

28 November 2023

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (Maintained)

A Temporary Hiccup By The Tax Man; Still BUY

Target Price (Return): MYR0.52 (18%)
Price (Market Cap): MYR0.44 (USD420m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 16.0m/3.46m

- **Still BUY, new MYR0.52 TP (SOP) from MYR0.55, 18% upside.** 9M23 core earnings of MYR20.8m (-60% YoY) missed expectations at 44% of our and Street's full-year projections. The negative deviation was partly on a higher-than-expected tax rate due to an FY22 tax under-provision, which was known in 3Q23. While we project a 13% YoY earnings drop for FY23, Malaysian Resources Corp estimates a 3-year earnings CAGR of 15%, supported by its strong orderbook-to-revenue cover ratio of >10x and landbank of 1,153 acres (GDV: MYR33bn).
- **Results review.** The construction segment saw a 43% YoY jump in 9M23 EBIT on higher progress billings for the Light Rail Transit 3 (LRT3) project (85% financial recognition as at end 3Q23). MRC's property arm saw a 71% YoY EBIT contraction for this period due to the completion of Sentral Suites and TRIA 9 Seputeh in April and May. Completed unsold units reached MYR555m as at end 3Q23 but were slightly lower than end-2Q23's MYR587m – indicating that sales are progressing.
- **The end-9M23 outstanding construction orderbook** was MYR16bn – including the MYR11bn Bukit Jalil Sentral (BJS) project – and provides >5 years of earnings visibility. Phases 1A and 1B of the BJS (GDV: MYR900m) may kick off in 4Q24 – providing jobs continuity, as LRT3 is 85% financially completed (End 2024 target completion). MRC's c.MYR30bn tenderbook comprises three Mass Rapid Transit 3 (MRT3) packages (c.MYR25-29bn), a Kulim power plant (<MYR300m), and Johor's Iskandar Bus Rapid Transit (<MYR400m). It excludes the Shah Alam Stadium redevelopment (demolition may start in 1H24) and Kuala Lumpur Sentral.
- **Details of the reinstatement of the five LRT3 stations** worth MYR4.7bn have yet to be finalised, but MRC's portion could likely be worth c.MYR1.5bn ([target operation: 2Q27](#)). Meanwhile, its property arm continues to have bright prospects, owing to planned FY24 launches worth MYR1.7bn and MYR2.3bn in New Zealand and Malaysia. MRC's VISTA project in Gold Coast, Australia (GDV: c.MYR1.2bn; launched in April), has seen sales progress of 12% as at 10M23 (end 2Q23: 3%). With MYR513m of property sales achieved in 10M23 (surpassing FY23's MYR500m target), the group may continue to record better sales momentum ahead.
- **We cut FY23F-25F earnings by 14.8%, 12%, and 6.8%** as we raise our effective tax rate assumptions (but still expect the 4Q23 tax rate to normalise) and dial down on the property sales forecasts. Consequently, we arrive at a new SOP-based MYR0.52 TP, baking in a 0% ESG premium/discount based on a 3.0 ESG score. A near-term rerating catalyst would be securing the Kuala Lumpur Flood Mitigation Plan projects in Selangor – may be worth MYR500m and MYR1bn based on our estimates.
- **The stock is trading at a 0.4x FY24F P/BV, >-1.5SD** below the KLCON Index's 5-year mean P/BV – 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.

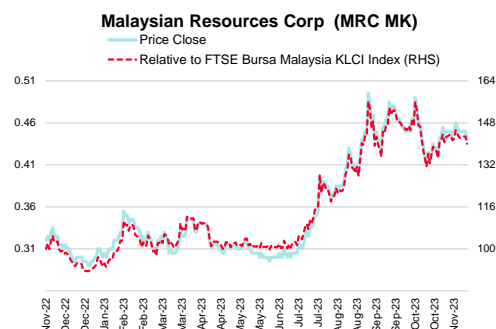
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	49.2	1.1	4.8	44.3	37.5
Relative	52.4	0.7	4.5	41.1	40.1
52-wk Price low/high (MYR)				0.29	0.50



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 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.

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	2,772	2,918	3,137
Recurring net profit (MYRm)	(108)	47	40	54	71
Recurring net profit growth (%)	(41.1)	-	(13.5)	32.8	32.7
Recurring P/E (x)	na	42.17	48.74	36.69	27.66
P/B (x)	0.4	0.4	0.4	0.4	0.4
P/CF (x)	na	na	6.82	2.76	5.47
Dividend Yield (%)	2.3	2.3	2.3	2.3	2.3
EV/EBITDA (x)	20.85	11.34	14.28	11.92	10.34
Return on average equity (%)	0.3	1.4	0.9	1.2	1.6
Net debt to equity (%)	29.8	33.6	34.3	28.2	37.2

