

21 February 2023

Malaysian Resources Corp (MRC MK)

Ending FY22 On a Strong Note; BUY

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return): MYR0.45 (+37%)
 Price (Market Cap): MYR0.33 (USD328m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.85m/0.88m

- Maintain BUY and MYR0.45 TP, 37% upside with c.2% FY23F yield.** Malaysian Resources Corp's FY22 core earnings of MYR64.8m (+>100% YoY) met our but missed Street full-year estimates – constituting 103% and 92% of full-year projections. With commendable job prospects in hand – three bids submitted for Mass Rapid Transit 3 (MRT3) and a possibly larger-than-expected job value to redevelop the Shah Alam sports complex, its valuation appears undemanding. This stock is trading at 18x FY23F P/E, which is -1SD from the 5-year mean.
- Performance review.** The >100% YoY growth in FY22 core earnings was partly due to the consolidation of the Light Rail 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 81% as at end-FY22 (slightly over the targeted 80% completion) due to normalising operating conditions. As such, the construction segment reported an EBIT of MYR70m in FY22 (FY21 LBIT: -MYR41m). Likewise, its property arm recorded a 15% YoY EBIT growth for FY22, backed by a combination of sales from completed unsold inventory as well as units from on-going projects – mainly Sentral Suites and TRIA 9 Seputeh, which contributed 63.5% and 28% to FY22 property revenue worth MYR539.6m.
- Outlook.** MRC's construction orderbook as at end-FY22 stood at MYR6.4bn (excluding the Bukit Jalil Sentral project), which provides about three years' of earnings visibility, with an open tenderbook size of MYR30bn. We continue to reiterate MRC's advantage in the MRT3 bids, given its status as one of the largest *bumiputera* contractors. Aside from this, MRC's role to redevelop the Shah Alam sports complex may entail a price tag that is larger than the MYR787m mooted earlier by the Selangor State Government back in Jul 2022 – likely to be c.MYR1bn. We have yet to impute any earnings estimates from the Shah Alam sports complex, pending details (contract value and details of land swap) that may likely be revealed in 2Q23, in our view.
- Earnings estimates.** We make no changes to our FY23-24F earnings as MRC's results are in line. We also introduce FY25F earnings, which entail a job replenishment assumption of MYR300m – backed by potential jobs likely in the waste-to-energy segment. As earnings estimates are unchanged, our SOP-derived TP of MYR0.45 remains as is (which also includes a 0% ESG premium/discount on intrinsic value, in accordance with our in-house proprietary scoring methodology). We favour MRC for diversifying its property arm into industrial properties, ie Ipoh Raya Integrated Park, and new overseas markets like Australia and New Zealand (total GDV: >MYR1.5bn). An upcoming catalyst would be the potential reinstatement of omitted works for LRT3 worth c.MYR1bn
- Key downside risks** include a prolonged slowdown in the property market and regulatory risks impacting project timeline rollouts and costs.

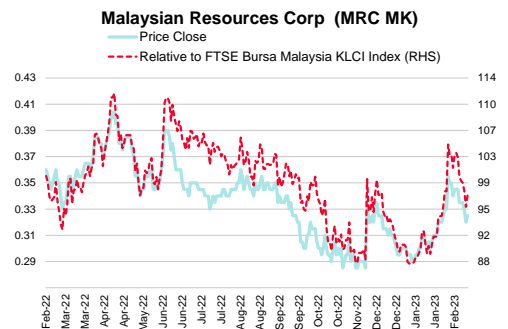
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.2	4.8	12.1	(7.2)	(11.0)
Relative	11.7	6.6	10.4	(5.1)	(2.9)
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 its 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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,448	3,205	3,137	3,210	3,356
Recurring net profit (MYRm)	18	65	81	90	96
Recurring net profit growth (%)	-	265.7	24.2	12.2	6.0
Recurring P/E (x)	81.50	22.39	18.03	16.07	15.16
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	na	na	5.04	1.73	3.34
Dividend Yield (%)	3.1	3.1	1.7	1.9	2.0
EV/EBITDA (x)	17.65	9.68	8.91	7.49	7.89
Return on average equity (%)	0.3	1.4	1.8	2.0	2.1
Net debt to equity (%)	29.8	33.6	34.0	25.0	36.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.00	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	1.01	1.02	1.03	1.04
MRC MK	Return on average equity (%)	0.3	1.4	1.8	2.0	2.1
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	81.50	22.39	18.03	16.07	15.16
65% discount to RNAV	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	(16.4)	(5.6)	16.3	54.2	26.5
Key drivers	Dividend Yield (%)	3.1	3.1	1.7	1.9	2.0
i. New property sales;	EV/EBITDA (x)	17.65	9.68	8.91	7.49	7.89
ii. Asset disposals;	EV/EBIT (x)	26.02	12.03	10.70	8.99	9.27
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	3,137	3,210	3,356
i. A prolonged slowdown in the property market;	Gross profit	180	189	582	613	641
ii. Regulatory risks impacting project timeline rollouts and costs.	EBITDA	160	308	337	346	396
	Depreciation and amortisation	(51)	(60)	(56)	(58)	(59)
	Operating profit	109	248	280	288	337
Company Profile	Net interest	(79)	(99)	(113)	(124)	(162)
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.	Pre-tax profit	61	154	203	206	219
	Taxation	(55)	(101)	(120)	(113)	(120)
	Reported net profit	16	65	81	90	96
	Recurring net profit	18	65	81	90	96
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(123)	(318)	184	728	321
	Cash flow from operations	(193)	(81)	288	837	435
	Capex	(44)	0	(51)	(50)	(50)
	Cash flow from investing activities	309	53	(66)	(65)	(65)
	Dividends paid	(20)	(53)	(45)	(24)	(27)
	Cash flow from financing activities	(67)	136	(45)	(24)	(27)
	Cash at beginning of period	540	579	534	502	900
	Net change in cash	49	108	177	748	343
	Ending balance cash	480	687	711	1,250	1,242
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	579	534	502	900	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	9,226	9,324	9,019
	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	4,652	4,702	4,343
	Total equity	4,540	4,536	4,574	4,622	4,676
	Total liabilities & equity	9,205	9,235	9,226	9,324	9,019
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	20.8	121.3	(2.1)	2.3	4.5
	Recurrent EPS growth (%)	0.0	264.0	24.2	12.2	6.0
	Gross margin (%)	12.4	5.9	18.6	19.1	19.1
	Operating EBITDA margin (%)	11.1	9.6	10.7	10.8	11.8
	Net profit margin (%)	1.1	2.0	2.6	2.8	2.9
	Dividend payout ratio (%)	280.8	68.9	30.0	30.0	30.0
	Capex/sales (%)	3.0	0.0	1.6	1.6	1.5
	Interest cover (x)	1.22	2.50	2.42	2.22	2.10

