

29 November 2021

Construction & Engineering | Construction

## Malaysian Resources Corp (MRC MK)

**Neutral** (Maintained)

### Choppy Road To Recovery

Target Price (Return): MYR0.38 (8.6%)  
 Price (Market Cap): MYR0.35 (USD369m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 2.20m/0.53m

- **Maintain NEUTRAL, revised MYR0.38 TP from MYR0.43, 9% upside.** 9M21 results missed both our and Street's expectations as wider core losses of MYR59m were reported vs 9M20's -MYR2m. Extended productivity challenges faced by Malaysian Resources Corp's operations are likely to drag on further into 4Q21 before seeing a more marked recovery next year. Nonetheless, the worst has likely passed for the group, with current share price having largely priced in the near-term negatives in our view. This note marks a transfer of coverage to Lester Siew.
- **Below expectations.** 9M21's core loss of MYR59m fell below both our and consensus' full-year profit estimates of MYR15m and MYR2m. This was predominantly on weaker-than-expected revenue (-34% YoY), as severe operating challenges – posed by the pandemic lockdowns – continued to plague 3Q21's performance across the board. Aside from extended site closures hampering both internal and external projects – before seeing a gradual resumption from August – MRCB also continued to struggle with significant building materials supply chain disruptions that hampered the recovery pace for its overall operating capacity. Conversely, 3Q21 results were sequentially flat despite revenue declining 39% QoQ – this was partially offset by improved progress billings for its construction arm, while associate/JV contributions remained relatively resilient.
- **Not entirely out of the woods.** Despite the lifting of SOP restrictions, we gather that MRCB's operations are still being restrained by the aforementioned supply chain issues affecting productivity at both its construction and property development projects. Consequently, the recovery in progress billings will continue to take on a more gradual pace – drawn out into 2022 rather than a sharp turnaround from 4Q21. Note: The persisting QoQ operational challenges should see some buffer from higher recognition of the Light Rail Transit Line 3 or LRT3 project's contributions post acquisition of 50% JV partner's George Kent Malaysia's (GKEN MK, NR) participation stake for MYR53m – the deal was completed on 13 Oct.
- **Earnings estimates.** Post results, we slash FY21F earnings from MYR15m to a full-year loss of MYR21m and also cut FY22F earnings by 38% – largely reflecting the drawn-out recovery scenario seen for the group's operations amid prevailing capacity constraints.
- **Still NEUTRAL.** Our TP is lowered to MYR0.38 subsequent to our revised estimates based on SOP valuation. This also assumes a 0% ESG premium/discount ascribed on the stock, which was derived from our in-house proprietary scoring methodology.
- **Key upside/downside risks include** a resurgence/prolonged slowdown in the property market, acceleration/delays in the roll-out of public infrastructure project tenders, and easing/exacerbating labour and raw material supply constraints.

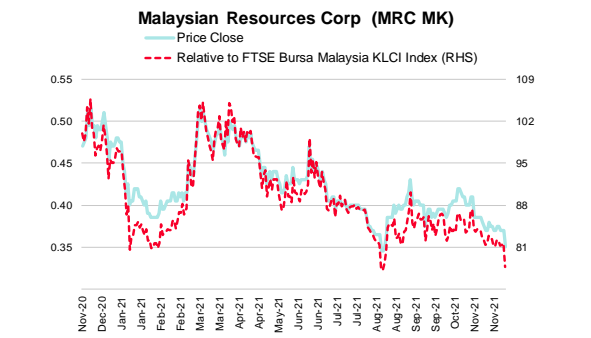
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.3)	(12.5)	(11.4)	(17.7)	(22.2)
Relative	(19.2)	(7.9)	(6.8)	(13.5)	(16.0)
52-wk Price low/high (MYR)	0.35 – 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: EXCELLENT

