

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRC MK/HOLD/RM0.32/Target: RM0.37)

1Q23: Results Within Expectations

1Q23 RESULTS

SUMMARY EARNINGS FORECASTS

Year to 31 Dec (RMm)	1Q23	4Q22	qoq % chg	yoy % chg	Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Revenue	742.2	833.9	(11.0)	(8.4)	Net Turnover	3,205	2,502	2,886	3,030
Property Development	268.0	261.1	2.6	43.6	EBITDA	308	354	372	391
Construction	458.5	558.7	(17.9)	(25.1)	Net Profit (Reported/Actual)	33	45	82	138
Facilities Management	12.3	13.0	(5.8)	29.9	Net Profit (Adjusted)	33	45	82	138
Others	3.5	1.1	221.1	64.1	EPS (sen)	1.4	1.9	2.5	3.1
EBIT/Operating Income	47.9	63.0	(24.0)	(390.3)	PE (x)	26.2	18.4	13.9	12.7
Property Development	33.3	52.0	(36.0)	58.2	P/B (x)	0.3	0.3	0.3	0.3
Construction	7.2	8.7	(16.6)	(71.9)					
Facilities Management	(0.1)	(0.5)	76.2	(105.2)					
Others	4.3	(1.4)	407.3	110.1					
Shares of JV	(1.3)	(1.3)	2.7	27.4					
Shares of Associates	1.8	3.1	(42.1)	(51.1)					
PBT	20.6	37.7	(45.6)	(35.3)					
PATAMI	8.5	13.0	(34.9)	(39.6)					
Core PATAMI	8.5	13.0	(34.9)	(39.6)					
Margins	%	%	+/- ppt	+/- ppt					
Core Net Margin	1.1	1.6	(0.4)	(0.6)					
EBIT – Property Development	12.4	19.9	(7.5)	1.1					
EBIT – Construction	1.6	1.5	0.0	(2.6)					

Source: MRCB, UOB Kay Hian

RESULTS

- 1Q23 earnings within expectations.** Malaysian Resources Corporation (MRCB) reported 1Q23 core net profit of RM8.5m (-34.9% qoq, -39.6% yoy) on revenue of RM742.2m (-11.0% qoq, -8.4% yoy). This accounts for around 21% of our and consensus' full-year estimates. The weaker performance was mainly due to lower contribution from the property development and construction divisions, which offset the better performance of the other segments. We expect higher earnings in the quarters ahead, supported by higher contribution from the LRT3 project that is at the tail-end, as well as from more property launches this year.
- The construction division reported lower EBIT of RM7.2m** (-16.6% qoq, -71.9% yoy) on lower revenue of RM458.5m (-17.9% qoq, -25.1% yoy). The weaker performance was largely due to higher contribution from the completion of Damansara-Shah Alam Elevated Highway (DASH) last year. The company also continues to be impacted by the industry-wide labour shortage coupled with the ongoing inflationary pressure. However, earnings are expected to improve this year on the back of better cost discipline and stronger margins as the LRT3 project is reaching a tail end.
- LRT3 project continues to contribute the most to the division's earnings.** Construction progress of the LRT3 project was 84% as at end-1Q23 (completion date: 2024). The division contributed 62% and 15% of MRCB's 1Q23 revenue and earnings respectively. Besides LRT3, the Muara Sg Pahang Phase 3 (Package 3) and PR1MA Brickfields projects also continued to support earnings in 1Q23. The company's tender book currently stands at RM30b, and we believe a bulk of it comes from the MRT3. However, note that the tender book excludes project proposals submitted via direct negotiations, such as the Shah Alam Stadium project and flood mitigation projects (including SMART2). In 1Q23, the external client orderbook stood at RM26.4b, while the unbilled portion was RM17.0b. This will ensure MRCB's long-term earnings visibility.
- Property sales at RM85.1m in 1Q23.** MRCB continues to see a healthy demand in property on the back of economic recovery. The segment's earnings were supported mainly by Sentral Suites (KL Sentral), which saw completion during the quarter. Sales was mainly contributed by the Sentral Suites (GDV: RM1.5b), TRIA 9 Seputeh (GDV: RM0.9b) and Alstonia developments (RM0.2b). These projects have reached respective construction progress rates of 100%, 96% and 61% while sales rates stood at 85%, 60% and 55%. The higher earnings yoy was generally due to higher construction progress post-lockdown, which resulted in higher progress billings, especially for Alstonia and TRIA 9 Seputeh that make up 94% of MRCB's unbilled sales (that currently stands at RM220m). Recurring rental income from properties such as Celcom Tower also continued to contribute to 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 2023 as the market enters endemicity, which will allow foreign buyers to participate in the sales of its properties such as VIVO 9 Seputeh and St Regis units. MRCB also continues to focus on monetising its inventory of unsold completed stock worth around RM379m. The company plans to launch over RM1.5b worth of properties this year, which may help to support earnings growth this year.
- **Potential beneficiary of upcoming rollout of infrastructure projects.** 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: 0.37x) 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 tunnelling job (~RM11b). However, MRCB will only be eligible to secure only one package ultimately. The civil packages are expected to be awarded in 2H23. As one of the largest bumiputera contractors, MRCB can easily fulfil 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 2023F 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.

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