

1 March 2024

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (Maintained)

Forget The Pain, Look Forward To The Gain; Still BUY

Target Price (Return): MYR0.70 (20%)
 Price (Market Cap): MYR0.59 (USD548m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 19.8m/4.23m

- **Still BUY, new MYR0.70 TP from MYR0.74, 20% upside.** After excluding the one-off gains from the sale of buildings and adjoining land, Malaysian Resources Corp saw a core net loss of MYR66.2m in FY23 – missing our and Street’s earnings estimates of MYR40m and MYR39m. The negative deviation was our billings assumptions, which were optimistic. On the bright side, MRC’s better net gearing of c.0.18x in FY23 vs FY22’s c.0.34x may enable the group to gear up for anticipated big ticket infrastructure projects – possibly leading to a sizeable orderbook expansion going forward.
- **Results review.** The construction segment saw a 25% YoY jump in EBIT for FY23 due to higher progress billings of the Light Rail Transit 3 (LRT3) project (88% financial recognition as of end 4Q23). Meanwhile, its property arm saw a 16% YoY EBIT contraction for FY23 due to the completion of Sentral Suites and TRIA 9 Seputeh in 2Q23. Completed unsold units reached MYR389.4m as at end 4Q23, which is lower than the MYR587m booked as at end 2Q23 – indicating that sales are progressing.
- **MRC’s active construction orderbook** as at end FY23 stood at MYR15.7bn – including the MYR1.1bn Bukit Jalil Sentral (BJS) project – which provides earnings visibility of >5 years. Phases 1A and 1B of the BJS project (GDV: MYR900m) may kick-off in 4Q24 – providing job continuity, as LRT3 is 88% financially completed (end-2024 target completion). The group’s c.MYR30bn tenderbook comprises three Mass Rapid Transit 3 packages (c.MYR25-29bn), a power plant in Kulim (<MYR300m), and Johor’s Iskandar Malaysia Bus Rapid Transit (<MYR400m). It excludes redevelopment of the Shah Alam Stadium (demolition may start in 1H24) and Kuala Lumpur Sentral.
- **Meanwhile,** MRC’s property arm continues to have bright prospects – owing to its planned launches worth MYR1.3bn and MYR2.3bn in New Zealand and Malaysia for FY24. The group’s VISTA project at Australia’s Gold Coast (GDV: c.MYR1.5bn; launched in Apr 2023) has seen sales progress of 16% as of Jan 2024 (end 2Q23: 3%). With MYR831m of property sales achieved in FY23 (surpassing the full-year target of MYR500m), MRC may continue to record better sales momentum going forward.
- **We cut FY24F-25F earnings** by 12-13% as we tone down our billings assumptions for its construction jobs and introduce our FY26F bottomline with a job replenishment target of MYR1bn. As a result, we arrive at a new SOP-derived TP of MYR0.70, baking in a 0% ESG premium/discount based on an ESG score of 3. A near-term rerating catalyst would be the group’s venture into Sabah via the Pan Borneo Highway Sabah Phase 1B project – worth c.MYR15.7bn in total and spread over 19 work packages.
- **The stock’s valuation** remains relatively undemanding – trading at 0.6x FY24F P/BV or -2SD from the KL Construction Index’s 5-year mean, justifying our BUY call. Key downside risks include a slowdown in the property market and sluggish project rollouts.

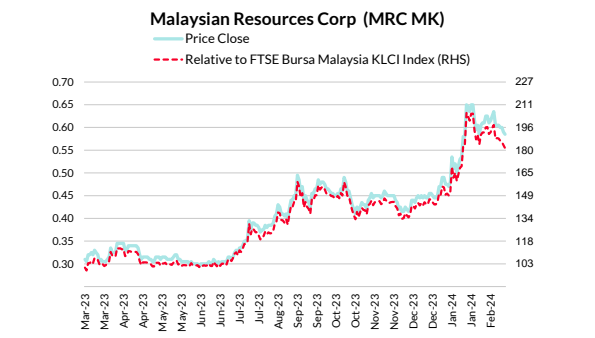
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	31.5	(9.3)	39.3	33.0	88.7
Relative	24.8	(11.7)	32.0	26.3	82.0
52-wk Price low/high (MYR)				0.30	-0.65



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

MRC 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. MRC also contributes to the reduction of CO2 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 MRC has also achieved 1m man hours without lost-time injury for Kwasa C8 Plot 1 (Employees Provident Fund headquarters).