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	1.02
MRC MK	Return on average equity (%)	0.3	1.4	0.9	1.2	1.6
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	na	42.17	48.74	36.69	27.66
65% discount to RNAV	P/B (x)	0.4	0.4	0.4	0.4	0.4
	FCF Yield (%)	(12.1)	(4.1)	12.0	33.7	15.7
Key drivers	Dividend Yield (%)	2.3	2.3	2.3	2.3	2.3
i. New property sales;	EV/EBITDA (x)	20.85	11.34	14.28	11.92	10.34
ii. Asset disposals;	EV/EBIT (x)	30.72	14.10	18.52	15.15	12.43
iii. New construction contracts.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	1,448	3,205	2,772	2,918	3,137
Key downside risks include a slowdown in the property market and sluggish project rollouts.	Gross profit	180	189	455	508	576
	EBITDA	160	308	246	271	351
	Depreciation and amortisation	(51)	(60)	(56)	(58)	(59)
	Operating profit	109	248	190	213	292
	Net interest	(79)	(99)	(113)	(124)	(162)
	Pre-tax profit	61	154	113	131	174
	Taxation	(55)	(101)	(71)	(76)	(101)
	Reported net profit	16	65	40	54	71
	Recurring net profit	(108)	47	40	54	71
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(123)	(318)	226	642	271
	Cash flow from operations	(193)	(81)	288	712	359
	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	775
	Net change in cash	49	108	177	603	249
	Ending balance cash	480	534	501	774	291
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	579	534	502	775	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	8,935	9,046	8,892
	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	4,402	4,502	4,320
	Total equity	4,540	4,536	4,533	4,543	4,572
	Total liabilities & equity	9,205	9,235	8,935	9,046	8,892
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	20.8	121.3	(13.5)	5.3	7.5
	Recurrent EPS growth (%)	(40.8)	0.0	(13.5)	32.8	32.7
	Gross margin (%)	12.4	5.9	16.4	17.4	18.4
	Operating EBITDA margin (%)	11.1	9.6	8.9	9.3	11.2
	Net profit margin (%)	1.1	2.0	1.5	1.8	2.3
	Dividend payout ratio (%)	280.8	68.9	110.8	83.4	62.9
	Capex/sales (%)	3.0	0.0	1.9	1.7	1.6
	Interest cover (x)	1.22	2.50	1.63	1.64	1.82

Source: Company data, RHB

Results At a Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY(%)	Comments
Revenue	860.0	599.3	503.7	(16.0)	(41.4)	2,371.1	1,845.3	(22.2)	Completion of certain construction projects in FY22.
EBIT	78.8	39.9	46.3	16.1	(41.2)	184.8	134.1	(27.4)	
EBIT margin (%)	9.2	6.7	9.2			7.8	7.3		
Interest expense	(24.3)	(28.9)	(30.2)	4.5	24.2	(71.9)	(86.9)	20.8	
Associates	3.6	3.4	3.1	(7.9)	(12.6)	17.2	10.1	(41.1)	
Pre-tax profit	56.7	15.3	18.7	22.1	(67.1)	116.6	54.5	(53.2)	
Pre-tax margin (%)	6.6	2.6	3.7	45.2	(43.8)	4.9	3.0	(39.9)	
Tax	(41.2)	(4.4)	(17.2)	293.0	(58.3)	(76.2)	(33.5)	(56.0)	
Effective tax rate (%)	72.7	28.6	92.0			65.3	61.5	(5.9)	
Net profit	23.7	10.9	1.5	(86.6)	(93.8)	51.8	20.8	(59.9)	Below expectations.
Core profit	23.7	10.9	1.5	(86.6)	(93.8)	51.8	20.8	(59.9)	
Net margin (%)	2.8	1.8	0.3			2.2	1.1		

Source: Company data, RHB

Figure 2: MRCB'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%	647.4
28% Sentral REIT	TP: 0.87	260.2
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	67.3
Shareholders' funds (ex-construction & REIT)		3,884.9
Total RNAV		5,151.2
Share base		4,467.5
RNAV per share		1.15
Discount ⁽¹⁾		55%
Intrinsic value/share (MYR)		0.52
ESG premium/discount	0%	0.00
TP		0.52

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 the state elections that may pave way for project rollouts

Source: Company data, RHB

Emissions And ESG

Trend analysis

In 2022, MRC's total Scopes 1 and 2 emissions amounted to 19,343 tCO₂e, which is an increase of 7.6% when compared to 2021, but represents a 7.5% reduction vis-à-vis its 2020 baseline.

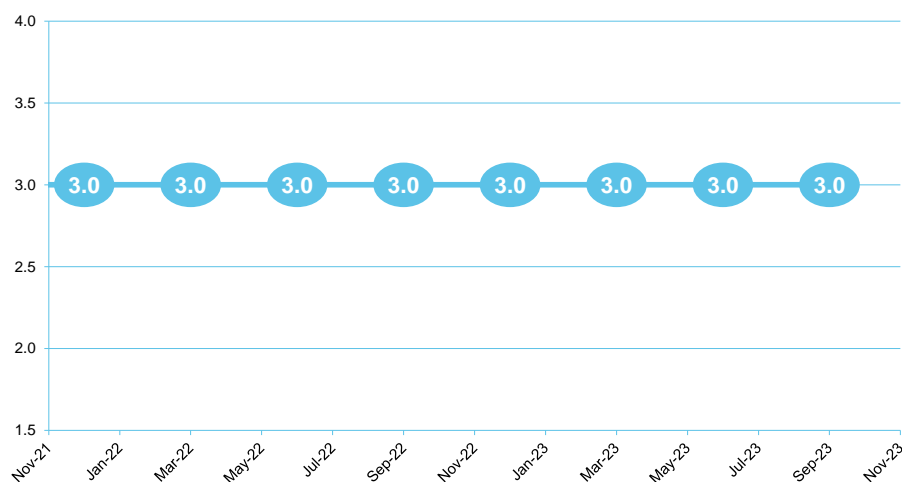
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	1,983	1,838	2,061
Scope 2	18,920	16,144	17,282
Scope 3	241	6,026	13,590
Total emissions	21,144	24,008	32,933

Source: Company data, RHB

Latest ESG-Related Developments

- MRC is committed to a 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 emissions reduction target of 4.2% annually (42% by 2030).

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-02-26	Buy	0.49	0.42
2021-02-16	Buy	0.49	0.42

Source: RHB, Bloomberg

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