

1 September 2021

Construction & Engineering | Construction

Malaysian Resources Corp (MRC MK)

Neutral (Maintained)

Deep Cut In FY21 Earnings Looks Warranted

Target Price (Return): MYR0.43 (7.5%)
Price: MYR0.40
Market Cap: USD425m
Avg Daily Turnover (MYR/USD): 2.42m/0.58m

- **Still NEUTRAL and MYR0.43 TP, 8% upside with 0.3% FY21F yield.** 1H21 earnings were below estimates after recording a MYR27.2m loss. Revenue was notably lower than opex, likely a result of low productivity at most construction sites. Sequential recovery is possible in the next quarter, with higher operational capacity allowed. However, we believe this has been priced in, with the stock trading at 37x – higher than its 5-year mean of 33x to FY22F.
- **2Q21 overall revenue jumped 35% YoY** (flattish QoQ) to MYR225.7m. This was on an overall surge in activities from a low base during the same period last year. In the key construction and property development segments, revenue was up 27% and 43% YoY. Consequently, the construction unit booked an operational loss of MYR31.3m due to the residual impact of multiple site closures at several projects.
- **Property revenue surged by 43% YoY or 8% QoQ.** Despite recording a profit that was 64% YoY higher, the figure also marked a QoQ decrease of 76%. The reinstatement of the MCO in May and June has resulted in lower QoQ revenue recognition from Sentral Suites and Tria@9 Seputeh. Also, contributions from 1060 Carnegie were also lower cumulatively, with only 42 units reaching financial settlements in 1H21 (1H20: 79 units). In the coming quarters, net earnings are expected to be better, in line with the rise in productivity. Barring any unforeseen circumstances, we believe earnings will start to show strong recovery in 4Q21.
- **Deferral of new property launches guided by management.** We note that approvals are being granted to allow the launch of Kwasa Sentral in 4Q21. Conversely, it was pointed out that Lot J development could be deferred to FY22 for commercial reasons. On that account, we cannot rule out the possibility that some of Malaysian Resources Corp's other launches this year could be deferred to a later date too. We note that MRCB's new sales and launches are highly concentrated domestically. The property segment alone contributed c.53% of group operational income.
- **We cut FY21F earnings by 53% but keep FY22 and FY23 forecasts unchanged.** The adjustments made are mainly on the record-low productivity seen this year. Our numbers are maintained in the later years, over optimism that improved productivity expected in 4Q21 can be maintained. All in, we maintain our SOP-derived TP at MYR0.43.
- **Downside risks:** A prolonged slowdown in the property market, longer-than-expected delays in the implementation of public projects, and failure to secure new jobs.

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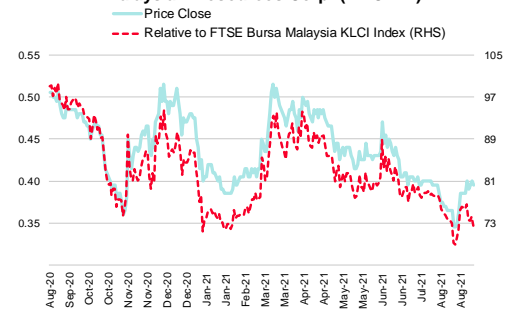
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.9)	2.6	(11.2)	(4.8)	(21.8)
Relative	(15.3)	(4.5)	(11.6)	(6.3)	(26.8)
52-wk Price low/high (MYR)	0.35 – 0.52				

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 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	1,080	1,326	1,459
Recurring net profit (MYRm)	24	26	15	47	63
Recurring net profit growth (%)	(68.5)	10.6	(43.1)	216.6	33.4
Recurring P/E (x)	73.41	66.40	116.61	36.84	27.61
P/B (x)	0.4	0.4	0.4	0.4	0.4
P/CF (x)	na	5.46	4.02	15.74	36.05
Dividend Yield (%)	4.4	2.5	0.3	0.8	1.1
EV/EBITDA (x)	21.57	na	24.33	14.82	14.03
Return on average equity (%)	0.5	(3.8)	0.3	1.0	1.4
Net debt to equity (%)	27.2	12.7	9.3	14.0	21.1