G: GOOD

57% of MRC’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 group’s on-going projects.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	3,205	2,514	2,699	2,889	3,064
Recurring net profit (MYRm)	47	(66)	47	62	68
Recurring net profit growth (%)	-	(241.9)	-	31.2	8.9
Recurring P/E (x)	56.06	na	55.20	42.07	38.64
P/B (x)	0.6	0.6	0.6	0.6	0.6
P/CF (x)	na	6.07	4.05	5.23	32.79
Dividend Yield (%)	1.7	1.7	1.7	1.7	1.7
EV/EBITDA (x)	13.44	11.42	12.65	9.83	9.56
Return on average equity (%)	1.4	2.2	1.0	1.3	1.5
Net debt to equity (%)	33.6	18.0	13.6	13.9	14.7

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	0.02
Construction & Engineering	DPS	0.01	0.01	0.01	0.01	0.01
Malaysian Resources Corp	BVPS	1.01	1.03	1.03	1.03	1.04
MRC MK	Return on average equity (%)	1.4	2.2	1.0	1.3	1.5
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	56.06	na	55.20	42.07	38.64
SOP valuation	P/B (x)	0.6	0.6	0.6	0.6	0.6
	FCF Yield (%)	(3.1)	16.5	22.8	17.2	1.1
Key drivers	Dividend Yield (%)	1.7	1.7	1.7	1.7	1.7
i. New property sales;	EV/EBITDA (x)	13.44	11.42	12.65	9.83	9.56
ii. Asset disposals;	EV/EBIT (x)	16.71	14.70	16.34	11.97	11.64
iii. New construction contracts.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	3,205	2,514	2,699	2,889	3,064
Key downside risks include a slowdown in the property market and sluggish project rollouts.	Gross profit	187	25	470	530	562
	EBITDA	308	302	255	329	341
	Depreciation and amortisation	(60)	(67)	(58)	(59)	(61)
	Operating profit	248	235	198	270	280
	Net interest	(99)	(113)	(124)	(162)	(159)
	Pre-tax profit	154	134	116	152	166
	Taxation	(101)	(33)	(67)	(88)	(96)
	Reported net profit	65	101	47	62	68
	Recurring net profit	47	(66)	47	62	68
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(123)	411	580	421	(7)
	Cash flow from operations	(81)	430	645	499	80
	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	1,177	1,158
	Net change in cash	(13)	406	535	(292)	(30)
	Ending balance cash	534	940	1,176	1,158	1,112
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	534	972	1,177	1,158	1,118
	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	9,141	9,287	9,850
	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	4,537	4,664	5,202
	Total equity	4,537	4,600	4,604	4,623	4,648
	Total liabilities & equity	9,229	9,010	9,141	9,287	9,850
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	121.3	(21.6)	7.4	7.0	6.1
	Recurrent EPS growth (%)	0.0	(241.9)	0.0	31.2	8.9
	Gross margin (%)	5.8	1.0	17.4	18.4	18.4
	Operating EBITDA margin (%)	9.6	12.0	9.5	11.4	11.1
	Net profit margin (%)	2.0	4.0	1.8	2.2	2.2
	Dividend payout ratio (%)	68.9	44.2	94.4	71.9	66.1
	Capex/sales (%)	0.0	0.0	1.9	1.7	1.6
	Interest cover (x)	2.50	2.08	1.53	1.68	1.75

Source: Company data, RHB

Results At a Glance

Figure 1: MRC's results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY(%)	Comments
Revenue	833.9	503.7	668.8	32.8	(19.8)	3,205.1	2,514.1	(21.6)	Completion of certain construction projects in FY22.
EBIT	63.0	46.3	100.4	116.9	59.3	247.8	234.6	(5.3)	
EBIT margin (%)	7.6	9.2	15.0			7.7	9.3		
Interest expense	(27.1)	(30.2)	(25.9)	(14.2)	(4.5)	(99.1)	(112.8)	13.8	
Associates	3.6	3.4	3.1	(8.0)	(12.7)	17.2	10.1	(41.1)	
Pre-tax profit	37.7	18.7	79.7	>100	>100	154.3	134.2	(13.0)	
Pre-tax margin (%)	4.5	3.7	11.9	>100	>100	4.8	5.3	10.9	
Tax	(24.6)	(17.2)	0.4	>-100	>-100	(100.8)	(33.2)	(67.1)	
Effective tax rate (%)	65.3	92.0	(0.4)			65.3	24.7	(62.2)	
Net profit	13.0	1.46	80.2	5,395.2	516.3	64.8	101.0	55.8	
Core profit	13.0	1.5	(87.0)	nm	nm	46.6	(66.2)	>-100	Below expectations.
Net margin (%)	1.6	0.3	(13.0)			1.5	(2.6)		

