Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

***Maintain* BUY**

Construction earnings back in the black

***Revised* Target Price: RM0.40**

(previously RM0.44)

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings quadrupled to RM64.8m, from RM15.8m in FY21**
- **The results were below our expectations but within consensus estimates**
- **Construction recorded profit again after two years of losses**
- **Property division PBT rose +15.2%yoy to RM176.7m**
- **Expanding overseas operations in Australia and New Zealand to diversify**
- **Maintain BUY with revised TP of RM0.40**

Below expectations. Malaysian Resources Corporation Berhad (MRCB) registered a normalised PATAMI of RM13.0in 4QFY22, which came in lower by -82.7%yoy, mainly due to weaker performance from the property development segment. For the cumulative FY22, the group's normalised PATAMI quadrupled to RM64.8m, which came in below our expectations, making up 85.8% of our full year estimates but was within consensus estimates.

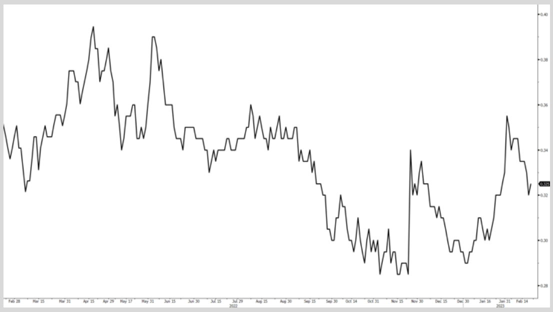
Engineering and construction division back in the black. Revenue from the division for FY22 rose 2.5 times to RM2.23b and returned to the black with a PBT of RM69.9m after two years of losses. This was largely due to the full-year consolidation of the LRT3 project earnings from Setia Utama LRT3 Sdn Bhd (SULSB), which it fully acquired in 2021. The physical construction progress is currently at 81% and financial progress at 75%. Other contributing projects include package CA2 of the Sungai Besi – Ulu Kelang Elevated Expressway (SUKE) and PR1MA Brickfields.

Strong property sales. The property development and investment division recorded a revenue of RM914.6m for the financial year, which was a +83.6%yoy increase. This led to a stronger PBT, growing +15.2%yoy to RM176.7m, attributable to the normalisation of operations and improvement in property sales and construction progress and a strong recovery in sales of completed unsold inventory. MRCB sold RM487.9m of properties in FY22 and aims to replicate this feat in FY23. The group's target this year is still to enhance its cash flow through the monetisation of its RM227m of unsold completed inventory.

Resilient order book. MRCB's external construction order book stood at RM26.3b as of Dec-22, made up mainly of transit-oriented development (TOD) and infrastructure projects. The unbilled portion is RM17.4b. The ongoing LRT3 project is expected to be among the main earnings driver for the group over the next two financial years, with 25% yet to be recognised. The Shah Alam Stadium rebuilding/refurbishment project has yet to be included as the scope of work and amount has yet to be finalised by the Selangor state government. Management expects the project to kick off this year, though it is unable to provide a more

RETURN STATISTICS	
Price @ 20th Feb 2023 (RM)	**0.325**
Expected share price return (%)	**+23.07**
Expected dividend yield (%)	**+2.50**
Expected total return (%)	**+25.57**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.8	6.8
3 months	10.2	10.2
12 months	-11.0	-3.1

KEY STATISTICS	
FBM KLCI	1,473.46
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆
Issue shares (m)	4446.54
Estimated free float (%)	37.98
Market Capitalisation (RM'm)	1,451.94
52-wk price range	RM0.28 - RM0.41
Beta vs FBM KLCI (x)	1.06
3-mth average daily volume (m)	13.48
3-mth average daily value (RM'm)	4.32
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.71

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accurate timeline. It expects the project size to be north of RM1b.

Overseas expansion. MRCB is also diversifying away from being too concentrated in Malaysia and aims to look for more opportunities in Australia, besides identifying and venturing into new markets. It is planning to launch VISTA, a 51-storey residential high-rise in Gold Coast this year, which has a GDV of AUD391m (RM1.2b). The group also aims to launch The Symphony Centre in Auckland by 2024, a 21-storey building comprising luxury apartments, retail and commercial space with a GDV of NZD452m (RM1.3b).

Earnings estimates. We have updated our FY23E and FY24F figures to include the expected fully consolidated amount from SULSB.

Target price. We are revising our **TP** lower to **RM0.40** (from RM0.44), which we derive by pegging the group's FY23 EPS of 1.5 to an updated target PER of 26.4x, which is -0.5 SD below its five-year mean.

Maintain BUY. We remain positive on MRCB as its order book remains strong to see it through the next two years, which will be led by the earnings recognition from LRT3. We remain cautiously optimistic on the construction sector as the government relook its infrastructure project rollouts, resulting in delays, such as the MRT3. MRCB is among the contenders for all the three main construction packages and also the systems turnkey contract for the mega rail project. We like that MRCB is diversifying away from being too Malaysia-centric and begin to seek more opportunities in Australia and New Zealand. This would be able to cushion the potential impact of the sector's uncertainties in Malaysia or the shift in government policies that may affect the sector. All factors considered, we still maintain our **BUY** recommendation on **MRCB.**

INVESTMENT STATISTICS

FYE 31st December	2020A	2021A	2022A	2023F	2024F
Revenue (RM'm)	1,199.5	1,448.5	3,205.1	2,891.0	3,122.3
EBIT (RM'm)	41.4	171.82	253.4	229.1	247.4
Pre-tax profit (RM'm)	53.0	61.3	154.3	143.6	155.1
Normalised PATAMI (RM'm)	-1.0	16.1	64.8	68.1	70.4
FD EPS (sen)	0.0	1.4	1.5	1.5	1.6
Dividend (sen)	1.0	1.0	1.0	1.0	2.0
Dividend yield (%)	2.3	2.8	2.3	2.5	4.5

Source: Company, MIDFR

MALAYSIAN RESOURCES CORPORATION BHD: 4QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	833.9	860.0	858.1	**-3%**	**-3%**	3,205.1	1,448.5	**>+100%**
Expenses	(787.9)	(787.1)	(855.2)	**0%**	**8%**	(3,015.6)	(1,502.6)	**<-100%**
Other operating income	17.0	5.9	146.1	**187%**	**-88%**	58.4	172.8	**-66.2%**
Loss from operations	63.0	78.8	149.0	**-20%**	**-58%**	247.8	118.7	**>+100%**
Finance costs	(27.1)	(24.3)	(27.5)	**-12%**	**1%**	(99.1)	(88.7)	**-11.7%**
Share of results of associates	3.1	3.4	3.6	**-8%**	**-13%**	10.1	17.2	**-41.1%**
Share of results of joint ventures	(1.3)	(1.2)	(1.2)	**-10%**	**-10%**	(4.6)	14.1	**<-100%**
Profit/(loss) before tax	37.7	56.7	123.9	**-33%**	**-70%**	154.3	61.3	**>+100%**
Income tax expense	(24.6)	(41.2)	(49.5)	**40%**	**50%**	(100.8)	(54.6)	**-84.6%**
Profit/(loss) for the financial period	13.1	15.5	74.5	**-15%**	**-82%**	53.5	6.7	**>+100%**
PATAMI	13.0	23.7	75.2	**-45%**	**-83%**	64.8	15.8	**>+100%**

Source: Company, MIDFR

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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.
NEUTRAL	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