

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

4Q22: Within Expectations

4Q22 core earnings of RM13.0m came in within expectations, accounting for around 100% of our and consensus' full-year forecasts. The yoy improvement was mainly due to improved construction billings and higher property sales coming out of the lockdown, coupled with stronger contribution from the LRT3 project. The potential rollout of the MRT3 project in 2023 could benefit MRCB given its strong track record in rail projects. Maintain HOLD with a target price of RM0.37.

4Q22 RESULTS

Year to 31 Dec (RMm)	4Q22	3Q22	qoq % chg	yoy % chg	2022	yoy % chg
Revenue	833.9	860.0	(3.0)	(2.8)	3,205.1	121.3
Property Development	261.1	321.6	(18.8)	71.0	914.6	83.4
Construction	558.7	522.6	6.9	(19.8)	2,233.6	147.4
Facilities Management	13.0	12.6	3.4	53.2	46.4	34.1
Others	1.1	3.2	(66.2)	212.9	10.4	(14.6)
EBIT / Operating Income	63.0	78.8	(20.0)	481.8	247.8	111.4
Property Development	52.0	81.4	(36.1)	(61.7)	176.7	15.2
Construction	8.7	5.5	56.6	(20.7)	69.9	271.6
Facilities Management	(0.5)	(1.9)	74.7	83.4	(0.5)	61.4
Others	(1.4)	(6.5)	78.5	(120.6)	(5.4)	(191.0)
Shares of JV	(1.3)	(1.2)	(10.0)	(9.9)	(4.6)	(132.3)
Shares of Associates	3.1	3.4	(7.9)	(12.6)	10.1	(44.5)
PBT	37.7	56.7	(33.4)	(69.5)	154.3	151.8
PATAMI	13.0	23.7	(45.1)	(82.7)	64.8	170.9
Core PATAMI	13.0	23.7	(45.1)	126.8	64.8	170.9
Margins	%	%	+/- ppt	+/- ppt	%	+/- ppt
Core Net Margin	1.6	2.8	(1.2)	7.2	2.0	8.3
EBIT - Property development	19.9	25.3	(5.4)	(69.0)	19.3	(11.4)
EBIT - Construction	1.5	1.1	0.5	(0.0)	3.1	7.6

Source: MRCB, UOB Kay Hian

RESULTS

• **4Q22 earnings within expectations.** Malaysian Resources Corporation (MRCB) reported 4Q22 core net profit of RM13.0m (-45.1% qoq, RM48.5 loss in 4Q21) on revenue of RM833.9m (-3.0% qoq, -2.8% yoy). This brings MRCB's total 2022 core net profit to RM64.8m (vs 2021: core net loss of RM91.5m). This accounted for around 100% of our and consensus' full-year estimates. The qoq decline was mainly due to higher completed unsold inventory sales recognised in 3Q22. Yoy improvement was due to higher construction progress and stronger property sales amid the economic reopening.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,448	3,205	2,502	2,886	3,030
EBITDA	144	308	354	372	391
Operating profit	118	247	285	328	344
Net profit (rep./act.)	15	53	85	112	138
Net profit (adj.)	(107)	65	85	112	138
EPS (sen)	(2.4)	1.4	1.9	2.5	3.1
PE (x)	(14.7)	26.2	18.4	13.9	12.7
P/B (x)	0.4	0.3	0.3	0.3	0.3
EV/EBITDA (x)	25.4	8.3	7.1	6.9	6.1
Dividend yield (%)	2.8	2.8	2.8	2.8	2.9
Net margin (%)	(7.4)	2.5	3.4	4.5	4.7
Net debt/(cash) to equity (%)	29.3	27.4	25.8	24.1	23.4
ROE (%)	(1.2)	1.3	1.8	2.5	3.1
Consensus net profit	-	-	89	120	-
UOBKH/Consensus (x)	-	-	0.96	0.93	-

Source: MRCB, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.340
Target Price	RM0.370
Upside	+8.8%

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,467.5
Market cap (RMm):	1,563.6
Market cap (US\$m):	358.1
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

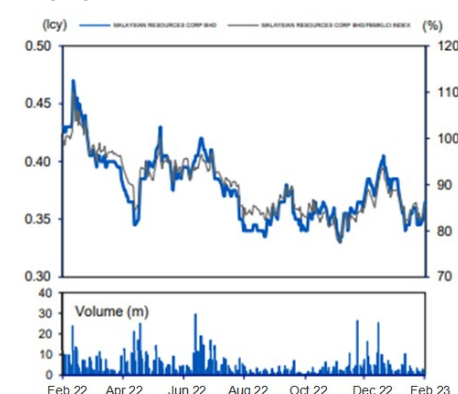
52-week high/low	RM0.470/RM0.330			
1mth	3mth	6mth	1yr	YTD
(9.1)	(1.4)	2.9	(21.3)	(1.4)