Source: Company data, RHB

Figure 2: MRC's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (FY24F year earnings)	P/E of 18x	360.0
Surplus RNAV for property and investments	WACC of 11%	611.7
28% Sentral REIT	TP: 0.91	303.5
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	69.3
Shareholders' Funds (ex-construction & REIT)		3,884.9
Total RNAV		5,229.5
Share base		4,467.5
RNAV per share		1.17
Discount ⁽¹⁾		40%
Intrinsic value/share (MYR)		0.70
ESG premium/discount	0%	0.00
TP		0.70

Note 1: We believe a 40% discount to RNAV is justified. We think this is fair, taking into account the abundant prospects in the form of Mass Rapid Transit 3, reinstatement of five LRT3 stations, flood mitigation projects, and potentially Penang LRT

Source: Company data, RHB

Emissions And ESG

Trend analysis

In 2022, MRC's total Scopes 1 and 2 emissions amounted to 19,342 tCO₂e, which is an increase of 7.6% when compared to 2021, but represents a 7.5% reduction vis-à-vis the 2020 baseline.

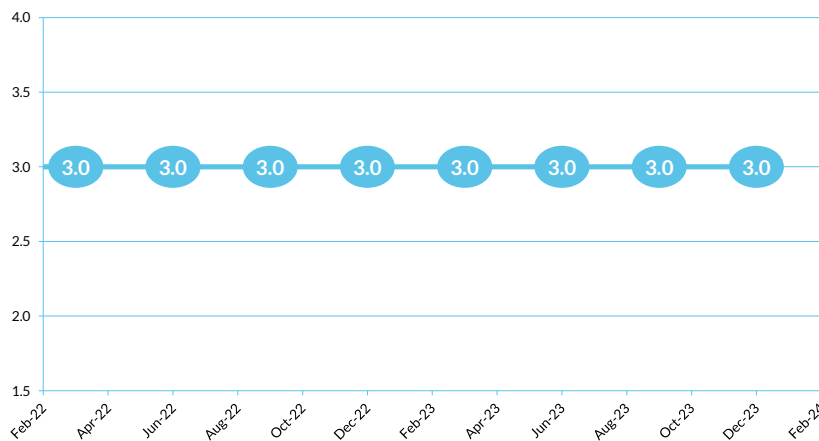
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	1,838	2,061	na
Scope 2	16,144	17,282	na
Scope 3	6,026	13,590	na
Total emissions	24,008	32,933	na

Source: Company data, RHB

Latest ESG-Related Developments

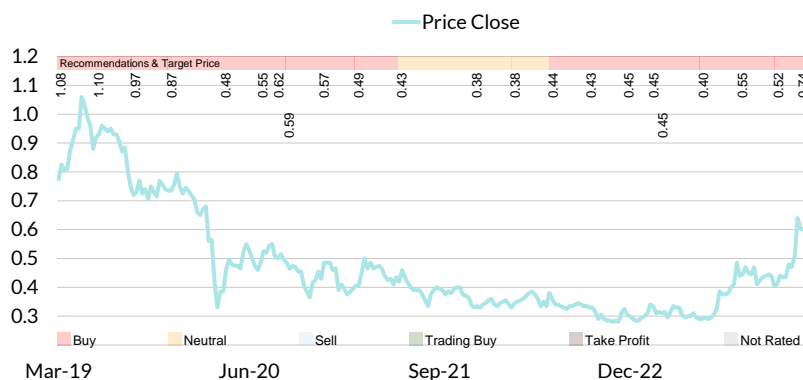
- MRC is committed to Science Based Targets initiative (SBTi) and will seek validation for its 2020 baseline year and reduction targets.
- Using the latest version of the SBTi Tool and through the absolute contraction approach or ACA, MRC has set an absolute Scopes 1 and 2 emission reduction target of 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
2024-01-26	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
2021-05-31	Neutral	0.43	0.43
2021-05-31	Neutral	0.49	0.43

Source: RHB, Bloomberg

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