

1 June 2021

# Malaysian Resources Corp (MRC MK)

## Cutting FY21-23F Net Profit; Still NEUTRAL

- **NEUTRAL, new MYR0.43 TP from MYR0.49, 0% upside with 0.5% FY21F yield.** Malaysian Resources Corp's 1Q21 earnings fell below estimates, at only 12% and 14% of our and Street full-year net profit. 1Q21 revenue plunged by 47% YoY, mainly dragged by both the property and construction divisions. Malaysia's latest full lockdown, which takes effect today, should pressure near-term earnings and dampen MRCB's rerating potential. Given the near-term constraints, we believe these risks are priced in, as the stock is trading at close to its 5-year mean of 33x to FY22F.
- **1Q21 overall revenue plunged by 47% YoY (-27% QoQ) to MYR226.7m.** This was due to declines in all three segments – construction, property development, and others. Consequently, the construction unit booked an operational loss of MYR1.6m due to the residual impact of multiple site closures at several projects. The closures were implemented as a precautionary measure, when COVID-19 cases were detected towards the end of 2020.
- **Property revenue declined by 44% YoY or 9% QoQ.** Despite recording a profit that was 46% YoY lower, the figure also marked a QoQ increase of 51%. Main contributors to revenue were its on-going property development projects – Sentral Suites in KL Sentral, the 9 Seputeh mixed residential development in Jalan Klang Lama, and Alstonia in Bukit Rahman Putra – as progress completion advanced further. Moving forward, we believe the lockdown will further delay MRCB's recovery prospects, as its property segment would be mainly affected.
- **Softer sentiment in FY21 could mean deferral of new property launches.** MRCB's new sales and launches are highly concentrated in Malaysia. The property segment alone contributed about 53% of group operational income. At this juncture, we cannot rule out the possibility that some of its new launches (with a total GDV of MYR1bn) this year could be deferred to a later date. Meanwhile, contributions from LRT3 are expected to improve from early 2021 onwards, as progress reaches its peak cycle.
- **We cut FY21-23F earnings by 25%, 20%, and 7%.** The adjustments made are mainly on the back of tighter operational constraints stemming from the full lockdown. This is adding to the weaker prospects on demand recovery for its property units, which may delay planned new launches. Our estimates for LRT3 JV contributions are also revised on expected lower capacity. All things considered, we cut our SOP-derived TP to MYR0.43.
- **Downside risks** are a prolonged slowdown in the property market, longer-than-expected delays in the implementation of public projects, and a failure to secure new jobs.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,319	1,199	1,251	1,326	1,459
Recurring net profit (MYRm)	24	26	32	47	63
Recurring net profit growth (%)	(68.5)	10.6	22.7	44.7	35.1
Recurring P/E (x)	79.92	72.28	58.93	40.72	30.14
P/B (x)	0.4	0.4	0.4	0.4	0.4
P/CF (x)	na	5.95	4.68	10.95	37.57
Dividend Yield (%)	4.1	2.3	0.5	0.7	1.0
EV/EBITDA (x)	22.66	na	17.21	15.58	14.65
Return on average equity (%)	0.5	(3.8)	0.7	1.0	1.4
Net debt to equity (%)	27.2	12.7	10.2	13.6	20.6

Source: Company data, RHB

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**Neutral** (Maintained)

Target Price (Return):	MYR0.43 (+0%)
Price:	MYR0.43
Market Cap:	USD466m
Avg Daily Turnover (MYR/USD)	4.96m/1.21m

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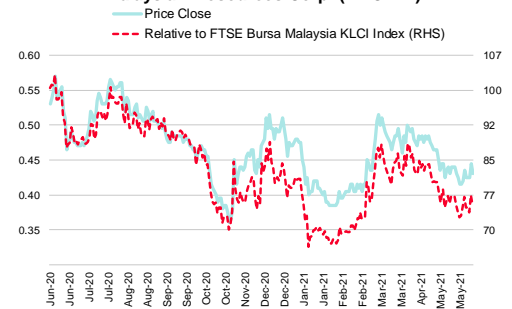
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.5)	(4.5)	3.6	(8.5)	(23.2)
Relative	(6.8)	(3.4)	3.2	(9.8)	(30.7)
52-wk Price low/high (MYR)	0.36 – 0.57				

Malaysian Resources Corp (MRC MK)



Source: Bloomberg

### Overall ESG Score: 3.0 (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 CO<sub>2</sub>, 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 (LTI) for Kwasa C8 Plot 1 (EPF 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 capitalization of less than USD1bn.