Major Shareholders

Employees Provident Fund	38.4
Gapuma Sdn Bhd	16.7
Lembaga Tabung Haji	10.1

FY23 NAV/Share (RM)	1.01
FY23 Net Cash/Share (RM)	0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- The construction division reported EBIT of RM8.7m** (+56% qoq and -20% yoy) on revenue of RM558.7m (+6% qoq, -19% yoy). We believe the qoq increase was largely due to higher revenue recognition from the LRT3, as the construction progress improves with the gradual easing of labour shortage. The division recorded higher 2022 earnings of RM69.9m (+271% yoy) on the back of slight improvement in margins of 1.5% (+0.5ppt qoq) as the LRT3 project is reaching to a tail end. The strong yoy rebound was largely due to an improvement in productivity level on the easing of lockdown measures. Besides LRT3, SUKE and PR1MA Brickfields projects continued to support earnings. In 2022, MRCB successfully completed two major projects, namely MRT2 and DASH highway.
- LRT3 project continues to contribute the most to the division's earnings** as the progress billing picks up during the quarter. Construction progress of the project was 81% with financial progress of 75% as at end-4Q22 (completion date: 2024). The division contributed 70% and 28% of MRCB's 2022 revenue and earnings respectively. 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 and flood mitigation projects (including SMART2). In 4Q22, the external client orderbook stood at RM26.3b, while the unbilled portion was RM17.4b. This will ensure long-term earnings visibility.
- Strong property sales of RM487.9m in 2022.** The sales were mainly contributed by the Sentral Suites (GDV: RM1.5b) and TRIA 9 Seputeh (GDV: RM0.9b). These projects have reached respective construction progress rates of 89% and 88% while sales rates stood at 85% and 55%. The property segment reported EBIT of RM176.7m (+15.2% yoy) on revenue of RM914.6m (+83.4% yoy) in 2022. The yoy improvement was largely due to higher construction progress and better property sales amid the economic reopening, especially for Sentral Suites and TRIA 9 Seputeh that make up around 90% of MRCB's unbilled sales (that currently stands at RM536.5m).
- 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 RM227m.
- 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: 0.32x). 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 the tunnelling job (~RM11b). However, MRCB will only be eligible to secure 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/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain HOLD with an unchanged target price of RM0.37.** Our target price implies around 44x 2023F PE (+2SD to its five-year mean forward PE of 23.8x). The near-term outlook would be dampened by uncertainties over the slow rollout of mega infrastructure project, sluggish property outlook and rising inflation.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

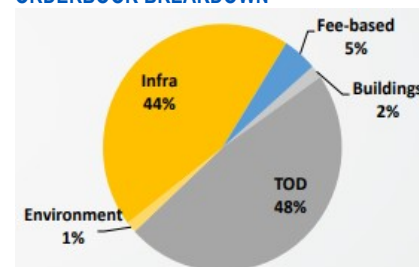
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Mitigate the release of emissions, biodiversity impact, waste disposal, pollution.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Works with local authorities and communities to ensure the projects' success.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Independent directors (four out of seven) comprise the majority of the board.

EXTERNAL CONTRACTS' PROGRESS

	Contract Value (RMm)	Progress (%)
Buildings		
PR1MA Brickfields	276	25%
FINAS	170	10%
Infrastructure		
MRT2 V210 Package	497	99%
SUKE - CA2 Package	317	71%
DASH - Package CB2	400	99%
LRT3	11,372	81%
TOD		
Bukit Jalil Sentral	10,116	0%
Kwasa Utama C8	2,916	83%
Fee-based orders		
Kwasa Utama, C8	177	
Kwasa Land - PDP Infra	176	
Bukit Jalil Sentral	841	
Semarak City Phase 1	27	

Source: UOB Kay Hian, MRCB

ORDERBOOK BREAKDOWN



Source: MRCB

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: RM0.95	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: MRCB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	3,205	2,502	2,886	3,030
EBITDA	308	354	372	391
Deprec. & amort.	61	70	72	72
EBIT	247	285	328	344
Associate contributions	10	30	33	33
Net interest income/(expense)	(99)	(66)	(68)	(68)
Pre-tax profit	154	190	220	249
Tax	(100)	(105)	(108)	(111)
Minorities	0	0	0	0
Net profit	53	85	112	138
Net profit (adj.)	65	85	112	138

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	(81)	(20)	80	84
Pre-tax profit	154	190	220	249
Tax	100	105	108	111
Deprec. & amort.	61	70	72	72
Associates	(18)	(21)	(24)	(25)
Working capital changes	128	(175)	(93)	(98)
Non-cash items	(27)	(30)	(33)	(35)
Other operating cashflows	95	87	92	97
Investing	53	(23)	(23)	(24)
Capex (maintenance)	(23)	(23)	(23)	(24)
Investments	(27)	(30)	(33)	(35)
Proceeds from sale of assets	0	0	0	0
Others	27	30	33	35
Financing	14	(140)	(142)	(149)
Dividend payments	(44)	(44)	(44)	(46)
Issue of shares	0	0	0	0
Loan repayment	(30)	(30)	(30)	(32)
Others/interest paid	(77)	(66)	(68)	(71)
Net cash inflow (outflow)	(13)	(183)	(85)	(89)
Beginning cash & cash equivalent	479	466	398	313
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	466	398	313	329

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	638	591	541	568
Other LT assets	4,694	4,724	4,758	4,996
Cash/ST investment	581	398	313	329
Other current assets	2,081	2,597	2,870	3,014
Total assets	9,235	8,309	8,482	8,906
ST debt	602	602	602	602
Other current liabilities	783	1,124	1,305	1,370
LT debt	1,301	1,271	1,241	1,303
Other LT liabilities	795	795	795	795
Shareholders' equity	4,502	4,507	4,529	4,755
Minority interest	11	11	11	11
Total liabilities & equity	9,235	8,309	8,482	8,906

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	7.4	12.3	12.0	12.6
Pre-tax margin	(5.9)	4.2	5.0	5.3
Net margin	(3.6)	3.7	4.3	4.5
Growth				
Turnover	(26.0)	48.0	17.2	18.1
EBITDA	155.2	147.5	14.0	14.7
Pre-tax profit	36.0	38.3	39.7	41.7
Net profit	31.2	33.5	34.9	36.6
Net profit (adj.)	31.2	33.5	34.9	36.6
EPS	31.2	33.5	34.9	36.6
Leverage				
Debt to total capital	29.7	29.3	28.9	30.3
Debt to equity	42.3	41.6	40.7	42.7
Net debt/(cash) to equity	29.4	32.7	33.8	35.5
Interest cover (x)	0.9	2.4	2.7	2.8

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