Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

***Maintain* NEUTRAL**

Tapering Losses

***Revised* Target Price: RM0.42**
(previously RM0.46)

KEY INVESTMENT HIGHLIGHTS

- **6MFY21 recorded losses at -RM27.2m (+87%yoy)**
- **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 RM21.32b to provide support to the group's earnings visibility**
- **Maintain NEUTRAL with a revised TP at RM0.42**

Recovery momentum remains slow. Malaysian Resources Corporation Berhad (MRCB)'s 6MFY21 recorded losses at -RM27.2m (+87%yoy). However, the results came in below our and consensus expectations, which was at RM24.9m and RM20.0m respectively.

Revenue on downtrend. The group's 2QFY21 revenue decreased by -24%yoy to RM226.7m as the first half of 2020 benefited from a full 2 months of operations before the first Movement Control Order. The group saw higher quarterly revenue contribution from Property segment with revenue at RM143.0m (42.8%yoy) but 6MFY21 disappoints with cumulative -18.3%yoy, or RM275.0m. The same pattern can be observed for its Construction and Engineering segment, 2QFY21 at +27.0%yoy and recorded decline for 6MFY21 at -32.4%yoy. 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. 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.

Construction segment continues to face Covid-19 headwinds. The group's 2QFY21 results at the construction division fell into losses of -RM31.0m as compared to -RM208.0m in the prior corresponding period. However, the LRT3 project contributed higher PAT of RM13.2m in FY2021 vs RM1.4m in FY2020 due to higher construction progress at 58%. While we expect the partial resumption of work site operations at manageable level of 60% capacity or above to contribute to FY21 earnings, the resurgence of Covid-19 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 RM21.32b, of which 78% are infra-related which allowed to operate with partial capacity, would continue to provide support to the group's earnings momentum in the medium-to-longer term.

RETURN STATISTICS	
Price @ 30th August 2021 (RM)	**0.395**
Expected share price return (%)	**+6.33**
Expected dividend yield (%)	**+2.40**
Expected total return (%)	**+8.73**

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	
FBM KLCI	1,601.38
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆
Issue shares (m)	4412.05
Estimated free float (%)	38.79
Market Capitalisation (RM'm)	1,764.67
52-wk price range	RM0.34 - RM0.53
Beta vs FBM KLCI (x)	1.64
Monthly velocity (%)	0.00
Monthly volatility (%)	29.27
3-mth average daily volume (m)	6.30
3-mth average daily value (RM'm)	2.53
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.83

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Earnings estimates We are making some housekeeping changes to our estimates to reflect our latest view on MRCB. We revise our top line estimates for FY21/FY22F to RM1.02b/RM1.25b. We also revise our earnings forecasts to RM17.69m/RM51.04m.

Target price. We are revising our TP to **RM0.42** *(previously 0.46)*. We peg target a PER of 35x (group's two-year historical average) to the group's FY22 EPS.

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 RM21.32b 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	2019A	2020A	2021E	2022F	2023F
Revenue (RM'm)	1319.4	1199.5	1,002.50	1,251.00	1,002.50
EBIT (RM'm)	72.4	41.4	38.36	67.42	38.36
Pre-tax profit (RM'm)	22.4	53.0	31.42	62.56	31.42
Normalised PATAMI (RM'm)	23.7	-1.0	17.69	51.04	17.69
FD EPS (sen)	0.5	0.0	0.4	1.2	1.6
Dividend (sen)	1.0	1.0	1.0	1.0	2.0
Dividend yield (%)	1.5	2.3	2.4	2.4	4.8

Source: Company, MIDFR

MALAYSIAN RESOURCES CORPORATION BHD: 2QFY21 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q221**	**Q121**	**Q220**	**QoQ**	**YoY**	**6M21**	**6M20**	**YoY**
Revenue	225.7	226.7	167.2	**0%**	**35%**	452.5	592.9	**-24%**
Net Operating Expenses	(254.4)	(211.8)	(375.9)	**-20%**	**32%**	(466.3)	(762.2)	**39%**
Operating Profit/(Loss)	(28.7)	14.9	(208.8)	**<-100%**	**86%**	(13.8)	(169.2)	**92%**
Finance Costs	(20.2)	(18.2)	(17.0)	**-11%**	**-19%**	(38.5)	(32.5)	**-18%**
Assoc. and JV	10.7	9.1	2.2	**17%**	**>+100%**	19.8	5.8	**>+100%**
Profit/(Loss) Before Tax	(38.2)	5.7	(223.6)	**<-100%**	**83%**	(32.5)	(196.0)	**83%**
Tax Expense	(1.5)	(1.8)	3.0	**18%**	**<-100%**	(3.3)	(8.5)	**62%**
Minority Interest	(7.3)	(1.3)	0.3	**<-100%**	**<-100%**	(8.6)	0.4	**<-100%**
Reported Net Profit	(39.7)	3.9	(220.6)	**<-100%**	**82%**	(35.8)	(204.4)	**83%**
PATAMI	(32.4)	5.2	(220.9)	**<-100%**	**85%**	(27.2)	(204.8)	**87%**

Source: Company, MIDFR

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

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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