

2 September 2024

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (Maintained)

Exceeded Expectations; Stay BUY

Target Price (Return): MYR0.86 (+56%)
 Price (Market Cap): MYR0.55 (USD569m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 12.0m/2.59m

- **Keep BUY, with new MYR0.86 from MYR0.80, 56% upside and c.2% yield** 1H24 core profit of MY54m (>100% YoY) exceeded our and Street's earlier full year estimates of MYR41m and MYR40m. The positive deviation was due to the stronger-than-expected performance of the construction arm. Overall, Malaysian Resources Corp's manageable net gearing of c.0.27x (vs c.0.34x in 1H23) as at end 1H24 may enable it to gear up for anticipated infrastructure projects – possibly leading to a sizeable orderbook expansion.
- **Results review.** The construction arm's EBIT saw a 146% YoY jump in 1H24 due to progress of the Light Rail Transit 3 project (93% financial progress) combined with the Muara Sungai Pahang Phase 3 flood mitigation project worth MYR280m. Meanwhile, its property arm saw an operating loss of MYR14.5m in 1H24 (1H23 operating profit: MYR33m) due to the completion of Sentral Suites and TRIA 9 Seputeh in Mar and May 2023 plus delays due to timing difference as a result of strata title issuance. Completed unsold units in Malaysia were at MYR411m as at end 1H24 vs MYR587m as at end 1H23.
- **MRC's active construction orderbook as at end 1H24** stood at MYR15.7bn (including the MYR1.1bn Bukit Jalil Sentral project), providing earnings visibility of >3 years. The group recently clinched a MYR250m job for the Sungai Langat Phase 2 flood mitigation project. We view the group hitting the FY24 new job target of MYR5bn backed by its c.MYR34bn tenderbook which comprises the Pan Borneo Package 34, Penang Airport Expansion and a flood mitigation project in Selangor among others.
- **MRC's property arm plans MYR5.7bn GDV worth of launches** in Malaysia, Australia and New Zealand for FY24F-25F. The VISTA project in Gold Coast, (GDV: c.MYR1.5bn) (launched in Apr 2023) has seen 32% of GDV sold as of July (end 1H23: 3%). MRC has achieved MYR497m of property sales in 1H24 vs its FY24F target of MYR800m. We view the target is within reach as Residensi Tujuh (GDV: MYR385m) will start contributing from 3Q24.
- **We increase FY24F-26F earnings** by 94%, 63% and 60% as we adjust higher margins and progress billings for MRC's construction jobs along with dialling down on the effective tax rate which was too conservative previously. In particular, we raise FY25F earnings for the construction arm (which constitutes 17% of the SOP valuation prior to the holding company discount) to MY55m from MYR30m (83% change). Hence, we arrive at a new SOP-derived TP of MYR0.86 (from MYR0.80) which bakes in a 4% ESG premium. Valuation remains relatively undemanding – trading at a 0.5x FY25F P/BV, or -1SD 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, the redevelopment of KL Sentral along with Penang Sentral's prospects being underpinned by Penang Light Rail Transit project. Key downside risks include a slowdown in the property market and sluggish project rollouts.

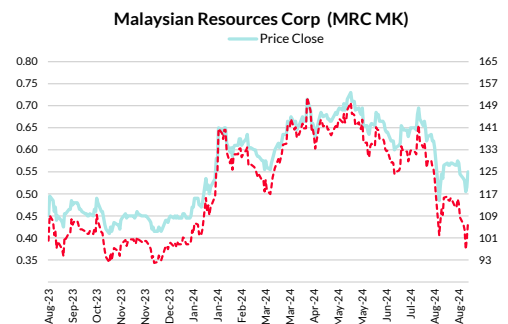
Analyst

Adam Bin Mohamed Rahim
 +603 2302 8101
adam.mohamed.rahim@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	23.6	(11.3)	(20.9)	(6.0)	22.2
Relative	8.2	(15.4)	(25.5)	(14.2)	6.6
52-wk Price low/high (MYR)				0.41	-0.73



