

26 February 2021

# Malaysian Resources Corp (MRC MK)

## Core Earnings Beat Estimates, Maintain BUY

- **Maintain BUY and MYR0.49 TP, 20% upside and c.2% yield.** FY20 core earnings of MYR26.3m came in above expectations, >100% of our and Street full-year estimates. DPS of 1 sen was declared. Operations ran as usual with no shutdowns seen at the sites since January. We believe this will allow earnings recovery to run its course, backed by Malaysian Resources Corp's extensive outstanding orders of MYR20.5bn. Valuation remains attractive, with the stock last traded at 0.2x PBV – the lowest in our construction universe.
- **4Q20 overall revenue recovered** by +4% QoQ (-35% YoY) at MYR308.9m. This was driven by +15% QoQ (-41% YoY) construction contribution as progress gained momentum since the end of MCO last year. Bulk of the revenue included progress billings from EPF Headquarters at Kwasa Sentral (EPF HQ), the Damansara-Shah Alam Elevated Highway Package CB2 (DUKE), and Sungai Besi-Ulu Kelang Elevated Expressway Package CA2 (SUKE). In FY21, we expect income to further expand driven by improving productivity levels, mainly for infrastructure works. It is worth noting that JV share from Light Rapid Transit 3 (LRT3) should significantly improve as management guided for better visibility on potential work recognition.
- **Property – only division to record growth in FY20.** Its revenue grew 12% YoY due to the commencement of progressive handover and financial settlement of 1060 Carnegie units in Australia. Other contributions came from the sale of unsold inventories and ongoing development projects, namely Sentral Suites and 9 Seputeh. We believe progress of TRIA 9 Seputeh has been in full swing since the start of MCO 2.0, given its Central Labour Quarters (CLQ) readiness to comply with the standard operating procedures (SOP). Headwinds for this segment could come from a potential slowdown in demand recovery, leading to a soft take-up rate in the near term. On a positive note, we believe this could be mitigated by its ongoing developments, which are mostly part of its Transport Oriented Development.
- **Despite beating our full-year estimates, we did not make any changes to our forecasts.** We believe our FY21F-22F earnings have already factored in better contribution from key segments as they further recover from the MCO last year. The share of LRT3 JV should also improve significantly starting in FY21, in our view.
- **Key downside risks** include a prolonged slowdown in the property market, longer-than-expected delays in the commencement of public sector infrastructure projects, and inability to secure new orders. Sudden restrictions on activities – possibly due to tighter lockdown measures, if implemented – may present a further downside risk.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,319	1,199	1,324	1,456	1,748
Recurring net profit (MYRm)	24	26	43	59	68
Recurring net profit growth (%)	(68.5)	10.6	62.5	38.9	14.7
Recurring P/E (x)	39.86	36.05	22.19	15.98	13.93
P/B (x)	0.2	0.2	0.2	0.2	0.2
P/CF (x)	na	1.52	2.40	5.20	42.39
Dividend Yield (%)	4.2	2.4	2.4	2.4	2.4
EV/EBITDA (x)	15.94	na	11.67	10.94	11.52
Return on average equity (%)	0.5	(3.8)	0.9	1.3	1.5
Net debt to equity (%)	27.2	18.9	16.6	19.7	27.3

Source: Company data, RHB

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**Buy** (Maintained)

Target Price (Return): MYR0.49 (+17%)  
 Price: MYR0.42  
 Market Cap: USD453m  
 Avg Daily Turnover (MYR/USD): 3.45m/0.85m

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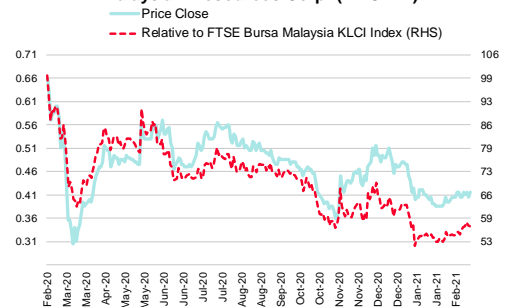
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.6)	6.4	(3.5)	(17.8)	(36.7)
Relative	(9.8)	6.1	(2.5)	(19.5)	(42.1)
52-wk Price low/high (MYR)				0.31	– 0.63

Malaysian Resources Corp (MRC MK)



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 shown in energy consumption, which was down by 53% compared to the previous year. It also applies four green building rating systems to increase efficiency in the use of energy, water and materials in its property projects. MRCB also contributes to the reduction of CO2 by encouraging the public to use public transportation made accessible by its developments.