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## Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.01	0.01	0.01	0.01	0.01
Construction & Engineering	DPS	0.02	0.01	0.00	0.00	0.00
<b>Malaysian Resources Corp</b>	BVPS	1.09	1.04	1.03	1.04	1.04
MRC MK	Return on average equity (%)	0.5	(3.8)	0.7	1.0	1.4
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	79.92	72.28	58.93	40.72	30.14
	P/B (x)	0.4	0.4	0.4	0.4	0.4
	FCF Yield (%)	(11.2)	16.8	18.7	6.5	0.0
	Dividend Yield (%)	4.1	2.3	0.5	0.7	1.0
	EV/EBITDA (x)	22.66	na	17.21	15.58	14.65
	EV/EBIT (x)	44.29	na	28.75	23.96	20.87
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	1,319	1,199	1,251	1,326	1,459
	Gross profit	298	(165)	273	307	319
	EBITDA	141	(74)	134	157	189
	Depreciation and amortisation	(69)	(60)	(54)	(55)	(56)
	Operating profit	72	(134)	80	102	133
	Net interest	(26)	(39)	(45)	(46)	(51)
	Pre-tax profit	53	(153)	60	87	117
	Taxation	(34)	(23)	(27)	(39)	(53)
	Reported net profit	24	(176)	32	47	63
	Recurring net profit	24	26	32	47	63
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(244)	454	343	100	(35)
	Cash flow from operations	(162)	319	405	173	50
	Capex	(51)	0	(50)	(50)	(50)
	Cash flow from investing activities	3	(66)	(65)	(65)	(65)
	Dividends paid	(77)	(77)	(44)	(10)	(14)
	Cash flow from financing activities	272	(573)	(44)	(10)	(14)
	Cash at beginning of period	552	517	744	860	704
	Net change in cash	113	(320)	296	99	(28)
	Ending balance cash	664	197	1,040	959	676
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	517	744	860	704	377
	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	8,377	8,432	8,543
	Short-term debt	825	639	639	639	639
	Total long-term debt	1,003	687	687	687	687
	Total liabilities	3,658	3,764	3,799	3,851	3,942
	Total equity	4,823	4,589	4,578	4,581	4,601
	Total liabilities & equity	8,481	8,353	8,377	8,432	8,543
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(29.5)	(9.1)	4.3	6.0	10.0
	Recurrent EPS growth (%)	(68.5)	10.6	22.7	44.7	35.1
	Gross margin (%)	22.6	(13.7)	21.8	23.2	21.9
	Operating EBITDA margin (%)	10.7	(6.1)	10.7	11.9	12.9
	Net profit margin (%)	1.8	(14.7)	2.6	3.5	4.3
	Dividend payout ratio (%)	325.2	(25.0)	30.0	30.0	30.0
	Capex/sales (%)	3.9	0.0	4.0	3.8	3.4
	Interest cover (x)	1.59	(2.43)	1.26	1.61	2.08

Source: Company data, RHB

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Figure 1: MRCB's results review

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>425.8</b>	<b>308.9</b>	<b>226.7</b>	<b>(26.6)</b>	<b>(46.8)</b>	The decline was due to the residual impact of multiple site closures at several construction project sites.
<b>EBIT</b>	<b>35.9</b>	<b>42.1</b>	<b>14.9</b>	<b>(64.7)</b>	<b>(58.6)</b>	
<i>EBIT Margin (%)</i>	8.4	13.6	6.6			
Interest expense	(12.6)	(17.7)	(18.2)	2.9	44.9	
Associates	3.6	10.3	9.1	(11.5)	154.0	
<b>Pretax profit</b>	<b>26.9</b>	<b>34.6</b>	<b>5.7</b>	<b>(83.5)</b>	<b>(78.7)</b>	
<i>Pretax Margin (%)</i>	6.3	11.2	2.5			
Tax	(11.2)	(7.5)	(1.8)	(76.0)	(84.1)	
<i>Effective tax rate (%)</i>	41.8	21.5	31.3			
<b>Net Profit</b>	<b>15.6</b>	<b>27.2</b>	<b>3.9</b>	<b>(85.6)</b>	<b>(74.9)</b>	Below expectations.
<b>Core Profit</b>	15.6	26.9	5.2	(80.7)	(66.7)	
<i>Net Margin (%)</i>	3.7	8.7	2.3			

Source: Company data, RHB

Figure 2: MRCB's segmental results

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>425.8</b>	<b>308.9</b>	<b>226.7</b>	<b>(26.6)</b>	<b>(46.8)</b>	Most key construction projects were also nearing completion, where recognition of revenue and profits was minimal. Much lower number of units reaching financial settlement for the 1060 Carnegie units sold.
Construction	174.8	151.6	84.4	(44.3)	(51.7)	
Property	236.4	145.7	132.2	(9.3)	(44.1)	
Others	14.5	11.6	10.1	(12.6)	(30.3)	
<b>Segmental EBIT</b>	<b>39.7</b>	<b>35.1</b>	<b>16.3</b>	<b>(53.6)</b>	<b>(58.9)</b>	
Construction	12.6	24.4	(1.6)	(106.8)	(113.1)	
Property	24.2	8.7	13.1	50.7	(45.8)	
Others	2.9	2.1	4.8	133.3	66.5	
<b>EBIT margins</b>	<b>9.3%</b>	<b>11.4%</b>	<b>7.2%</b>	<b>(4.2)</b>	<b>(2.1)</b>	
Construction	7.2%	16.1%	-1.9%	(18.0)	(9.1)	
Property	10.2%	6.0%	9.9%	4.0	(0.3)	
Others	20.1%	17.9%	47.9%	30.0	27.8	

Source: Company data, RHB

Figure 3: MRCB's SOP valuation

Items	P/E/ WACC/Valuation	Equity value/surplus (MYRm)
Construction (12x 1-year forward earnings)	P/E of 12x	355.2
Surplus RNAV for property and investments	WACC of 11%	975.4
28% Sentral REIT	TP: 1.00	298.8
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 8%	61.7
Shareholders' Funds (excl. construction)		3,686.8
Total RNAV		5,377.9
Share base		4,412.05
<b>RNAV per share</b>		<b>1.22</b>
Discount		65%
<b>Target Price (MYR)</b>		<b>0.43</b>

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-09-03	Buy	1.20	0.69

Source: RHB, Bloomberg

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Analyst	Company
-	-

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