

31 May 2024

Construction & Engineering | Construction

## Malaysian Resources Corp (MRC MK)

**Buy** (Maintained)

### A Muted Quarter But Key Catalysts Remain Intact; BUY

Target Price (Return):	MYR0.80 (15%)
Price (Market Cap):	MYR0.70 (USD660m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (MYR/USD)	13.9m/2.93m

- **Still BUY, with unchanged MYR0.80 TP, 15% upside.** Malaysian Resources Corp's 1Q24 core profit of MYR3m (-65% YoY) missed our and Street's estimates, making up 6% and 5% of full-year projections. The negative deviation was due to a slower property segment and higher-than-expected tax rate (of 84%). On the bright side, its better net gearing of c.0.20x in 1Q24 (vs c.0.37x in 1Q23) may enable MRC to gear up for the anticipated mega projects – possibly leading to a sizeable orderbook expansion.
- **Results review.** The construction segment saw a 146% YoY jump in EBIT for 1Q24 due to cost provisions being written back to the bottomline for the Light Rail Transit 3 (LRT3) project, which is 90% complete. Meanwhile, its property arm saw a 66% YoY EBIT contraction in 1Q24 following the completion of Sentral Suites and TRIA 9 Seputeh in 2Q23. Nonetheless, completed unsold units reached MYR347.5m as at end of 1Q24, lower than the MYR389.4m as at end of 4Q23 – indicating that sales are progressing.
- **MRC's active construction orderbook as at end 1Q24** stood at MYR15.3bn (including the MYR11bn Bukit Jalil Sentral (BJS) project), providing earnings visibility of more than 5 years. The Phase 1A and 1B of the BJS project (GDV: MYR900m) may kick off in 4Q24 – providing job continuity as LRT3 is 90% financially completed (target completion: end 2024). The group's c.MYR33bn tenderbook comprises the three Mass Rapid Transit 3 packages (c.MYR25-29bn) and Pan Borneo Highway Sabah Phase 1B among others.
- **MRC's property arm plans MYR2.3bn and MYR1.3bn worth of launches** in Malaysia and New Zealand for FY24F. The group's VISTA project in Gold Coast, Australia (GDV: c.MYR1.5bn, launched in Apr 2023) has seen 29% of GDV being sold as of Apr 2024 (end 2Q23: 3%). MRC has achieved MYR268m of property sales in 1Q24 vs its FY24 target of MYR800m. We view the target is within reach as Residensi Tujuh (GDV: MYR385m) will start contributing from 2Q24.
- **We cut FY24-26F earnings by 13-14%** as we bump up our tax rate assumptions and dial down on property sales recognition. We also take the opportunity to roll forward our valuation base year to FY25F (from FY24F). The net effect from the downward earnings adjustment and rolling forward our valuation base still brings us to a MYR0.80 TP, which bakes in a 4% ESG premium. Valuation remains relatively undemanding – trading at a 0.7x FY24F P/BV, or -2SD from the KL Construction Index's 5-year mean P/BV.
- **Key factors which may continue attracting interest in the stock** include the reinstatement of five LRT3 stations and other packages for rolling stock and depot (value in excess of MYR1.5bn), the redevelopment of Kuala Lumpur Sentral (likely to begin end-FY24), along with Penang Sentral's prospects being underpinned by the Penang Light Rail Transit project. Key downside risks include a slowdown in the property market and sluggish project rollouts.

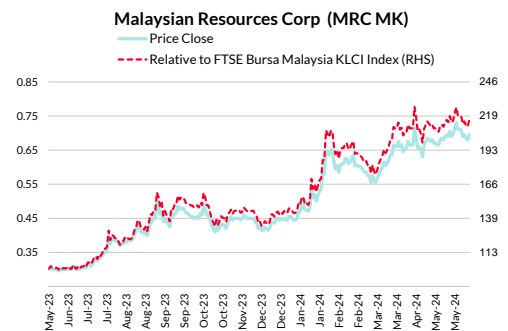
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	56.2	3.7	18.8	63.5	127.9
Relative	45.9	1.9	15.4	53.1	113.1
52-wk Price low/high (MYR)				0.30	-0.73



Source: Bloomberg

#### Overall ESG Score: 3.2 (out of 4)

##### E: EXCELLENT

MRCB is rated excellent in this category, partly due to a significant improvement in energy consumption, which was down by 53% YoY. This also applies to four green building rating systems used to help it increase efficiency in energy, water, and materials usage at its property projects. MRCB also contributes to the reduction of CO<sub>2</sub>, by encouraging the public to use public transportation made accessible by its developments.

##### S: GOOD

Efforts include being committed to local employment, using a mechanism to facilitate employee engagement, and stakeholder engagement on human rights issues. We note that MRCB has also achieved 1m man hours without lost-time injury for Kwasa C8 Plot 1 (Employees Provident Fund headquarters).

