

1 September 2023

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (Maintained)

Still In a Sweet Spot; Still BUY

Target Price (Return): MYR0.55 (22%)
 Price (Market Cap): MYR0.45 (USD433m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 10.9m/2.38m

- **Still BUY, new MYR0.55 TP (SOP) from MYR0.40, 22% upside.** 1H23 core earnings of MYR19.3m (-31% YoY) missed expectations at 28% and 39% of our and Street's full-year projections. The negative deviation was on our earlier billing assumptions being too optimistic. While we now project a 2% YoY earnings growth for FY23, Malaysian Resources Corp has an estimated 3-year earnings CAGR of 18%, supported by a strong orderbook-to-revenue cover ratio of >10x and sizeable landbank (1,153 acres) with MYR33bn in GDV – providing sustainable land supply for future projects.
- **Performance review.** The construction segment saw a 23% YoY drop in EBIT during 1H23 due to the completion of key projects in late 2022, eg Damansara-Shah Alam Elevated Expressway (DASH) Package CB2 and Mass Rapid Transit 2 (MRT2). The property arm saw a 24% YoY EBIT contraction for 1H23 on the completion of Sentral Suites and TRIA 9 Seputeh in April and May, which led to completed unsold units reaching MYR587m at end 2Q23 (end 1Q23: MYR384m).
- **The outstanding construction orderbook** as at end 1H23 stood at MYR16.4bn, including the MYR11bn Bukit Jalil Sentral (BJS) project. This provides earnings visibility of >5 years. We gather the BJS project's first phase (GDV: MYR900m) may kick off in 1Q24 – providing job continuities as the Light Rail Transit 3 project is 86% is completed (completion: 2025). MRC's c.MYR30bn tenderbook comprises three MRT3 packages (c.MYR25-29bn), a Kulim power plant (<MYR300m), and Iskandar Bus Rapid Transit in Johor (<MYR400m) but excludes the pre-qualified flood mitigation project and Shah Alam Sports Complex redevelopment.
- **The property arm also has bright prospects** – owing to its planned launches worth MYR1.7bn and MYR2.3bn in New Zealand and Malaysia for FY24. The group's VISTA project at Gold Coast, Australia (GDV: c.MYR1.2bn) (launched in April) has seen sales progress of 3% so far and may likely pick up in the coming quarters. With MYR313m in property sales achieved in 7M23, MRC's target of MYR500m for FY23 is highly achievable.
- **We cut FY23F-25F earnings** by 31%, 23%, and 4% as our earlier estimates were too optimistic – factoring in more conservative progress billings timeline and margins. Concurrently, we tweak our discount to RNAV to 55% from 65%, given the lifting of the political overhang post the state elections. As a net result of these two adjustments, we arrive at a new SOP-derived MYR0.55 TP, baking in a 0% ESG premium based on an ESG score of 3.0. A near-term re-rating catalyst, in our view, will be to secure the Kuala Lumpur International Airport aerotrain project, as MRC has been invited to participated in the tender by Malaysia Airports (MAHB MK, BUY, TP: MYR8.31).
- **The stock is trading** at a 0.4x FY24F P/BV, >-2SD below the KLCON Index's 5-year mean P/BV, which is undemanding in our view in light of the aforementioned points. Hence, our BUY call. Key downside risks include a slowdown in the property market and sluggish project rollouts.

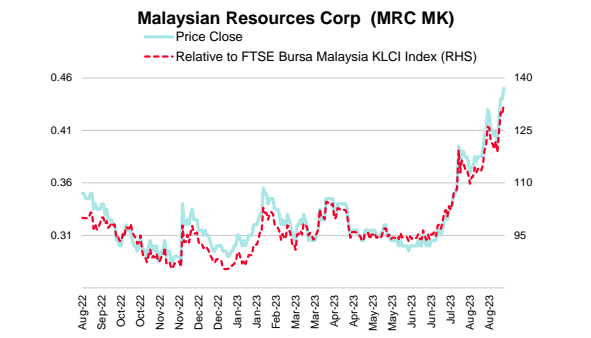
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	52.5	16.9	47.5	45.2	28.6
Relative	55.4	16.8	43.6	45.4	32.6
52-wk Price low/high (MYR)	0.29 – 0.45				



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

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 remunerations, which include 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.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,448	3,205	2,918	3,035	3,137
Recurring net profit (MYRm)	(108)	47	47	61	76
Recurring net profit growth (%)	(41.1)	-	1.5	29.1	24.9
Recurring P/E (x)	na	43.13	42.48	32.91	26.35
P/B (x)	0.4	0.4	0.4	0.4	0.4
P/CF (x)	na	na	6.98	2.66	5.25
Dividend Yield (%)	2.2	2.2	2.2	2.2	2.2
EV/EBITDA (x)	21.12	11.49	13.93	11.58	10.47
Return on average equity (%)	0.3	1.4	1.0	1.3	1.7
Net debt to equity (%)	29.8	33.6	34.2	27.2	37.0

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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	(0.02)	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	1.01	1.01	1.02	1.03
MRC MK	Return on average equity (%)	0.3	1.4	1.0	1.3	1.7
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	na	43.13	42.48	32.91	26.35
SOP valuation	P/B (x)	0.4	0.4	0.4	0.4	0.4
	FCF Yield (%)	(11.8)	(4.0)	11.8	35.1	16.5
Key drivers	Dividend Yield (%)	2.2	2.2	2.2	2.2	2.2
New property sales, asset disposals, and new construction contracts.	EV/EBITDA (x)	21.12	11.49	13.93	11.58	10.47
	EV/EBIT (x)	31.13	14.28	17.88	14.60	12.58
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	1,448	3,205	2,918	3,035	3,137
A slowdown in the property market and sluggish project rollouts.	Gross profit	180	189	479	528	576
	EBITDA	160	308	255	279	351
	Depreciation and amortisation	(51)	(60)	(56)	(58)	(59)
	Operating profit	109	248	199	221	292
	Net interest	(79)	(99)	(113)	(124)	(162)
	Pre-tax profit	61	154	122	140	174
	Taxation	(55)	(101)	(73)	(77)	(96)
	Reported net profit	16	65	47	61	76
	Recurring net profit	(108)	47	47	61	76
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(123)	(318)	219	676	289
	Cash flow from operations	(193)	(81)	288	755	383
	Capex	(44)	0	(51)	(50)	(50)
	Cash flow from investing activities	309	53	(66)	(65)	(65)
	Dividends paid	(20)	(53)	(45)	(45)	(45)
	Cash flow from financing activities	(67)	136	(45)	(45)	(45)
	Cash at beginning of period	540	579	534	502	817
	Net change in cash	49	108	177	645	273
	Ending balance cash	480	534	501	816	357
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	579	534	502	817	356
	Tangible fixed assets	2,182	2,231	2,166	2,158	2,149
	Total investments	0	0	15	30	45
	Total assets	9,205	9,235	9,042	9,140	8,846
	Short-term debt	479	841	841	841	841
	Total long-term debt	1,454	1,216	1,216	1,216	1,216
	Total liabilities	4,665	4,699	4,502	4,582	4,254
	Total equity	4,540	4,536	4,540	4,558	4,592
	Total liabilities & equity	9,205	9,235	9,042	9,140	8,846
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	20.8	121.3	(9.0)	4.0	3.4
	Recurrent EPS growth (%)	(40.8)	0.0	1.5	29.1	24.9
	Gross margin (%)	12.4	5.9	16.4	17.4	18.4
	Operating EBITDA margin (%)	11.1	9.6	8.8	9.2	11.2
	Net profit margin (%)	1.1	2.0	1.6	2.0	2.4
	Dividend payout ratio (%)	280.8	68.9	94.4	73.1	58.6
	Capex/sales (%)	3.0	0.0	1.8	1.6	1.6
	Interest cover (x)	1.22	2.50	1.72	1.71	1.82

Source: Company data, RHB

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Results At a Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY(%)	Comments
Revenue	700.4	742.2	599.3	(19.3)	(14.4)	1,511.1	1,341.6	(11.2)	Better progress billings from LRT3.
EBIT	53.7	47.9	39.9	(16.8)	(25.6)	106.0	87.8	(17.1)	
<i>EBIT margin (%)</i>	7.7	6.5	6.7			7.0	6.5		
Interest expense	(24.4)	(27.9)	(28.9)	3.6	18.1	(47.7)	(56.7)	19.0	
Associates	3.6	3.4	3.1	(7.9)	(12.6)	17.2	10.1	(41.1)	
Pre-tax profit	28.1	20.6	15.3	(25.6)	(45.6)	59.9	35.8	(40.1)	
<i>Pre-tax margin (%)</i>	4.0	2.8	2.6	(7.8)	(36.4)	4.0	2.7	(32.6)	
Tax	(17.1)	(12.0)	(4.4)	(63.5)	(74.5)	(34.9)	(16.3)	(53.2)	
<i>Effective tax rate (%)</i>	61.0	58.2	28.6			58.4	45.6	(21.9)	
Net profit	14.1	8.47	10.9	28.3	(22.9)	28.1	19.3	(31.3)	Within expectations.
Core profit	14.1	8.5	10.9	28.3	(22.9)	28.1	19.3	(31.3)	
<i>Net margin (%)</i>	2.0	1.1	1.8			1.9	1.4		

Source: Company data, RHB

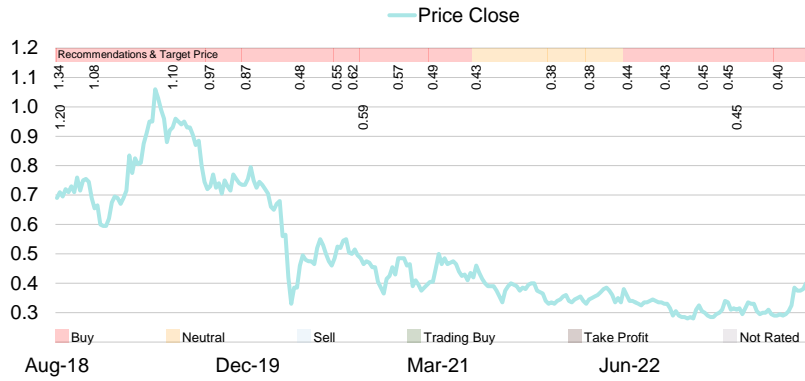
Figure 2: MRC's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (FY24F year earnings)	P/E of 11x	291.5
Surplus RNAV for property and investments	WACC of 11%	923.5
28% Sentral REIT	TP: 0.89	266.1
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	67.3
Shareholders' Funds (ex-construction & REIT)		3,884.9
Total RNAV		5,433.3
Share base		4,467.5
RNAV per share		1.22
Discount ⁽¹⁾		55%
Intrinsic value/share (MYR)		0.55
ESG premium/discount	0%	0.00
TP		0.55

Note 1: We believe a 55% discount to RNAV is justified. We think this is fair, taking into account the lifting of the political overhang post state elections which may pave way for project rollouts

Source: Company data, RHB

Recommendation Chart

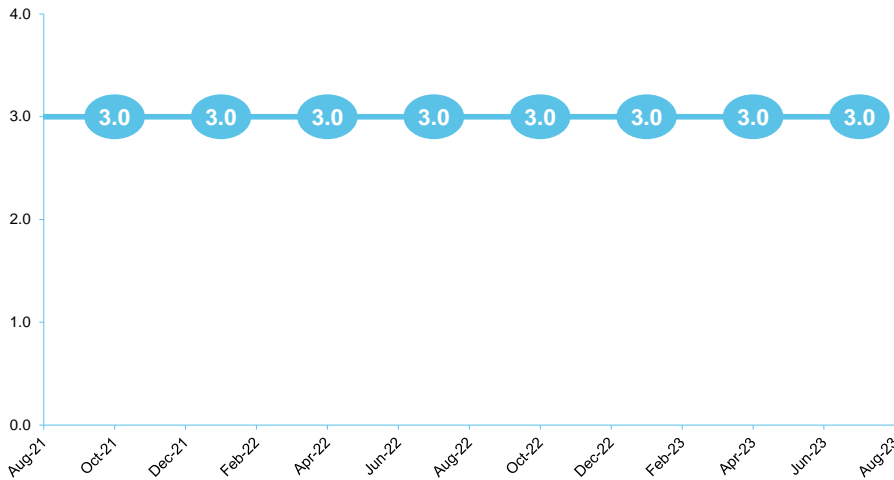


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-02-26	Buy	0.49	0.42
2021-02-16	Buy	0.49	0.42
2020-11-24	Buy	0.57	0.44
2020-08-31	Buy	0.59	0.51

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Malaysia

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