

1 March 2022

Construction & Engineering | Construction

## Malaysian Resources Corp (MRC MK)

**Neutral** (Maintained)

### An Uneven Recovery Path

Target Price (Return): MYR0.38 (5.6%)  
 Price (Market Cap): MYR0.36 (USD378m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.69m/0.16m

- **Maintain NEUTRAL and MYR0.38 TP, 6% upside.** FY21's core earnings of MYR15m (-39.7% YoY) exceeded both our and consensus' full-year loss estimates of MYR21m and MYR40m. Nevertheless, the absence of job wins during this period signals Malaysian Resources Corp's difficulty in replenishing jobs vis-à-vis other contractors. This report marks the transfer of coverage to Adam bin Mohamed Rahim.
- **Results review.** Overall 4Q21 revenue expanded to MYR858.1m to the tune of >100% QoQ and YoY – mainly due to the completion of the acquisition of the 50% equity interest in Setia Utama Light Rail Transit Line 3 (LRT3) during the quarter. This resulted in overall 4Q21 core earnings rising 180% YoY to MYR75.2m. One of the main factors behind this boost: MRCB's construction wing, which recorded higher progress billings from the Employees Provident Fund Headquarters at Kwasa Sentral and Damansara-Shah Alam Elevated Highway's Package CB2 amongst others.
- **Not entirely out of the woods.** While we note that MRCB's construction orderbook stands at MYR27.3bn, it is important to take heed that it did not win any new contracts in FY21. Management said the company's past exposure to East Malaysia was quite a long time ago. Therefore, this gives rise to tougher competition with other contractors that have a track record in this part of the country. Conversely, MRCB said its property development unit could face a soft take-up rate if demand for property slowly recovers.
- **Earnings estimates.** Despite beating our full-year estimates, we did not make any changes to our forecasts. We believe our FY22F-24F earnings have already factored in better contributions from key segments as business operations normalise. Our estimates also take into account the share of the LRT3 JV, which should also improve significantly from 4Q21 onwards. We also introduce FY24F earnings, which entail a conservative job replenishment assumption of MYR300m.
- **Valuation.** We lower our target P/E to 11x from 12x that is ascribed to the construction segment, reflecting pressures of high input costs and overall subdued sentiment in this sector. Our latest target P/E also equates to the KLCON Index's forward P/E. This did not result in any changes to our TP, given the minor tweaks. As such, our TP is maintained at MYR0.38, which is given a 0% ESG premium/discount on the intrinsic value – this was derived from our in-house proprietary scoring methodology.
- **Key upside/downside risks** include a resurgence/prolonged slowdown in the property market and acceleration/delays in the roll-out of public infrastructure project tenders.

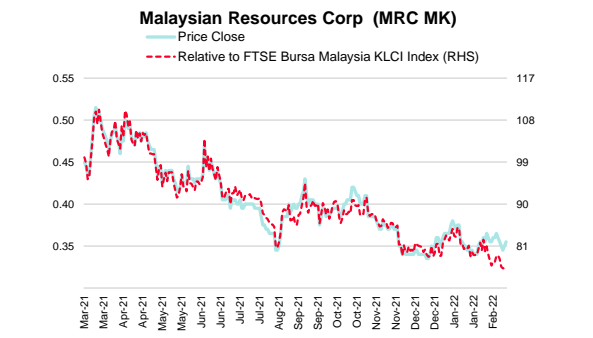
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	2.9	1.4	(11.3)	(14.5)
Relative	(2.6)	(2.9)	(5.0)	(12.4)	(16.4)
52-wk Price low/high (MYR)				0.34	– 0.52