#### S: Good

Its efforts include commitment to local employment, mechanism to facilitate employee engagement, and stakeholder engagement on human rights issues. We note that it has also achieved 1m manhours without lost-time injury (LTI) for Kwasa C8 Plot 1 (EPF Headquarters).

#### G: Good

57% of MRCB's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. MRCB has an in-house investor relations team and holds investor meetings regularly. Information on ongoing projects are easily accessible by the public.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.01	0.01	0.02	0.03	0.03
Construction & Engineering	DPS	0.02	0.01	0.01	0.01	0.01
<b>Malaysian Resources Corp</b>	BVPS	2.10	2.00	2.00	2.01	2.02
MRC MK	Return on average equity (%)	0.5	(3.8)	0.9	1.3	1.5
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	39.86	36.05	22.19	15.98	13.93
	P/B (x)	0.2	0.2	0.2	0.2	0.2
	FCF Yield (%)	(22.6)	60.3	36.3	13.9	(2.9)
	Dividend Yield (%)	4.2	2.4	2.4	2.4	2.4
	EV/EBITDA (x)	15.94	na	11.67	10.94	11.52
	EV/EBIT (x)	31.15	na	19.64	17.10	17.06
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	1,319	1,199	1,324	1,456	1,748
	Gross profit	298	(165)	316	342	399
	EBITDA	141	(74)	144	166	187
	Depreciation and amortisation	(69)	(60)	(58)	(60)	(61)
	Operating profit	72	(134)	86	106	127
	Net interest	(26)	(39)	(32)	(27)	(32)
	Pre-tax profit	53	(153)	79	110	126
	Taxation	(34)	(23)	(36)	(50)	(57)
	Reported net profit	24	(176)	43	59	68
	Recurring net profit	24	26	43	59	68
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(244)	756	317	92	(76)
	Cash flow from operations	(162)	621	393	182	22
	Capex	(51)	(50)	(50)	(50)	(50)
	Cash flow from investing activities	3	(65)	(65)	(65)	(65)
	Dividends paid	(77)	(77)	(44)	(13)	(18)
	Cash flow from financing activities	272	(77)	(44)	(13)	(18)
	Cash at beginning of period	552	517	958	1,063	917
	Net change in cash	113	479	284	104	(60)
	Ending balance cash	664	996	1,242	1,168	857
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	517	958	1,063	917	558
	Tangible fixed assets	2,020	2,010	2,001	1,992	1,981
	Total investments	34	49	64	79	94
	Total assets	8,481	8,053	8,138	8,245	8,470
	Short-term debt	825	825	825	825	825
	Total long-term debt	1,003	1,003	1,003	1,003	1,003
	Total liabilities	3,658	3,449	3,535	3,625	3,825
	Total equity	4,823	4,603	4,603	4,619	4,645
	Total liabilities & equity	8,481	8,053	8,138	8,245	8,470
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(29.5)	(9.1)	10.4	10.0	20.0
	Recurrent EPS growth (%)	(68.5)	10.6	62.5	38.9	14.7
	Gross margin (%)	22.6	(13.7)	23.8	23.5	22.8
	Operating EBITDA margin (%)	10.7	(6.1)	10.9	11.4	10.7
	Net profit margin (%)	1.8	(14.7)	3.2	4.1	3.9
	Dividend payout ratio (%)	325.2	(25.0)	30.0	30.0	30.0
	Capex/sales (%)	3.9	4.2	3.8	3.4	2.9
	Interest cover (x)	1.59	(2.43)	1.55	2.15	2.56

Source: Company data, RHB

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Figure 1: MRCB's results review

