

1 June 2022

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (from Neutral)

Brighter Job Replenishment Prospects; U/G To BUY

Target Price (Return):	MYR0.44 (+22%)
Price (Market Cap):	MYR0.36 (USD367m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	1.62m/0.38m

• **U/G to BUY from Neutral, new MYR0.44 TP from MYR0.38, 22% upside.**

Malaysian Resources' 1Q22 core earnings of MYR14m comprised 48% and 40% of our and Street full-year estimates, amid larger-than-expected contributions from Light Rapid Transit 3 (LRT3). Our upgrade stems from its better job replenishment prospects – from Mass Rapid Transit 3 (MRT3) and waste-to-energy projects – as jobs are expected to flow through. As c.45% of its on-going projects are in advanced phases, the fluctuation in raw material prices should not affect its numbers greatly.

• **Results review.** The stellar growth in its 1Q22 earnings was on the back of overall revenue, which expanded by >100% YoY to MYR810.1m. This was mainly due to the consolidation of the LRT3 project company, Setia Utama LRT3 (SULSB), which took MRC's ownership to 100% and allowed the group to recognise 100% of the earnings from the project. On further scrutiny, LRT3 contributed PBT of MYR33.5m in 1Q22, compared to MYR5.9m in aggregate on an equity accounting basis in 1Q21 (when it was only 50%-owned). Meanwhile, MRCB's property development segment also booked a revenue growth of 41% YoY, due to spillover revenue from sales in late 2021 when the Home Ownership Campaign (HOC) ended.

• **Outlook.** MRCB's construction orderbook as at end-1Q22 stood at MYR7.6bn (excluding Bukit Jalil Sentral), which provides earnings visibility of over five years. On its job replenishment, the group has received a letter of award for the Muara Sungai Pahang Phase 3 project worth MYR380m (vs our FY22 replenishment target of MYR500m). Looking ahead, we opine that MRCB is a frontrunner for MRT3 civil works tenders – given its status as one of the largest *bumiputera* contractors, in addition to its manageable net gearing level of 0.29x. Its balance sheet could potentially strengthen further via the assets that have been earmarked for disposal, ie Ascott Sentral. Its property development arm is also set to grow, with a healthy level of unbilled sales of MYR818.3m as at end-1Q22 (1Q21: MYR1bn) as the sales momentum continued to gain pace despite the HOC expiry.

• **We raise FY22-24F earnings by >30%, 20% and 30% as we:** i) Impute a higher job replenishment target for the respective years, and this number is not just focused solely on MRT3; and ii) raise the amount to be recognised from LRT3. In the meantime, we also roll forward our valuation base to FY23F. Assuch, our TP rises to MYR0.44 – the figure also includes a 0% ESG premium/discount on the intrinsic value, based on our in-house proprietary scoring methodology. Rerating catalysts could include higher-than-expected property launches. Key downside risks include a prolonged slowdown in the property market and delays in construction projects.

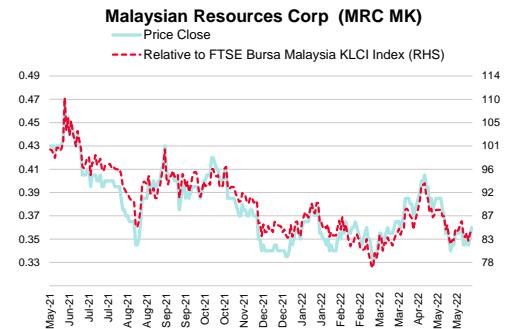
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.4	(6.5)	1.4	5.9	(16.3)
Relative	1.2	(4.6)	3.8	2.2	(15.4)
52-wk Price low/high (MYR)	0.33 – 0.47				