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 USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,319	1,199	876	1,194	1,459
Recurring net profit (MYRm)	24	26	(21)	29	63
Recurring net profit growth (%)	(68.5)	10.6	(181.6)	-	116.7
Recurring P/E (x)	65.87	59.58	na	53.86	24.85
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	na	4.90	3.23	27.87	97.92
Dividend Yield (%)	4.9	2.8	na	0.6	1.2
EV/EBITDA (x)	20.31	na	43.68	17.12	13.01
Return on average equity (%)	0.5	(3.8)	(0.5)	0.6	1.4
Net debt to equity (%)	27.2	12.7	7.5	13.5	21.4

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-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.01	0.01	(0.00)	0.01	0.01
Construction & Engineering	DPS	0.02	0.01	-	0.00	0.00
<b>Malaysian Resources Corp</b>	BVPS	1.07	1.02	1.02	1.02	1.02
MRC MK	Return on average equity (%)	0.5	(3.8)	(0.5)	0.6	1.4
Neutral						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	65.87	59.58	na	53.86	24.85
65% discount to sum-of-parts RNAV.	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	(13.6)	20.4	27.8	0.4	(2.2)
<b>Key drivers</b>	Dividend Yield (%)	4.9	2.8	-	0.6	1.2
i. New property sales;	EV/EBITDA (x)	20.31	na	43.68	17.12	13.01
ii. Asset disposals;	EV/EBIT (x)	39.68	na	na	30.95	18.52
iii. New construction contracts.						
	<b>Income statement (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Total turnover	1,319	1,199	876	1,194	1,459
i. A prolonged slowdown in the property market;	Gross profit	298	(165)	145	256	319
ii. Longer-than-expected delays in the implementation of public projects;	EBITDA	141	(74)	42	123	189
iii. Failure to secure new jobs.	Depreciation and amortisation	(69)	(60)	(54)	(55)	(56)
	Operating profit	72	(134)	(11)	68	133
	Net interest	(26)	(39)	(53)	(44)	(51)
	Pre-tax profit	53	(153)	(40)	54	117
	Taxation	(34)	(23)	18	(24)	(53)
	Reported net profit	24	(176)	(21)	29	63
	Recurring net profit	24	26	(21)	29	63
<b>Company Profile</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.						
	<b>Cash flow (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	(244)	454	477	1	(69)
	Cash flow from operations	(162)	319	484	56	16
	Capex	(51)	0	(50)	(50)	(50)
	Cash flow from investing activities	3	(66)	(65)	(65)	(65)
	Dividends paid	(77)	(77)	(44)	0	(9)
	Cash flow from financing activities	272	(573)	(44)	0	(9)
	Cash at beginning of period	552	517	744	983	710
	Net change in cash	113	(320)	375	(9)	(58)
	Ending balance cash	664	197	1,119	974	652
	<b>Balance sheet (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	517	744	983	710	348
	Tangible fixed assets	2,020	1,829	1,825	1,820	1,814
	Total investments	34	49	64	79	94
	Total assets	8,481	8,353	8,109	8,312	8,514
	Short-term debt	825	639	639	639	639
	Total long-term debt	1,003	687	687	687	687
	Total liabilities	3,658	3,764	3,542	3,760	3,942
	Total equity	4,823	4,589	4,567	4,552	4,573
	Total liabilities & equity	8,481	8,353	8,109	8,312	8,514
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	(29.5)	(9.1)	(27.0)	36.3	22.2
	Recurrent EPS growth (%)	(68.5)	10.6	(181.6)	0.0	116.7
	Gross margin (%)	22.6	(13.7)	16.5	21.4	21.9
	Operating EBITDA margin (%)	10.7	(6.1)	4.8	10.3	13.0
	Net profit margin (%)	1.8	(14.7)	(2.4)	2.4	4.3
	Dividend payout ratio (%)	325.2	(25.0)	0.0	30.0	30.0
	Capex/sales (%)	3.9	0.0	5.7	4.2	3.4
	Interest cover (x)	1.59	(2.43)	(0.16)	1.07	2.09

