

### UOBKH HIGHLIGHTS

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

### 3Q22: Results Within Expectations

Year to 31 Dec	3Q22 (RMm)	2Q22 (RMm)	qoq % chg	yoy % chg	9M22 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Revenue</b>	<b>860.0</b>	<b>700.4</b>	<b>22.8</b>	<b>523.7</b>	<b>2,371.1</b>	<b>301.7</b>	Net Turnover	1,448	2,448	2,502	2,488
Property Development	321.6	145.3	121.3	352.9	653.5	88.9	EBITDA	144	206	237	272
Construction	522.6	539.8	(3.2)	944.2	1,674.9	711.2	Net Profit (Reported/Actual)	15	60	85	112
Facilities Management	12.6	11.3	11.6	52.9	33.4	27.8	Net Profit (Adjusted)	(107)	60	85	112
Others	3.2	4.0	(18.7)	(62.4)	9.3	(21.3)	EPS (sen)	(2.4)	1.4	1.9	2.5
<b>EBIT/Operating Income</b>	<b>78.8</b>	<b>53.7</b>	<b>46.9</b>	<b>(577.3)</b>	<b>184.8</b>	<b>653.0</b>	PE (x)	(14.7)	26.2	18.4	13.9
Property Development	81.4	22.1	268.2	6,945.6	124.6	607.6	P/B (x)	0.4	0.3	0.3	0.3
Construction	5.5	30.1	(81.6)	(129.6)	61.3	218.6					
Facilities Management	(1.9)	(0.3)	(437.0)	(292.4)	(0.0)	(102.6)					
Others	(6.5)	0.5	(1,466.7)	2,412.7	(4.0)	29.6					
Shares of JV	(1.2)	(1.0)	(13.1)	(125.8)	(3.3)	(121.4)					
Shares of Associates	3.4	(0.1)	5,649.2	(26.7)	7.0	(48.5)					
<b>PBT</b>	<b>56.7</b>	<b>28.1</b>	<b>101.8</b>	<b>288.5</b>	<b>116.6</b>	<b>286.2</b>					
<b>PATAMI</b>	<b>23.7</b>	<b>14.1</b>	<b>68.0</b>	<b>173.7</b>	<b>51.8</b>	<b>187.3</b>					
<b>Core PATAMI</b>	<b>23.7</b>	<b>14.1</b>	<b>68.0</b>	<b>173.7</b>	<b>46.7</b>	<b>178.7</b>					
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/- ppt</b>	<b>+/- ppt</b>	<b>%</b>	<b>+/- ppt</b>					
Core Net Margin	2.8	2.0	0.7	26.1	2.0	12.0					
EBIT – Property Development	25.3	15.2	10.1	23.7	19.1	14.0					
EBIT – Construction	1.1	5.6	(4.5)	38.4	3.7	28.7					

Source: MRCB, UOB Kay Hian

### RESULTS

- 3Q22 earnings within expectations.** Malaysian Resources Corporation (MRCB) reported higher 3Q22 core net profit of RM23.7m (+68.0% qoq, vs RM32.2 loss in 3Q21) on better revenue of RM860.0m (+22.8% qoq, +523.7% yoy). This brings MRCB's 9M22 core net profit to RM51.8m (9M21: core net loss of RM59.4m). This accounted for around 78% of our and consensus' full-year estimates. The improvement was mainly due to higher contribution from the property development division, which helped to offset the weaker performance of other segments.
- The construction division reported lower EBIT of RM5.5m** (-81.6% qoq, vs operating loss of RM18.7m in 3Q21) on lower revenue of RM522.6m (-3.2% qoq, +944.2% yoy). We believe 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 still managed to record higher 9M22 earnings of RM61.3m on the back of improved margins of 3.7% (+28.7ppt yoy) as the LRT3 project is reaching to a tail end, in addition to its better cost discipline. 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 77% with financial progress of 71% as at end-3Q22 (completion date: 2024). The division contributed 71% and 33% of MRCB's 9M22 revenue and earnings respectively. Besides LRT3, EPF Headquarters at Kwasa Sentral, the DASH, MRT2, SUKE and PR1MA Brickfields projects also continued to support earnings in 3Q22. 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 3Q22, the external client orderbook stood at RM26.7b, while the unbilled portion was RM17.9b. This will ensure MRCB's long-term earnings visibility.
- Strong property sales of RM342.2m in 9M22.** In 3Q22, MRCB saw a strong growth in property sales on the back of economic recovery, especially for Sentral Suites (KL Sentral). However, all the sales were still only contributed by the local market, while sales to foreigners remained 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 respective construction progress rates of 81%, 85% and 46% while sales rates stood at 85%, 53% and 46%. The higher earnings yoy was generally due to higher construction progress post-lockdown, which resulted in higher progress billings, especially for Sentral Suites and TRIA 9 Seputeh that make up 92% of MRCB's unbilled sales (that currently stands at RM624m). 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 RM269m.
- **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: 0.29x) 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 tunnelling job (~RM11b). However, MRCB will only be eligible to secure only one package ultimately. The civil packages are expected to be awarded in 1Q23. However, with the current political instability, the tender may be delayed and the contract value could be impacted. 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.

### SOTP VALUATION

	Remarks	Value (RMm)
Property Development	70% discount to RNAV	2,387
Property Investment	Net Book Value	550
Construction	FY23F 12x PE	276
Facilities Management	FY23F 10x PE	55
Sentral REIT	TP: RM1.00	299
Net Debt		(1,519)
<b>Total Value</b>		<b>2,048</b>
No. of Shares (m)		4,423
<b>Total Value/share (RM)</b>		<b>0.46</b>
SOTP Discount (%)		20%
<b>Fair Value/share (RM)</b>		<b>0.37</b>

Source: UOB Kay Hian

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