Source: Bloomberg

Overall ESG Score: 3.00 (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 capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,199	1,448	2,719	2,889	3,137
Recurring net profit (MYRm)	(183)	18	59	76	87
Recurring net profit growth (%)	(871.5)	-	232.2	28.8	14.9
Recurring P/E (x)	na	89.58	26.97	20.94	18.22
P/B (x)	0.3	0.3	0.4	0.3	0.3
P/CF (x)	10.33	5.03	na	29.59	2.06
Dividend Yield (%)	2.8	2.8	1.1	1.4	1.6
EV/EBITDA (x)	na	18.55	16.14	14.23	12.86
Return on average equity (%)	(3.8)	0.3	1.3	1.7	1.9
Net debt to equity (%)	30.5	29.3	39.3	38.2	37.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	(0.04)	0.00	0.01	0.02	0.02
Construction & Engineering	DPS	0.01	0.01	0.00	0.01	0.01
Malaysian Resources Corp	BVPS	1.03	1.04	1.03	1.03	1.05
MRC MK	Return on average equity (%)	(3.8)	0.3	1.3	1.7	1.9
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	na	89.58	26.97	20.94	18.22
SOP	P/B (x)	0.3	0.3	0.4	0.3	0.3
	FCF Yield (%)	9.7	16.5	(9.9)	0.2	45.3
	Dividend Yield (%)	2.8	2.8	1.1	1.4	1.6
Key drivers	EV/EBITDA (x)	na	18.55	16.14	14.23	12.86
i. New property sales;	EV/EBIT (x)	na	27.34	21.88	18.74	16.57
ii. Asset disposals;						
iii. New construction contracts.						
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	1,199	1,448	2,719	2,889	3,137
i. Prolonged slowdown in the property market;	Gross profit	253	180	367	543	599
ii. Delays in projects.	EBITDA	(54)	160	210	235	258
	Depreciation and amortisation	(64)	(51)	(55)	(56)	(58)
	Operating profit	(117)	109	155	178	200
	Net interest	(56)	(79)	(105)	(111)	(124)
	Pre-tax profit	(154)	61	80	103	118
	Taxation	(23)	(55)	(20)	(26)	(30)
	Reported net profit	(177)	16	59	76	87
	Recurring net profit	(183)	18	59	76	87
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	286	289	(192)	(44)	666
	Cash flow from operations	154	316	(107)	54	770
	Capex	0	(54)	(50)	(50)	(50)
	Cash flow from investing activities	(26)	3	(65)	(65)	(65)
	Dividends paid	(77)	(44)	(44)	(18)	(23)
	Cash flow from financing activities	8	32	(44)	(18)	(23)
	Cash at beginning of period	517	540	579	143	181
	Net change in cash	136	351	(216)	(29)	682
	Ending balance cash	653	891	363	114	864
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	540	579	143	181	194
	Tangible fixed assets	2,129	2,182	2,177	2,171	2,163
	Total investments	0	0	15	30	45
	Total assets	8,314	9,205	10,091	10,603	10,499
	Short-term debt	602	479	479	479	479
	Total long-term debt	1,331	1,454	1,454	1,454	1,454
	Total liabilities	3,753	4,579	5,535	6,014	5,821
	Total equity	4,561	4,626	4,556	4,589	4,678
	Total liabilities & equity	8,314	9,205	10,091	10,603	10,499
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(9.1)	20.8	87.7	6.2	8.6
	Recurrent EPS growth (%)	(871.5)	0.0	232.2	28.8	14.9
	Gross margin (%)	21.1	12.4	13.5	18.8	19.1
	Operating EBITDA margin (%)	(4.5)	11.1	7.7	8.1	8.2
	Net profit margin (%)	(14.8)	1.1	2.2	2.6	2.8
	Dividend payout ratio (%)	(24.9)	278.6	30.0	30.0	30.0
	Capex/sales (%)	0.0	3.7	1.8	1.7	1.6
	Interest cover (x)	(1.69)	1.22	1.34	1.54	1.54