Source: Company data, RHB

Figure 1: MRCB's results review

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY(%)	Comments
<b>Revenue</b>	<b>297.6</b>	<b>225.7</b>	<b>137.9</b>	(38.9)	(53.7)	<b>890.6</b>	<b>590.3</b>	(33.7)	Decline due to sustained impact of multiple site closures at its project sites.
<b>EBIT</b>	<b>19.9</b>	<b>(28.7)</b>	<b>(16.5)</b>	(42.5)	(182.8)	<b>(149.3)</b>	<b>(30.3)</b>	(79.7)	
<i>EBIT margin (%)</i>	6.7	(12.7)	(12.0)			(16.8)	(5.1)		
Interest expense	(17.8)	(20.2)	(22.8)	12.7	27.6	(50.4)	(61.2)	21.5	
Associates	3.5	10.7	9.2	(13.8)	165.2	9.3	28.9	212.4	
<b>Pre-tax profit</b>	<b>5.5</b>	<b>(38.2)</b>	<b>(30.1)</b>	(21.3)	(642.4)	<b>(190.4)</b>	<b>(62.6)</b>	(67.1)	
<i>Pre-tax margin (%)</i>	1.9	(16.9)	(21.8)			(21.4)	(10.6)	(50.4)	
Tax	(6.4)	(1.5)	(1.9)	27.7	(70.8)	(14.9)	(5.1)	(65.5)	
<i>Effective tax rate (%)</i>	115.7	(3.8)	(6.2)			(7.8)	(8.2)	4.8	
<b>Net profit</b>	<b>(0.8)</b>	<b>(32.4)</b>	<b>(32.2)</b>	(0.8)	3,783.7	<b>(205.6)</b>	<b>(59.4)</b>	(71.1)	
<b>Core profit</b>	(0.8)	(32.4)	(32.2)	(0.8)	3,783.7	(2.3)	(59.4)	2,450.3	Below expectations.
<i>Net margin (%)</i>	(0.3)	(14.4)	(23.3)			(0.3)	(10.1)		

Source: Company data, RHB

Figure 2: MRCB's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (12x 1-year forward earnings)	P/E of 12x	319.7
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		4,885.1
Share base		4,467.5
<b>RNAV per share</b>		<b>1.09</b>
Discount		65%
Fair value/share (MYR)		<b>0.38</b>
ESG premium/discount	0%	-
<b>TP</b>		<b>0.38</b>

Source: Company data, RHB

## Recommendation Chart

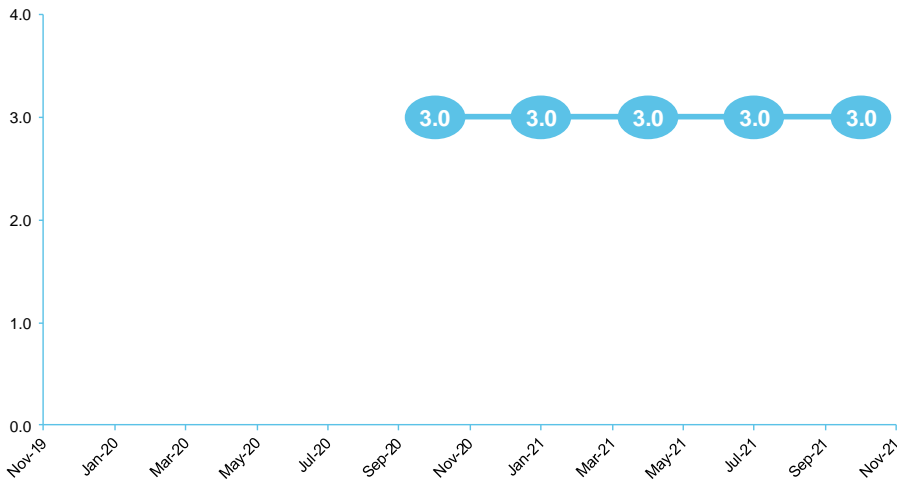


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-11-23	Buy	1.08	0.70

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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