##### G: GOOD

57% of MRCB's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. It has an in-house investor relations team and holds investor meetings regularly. The public can easily access information about the company's on-going projects.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	3,205	2,514	2,553	2,889	3,064
Recurring net profit (MYRm)	47	(66)	41	54	59
Recurring net profit growth (%)	-	(241.9)	-	32.6	8.9
Recurring P/E (x)	66.61	na	76.60	57.77	53.06
P/B (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	na	7.22	4.84	6.37	43.99
Dividend Yield (%)	1.4	1.4	1.4	1.4	1.4
EV/EBITDA (x)	15.04	13.05	15.20	11.37	11.07
Return on average equity (%)	1.4	2.2	0.9	1.2	1.3
Net debt to equity (%)	33.6	18.0	13.6	14.3	15.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.01	(0.01)	0.01	0.01	0.01
Construction & Engineering	DPS	0.01	0.01	0.01	0.01	0.01
<b>Malaysian Resources Corp</b>	BVPS	1.01	1.03	1.03	1.03	1.03
MRC MK	Return on average equity (%)	1.4	2.2	0.9	1.2	1.3
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	66.61	na	76.60	57.77	53.06
SOP valuation	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	(2.6)	13.9	19.1	14.1	0.7
<b>Key drivers</b>	Dividend Yield (%)	1.4	1.4	1.4	1.4	1.4
New property sales, asset disposals, new construction contracts	EV/EBITDA (x)	15.04	13.05	15.20	11.37	11.07
	EV/EBIT (x)	18.70	16.80	19.87	13.85	13.48
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	3,205	2,514	2,553	2,889	3,064
Slowdown in the property market and sluggish project rollouts.	Gross profit	187	25	444	530	562
	EBITDA	308	302	245	329	341
	Depreciation and amortisation	(60)	(67)	(58)	(59)	(61)
<b>Company Profile</b>	Operating profit	248	235	187	270	280
MRCB is engaged in construction (niche strength in environmental projects), property development and investment, and toll road operations. It is known for its transit-oriented developments, eg KL Sentral, Bukit Jalil City, Kwasa Damansara, and Penang Sentral.	Net interest	(99)	(113)	(124)	(162)	(159)
	Pre-tax profit	154	134	106	152	166
	Taxation	(101)	(33)	(64)	(97)	(105)
	Reported net profit	65	101	41	54	59
	Recurring net profit	47	(66)	41	54	59
	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(123)	411	584	417	(7)
	Cash flow from operations	(81)	430	642	487	71
	Capex	0	0	(50)	(50)	(50)
	Cash flow from investing activities	53	420	(65)	(65)	(65)
	Dividends paid	(53)	(45)	(45)	(45)	(45)
	Cash flow from financing activities	14	(444)	(45)	(727)	(45)
	Cash at beginning of period	579	534	972	1,174	1,142
	Net change in cash	(13)	406	532	(305)	(39)
	Ending balance cash	534	940	1,173	1,143	1,087
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	534	972	1,174	1,142	1,094
	Tangible fixed assets	2,234	1,764	1,756	1,747	1,737
	Total investments	0	0	15	30	45
	Total assets	9,229	9,010	9,034	9,272	9,825
	Short-term debt	841	311	311	311	311
	Total long-term debt	1,216	1,491	1,491	1,491	1,491
	Total liabilities	4,692	4,410	4,437	4,664	5,202
	Total equity	4,537	4,600	4,597	4,608	4,624
	Total liabilities & equity	9,229	9,010	9,034	9,272	9,825
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	121.3	(21.6)	1.6	13.1	6.1
	Recurrent EPS growth (%)	0.0	(241.9)	0.0	32.6	8.9
	Gross margin (%)	5.8	1.0	17.4	18.4	18.4
	Operating EBITDA margin (%)	9.6	12.0	9.6	11.4	11.1
	Net profit margin (%)	2.0	4.0	1.6	1.9	1.9
	Dividend payout ratio (%)	68.9	44.2	110.2	83.1	76.4
	Capex/sales (%)	0.0	0.0	2.0	1.7	1.6
	Interest cover (x)	2.50	2.08	1.45	1.68	1.75

Source: Company data, RHB

## Results At a Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	Comments
Revenue	742.2	668.8	476.2	(28.8)	(35.8)	Projects such as LRT3 reaching completion
EBIT	47.9	100.4	40.5	(59.7)	(15.5)	
EBIT margin (%)	6.5	15.0	8.5			
Interest expense	(27.9)	(25.9)	(23.9)	(7.7)	(14.3)	
Associates	3.6	3.4	3.1	(8.0)	(12.7)	
Pre-tax profit	20.6	79.7	19.0	(76.2)	(7.7)	
Pre-tax margin (%)	2.8	11.9	4.0	(66.6)	43.8	
Tax	(12.0)	0.4	(16.0)	(4,647.2)	33.7	
Effective tax rate (%)	58.2	(0.4)	84.4			
Net profit	8.5	80.23	3.0	(96.3)	(64.6)	
Core profit	8.5	(87.0)	3.0	(103.5)	(64.6)	Below expectations.
Net margin (%)	1.1	(13.0)	0.6			