Source: Company data, RHB

Results At a Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	226.7	858.1	810.7	(5.5)	257.6	Increase due to higher contribution from LRT3.
EBIT	14.9	149.0	52.3	(64.9)	251.9	
<i>EBIT margin (%)</i>	6.6	17.4	6.5			
Interest expense	(18.2)	(27.5)	(23.2)	(15.5)	27.2	
Associates	9.1	2.4	0.0	(100.0)	(100.0)	
Pre-tax profit	5.7	123.9	31.8	(74.4)	456.0	
<i>Pre-tax margin (%)</i>	2.5	14.4	3.9			
Tax	(1.8)	(49.5)	(17.8)	<i>nm</i>	<i>nm</i>	
<i>Effective tax rate (%)</i>	31.3	39.9	56.0			
Net profit	5.2	75.2	14.0	81.3	169.8	
Core profit	5.2	65.3	14.0	(78.5)	169.8	Above expectations.
<i>Net margin (%)</i>	2.3	7.6	1.7			

Source: Company data, RHB

Figure 2: MRCB's SOP valuation

Items	P/E or WACC/valuation	Equity value/surplus (MYRm)
Construction (11x 1-year forward earnings)	P/E of 11x	391.9
Surplus RNAV for property and investments	WACC of 11%	928.5
28% Sentral REIT	TP: 1.02	287.4
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	61.7
Shareholders' Funds (ex-construction & REIT)		3,884.9
Total RNAV		5,574.4
Share base		4,467.5
RNAV per share		1.24
Discount ⁽¹⁾		65%
Intrinsic value/share (MYR)		0.44
ESG premium/discount	0%	0.00
TP		0.44

Note 1: We believe a 65% discount to RNAV is justified. This is slightly lower than the sector's 70-85% RNAV discount. We think this is fair, as we take into account the potential reopening of the country's borders, which may spur property purchases by foreign buyers for MRCB's projects such as St. Regis.

Source: Company data, RHB

Recommendation Chart

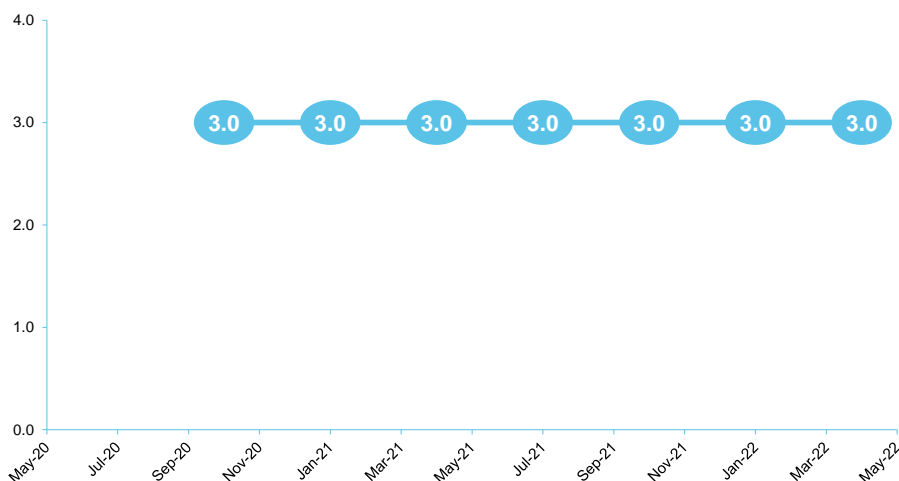


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-29	Neutral	0.38	0.35
2021-05-31	Neutral	0.43	0.43
2021-05-31	Neutral	0.49	0.43
2021-02-16	Buy	0.49	0.42
2020-11-24	Buy	0.57	0.44
2020-08-31	Buy	0.59	0.51
2020-08-06	Buy	0.62	0.54
2020-06-28	Buy	0.55	0.47
2020-03-31	Buy	0.48	0.39
2019-11-22	Buy	0.87	0.75
2019-08-27	Buy	0.97	0.72
2019-05-31	Buy	1.10	0.93

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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