revenue and earnings prospects to remain lacklustre in anticipation of the slower resumption of construction and business activities and limited workforce capacity at work sites in view of the stringent Covid-19 standard operating procedure in 1QFY21. This might dampen the earnings prospects in the short-to-medium term as construction progress billings would be affected on slower work progress. While we expect the work progress to possibly accelerate going into FY21, the execution is still very much dependent on the developments surrounding the Covid-19 moving forward. On the property segment, we opine that sales would continue to be encouraging with a sizeable unbilled sales of RM1.1b albeit recovery might be dampened given the weak consumer sentiments and consumers might delay big-ticket items in the foreseeable term. Nonetheless, on a longer-term horizon, the group's prospect is well-supported by its strong outstanding order book of about RM20.5b which provides long-term earnings visibility. In addition, the continuation of mega public infra projects such as MRT3, ECRL, KVDT2 as announced in the Budget 2021 and a potential domestic KL-JB HSR could possibly provide a re-rating catalysts moving forward. All in, we are maintaining our **NEUTRAL** recommendation on **MRCB** at current juncture.

## INVESTMENT STATISTICS

| FYE 31st December | FY18 | FY19 | FY20 | FY21E | FY22F |
|---|---|---|---|---|---|
| Revenue (RM'm) | 1,870.7 | 1,319.4 | 1,199.5 | 1,441.4 | 1,585.6 |
| EBIT (RM'm) | 141.5 | 72.4 | 41.4 | 105.8 | 119.6 |
| Pre-tax profit (RM'm) | 123.0 | 22.4 | 53.0 | 77.2 | 88.8 |
| Normalised PATAMI (RM'm) | 101.2 | 23.7 | -1.0 | 62.3 | 74.8 |
| FD EPS (sen) | 2.3 | 0.5 | 0.0 | 1.4 | 1.7 |
| PER(x) | 38.3 | 123.5 | n.m. | 29.4 | 24.5 |
| Dividend (sen) | 1.8 | 1.0 | 1.0 | 1.0 | 1.0 |
| Dividend yield (%) | 2.0 | 1.5 | 2.4 | 2.4 | 2.4 |

*Source: Company, MIDFR*

## MALAYSIAN RESOURCES CORPORATION BHD: 4QFY20 RESULTS SUMMARY

| FYE 31st Dec (All in RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | | |
|---|---|---|---|---|---|---|
| | **4Q20** | **% YoY** | **% QoQ** | **FY20** | **FY19** | **% YoY** |
| Revenue | 308.9 | -34.5 | 4.1 | 1,199.5 | 1,319.4 | -9.1 |
| | | | | | | |
| EBITDA | 51.7 | 36.6 | 96.9 | 101.7 | 134.1 | -24.2 |
| Depreciation and amortisation | -12.1 | -25.3 | -31.2 | -60.2 | -61.7 | -2.4 |
| EBIT | 39.6 | 83.1 | 357.8 | 41.4 | 72.4 | -42.8 |
| Interest Income | 2.5 | -56.9 | -65.5 | 16.6 | 19.6 | -15.1 |
| Finance cost | -17.7 | 153.7 | 51.2 | -55.2 | -45.6 | 21.0 |
| Share of Results of JV | 10.3 | 1441.3 | 196.2 | 19.5 | 6.6 | 197.2 |
| Pre-tax Profit | 34.6 | 69.4 | 354.0 | 22.4 | 53.0 | -57.7 |
| Taxation | -7.5 | -43.2 | 9.2 | -23.0 | -34.3 | -33.0 |
| PAT | 27.2 | 271.3 | 3316.4 | -0.6 | 18.7 | -103.0 |
| MI | 0.4 | -71.2 | -383.2 | 0.4 | -5.0 | -107.6 |
| PATANCI | 26.8 | 344.3 | 2793.0 | -1.0 | 23.7 | -104.0 |
| Normalised PATANCI | 26.8 | 344.3 | 2793.0 | -1.0 | 23.7 | -104.0 |
| | | | | | | |
| Diluted EPS | 0.6 | 344.3 | 2793.0 | 0.0 | 0.5 | -104.0 |
| | 4Q20 | +/- ppts | +/- ppts | FY20 | FY19 | +/- ppts |
| Operating margin (%) | 12.8 | 8.2 | 9.9 | 3.5 | 5.5 | -2.0 |
| Pre-tax margin(%) | 11.2 | 6.9 | 8.6 | 1.9 | 4.0 | -2.1 |
| PATANCI margin(%) | 8.7 | 7.4 | 8.4 | -0.1 | 1.8 | -1.9 |
| Effective tax rate(%) | 21.5 | 85.7 | -68.0 | 102.5 | 64.7 | 37.8 |

*Source: Company, MIDFR*

**Note: All figures excludes impairment provision of RM202.5m*

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| MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| HOLD | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology