

28 November 2024

Malaysian Resources Corp (MRC MK)

Stronger Contribution From Construction; BUY

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return): MYR0.86 (64%)
 Price (Market Cap): MYR0.53 (USD528m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 8.62m/2.00m

Analyst

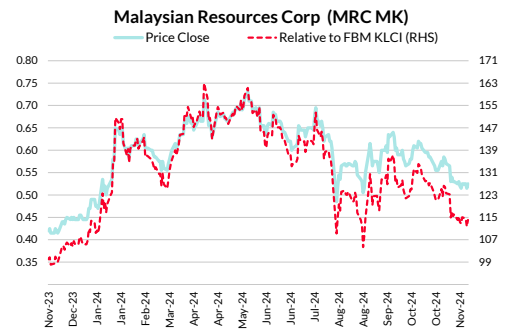
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- **Keep BUY and MYR0.86 TP (64% upside), c.2% yield.** While Malaysian Resources Corp's 9M24 core profit of MY63m (>100% YoY) made up 80% and 93% of our and Street's full-year estimates, we deem it to be within expectations as we expect the property arm's performance to remain lukewarm in 4Q24. Overall, its manageable net gearing of c.0.27x (9M23: c.0.30) as of end 9M24 should help MRC gear up for anticipated infrastructure projects, possibly leading to a sizeable orderbook expansion.
- **Results review.** The construction arm's EBIT saw a 65% YoY jump in 9M24 due to progress of the Light Rail Transit 3 (LRT3) project (97% financial progress) combined with the Muara Sungai Pahang Phase 3 flood mitigation project worth MYR280m (43% financial progress). Its property arm saw an operating loss of MYR16.8m in 9M24 (9M23 operating profit: MYR35.7m) due to completion of Sentral Suites and TRIA 9 Seputeh in Mar and May 2023, in addition to new projects that are in early stages, such as VISTA Gold Coast in Australia and Residensi Tujuh. Completed unsold units in Malaysia stood at MYR353m as at end 9M24 vs MYR554.6m at the end of 9M23.
- **Unbilled construction orderbook as at end 9M24** stood at MYR15bn (including the MYR11bn Bukit Jalil Sentral project), providing earnings visibility of >3 years. Future job prospects may come from its MYR3bn orderbook, which includes large-scale solar plants in Perlis, Kedah, and Selangor, the Central Spine Road in Kelantan, and a water treatment plant in Tok Bali, Kelantan.
- **MRC is planning MYR5.7bn GDV worth of launches** in Malaysia, Australia, and New Zealand from now until the end of FY25. The VISTA project in Gold Coast (GDV: c.MYR1.5bn, launched in Apr 2023) has seen 35% of the GDV sold as of July (end 9M23: 10%). MRC achieved MYR637m of property sales in 9M24 vs its FY24 target of MYR877m. We think the target is within reach as Residensi Tujuh (GDV: MYR385m) has started contributing from 3Q24.
- **No changes to earnings estimates as results were in line.** Hence, we maintain our SOP-derived TP of MYR0.86, which includes a 4% ESG premium. Valuation remains relatively undemanding at 0.5x FY25F P/BV or -1SD from the Bursa Malaysia Construction Index's 5-year mean P/BV.
- **Key factors which may continue attracting interest in the stock** include the projects under negotiation (not included in the MYR3bn tenderbook) such the reinstatement of five LRT3 stations, the redevelopment of Kuala Lumpur Sentral and Shah Alam Stadium along with Penang Sentral's prospects being underpinned by the Penang LRT project.
- **Downside risks:** Slowdown in the property market, sluggish project rollouts.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.0	(10.3)	(1.0)	(24.5)	19.3
Relative	7.7	(9.4)	1.9	(23.6)	8.5
52-wk Price low/high (MYR)				0.42	-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 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 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)	79	87	93
Recurring net profit growth (%)	-	(241.9)	-	10.9	6.8
Recurring P/E (x)	50.31	na	29.79	26.85	25.14
P/B (x)	0.5	0.5	0.5	0.5	0.5
P/CF (x)	na	5.45	3.45	4.50	22.24
Dividend Yield (%)	1.9	1.9	1.9	1.9	1.9
EV/EBITDA (x)	12.57	10.54	10.71	8.58	8.35
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

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
	Recurring P/E (x)	50.31	na	29.79	26.85	25.14
SOP valuation	P/B (x)	0.5	0.5	0.5	0.5	0.5
	FCF Yield (%)	(3.4)	18.3	26.9	20.1	2.4
	Dividend Yield (%)	1.9	1.9	1.9	1.9	1.9
	EV/EBITDA (x)	12.57	10.54	10.71	8.58	8.35
	EV/EBIT (x)	15.63	13.56	13.58	10.38	10.11
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	3,205	2,514	2,553	2,889	3,064
	Gross profit	187	25	472	540	570
	EBITDA	308	302	273	339	349
	Depreciation and amortisation	(60)	(67)	(58)	(59)	(61)
	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: MRCB's results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY(%)	Comments
Revenue	503.7	372.2	426.3	14.6	(15.4)	1,845.3	1,274.7	(30.9)	Progress from construction projects
EBIT	46.3	72.2	31.6	(56.3)	(31.8)	134.1	144.2	7.5	
EBIT margin (%)	9.2	19.4	7.4			7.3	11.3		
Interest expense	(30.2)	(26.9)	(31.9)	18.3	5.6	(86.9)	(82.7)	(4.8)	
Associates	3.6	3.4	3.1	(8.0)	(12.7)	17.2	10.1	(41.1)	
Pre-tax profit	18.7	48.4	2.3	(95.2)	(87.5)	54.5	69.6	27.7	
Pre-tax margin (%)	3.7	13.0	0.5	(95.8)	(85.3)	3.0	5.5	84.9	
Tax	(17.2)	2.9	6.3	>100	>100	(33.5)	(6.8)	(79.8)	
Effective tax rate (%)	92.0	(6.0)	(271.4)			61.5	9.7	(84.2)	
Net profit	1.5	51.18	8.9	(82.7)	>100	20.8	63.0	>100	
Core profit	1.5	51.2	8.9	(82.7)	>100	20.8	63.0	>100	Within expectations.
Net margin (%)	0.3	13.8	2.1			1.1	4.9		

Source: Company data, RHB

Figure 2: MRCB's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (FY25F 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 Scopes 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.

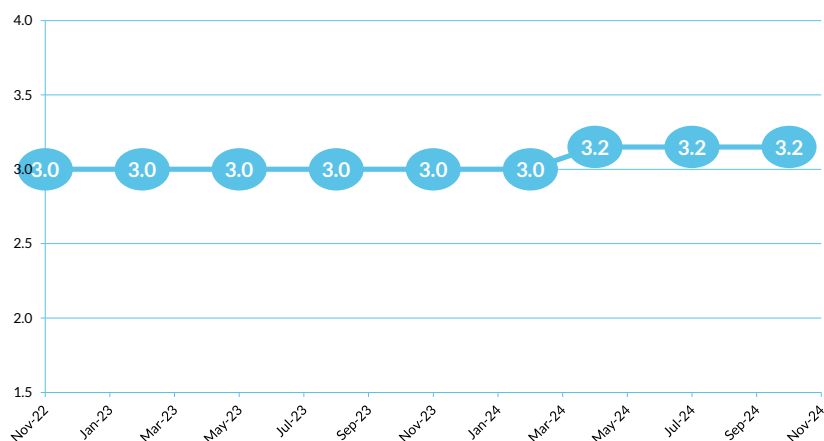
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	1,838	2,061	3,851
Scope 2	16,144	17,396	18,751
Scope 3	6,026	13,590	17,520
Total emissions	24,008	33,047	40,122

Source: Company data, RHB

Latest ESG-Related Developments

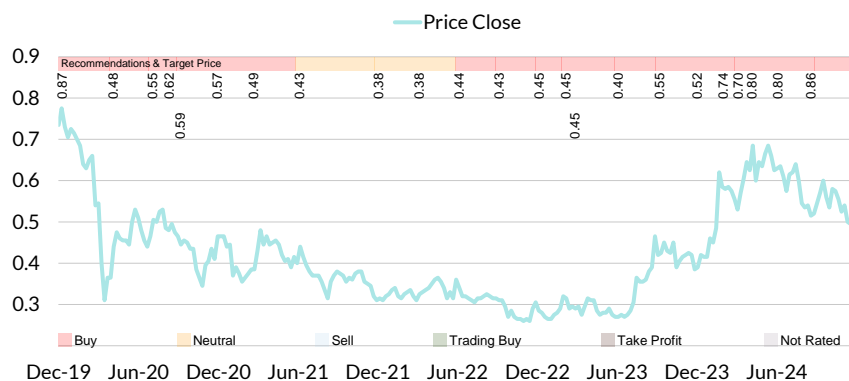
- MRCB is committed to SBTi and will seek validation for its 2020 baseline year and reduction targets.
- Using the latest version of the SBTi Tool and through the absolute contraction approach (ACA), it has set an absolute Scope 1 and 2 emission reduction target of 4.2% annually (42% by 2030), aligned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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-01	Buy	0.86	0.55
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

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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Analyst	Company
-	-

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