

1 December 2022

Malaysian Resources Corp (MRC MK)

Better-Than-Expected Quarter; Maintain BUY

- **Keep BUY, with new MYR0.45 TP from MYR0.43, 41% upside and c.2% FY23F yield.** 9M22 core earnings of MYR51.8m (>100% YoY) exceeded our and Street estimates at 88% and 98% of full-year projections. Positive deviation was due to stronger-than-expected property segment and commendable construction progress in the quarter. With bids submitted for the three Mass Rapid Transit 3 (MRT3) civil work packages (backed by its *bumiputera* contractor status), combined with proposals for flood mitigation and waste-to-energy (WTE) projects, we believe job prospects are bright.
- **Results review.** The >100% YoY growth in 3Q22 earnings to reach MYR23.7m was partly due to the consolidation of the Light Rapid Transit 3 (LRT3) project company, Setia Utama LRT3, which took MRC's ownership to 100% and allowed it to recognise 100% of project earnings. On further scrutiny, the LRT3 project reached physical progress of 77% as at end 3Q22 (target 80% completion by end FY22) while the MRT2 V210 package worth MYR497m was completed during 3Q22. Likewise, the property development segment witnessed solid EBIT growth of >100% YoY in 3Q22, backed by higher property sales of MYR92m (3Q21: MYR57m). The stronger property sales came from ongoing projects, namely Sentral Suites at KL Sentral, the 9 Seputeh mixed residential development at Jalan Klang Lama, and Alstonia at Bukit Rahman Putra.
- **Outlook.** MRC's construction orderbook as at end 3Q22 stood at MYR17.9bn (including the Bukit Jalil Sentral project), which provides over five years' earnings visibility with an open tenderbook size of MYR30bn. Replenishment-wise, the refurbishment of the Shah Alam Stadium (estimated value: MYR787m) is expected to begin in 1Q23 but details on the land swap in return for refurbishment works have yet to be disclosed. As alluded before, MRCB is a frontrunner for the MRT3 civil works packages (expected rollout: 1Q23), given its status as one of the largest *bumiputera* contractors. This is in addition to its manageable net gearing level of 0.37x. Its property development arm is also set to grow with a healthy level of unbilled sales of MYR624m as at end 3Q22 (2Q22: MYR706.7m), coupled with launches worth MYR2.1bn in GDV terms.
- **Earnings and valuation.** We revise our FY22F-24F earnings upwards by 14%, 6% and 4% as we bake in higher revenue assumptions, particularly for its construction arm. As such, our TP is revised to MYR0.45 (from MYR0.43) after ascribing a 0% ESG premium/discount on its intrinsic value based on our in-house proprietary scoring methodology. A rerating catalyst includes its venture into renewable energy, which is pending final discussions with the authorities. Apart from that, the potential reinstatement of omitted works for LRT3 worth c.MYR1bn could provide further upside to its orderbook replenishment.
- **Key downside risks** include a prolonged slowdown in the property market and project delays.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,199	1,448	3,024	3,137	3,210
Recurring net profit (MYRm)	(183)	18	67	81	90
Recurring net profit growth (%)	(871.5)	-	277.7	20.5	12.1
Recurring P/E (x)	na	79.63	21.08	17.50	15.61
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	9.18	4.47	na	19.23	1.69
Dividend Yield (%)	3.1	3.1	1.4	1.7	1.9
EV/EBITDA (x)	na	17.45	14.79	12.89	11.96
Return on average equity (%)	(3.8)	0.3	1.5	1.8	2.0
Net debt to equity (%)	30.5	29.3	40.8	36.9	36.7

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return): MYR0.45 (+41%)
 Price (Market Cap): MYR0.32 (USD317m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.74m/0.59m

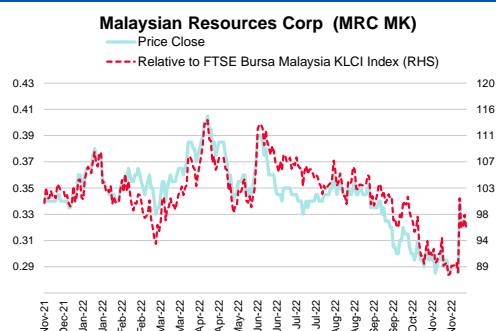
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.9)	8.5	(8.6)	(8.6)	(5.9)
Relative	(4.9)	5.6	(7.1)	(5.1)	(4.2)
52-wk Price low/high (MYR)	0.29 – 0.41				



