

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRC MK/HOLD/RM0.35/Target: RM0.37)

2Q22: Results Within Expectations; Embracing Gradual Recovery

2022 RESULTS

Year to 31 Dec	2Q22	1Q22	qoq	yoy	1H22	yoy	SUMMARY EARNINGS FORECASTS				
	(RMm)	(RMm)	% chg	% chg	(RMm)	% chg	Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Revenue	700.4	810.7	(13.6)	210.3	1,511.1	234.0	Net turnover	1,448	2,448	2,502	2,488
Property Development	145.3	186.6	(22.1)	1.8	331.9	20.7	EBITDA	144	206	237	272
Construction	539.8	612.5	(11.9)	649.8	1,152.3	636.7	Net Profit (Reported/Act.ual)	15	60	85	112
Facilities Management	11.3	9.5	19.6	26.1	20.8	16.2	Net Profit (Adjusted)	(107)	60	85	112
Others	4.0	2.1	86.0	94.8	6.1	87.1	EPS (sen)	(2.4)	1.4	1.9	2.5
EBIT/Operating Income	53.7	52.3	2.5	263.0	106.0	738.6	PE (x)	(14.7)	26.2	18.4	13.9
Property Development	22.1	21.1	5.0	562.3	43.2	162.4	P/B (x)	0.4	0.3	0.3	0.3
Construction	30.1	25.7	17.0	195.9	55.7	269.0					
Facilities Management	(0.3)	2.2	(116.0)	(374.8)	1.8	227.5					
Others	0.5	2.1	(76.8)	109.5	2.5	501.1					
Shares of JV	(1.0)	(1.0)	(0.3)	(117.8)	(2.1)	(119.5)					
Shares of Associates	(0.1)	3.7	(101.7)	(101.3)	3.6	(59.7)					
PBT	28.1	31.8	(11.5)	173.5	59.9	284.1					
PATAMI	14.1	14.0	0.5	143.5	28.1	203.4					
Core PATAMI	14.1	14.0	0.5	143.5	28.1	203.4					
Margins	%	%	+/- ppt	+/- ppt	%	+/- ppt					
Core Net Margin	2.0	1.7	0.3	16.4	1.9	7.9					
EBIT – Property Development	15.2	11.3	3.9	12.9	13.0	7.0					
EBIT – Construction	5.6	4.2	1.4	49.1	4.8	25.9					

Source: MRCB, UOB Kay Hian

RESULTS

- 2Q22 earnings within expectations.** Malaysian Resources Corporation (MRCB) reported 2Q22 core net profit of RM14.1m (+0.5% qoq, vs RM32.4 loss in 2Q21) on revenue of RM700.4m (-13.6% qoq, +>100% yoy). This brings MRCB's 1H22 core net profit to RM28.1m (1H21: core net loss of RM27.2m). This came in within our expectations, accounting for around 50% and 59% of our and consensus' full-year estimates respectively. The improvement in earnings from the construction and property divisions was partially offset by lower contribution from facilities management and shares of associates, leading to flattish 2Q22 core earnings on a qoq basis.
- The construction division reported higher EBIT of RM30.1m** (+17% qoq, vs operating loss of RM31.3m in 2Q21) despite lower revenue of RM540m (-12% qoq, +>100% yoy). The qoq decline in revenue was largely due to lower revenue recognition from the LRT3, as the construction progress was affected by the industry-wide labour shortage coupled with logistics disruptions for the building materials supply. However, the division managed to record higher earnings on the back of improved margins of 5.6% (+1.4ppt qoq) as the LRT3 project is reaching the tail-end on top of better cost discipline from MRCB. The strong yoy rebound was largely due to an improvement in construction productivity level on the easing of lockdown measures.
- LRT3 project continues to contribute the most to the division's earnings.** Construction progress of the project was 74% with financial progress of 67% as at end-2Q22 (completion date: 2024). The division contributed 77% and 57% of MRCB's revenue and earnings. Besides LRT3, EPF Headquarters at Kwasa Sentral, the DASH, MRT2, SUKE and PR1MA Brickfields projects also continue to support earnings in 2Q22. The company's tender book stands at RM35m currently (vs RM370m in 1Q22) as many tenders have been indefinitely postponed due to the pandemic. However, note that the tender book excludes project proposals submitted via direct negotiations such as the Shah Alam Stadium project, flood mitigation projects (including SMART2) and even MRT3 (still in tendering process). In 2Q22, the external client orderbook stands at RM27.2b, while the unbilled portion is RM18.4b. This will ensure MRCB's long-term earnings visibility. We believe the orderbook replenishment is slow mainly because most of the projects available are relatively small and do not interest MRCB.
- Strong property sales of RM250.1m in 1H22 (+131% yoy).** In 2Q22, MRCB saw a strong growth in property sales on the back of economic recovery, especially for Sentral Suites. However, all the sales were still contributed by the local market only while sales to foreigners remain non-existent. The sales were mainly contributed by the Sentral Suites (GDV: RM1.5b), TRIA 9 Seputeh (GDV: RM0.9b) and Alstonia developments (RM0.2b). These projects have reached construction progress of 75%, 80% and 39% while sales rates were 83%, 49% and 39% respectively. The higher earnings yoy is generally due to higher construction progress post-lockdown resulting to higher progress billings, especially for Sentral Suites and TRIA 9 Seputeh that make up 93% of MRCB's unbilled sales, which currently stands at RM706.7m. Recurring rental income from properties such as Celcom Tower also continues to contribute to the revenue.

- **Property outlook.** As MRCB continues to focus on its marketing efforts, we believe the property arm will continue to see a gradual recovery in 2H22 with the border reopening, allowing access for foreign buyers to participate in the sales of its properties such as VIVO 9 Seputeh and St Regis units. The company mentioned the sales momentum rebounded stronger in 3Q22, indicating a potentially higher revenue in the upcoming quarter. MRCB also continues to focus on monetising its inventory of unsold completed stock worth around RM349m.
- **Potential beneficiary of upcoming infrastructure projects rollout.** MRCB is among the frontrunners for the packages of MRT3 given its strong track record in railway projects, coupled with its strong balance sheet (net gearing: 0.29x) that can help to meet the PFI requirement. MRCB is tendering for all three packages: Civil Package 1 (CP1) and Civil Package (CP2) of the elevated portion (~RM14b) as well as Civil Package 3 (CP3) for tunneling job (~RM11b). However, the company will only be eligible to secure only one package ultimately. Tender for the civil packages is expected to be called in 3Q22 and to be awarded in 4Q22. Being one of the largest bumiputera contractors, MRCB can easily fulfill the 60% bumiputera shareholding requirement.

EARNINGS REVISION

- None.

VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM0.37.** Our target price is based on a 20% discount to our SOTP valuation of RM0.46/share, and implies around 44x 2022F PE, or +2SD to its five-year average forward PE of 23.8x. Our ascribed discount is justified, given the sluggish property outlook. The near-term outlook also would be dampened by uncertainties over the impact of the pandemic and rising inflation.

SOTP VALUATION

	Remarks	Value (RMm)
Property Development	70% discount to RNAV	2,387
Property Investment	Net Book Value	550
Construction	FY22F 12x PE	276
Facilities Management	FY22F 10x PE	55
Sentral REIT	TP: RM1.00	299
Net Debt		(1,519)
Total Value		2,048
No. of Shares (m)		4,423
Total Value/share (RM)		0.46
SOTP Discount (%)		20%
Fair Value/share (RM)		0.37

Source: UOB Kay Hian

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