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	1,353	1,459	1,510
Recurring net profit (MYRm)	26	16	29	63	67
Recurring net profit growth (%)	10.6	(39.7)	83.5	116.4	6.5
Recurring P/E (x)	59.67	98.92	53.91	24.91	23.38
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	4.91	16.00	7.16	27.25	3.37
Dividend Yield (%)	2.8	2.8	0.6	1.2	1.3
EV/EBITDA (x)	na	24.84	16.71	17.50	13.47
Return on average equity (%)	(3.8)	(0.8)	0.6	1.4	1.5
Net debt to equity (%)	12.7	29.3	34.2	41.1	39.9

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.01	0.00	0.01	0.01	0.02
Construction & Engineering	DPS	0.01	0.01	0.00	0.00	0.00
<b>Malaysian Resources Corp</b>	BVPS	1.04	1.04	1.02	1.02	1.04
MRC MK	Return on average equity (%)	(3.8)	(0.8)	0.6	1.4	1.5
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	59.67	98.92	53.91	24.91	23.38
65% discount to RNAV	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	20.4	2.7	10.8	0.5	26.5
<b>Key drivers</b>	Dividend Yield (%)	2.8	2.8	0.6	1.2	1.3
i. New property sales;	EV/EBITDA (x)	na	24.84	16.71	17.50	13.47
ii. Asset disposals;	EV/EBIT (x)	na	45.71	23.71	24.57	17.48
iii. New construction contracts.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Key upside/downside risks include a resurgence/prolonged slowdown in the property market and acceleration/delays in the roll-out of public infrastructure project tenders.	Total turnover	1,199	1,448	1,353	1,459	1,510
	Gross profit	(165)	(53)	248	319	378
	EBITDA	(74)	119	187	196	252
	Depreciation and amortisation	(60)	(54)	(55)	(57)	(58)
	Operating profit	(134)	64	132	140	194
	Net interest	(39)	(89)	(108)	(59)	(70)
	Pre-tax profit	(153)	7	54	117	125
	Taxation	(23)	(55)	(24)	(53)	(56)
	Reported net profit	(176)	(38)	29	63	67
	Recurring net profit	26	16	29	63	67
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
MRCB 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.	Change in working capital	454	123	164	(28)	338
	Cash flow from operations	319	98	219	57	465
	Capex	0	(56)	(50)	(50)	(50)
	Cash flow from investing activities	(66)	(56)	(65)	(65)	(65)
	Dividends paid	(77)	(44)	(44)	(9)	(19)
	Cash flow from financing activities	(573)	665	(44)	(9)	(19)
	Cash at beginning of period	517	744	579	383	62
	Net change in cash	(320)	707	110	(16)	381
	Ending balance cash	197	1,451	688	366	443
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	744	579	383	62	89
	Tangible fixed assets	1,829	2,185	2,180	2,174	2,166
	Total investments	49	0	15	30	45
	Total assets	8,353	9,271	9,105	9,198	9,301
	Short-term debt	639	479	479	479	479
	Total long-term debt	687	1,453	1,453	1,453	1,453
	Total liabilities	3,764	4,645	4,579	4,652	4,687
	Total equity	4,589	4,626	4,526	4,546	4,614
	Total liabilities & equity	8,353	9,271	9,105	9,198	9,301
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(9.1)	20.8	(6.6)	7.8	3.5
	Recurrent EPS growth (%)	10.6	(39.7)	83.5	116.4	6.5
	Gross margin (%)	(13.7)	(3.7)	18.3	21.9	25.0
	Operating EBITDA margin (%)	(6.1)	8.2	13.8	13.5	16.7
	Net profit margin (%)	(14.7)	(2.6)	2.1	4.3	4.4
	Dividend payout ratio (%)	(25.0)	(115.0)	30.0	30.0	30.0
	Capex/sales (%)	0.0	3.9	3.7	3.4	3.3
	Interest cover (x)	(2.43)	0.73	1.08	2.19	2.72

