

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRC MK/BUY/RM0.55/Target:RM0.65)

2Q24: Above Expectations; Stronger Earnings From Construction Divisions' Better Progress Billings

Year to 31 Dec	1Q24 (RMm)	2Q24 (RMm)	qoq % chg	yoy % chg	1H24 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Revenue	476.2	372.2	(21.8)	(37.9)	848.4	(36.8)	Net Turnover	2,514	1,943	2,064	2,225
- Property Development	98.1	71.3	(27.3)	(29.8)	169.4	(54.2)	Net Profit (Adjusted)	(66)	92	84	99
- Construction	360.3	282.3	(21.7)	(41.4)	642.6	(31.7)	EPS (sen)	(1.5)	2.1	1.9	2.2
- Others	17.8	18.6	4.5	17.3	36.4	15.0	PE (x)	n.a.	26.7	29.3	24.8
EBIT	40.9	67.6	65.3	103.0	108.4	39.0	PB (x)	0.5	0.5	0.5	0.4
- Property Development	11.2	(25.7)	(329.0)	(6,839.1)	(14.5)	(144.0)					
- Construction	17.8	88.0	395.8	145.7	105.8	145.7					
- Others	11.9	5.3	(55.6)	343.0	17.2	743.2					
PBT	19.0	48.4	155.1	216.1	67.3	87.8					
PATAMI	3.0	51.2	1,604.9	370.9	54.2	180.1					
Core PATAMI(LATAMI)	3.0	51.2	1,604.9	370.9	54.2	180.1					
Margins	%	%	+/- ppt	+/- ppt	%	+/- ppt					
EBIT - Property Development	11.5	(36.1)	(47.6)	(35.7)	(8.6)	(17.5)					
EBIT - Construction	4.9	31.2	26.3	23.7	16.5	11.9					
PBT	4.0	13.0	9.0	10.4	7.9	5.3					
PATAMI	0.6	13.8	13.1	11.9	6.4	4.9					
Core PATAMI	0.6	13.8	13.1	11.9	6.4	4.9					

Source: MRCB, UOB Kay Hian

RESULTS

• **Above expectations.** Malaysia Resources Corporation (MRCB) reported a resilient 2Q24 core net profit of RM51.2m (+1605% qoq, +371% yoy) despite lower revenue of RM372.2m (-21.8% qoq, -37.9% yoy). 2Q24 earnings growth was mainly driven by the construction segment's higher EBIT following better progress billings from two key projects – LRT3 and Muara Sg Pahang Phase 3 flood mitigation project. We deem 1H24 earnings above expectations, accounting for 136% of our and consensus' full-year estimates.

STOCK IMPACT

• **Property development segment: Earnings weakness may see better improvement towards 2H24.** The property development segment posted a lower operating profit (EBIT), with losses of RM25.7m (1Q24: RM11.2m EBIT) on lower revenue of RM71.3m (-27.3% qoq, -29.8% yoy) in 2Q24. The weaker earnings mainly reflect lower sales following completion of Sentral Suites and TRIA 9 Seputeh in 2023, besides slower pick up in other projects' sales. Ytd, the group has recorded property sales of RM497.4m (71% from ongoing projects and 29% from completed projects).

Near-term earnings may gradually improve with better sales of unsold projects under development and completed unsold units (total value of RM805.2m). Despite the group's unbilled sales surging to RM558.7m (1Q24: RM387.3m), we deem that the bulk of these unbilled sales are from the Australian projects (VISTA, Gold Coast) which can only be booked in late-26 or early-27 upon project completion. Positively, the group also targets to launch several new property projects with a total GDV of RM1.9b in 2024 and RM3.8b in 2025, which shall contribute positively to the property segment's earnings moving forward.

• **Construction segment: Lifted by higher progress billings.** On the other hand, the construction division recorded a higher EBIT of RM88m (+396% qoq, +146% yoy) despite a lower revenue of RM282.3m (-21.7% qoq, -41.4% yoy). This mainly reflects higher progress billings from ongoing projects (mainly LRT3 and Muara Sg Pahang Phase 3 project). As of 2Q24, the group has an unbilled construction orderbook of RM15.7b and tenderbook of RM34b, which will continue to support earnings and provide long-term growth opportunities.

EARNINGS REVISION

• **Raise 2024/25/26 forecasts by 230%/110%/80% respectively,** as we raise earnings for the construction segment to reflect better progress billings and higher orderbooks. Meanwhile, we also adjusted sales for the property segment as we anticipate better sales recognition.

VALUATION/RECOMMENDATION

• **Upgrade to BUY with a higher target price of RM0.65 (from RM0.53 previously),** upon raising valuation for its property development division on higher launches in 2024-25 and a lower RNAV discount of 60% (from 70%). Our target price is based on a 20% discount to our SOTP valuation of RM0.81/share, implying 27x 2024F PE (pre-pandemic five-year mean).

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