Source: Bloomberg

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)	79	87	93
Recurring net profit growth (%)	-	(241.9)	-	10.9	6.8
Recurring P/E (x)	52.71	na	31.20	28.13	26.33
P/B (x)	0.5	0.5	0.5	0.5	0.5
P/CF (x)	na	5.71	3.61	4.72	23.30
Dividend Yield (%)	1.8	1.8	1.8	1.8	1.8
EV/EBITDA (x)	12.94	10.91	11.12	8.91	8.67
Return on average equity (%)	1.4	2.2	1.7	1.9	2.0
Net debt to equity (%)	33.6	18.0	12.7	12.5	12.7

Source: Company data, RHB

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 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 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 ongoing projects.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.01	(0.01)	0.02	0.02	0.02
Construction & Engineering	DPS	0.01	0.01	0.01	0.01	0.01
Malaysian Resources Corp	BVPS	1.01	1.03	1.04	1.05	1.06
MRC MK	Return on average equity (%)	1.4	2.2	1.7	1.9	2.0
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	52.71	na	31.20	28.13	26.33
SOP	P/B (x)	0.5	0.5	0.5	0.5	0.5
	FCF Yield (%)	(3.3)	17.5	25.7	19.2	2.3
Key drivers	Dividend Yield (%)	1.8	1.8	1.8	1.8	1.8
New property sales, asset disposals, new construction contracts	EV/EBITDA (x)	12.94	10.91	11.12	8.91	8.67
	EV/EBIT (x)	16.08	14.03	14.10	10.78	10.50
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	3,205	2,514	2,553	2,889	3,064
Slowdown in the property market	Gross profit	187	25	472	540	570
	EBITDA	308	302	273	339	349
Company Profile	Depreciation and amortisation	(60)	(67)	(58)	(59)	(61)
Malaysian Resources Corp 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.	Operating profit	248	235	216	280	288
	Net interest	(99)	(113)	(124)	(162)	(159)
	Pre-tax profit	154	134	134	162	173
	Taxation	(101)	(33)	(54)	(73)	(78)
	Reported net profit	65	101	79	87	93
	Recurring net profit	47	(66)	79	87	93
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(123)	411	584	417	(7)
	Cash flow from operations	(81)	430	680	521	105
	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	1,213	1,215
	Net change in cash	(13)	406	571	(271)	(4)
	Ending balance cash	534	940	1,212	1,215	1,194
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	534	972	1,213	1,215	1,201
	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	9,073	9,344	9,933
	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	4,635	4,680	4,731
	Total liabilities & equity	9,229	9,010	9,073	9,344	9,933
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	121.3	(21.6)	1.6	13.1	6.1
	Recurrent EPS growth (%)	0.0	(241.9)	0.0	10.9	6.8
	Gross margin (%)	5.8	1.0	18.5	18.7	18.6
	Operating EBITDA margin (%)	9.6	12.0	10.7	11.7	11.4
	Net profit margin (%)	2.0	4.0	3.1	3.0	3.0
	Dividend payout ratio (%)	68.9	44.2	56.7	51.1	47.9
	Capex/sales (%)	0.0	0.0	2.0	1.7	1.6
	Interest cover (x)	2.50	2.08	1.66	1.75	1.79

