

1 September 2022

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Buy (Maintained)

Brighter Job Prospects Ahead; Keep BUY

Target Price (Return): MYR0.43 (23%)
 Price (Market Cap): MYR0.35 (USD349m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.31m/0.30m

- **Keep BUY, new MYR0.43 TP from MYR0.44, 23% upside, 1% FY22F yield.** 1H22 core earnings of MYR28m (>+100%YoY) were in line with our estimates at 48% of full-year projections but exceeded Street at 60%. Overall performances were underpinned by normalising operating conditions following the transition to endemicity. With bright job prospects in hand, valuation appears undemanding, with the stock trading at 20.4x FY23F P/E, which is -1SD from the 5-year mean.

- **Results review.** The substantial growth in 2Q22 earnings was on overall revenue, which expanded by >100% YoY to MYR700m. This was mainly due to the consolidation of the Light Rapid Transit 3 (LRT3) project company, Setia Utama LRT3, which took Malaysian Resource Corp's ownership to 100% and allowed it to recognise 100% of project earnings. Progress from projects such as Menara KWSP, Sungai Besi-Ulu Kelang Elevated Expressway, and PR1MA Brickfields also contributed to 2Q22 revenue. This helped offset some impact from labour shortages. The property development segment also witnessed EBIT growth to the tune of >100% YoY in 2Q22, backed by higher property sales of MYR227m (2Q21: MYR56m). The stronger property sales came from on-going projects, namely Sentral Suites at KL Sentral, the 9 Seputeh mixed residential development at Jalan Klang Lama, and Alstonia at Bukit Rahman Putra.

- **Outlook.** MRCB's construction orderbook as at end 2Q22 stood at MYR18.4bn (including the Bukit Jalil Sentral project), which provides >5-years' earnings visibility. Replenishment-wise, it is in active talks with the Selangor State Government with regard to the Shah Alam Stadium project (estimated value: MYR787m) and details on the land swap in return for refurbishment works, which could likely be known by end Oct/Nov 2022. Furthermore, MRCB has received notification from Prasarana in relation to the re-instatement of omitted works for LRT3 covering five stations and a few bus terminals (amongst others) with a c.MYR1bn price tag. As alluded before, MRCB is a frontrunner for Mass Rapid Transit 3 civil works packages (expected rollout: 4Q22), given its status as one of the largest *bumiputera* contractors. This is in addition to its manageable net gearing level of 0.3x. Its property development arm is also set to grow with a healthy level of unbilled sales of MYR706.7m as at end 2Q22 (1Q22: MYR818.3m).

- **Earnings and valuation.** There are no changes to our estimates, as earnings were within expectations. Our TP is revised to MYR0.43 following the lower TP for Sentral REIT (SENTRAL MK, NEUTRAL, TP: MYR0.97) in our SOP valuation – after ascribing a 0% ESG premium/discount on the intrinsic value based on our in-house proprietary scoring methodology. We believe MRCB will take the necessary steps to address the labour shortages, ensuring that productivity levels remain optimal. A further rerating catalyst includes its venture into renewable energy, which is pending final discussions with the authorities. Key downside risks include a prolonged slowdown in the property market and project delays.

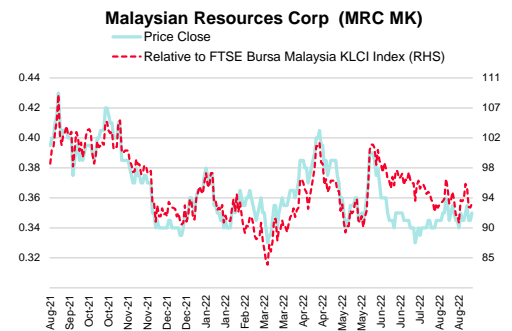
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.4)	1.4	0.0	(1.4)	(11.4)
Relative	2.1	0.1	2.0	4.6	(5.8)
52-wk Price low/high (MYR)	0.33 – 0.43				



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 capitalisation 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	87.09	26.22	20.35	17.71
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	10.04	4.89	na	28.77	2.00
Dividend Yield (%)	2.9	2.9	1.1	1.5	1.7
EV/EBITDA (x)	na	18.28	15.93	14.04	12.69
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