Source: Company data, RHB

Results At a Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY(%)	Comments
Revenue	858.1	860.0	833.9	(3.0)	(2.8)	1,448.5	3,205.1	>100	Better progress billings from LRT3
EBIT	149.0	78.8	63.0	(20.0)	(57.7)	118.7	247.8	>100	
<i>EBIT margin (%)</i>	17.4	9.2	7.6			8.2	7.7		
Interest expense	(27.5)	(24.3)	(27.1)	11.6	(1.3)	(88.7)	(99.1)	11.7	
Associates	3.6	3.4	3.1	(7.9)	(12.6)	17.2	10.1	(41.1)	
Pre-tax profit	123.9	56.7	37.7	(33.4)	(69.5)	61.3	154.3	>100	
<i>Pre-tax margin (%)</i>	14.4	6.6	4.5	(31.4)	(68.7)	4.2	4.8	13.8	
Tax	(49.5)	(41.2)	(24.6)	(40.2)	(50.2)	(54.6)	(100.8)	84.6	
<i>Effective tax rate (%)</i>	39.9	72.7	65.3			89.0	65.3		
Net profit	75.2	23.7	13.0	(45.1)	(82.7)	15.8	64.8	>100	
Core profit	65.3	23.7	13.0	(45.1)	(80.1)	17.7	64.8	>100	Within expectations
<i>Net margin (%)</i>	7.6	2.8	1.6			1.2	2.0		

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	558.3
Surplus RNAV for property and investments	WACC of 11%	936.3
28% Sentral REIT	TP: 0.92	242.0
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	61.7
Shareholders' Funds (ex-construction & REIT)		3,884.9
Total RNAV		5,683.3
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 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, taking into account the potential reopening of country's border that may spur property purchase by foreign buyers for MRCB's projects such as St Regis

Source: Company data, RHB

Recommendation Chart

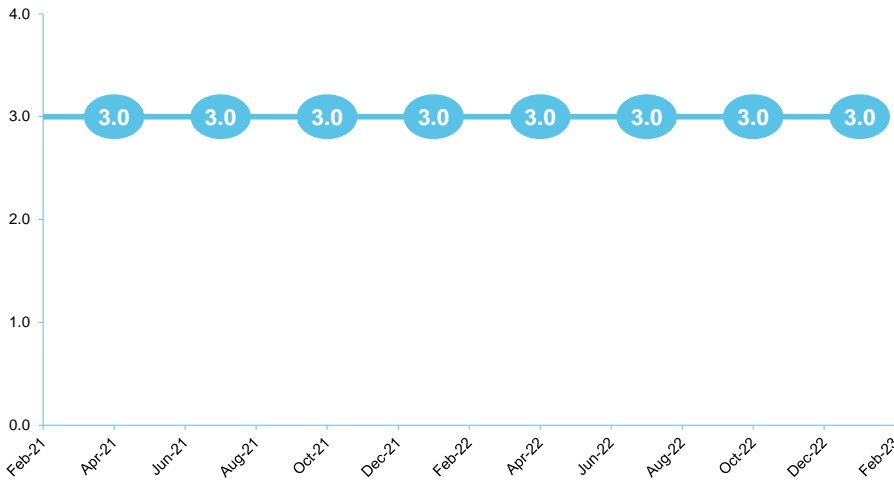


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

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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