Source: Company data, RHB

Results At a Glance

Figure 1: MRC's results review

FYE Dec (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY(%)	Comments
Revenue	599.3	476.2	372.2	(21.8)	(37.9)	1,341.6	848.4	(36.8)	Progress from construction projects
EBIT	39.9	40.5	72.2	78.2	80.9	87.8	112.7	28.3	
<i>EBIT margin (%)</i>	6.7	8.5	19.4			6.5	13.3		
Interest expense	(28.9)	(23.9)	(26.9)	12.8	(6.7)	(56.7)	(50.8)	(10.4)	
Associates	3.6	3.4	3.1	(8.0)	(12.7)	17.2	10.1	(41.1)	
Pre-tax profit	15.3	19.0	48.4	>100	>100	35.8	67.3	87.8	
<i>Pre-tax margin (%)</i>	2.6	4.0	13.0	>100	>100	2.7	7.9	>100	
Tax	(4.4)	(16.0)	2.9	>-100	>-100	(16.3)	(13.1)	(19.9)	
<i>Effective tax rate (%)</i>	28.6	84.4	(6.0)			45.6	19.4		
Net profit	10.9	3.00	51.2	>100	>100	19.3	54.2	>100	
Core profit	10.9	3.0	51.2	>100	>100	19.3	54.2	>100	Beat expectations
<i>Net margin (%)</i>	1.8	0.6	13.8			1.4	6.4		

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	990.0
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		5,671.7
Share base		4,467.5
RNAV per share		1.27
Discount ⁽¹⁾		35%
Intrinsic value/share (MYR)		0.83
ESG premium/discount	4%	0.03
TP		0.86

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 Scope 2 emissions amounted to 18,751 tCO₂e, which is an increase of 7.8% compared to 2021, but represent a 1% reduction compared to MRC's 2020 baseline.

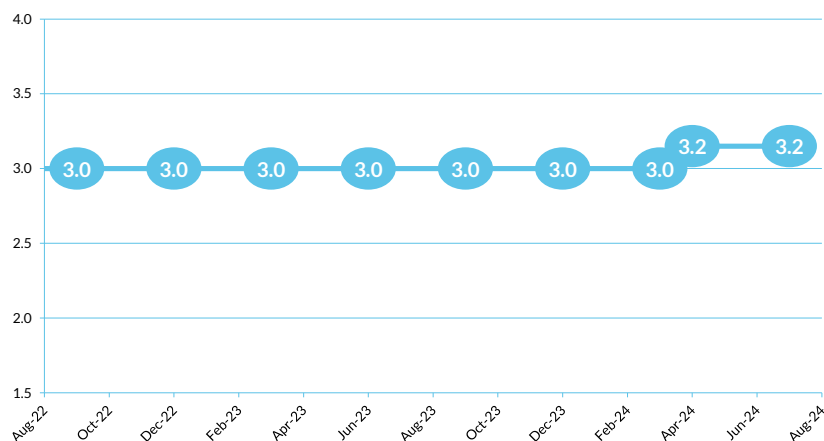
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	1,838	2,061	3,851
Scope 2	16,144	17,396	18,751
Scope 3	6,026	13,590	17,520
Total emissions	24,008	33,047	40,122

Source: Company data, RHB

Latest ESG-Related Developments

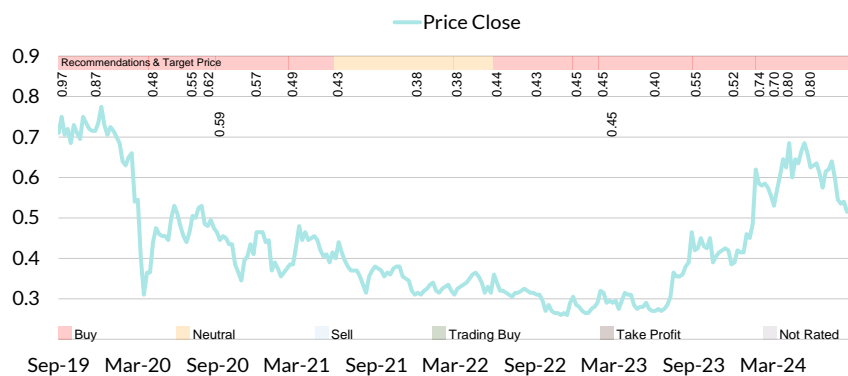
- MRCB is committed to SBTi and will seek validation for its 2020 baseline year and reduction targets.
- Using the latest version of the SBTi Tool and through the absolute contraction approach (ACA), it has set an absolute Scope 1 and 2 emission reduction targets of 4.2% annually (42% by 2030), aligned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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-31	Buy	0.80	0.66
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470