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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	(0.04)	0.00	0.02	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	1.04	1.06
MRC MK	Return on average equity (%)	(3.8)	0.3	1.5	1.8	2.0
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	na	79.63	21.08	17.50	15.61
65% discount to RNAV	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	10.9	18.6	(16.1)	1.7	55.7
Key drivers	Dividend Yield (%)	3.1	3.1	1.4	1.7	1.9
i. New property sales;	EV/EBITDA (x)	na	17.45	14.79	12.89	11.96
ii. Asset disposal;	EV/EBIT (x)	na	25.72	19.68	16.82	15.35
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	3,024	3,137	3,210
Weaker-than-expected market conditions	Gross profit	253	180	378	582	613
	EBITDA	(54)	160	222	242	261
Company Profile	Depreciation and amortisation	(64)	(51)	(55)	(56)	(58)
Malaysian Resources Corp is engaged in construction (niche strength in environmental projects), property development and investment and toll road operations. It is known for its transit-oriented developments, eg KL Sentral, Bukit Jalil City, Kwasa Damansara and Penang Sentral.	Operating profit	(117)	109	167	185	203
	Net interest	(56)	(79)	(106)	(111)	(123)
	Pre-tax profit	(154)	61	91	109	123
	Taxation	(23)	(55)	(23)	(27)	(31)
	Reported net profit	(177)	16	67	81	90
	Recurring net profit	(183)	18	67	81	90
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	286	289	(271)	(29)	728
	Cash flow from operations	154	316	(178)	73	836
	Capex	0	(54)	(50)	(50)	(50)
	Cash flow from investing activities	(26)	3	(65)	(65)	(65)
	Dividends paid	(77)	(44)	(44)	(20)	(24)
	Cash flow from financing activities	8	32	(44)	(20)	(24)
	Cash at beginning of period	517	540	579	72	233
	Net change in cash	136	351	(287)	(12)	747
	Ending balance cash	653	891	292	60	980
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	540	579	72	233	208
	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	10,309	10,889	10,565
	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	5,744	6,287	5,871
	Total equity	4,561	4,626	4,564	4,602	4,694
	Total liabilities & equity	8,314	9,205	10,309	10,889	10,565
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(9.1)	20.8	108.8	3.7	2.3
	Recurrent EPS growth (%)	(871.5)	0.0	277.7	20.5	12.1
	Gross margin (%)	21.1	12.4	12.5	18.6	19.1
	Operating EBITDA margin (%)	(4.5)	11.1	7.3	7.7	8.1
	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	1.7	1.6	1.6
	Interest cover (x)	(1.69)	1.22	1.44	1.60	1.57

Source: Company data, RHB

Results At a Glance

Figure 1: MRC's results review

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	137.9	700.4	860.0	22.8	>100	590.3	2,371.1	301.7	Increased due to higher progress billings
EBIT	(16.5)	53.7	78.8	46.9	>199	(30.3)	184.8	>100	
<i>EBIT margin (%)</i>	<i>(12.0)</i>	<i>7.7</i>	<i>9.2</i>			<i>(5.1)</i>	<i>7.8</i>		
Interest expense	(22.8)	(24.4)	(24.3)	(0.6)	6.7	(61.2)	(71.9)	17.5	
JV and Associates	4.6	(0.1)	3.4	nm	(26.1)	13.6	7.0	(100.0)	
Pre-tax profit	(30.1)	28.1	56.7	101.8	>-100	(62.6)	116.6	>100	
<i>Pre-tax margin (%)</i>	<i>(21.8)</i>	<i>4.0</i>	<i>6.6</i>	64.4	>-100	<i>(10.6)</i>	<i>4.9</i>	<i>>100</i>	
Tax	(1.9)	(17.1)	(41.2)	nm	nm	(5.1)	(76.2)	1,384.5	
<i>Effective tax rate (%)</i>	<i>(6.2)</i>	<i>61.0</i>	<i>72.7</i>			<i>(8.2)</i>	<i>65.3</i>	<i>nm</i>	
Net profit	(32.2)	14.1	23.7	68.0	>100	(59.4)	51.8	>100	
Core profit	(32.2)	14.1	23.7	68.0	>100	(59.4)	51.8	>100	Within expectations
<i>Net margin (%)</i>	<i>(23.3)</i>	<i>2.0</i>	<i>2.8</i>			<i>(10.1)</i>	<i>2.2</i>		

Source: Company data, RHB

Figure 2: MRC's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (11x 1-year forward earnings)	P/E of 11x	536.9
Surplus RNAV for property and investments	WACC of 11%	928.5
28% Sentral REIT	TP: 0.94	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		5,681.2
Share base		4,467.5
RNAV per share		1.27
Discount ⁽¹⁾		65%
Intrinsic value/share (MYR)		0.45
ESG premium/discount	0%	0.00
TP		0.45

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

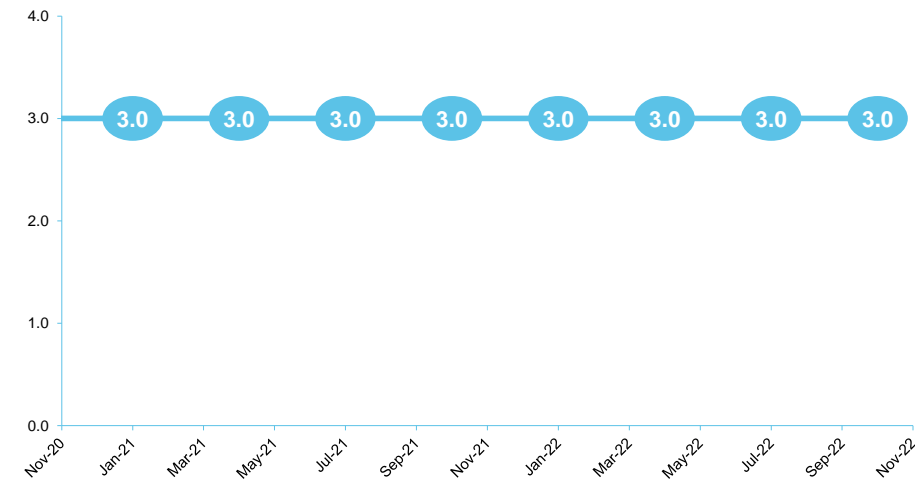


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-31	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
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

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
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