Source: Company data, RHB

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	0.00
Malaysian Resources Corp	BVPS	1.09	1.04	1.03	1.03	1.04
MRC MK	Return on average equity (%)	0.5	(3.8)	0.3	1.0	1.4
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	73.41	66.40	116.61	36.84	27.61
65% discount to RNAV	P/B (x)	0.4	0.4	0.4	0.4	0.4
	FCF Yield (%)	(12.2)	18.3	22.0	3.5	(0.1)
	Dividend Yield (%)	4.4	2.5	0.3	0.8	1.1
Key drivers	EV/EBITDA (x)	21.57	na	24.33	14.82	14.03
i. New property sales;	EV/EBIT (x)	42.15	na	64.05	22.91	20.07
ii. Asset disposals;						
iii. New construction contracts.						
Key risks	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
A prolonged slowdown in the property market, longer-than-expected delays in the implementation of public projects, and failure to secure new jobs.	Total turnover	1,319	1,199	1,080	1,326	1,459
	Gross profit	298	(165)	210	306	317
	EBITDA	141	(74)	87	156	187
	Depreciation and amortisation	(69)	(60)	(54)	(55)	(56)
	Operating profit	72	(134)	33	101	131
	Net interest	(26)	(39)	(45)	(45)	(52)
	Pre-tax profit	53	(153)	28	88	117
	Taxation	(34)	(23)	(13)	(40)	(53)
	Reported net profit	24	(176)	15	47	63
	Recurring net profit	24	26	15	47	63
Company Profile	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
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	(244)	454	404	40	(35)
	Cash flow from operations	(162)	319	434	111	48
	Capex	(51)	0	(50)	(50)	(50)
	Cash flow from investing activities	3	(66)	(65)	(65)	(65)
	Dividends paid	(77)	(77)	(44)	(4)	(14)
	Cash flow from financing activities	272	(573)	(44)	(4)	(14)
	Cash at beginning of period	552	517	744	903	687
	Net change in cash	113	(320)	324	41	(31)
	Ending balance cash	664	197	1,068	944	657
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	517	744	903	687	360
	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	8,242	8,415	8,526
	Short-term debt	825	639	639	639	639
	Total long-term debt	1,003	687	687	687	687
	Total liabilities	3,658	3,764	3,682	3,851	3,942
	Total equity	4,823	4,589	4,560	4,564	4,585
	Total liabilities & equity	8,481	8,353	8,242	8,415	8,526
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(29.5)	(9.1)	(9.9)	22.8	10.0
	Recurrent EPS growth (%)	(68.5)	10.6	(43.1)	216.6	33.4
	Gross margin (%)	22.6	(13.7)	19.5	23.1	21.7
	Operating EBITDA margin (%)	10.7	(6.1)	8.0	11.8	12.8
	Net profit margin (%)	1.8	(14.7)	1.4	3.6	4.3
	Dividend payout ratio (%)	325.2	(25.0)	30.0	30.0	30.0
	Capex/sales (%)	3.9	0.0	4.6	3.8	3.4
	Interest cover (x)	1.59	(2.43)	0.52	1.59	2.06

Source: Company data, RHB

Figure 1: MRCB's results review

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY(%)	Comments
Revenue	167.2	226.7	225.7	(0.4)	35.0	592.9	452.5	(23.7)	The decline was due to the residual impact of multiple site closures at several construction project sites.
EBIT	(208.8)	14.9	(28.7)	(292.9)	(86.3)	(172.9)	(13.8)	(92.0)	
EBIT margin (%)	(124.9)	6.6	(12.7)			(29.2)	(3.1)		
Interest expense	(17.0)	(18.2)	(20.2)	10.8	18.6	(29.6)	(38.5)	29.8	
Associates	0.0	9.1	0.0	(100.0)	#DIV/0!	2.7	2.7	0.0	
Pre-tax profit	(223.6)	5.7	(38.2)	(769.1)	(82.9)	(196.7)	(32.5)	(83.5)	
Pre-tax margin (%)	(133.7)	2.5	(16.9)			(33.2)	(7.2)	(78.3)	
Tax	3.0	(1.8)	(1.5)	(18.0)	(149.5)	(8.3)	(3.3)	(60.6)	
Effective tax rate (%)	1.3	31.3	(3.8)			(4.2)	(10.0)	138.2	
Net profit	(220.6)	3.9	(39.7)	(1,111.7)	(82.0)	(205.0)	(35.8)	(82.5)	
Core profit	(17.1)	5.2	(32.4)	(723.3)	89.6	(1.5)	(27.2)	1,714.2	Below expectations.
Net margin (%)	(10.2)	2.3	(14.4)			(0.3)	(6.0)		

Source: Company data, RHB

Figure 2: MRCB's segmental results

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY(%)	Comments
Revenue	167.2	226.7	225.7	(0.4)	35.0	592.9	452.5	(23.7)	Much lower number of units reaching financial settlement for the 1060 Carnegie units sold.
Construction	56.7	84.4	72.0	(14.7)	27.0	231.5	156.4	(32.4)	
Property	100.0	132.2	142.8	8.0	42.8	336.4	274.9	(18.3)	
Others	10.5	10.1	11.0	8.8	4.4	25.1	21.1	(15.7)	
Segmental EBIT	(210.4)	16.3	(32.9)	(301.7)	(84.4)	(170.7)	(16.6)	(90.3)	
Construction	(208.2)	(1.6)	(31.3)	1,805.0	(85.0)	(195.7)	(33.0)	(83.1)	
Property	2.0	13.1	3.3	(74.5)	63.6	26.2	16.5	(37.3)	
Others	(4.2)	4.8	(4.9)	(201.5)	17.5	(1.3)	(0.1)	(94.4)	
EBIT margins	-125.8%	7.2%	-14.6%	(21.8)	111.3	-28.8%	-3.7%	25.1	
Construction	-367.5%	-1.9%	-43.5%	(41.6)	324.0	-84.5%	-21.1%	63.4	
Property	2.0%	9.9%	2.3%	(7.6)	0.3	7.8%	6.0%	-1.8	
Others	-39.7%	47.9%	-44.7%	(92.6)	(5.0)	-5.1%	-0.3%	4.8	

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
RNAV per share		1.22
Discount		65%
TP (MYR)		0.43

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
2018-11-13	Buy	1.20	0.75

Source: RHB, Bloomberg

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