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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	87.09	26.22	20.35	17.71
SOP valuation which includes RNAV and P/E.	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	10.0	17.0	(10.1)	0.2	46.6
Key drivers	Dividend Yield (%)	2.9	2.9	1.1	1.5	1.7
New property sales, asset disposals, and new construction contracts.	EV/EBITDA (x)	na	18.28	15.93	14.04	12.69
	EV/EBIT (x)	na	26.94	21.59	18.49	16.35
	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
A prolonged slowdown in the property market and project delays.	Gross profit	253	180	367	543	599
	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)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
Revenue	225.7	810.7	700.4	(13.6)	>100	452.5	1,511.1	>100	Increase due to higher progress billings.
EBIT	(28.7)	52.3	53.7	2.5	>100	(13.8)	106.0	>100	
<i>EBIT margin (%)</i>	<i>(12.7)</i>	<i>6.5</i>	<i>7.7</i>			<i>(3.1)</i>	<i>7.0</i>		
Interest expense	(20.2)	(23.2)	(24.4)	5.3	21.0	(38.5)	(47.7)	23.9	
JV and Associates	10.7	2.6	(1.1)	nm	(110.4)	19.8	1.5	(92.2)	
Pre-tax profit	(38.2)	31.8	28.1	(11.5)	>-100	(32.5)	59.9	nm	
<i>Pre-tax margin (%)</i>	<i>(16.9)</i>	<i>3.9</i>	<i>4.0</i>	<i>2.4</i>	<i>>-100</i>	<i>(7.2)</i>	<i>4.0</i>	<i>>100</i>	
Tax	(1.5)	(17.8)	(17.1)	nm	nm	(3.3)	(34.9)	972.7	
<i>Effective tax rate (%)</i>	<i>(3.8)</i>	<i>56.0</i>	<i>61.0</i>			<i>(10.0)</i>	<i>58.4</i>	<i>nm</i>	
Net profit	(32.4)	14.0	14.1	0.5	>100	(27.2)	28.1	>100	
Core profit	(32.4)	14.0	14.1	0.5	>100	(27.2)	28.1	>100	Within expectations.
<i>Net margin (%)</i>	<i>(14.4)</i>	<i>1.7</i>	<i>2.0</i>			<i>(6.0)</i>	<i>1.9</i>		

Source: Company data, RHB

Figure 2: MRCB's SOP valuation

Items	P/E/ 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: 0.97	287.4
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	61.7
Shareholders' Funds (ex-construction and REIT)		3,884.9
Total RNAV		5,545.8
Share base		4,467.5
RNAV per share		1.24
Discount ⁽¹⁾		65%
Intrinsic value/share (MYR)		0.43
ESG premium/discount	0%	0.00
TP		0.43

Note: 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, taking into account the potential reopening of 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

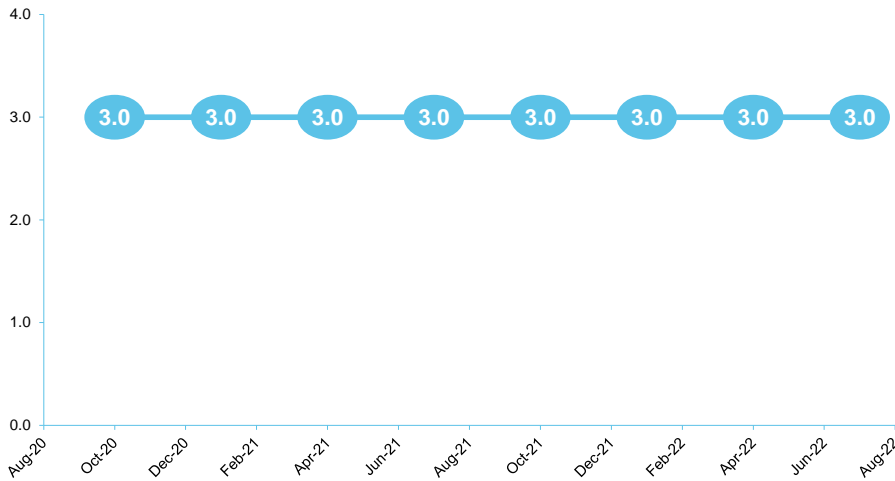


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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Not Rated:	Stock is not within regular research coverage

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