Source: Company data, RHB

Figure 2: MRCB's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (FY25F year earnings)	P/E of 18x	576.0
Surplus RNAV for property and investments	WACC of 11%	870.3
28% Sentral REIT	TP: 0.91	303.5
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	71.5
Shareholders' funds (ex-construction & REIT)		3,436.4
Total RNAV		5,257.7
Share base		4,467.5
<b>RNAV per share</b>		<b>1.18</b>
Discount <sup>(1)</sup>		35%
Intrinsic value/share (MYR)		<b>0.77</b>
ESG premium/discount	4%	0.03
<b>TP</b>		<b>0.80</b>

Note 1: We believe a 35% discount to RNAV is justified. We think this is fair, taking into account the abundant prospects in the form of MRT3, reinstatement of five LRT3 stations, flood mitigation projects and potentially Penang LRT.

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

In 2023, MRC's total Scopes 2 emissions amounted to 18,751 tCO<sub>2</sub>e, which is an increase of 7.8% compared to 2021, but represent a 1% reduction compared to MRC's 2020 baseline.

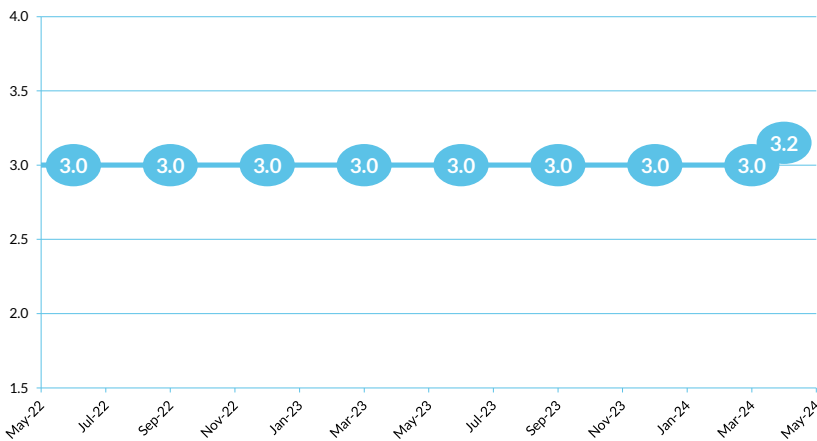
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	1,838	2,061	3,851
Scope 2	16,144	17,396	18,751
Scope 3	6,026	13,590	17,520
Total emissions	24,008	33,047	40,122

Source: Company data, RHB

## Latest ESG-Related Developments

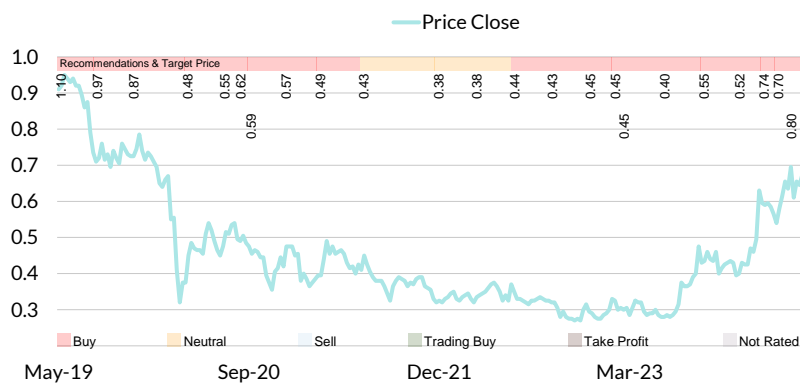
- MRCB is committed to SBTi and will seek validation for our 2020 baseline year and reduction targets.
- Using the latest version of the SBTi Tool and through the absolute contraction approach (ACA), we have set an absolute Scopes 1 and 2 emission reduction target of 4.2% annually (42% by 2030), aligned to the 1.5°C scenario.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-01	Buy	0.80	0.66
2024-03-01	Buy	0.70	0.59
2024-01-26	Buy	0.74	0.65
2023-11-28	Buy	0.52	0.44
2023-10-12	Buy	0.55	0.49
2023-09-01	Buy	0.55	0.50
2023-05-30	Buy	0.40	0.31
2023-02-21	Buy	0.45	0.32
2023-01-30	Buy	0.45	0.33
2022-12-01	Buy	0.45	0.33
2022-08-31	Buy	0.43	0.35
2022-06-01	Buy	0.44	0.37
2022-03-01	Neutral	0.38	0.36
2021-11-29	Neutral	0.38	0.35
2021-09-01	Neutral	0.43	0.40

Source: RHB, Bloomberg

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