Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Maintain NEUTRAL

MCO continues to moderate the recovery pace

Revised Target Price: RM0.46

(previously RM0.43)

KEY INVESTMENT HIGHLIGHTS

- **1QFY21 results declined by -67.7%yoy to RM5.2m, mainly due to lower construction progress and billings**
- **The results were below our and consensus expectations, thus we are revising our earnings estimates downward**
- **Given the resurgence of Covid-19 and movement restriction, we opine recovery momentum to be dampened**
- **Healthy construction order book of about RM20.4b to provide support to the group's earnings momentum in FY21**
- **Maintain NEUTRAL with a revised TP at RM0.46**

Recovery momentum remains slow. Malaysian Resources Corporation Berhad (MRCB)'s 1QFY21 normalised earnings more than halved to RM5.2m (-67.7%yoy), mainly attributable to the closure of multiple construction sites when new Covid-19 cases were detected which negatively impacted construction progress and billings. The results came in below our and consensus expectations, accounting for 8.3% and 13.7% respectively of the FY21 full year earnings estimates. Moving forward, we expect MRCB's construction and property business to recover at a slower pace in view of the resurgence of coronavirus and FMCO in Malaysia in coming quarters.

Revenue on downtrend. The group's 1QFY21 revenue decreased by -46.8%yoy to RM226.7m, mainly as a result of lower revenue contribution of RM84.4m (-51.7%yoy) and RM132.1m (-44.1%yoy) from both the engineering, construction & environment segment and Property Development & Investment segment respectively. This was primarily caused by the Covid-19 induced closure of multiple construction sites during the quarter under review which dampened work progress and billings, and lower contribution from '1060 Carnegie' and lower number of units reaching financial settlement respectively. Nonetheless, we opine that the group revenue to recover gradually in coming quarters, premised on that construction operations are allowed and a sizeable unbilled property sales of RM1.0b.

Steady recovery of the property division's profit margin. The group posted a lower 1QFY21 normalised profit of RM13.0m (-45.8%yoy) due to lower number of units reaching financial settlement. Nonetheless, the group managed to rake in property sales of RM51.6m mainly from Sentral Suites and TRIA, 9 Seputeh as of 1QFY21. With unbilled sales of RM1.0b, 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 71% of the unbilled sales. Note that the Sentral Suites project is slated to be completed towards the end of 2021. Meanwhile, we are comforted that the profit margin of this division has been recovery steadily from its low of 6.1% in 2QFY20 to 9.9% in 1QFY21.

RETURN STATISTICS	
Price @ 31st May 2021 (RM)	RM0.43
Expected share price return (%)	+6.9
Expected dividend yield (%)	+2.3
Expected total return (%)	+9.2

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-4.4	-3.4
3 months	-6.5	+2.5
12 months	-23.2	-27.7

KEY STATISTICS	
FBMLC KI	1,583.55
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆
Issue shares (m)	4412.05
Estimated free float (%)	37.11
Market Capitalisation (RM'm)	1,921.03
52-wk price range	RM0.35 - RM0.57
Beta vs FBM KLCI (x)	1.65
Monthly velocity (%)	26.05
Monthly volatility (%)	26.57
3-mth average daily volume (m)	11.19
3-mth average daily value (RM'm)	5.35
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.83

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Construction segment continues to face Covid-19 headwinds. The group's 1QFY21 results at the construction division fell into losses of -RM1.6m as compared to a profit of RM13.0m in the prior corresponding period, predominantly due to lower progress billings. However, the LRT3 project contributed higher PAT of RM5.9m in 1Q21 vs RM1.2m in 1Q20 due to higher construction progress at 51%. While we expect the partial resumption of work site operations at manageable level of 60% capacity to contribute to FY21 earnings, the resurgence of Covid-19 and extended lockdowns might cause slower work momentum, then delaying progress billings. This might lead to slower recovery in terms of progress billings in 2HFY21 before potentially rebounding to full operations in 1HFY22. Meanwhile, we opine that the group's current sizeable outstanding order book of RM20.4b, of which 91% are infra-related which allowed to operate with 60% capacity, would continue to provide support to the group's earnings momentum in the medium-to-longer term.

Earnings estimates. We are revising our earnings estimates downward for FY21 and FY22 to RM24.9m and RM64.7m respectively as we lower our revenue assumption on lower progress billing due to lower productivity affected by Covid-19 imposed restrictions and higher cost assumption on higher raw materials costs which slightly negatively affecting profit margin at the construction division. Note that we are introducing our FY23F earnings forecast as well.

Target price. We are revising our TP to **RM0.46** *(previously 0.43)*. We peg an unchanged target PER of 31.0x (group's two-year historical average) to the group's FY22 EPS. Note that we are also rolling over our valuation base year to FY22.

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 current and upcoming quarters. 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 RM1.0b 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 RM20.4b 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 re-rating catalysts moving forward. All in, we are maintaining our **NEUTRAL** recommendation on **MRCB** at current juncture.

INVESTMENT STATISTICS

FYE 31st December	FY19	FY20	FY21E	FY22F	FY23F
Revenue (RM'm)	1319.4	1199.5	1379.4	1517.4	1669.1
EBIT (RM'm)	72.4	41.4	53.8	70.0	80.5
Pre-tax profit (RM'm)	22.4	53.0	37.1	55.7	89.8
Normalised PATAMI (RM'm)	23.7	-1.0	24.9	64.7	75.8
FD EPS (sen)	0.5	0.0	0.6	1.5	1.7
PER(x)	n.m.	n.m.	n.m.	160.0	17.1
Dividend (sen)	1.0	1.0	1.0	1.0	2.0
Dividend yield (%)	1.5	2.3	2.3	2.3	4.7

Source: Company, MIDFR

MALAYSIAN RESOURCES CORPORATION BHD: 1QFY21 RESULTS SUMMARY

FYE 31st Dec (All in RM'm, unless otherwise stated)	Quarterly Results		
	1Q21	**% YoY**	**% QoQ**
Revenue	226.7	-46.8	-26.6
EBITDA	24.3	-54.8	-52.9
Depreciation and amortisation	-13.0	-9.2	7.5
EBIT	11.3	-71.3	-71.3
Interest Income	3.5	0.0	41.3
Finance cost	-18.2	17.7	2.9
Share of Results of JV	9.1	154.0	-11.5
Pre-tax Profit	5.7	-79.3	-83.5
Taxation	-1.8	-84.3	-76.0
PAT	3.9	-75.7	-85.6
MI	-1.3	-1802.7	-444.2
PATANCI	5.2	-67.7	-80.6
Normalised PATANCI	5.2	-67.7	-80.6
Diluted EPS	0.1	-67.7	-80.6
	1Q21	+/- ppts	+/- ppts
Operating margin (%)	5.0	-4.3	2.1
Pre-tax margin(%)	2.5	-4.0	-0.1
PATANCI margin(%)	2.3	-1.5	2.0
Effective tax rate(%)	31.3	72.8	-58.2

Source: Company, MIDFR

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

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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

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