Source: Company data, RHB

## Results At a Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY(%)	Comments
<b>Revenue</b>	<b>308.9</b>	<b>137.9</b>	<b>858.1</b>	<b>522.4</b>	<b>177.8</b>	<b>1,199.5</b>	<b>1,448.5</b>	<b>20.8</b>	Increased due to higher progress billings.
<b>EBIT</b>	<b>42.1</b>	<b>(16.5)</b>	<b>149.0</b>	<b>(1,002.5)</b>	<b>254.1</b>	<b>(107.2)</b>	<b>118.7</b>	<b>(210.7)</b>	
<i>EBIT margin (%)</i>	13.6	(12.0)	17.4			(8.9)	8.2		
Interest expense	(17.7)	(22.8)	(27.5)	20.7	55.0	(68.1)	(88.7)	30.2	
Associates	10.3	9.2	2.4	(74.0)	(76.8)	19.5	31.3	60.4	
<b>Pre-tax profit</b>	<b>34.6</b>	<b>(30.1)</b>	<b>123.9</b>			<b>(155.8)</b>	<b>61.3</b>	<b>(139.3)</b>	
<i>Pre-tax margin (%)</i>	11.2	(21.8)	14.4			(13.0)	4.2	(132.6)	
Tax	(7.5)	(1.9)	(49.5)	<i>nm</i>	<i>nm</i>	(22.3)	(54.6)	144.3	
<i>Effective tax rate (%)</i>	21.5	(6.2)	39.9			(14.3)	89.0	<i>nm</i>	
<b>Net profit</b>	<b>26.9</b>	<b>(32.2)</b>	<b>75.2</b>	333.9	<b>179.6</b>	<b>(178.7)</b>	<b>15.8</b>	108.9	
<b>Core profit</b>	26.9	(32.2)	75.2	333.9	<b>179.6</b>	26.2	15.8	(39.7)	Above expectations.
<i>Net margin (%)</i>	8.7	(23.3)	8.8			2.0	1.1		

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	309.3
Surplus RNAV for property and investments	WACC of 11%	897.8
28% Sentral REIT	TP: 1.02	305.0
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	61.7
Shareholders' Funds (ex-construction & REIT)		3,300.9
Total RNAV		4,874.8
Share base		4,467.5
<b>RNAV per share</b>		<b>1.09</b>
Discount <sup>(1)</sup>		65%
Intrinsic value/share (MYR)		<b>0.38</b>
ESG premium/discount	0%	0.00
<b>TP</b>		<b>0.38</b>

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

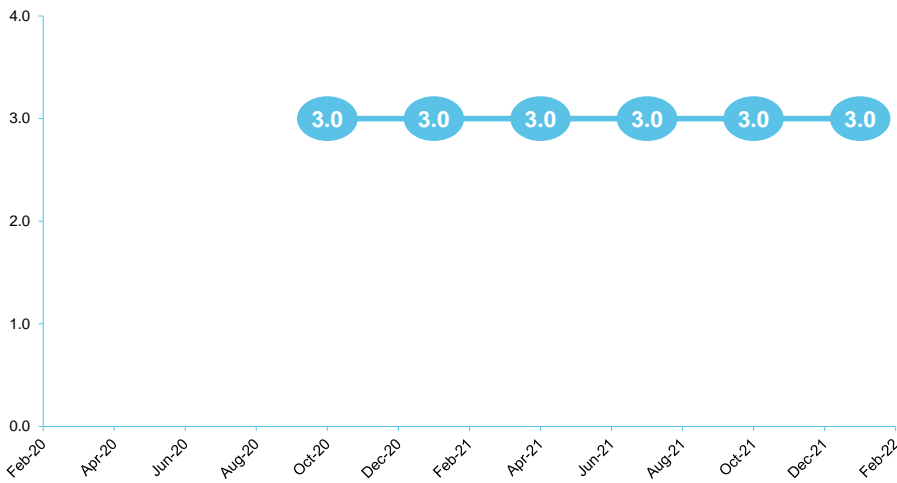


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-02-27	Buy	1.08	0.80

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
-	-

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