

UOBKH HIGHLIGHTS

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

4Q21: Results Below Expectations

Year to 31 Dec	4Q21 (RMm)	3Q21 (RMm)	qoq % chg	yoy % chg	2021 (RMm)	yoy % chg	Year	EPS (sen)	Revision (sen)	DPS (sen)	PE (x)
Revenue	858.1	137.9	>100.0	39.2	1,448.5	(3.9)	2022F	0.8	-	1.0	42.2
Property development	152.7	71.0	>100.0	(6.8)	498.6	(23.7)	2023F	1.5	-	1.0	22.1
Construction	696.5	50.0	>100.0	57.9	903.0	12.3	2024F	2.1	-	1.0	16.7
Facilities management	8.5	8.2	3.2	(16.1)	34.6	(21.0)					
Others	0.3	8.6	(95.9)	(76.1)	12.2	>100.0					
EBIT / Operating Income	149.0	(16.5)	>(100.0)	>100.0	118.7	>100.0					
Property development	135.8	1.2	>100.0	>100.0	153.4	>100.0					
Construction	10.9	(18.7)	>(100.0)	(55.2)	(40.7)	76.6					
Facilities management	(2.9)	1.0	>(100.0)	>(100.0)	(1.3)	>(100.0)					
Others	6.8	(0.3)	>(100.0)	>100.0	5.9	>100.0					
Shares of JV	(1.2)	4.6	>(100.0)	>(100.0)	14.1	>100.0					
Shares of Associates	3.6	4.6	(22.8)	(24.7)	17.2	6.4					
PBT	123.9	(1.9)	>100.0	>100.0	61.3	>100.0					
PATAMI	75.2	(32.2)	>(100.0)	>100.0	15.8	>100.0					
Core PATAMI	(48.5)	(32.2)	(50.8)	>(100.0)	(107.9)	>(100.0)					
Margins (%)											
Core Net Margin	(5.7)	(23.3)	17.7	(10.0)	(7.4)	(9.2)					
EBIT – Property development	88.9	1.6	87.3	81.4	30.8	23.6					
EBIT – Construction	1.6	(37.3)	38.9	(4.0)	(4.5)	17.2					

Source: MRCB, UOB Kay Hian

RESULTS

- 2021: Below expectations.** Malaysian Resources Corporation (MRCB) reported 4Q21 core net loss of RM48.5m (-50.8% qoq, ->100% yoy) on revenue of RM858.1m (+>100% qoq, +39.2 yoy). This brings MRCB's full-year 2021 core net loss to RM107.9m (2020: core net profit of RM26.6m), excluding other operating income of RM123.7m generated from the injection of land into MRCB's subsidiary, SIDEC. This came in below our expectation of core net loss of RM52m. The negative variance was mainly caused by the prolonged lockdown which affected MRCB's productivity level and property sales for the most part of 2021. Disruptions in the construction supply chain also led to a shortage of workers and building materials. The company also declared the first and final dividend of 1.0 sen/share for 2021.
- The construction division rebounded in 4Q21.** It reported an EBIT of RM10.9m, an improvement from the loss of RM18.7m in 3Q21. This was mainly due to an improvement in construction progress on the easing of lockdown measures. Note that in 1H21, construction activities were halted for about four weeks, which has slowed down MRCB's progress billings. The division contributed over 60% of MRCB's revenue, mainly from EPF Headquarters at Kwasa Sentral, the DASH, MRT2, SUKE and PR1MA Brickfields projects. The company's tender book stands at RM508m currently (vs RM2b in 3Q21) as many tenders have been indefinitely postponed due to the pandemic. Ytd, the external client orderbook stands at RM27.3b, while the unbilled portion is RM19.8b. This will ensure MRCB's long-term earnings visibility.
- Lack of pump priming activities cloud the outlook ahead.** In 2H21, the LRT3 project contributed higher profit due to improved construction progress achieved after the easing of lockdown measures. Following the acquisition of the 50% remaining equity interest in Setia Utama LRT 3 (formerly known as MRCB George Kent), MRCB has recognised 100% of the profits in 4Q21. Construction progress of the project was 67% in 4Q21 (completion date: 2024). While the company continues to proactively tender for more infrastructure projects to replenish its order book, we believe it may still be challenging in the near term as there are not many mega projects currently being tendered out.
- Property arm gradually recovering.** The division's revenue fell over 23% yoy in 2021 as revenue recognition was hindered by the prolonged lockdown. However, revenue and earnings from its property division both rose by 115% qoq in 4Q21. Despite the pandemic, 170 of the 1060 Carnegie development units sold (97% of available units) were financially settled in 2021, which resulted in higher contribution to the division's revenue. Property sales during the quarter were also contributed by projects like Sentral Suites, the 9 Seputeh and Alstonia as construction progressed reached 62%, 62% and 26% while sales rates were 84%, 47% and 34%. Recurring rental income from properties such as Celcom Tower also contributed to the division's revenue. As MRCB continue to focus on its marketing efforts, we believe the property arm will see a more meaningful recovery in 2022 when the border reopens, allowing access for foreign buyers to participate in the sales of its properties such as VIVO 9 Seputeh and St Regis units.

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		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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