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY(%)	Comments
<b>Revenue</b>	<b>471.6</b>	<b>297.6</b>	<b>308.9</b>	<b>3.8</b>	<b>(34.5)</b>	<b>1,319.4</b>	<b>1,199.5</b>	<b>(9.1)</b>	Construction revenue was sequentially better
<b>EBIT</b>	<b>26.8</b>	<b>15.9</b>	<b>42.1</b>	<b>&gt;100</b>	<b>57.3</b>	<b>92.0</b>	<b>(117.3)</b>	<b>&gt;-100</b>	
<i>EBIT Margin (%)</i>	5.7	5.3	13.6			7.0	(9.8)		
Interest expense	(7.0)	(11.7)	(17.7)	51.2	>100	(45.6)	(55.2)	21.0	
Associates	0.7	3.5	10.3	>100	>100	2.7	2.7	0.0	
<b>Pretax profit</b>	<b>20.4</b>	<b>7.6</b>	<b>34.6</b>	<b>&gt;100</b>	<b>69.4</b>	<b>53.0</b>	<b>(152.9)</b>	<b>&gt;-100</b>	
<i>Pretax Margin (%)</i>	4.3	2.6	11.2			4.0	(12.7)		
Tax	(13.1)	(6.8)	(7.5)	9.2	(43.2)	(34.1)	(23.0)	(32.7)	
<i>Effective tax rate (%)</i>	64.2	89.6	21.5			64.4	(15.0)	>-100	
<b>Net Profit</b>	<b>7.3</b>	<b>0.8</b>	<b>27.2</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>18.9</b>	<b>(175.9)</b>	<b>&gt;-100</b>	
<b>Core Profit</b>	<b>6.0</b>	<b>0.9</b>	<b>26.9</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>23.9</b>	<b>26.3</b>	<b>10.0</b>	Above expectations
<i>Net Margin (%)</i>	1.3	0.3	8.7			1.8	2.2		

Source: Company data, RHB

Figure 2: MRCB's segmental results

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY(%)	Comments
<b>Revenue</b>	<b>471.7</b>	<b>297.6</b>	<b>308.9</b>	<b>3.8</b>	<b>(34.5)</b>	<b>1,319.4</b>	<b>1,199.5</b>	<b>(9.1)</b>	
Construction	258.7	131.7	151.6	15.1	(41.4)	679.5	514.9	(24.2)	The division has gained momentum since RMCO. Driven by progressive handover of 1050 Carnegie units.
Property	195.3	153.0	145.7	(4.8)	(25.4)	566.7	635.1	12.1	
Others	17.7	12.9	11.6	(10.0)	(34.7)	73.2	49.5	(32.4)	
<b>Segmental EBIT</b>	<b>26.5</b>	<b>15.6</b>	<b>38.8</b>	<b>&gt;100</b>	<b>46.6</b>	<b>102.1</b>	<b>(119.9)</b>	<b>nm</b>	
Construction	19.8	(3.0)	24.4	nm	23.2	23.1	(174.3)	nm	
Property	7.0	11.8	12.3	5.1	77.0	76.8	46.7	(39.2)	
Others	(0.3)	6.9	2.1	(69.8)	nm	2.2	7.7	>100	
<b>EBIT margins</b>	<b>5.6%</b>	<b>5.3%</b>	<b>12.6%</b>	<b>7.3</b>	<b>6.9</b>	<b>7.7%</b>	<b>-10.0%</b>	<b>-17.7</b>	
Construction	7.6%	-2.3%	16.1%	18.3	8.4	3.4%	-33.9%	-37.2	
Property	3.6%	7.7%	8.5%	0.8	4.9	13.6%	7.4%	-6.2	
Others	-1.7%	53.5%	17.9%	(35.6)	19.6	3.1%	15.5%	12.5	

Source: Company data, RHB

Figure 3: MRCB's SOP valuation

Items	P/E/ WACC/Valuation	Equity value/surplus (MYRm)
Construction (16x 1-year forward earnings)	P/E of 16x	378.9
Surplus RNAV for property and investments	WACC of 11%	975.4
28% Sentral REIT	TP: 0.95	283.9
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 8%	61.7
Shareholders' Funds (excl. construction)		3,686.8
Total RNAV		5,386.8
Share base		4,412.1
<b>RNAV per share</b>		1.22
Discount		60%
<b>Target Price (MYR)</b>		0.49

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-16	Buy	0.49	0.42
2020-11-24	Buy	0.57	0.44
2020-08-31	Buy	0.59	0.51
2020-08-06	Buy	0.62	0.54
2020-06-28	Buy	0.55	0.47
2020-03-31	Buy	0.48	0.39
2019-11-22	Buy	0.87	0.75
2019-08-27	Buy	0.97	0.72
2019-05-31	Buy	1.10	0.93
2018-11-23	Buy	1.08	0.70
2018-09-03	Buy	1.20	0.69
2018-03-27	Buy	na	0.99

Source: RHB, Bloomberg

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