

### COMPANY RESULTS

## Malaysian Resources Corporation (MRC MK)

1Q22: Coming Out Of The Woods

**1Q22 core earnings of RM14.0m came in within expectations, accounting for 23% 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 2022 could benefit MRCB given its strong track record in rail projects. Maintain HOLD with a target price of RM0.37.**

### 1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22	4Q21	qoq % chg	yoy % chg
Revenue	810.7	858.1	(5.5)	31.5
Property development	186.6	152.7	22.2	13.8
Construction	612.5	696.5	(12.1)	38.9
Facilities management	9.5	8.5	11.0	(8.9)
Others	2.1	0.3	512.4	74.2
EBIT / Operating Income	52.3	149.0	(64.9)	34.9
Property development	21.1	135.8	(84.5)	60.6
Construction	25.7	10.9	135.1	1,661.2
Facilities management	2.2	(2.9)	176.1	194.5
Others	2.1	6.8	(69.9)	(53.4)
Shares of JV	(1.0)	(1.2)	11.4	(121.5)
Shares of Associates	3.7	3.6	3.5	(12.6)
PBT	31.8	123.9	(74.3)	(8.2)
PATAMI	14.0	75.2	(81.3)	(47.8)
Core PATAMI	14.0	(48.5)	128.9	(47.8)
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/- ppt</b>	<b>+/- ppt</b>
Core Net Margin	1.7	(5.7)	7.4	(2.6)
EBIT – Property development	11.3	88.9	(77.6)	3.3
EBIT – Construction	4.2	1.6	2.6	4.6

Source: MRCB, UOB Kay Hian

### RESULTS

• **1Q22 earnings within expectations.** Malaysian Resources Corporation (MRCB) reported 1Q22 core net profit of RM14.0m (vs RM48.5 loss in 4Q21, -47.8% yoy) on revenue of RM810.7m (-5.5% qoq, +31.5% yoy). This accounted for 23% of our and consensus' full-year estimates. The improvement was mainly due to stronger contribution from the LRT3 project coupled with higher productivity levels and property sales on the back of economic reopening post-lockdown.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,199	1,448	2,448	2,502	2,488
EBITDA	(60)	144	206	237	272
Operating profit	(117)	118	136	165	198
Net profit (rep./act.)	(176)	15	60	85	112
Net profit (adj.)	(6)	(107)	60	85	112
EPS (sen)	(0.1)	(2.4)	1.4	1.9	2.5
PE (x)	n.m.	(14.7)	26.2	18.4	13.9
P/B (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x)	n.m.	25.4	8.3	7.1	6.9
Dividend yield (%)	2.3	2.8	2.8	2.8	2.8
Net margin (%)	(14.7)	(7.4)	2.5	3.4	4.5
Net debt/(cash) to equity (%)	30.4	29.3	27.4	25.8	24.1
ROE (%)	(1.1)	(1.2)	1.3	1.8	2.5
Consensus net profit	-	-	64	89	120
UOBKH/Consensus (x)	-	-	0.94	0.96	0.93

n.m. : not meaningful; negative PE, EV/EBITDA reflected as "n.m."

Source: MRCB, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM0.350
Target Price	RM0.370
Upside	+5.7%

### 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 (%)

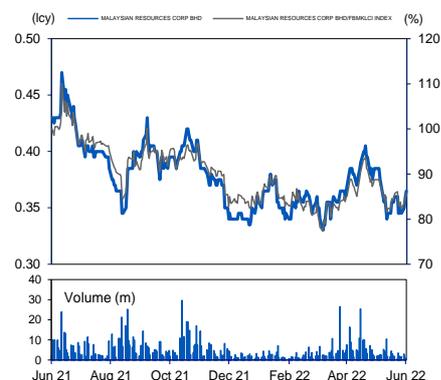
52-week high/low	RM0.470/RM0.330			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(9.1)	(1.4)	2.9	(21.3)	(1.4)

### Major Shareholders

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

FY22 NAV/Share (RM)	1.01
FY22 Net Cash/Share (RM)	0.34

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- The construction division reported an EBIT of RM25.7m (>100% qoq and yoy).** The strong rebound was largely due to an improvement in construction productivity level on the easing of lockdown measures. As expected, the LRT3 project contributed the most to the division's earnings as the progress billing picked up during the quarter. 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 since 4Q21. Construction progress of the project was 71% in 1Q22 (completion date: 2024). The division contributed 76% of MRCB's revenue. Besides LRT3, EPF Headquarters at Kwasa Sentral, the DASH, MRT2, SUKE and PR1MA Brickfields projects also drove the earnings in 1Q22.
- 2022 outlook.** MRCB's tender book stands at RM370m (vs RM508m in 4Q21) 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 at RM18.5b. This will ensure its long-term earnings visibility. We believe the orderbook replenishment is slow mainly because most of the projects available are small and do not interest MRCB. Among the upcoming mega projects that may potentially benefit MRCB are MRT3 and SMART2.
- Property sales of RM22.9m** during the quarter were mainly contributed by the Sentral Suites (RM10.4m), TRIA 9 Seputeh (RM2.8m) and Alstonia developments (RM2.6m). These projects have reached construction progress of 68%, 69% and 33% while sales rates were 32%, 47% and 35%. The higher revenue of RM186.6m (+22.2% qoq, +13.8% yoy) is due to higher construction progress and spillover revenue from the sales in 4Q21 when the HOC ended. Consequently, the company saw higher progress billings of Sentral Suites (68.3% completed) and TRIA 9 Seputeh (68.7% completed) which make up 93% of MRCB's unbilled sales. MRCB has unbilled sales of RM818.3m. Recurring rental income from properties such as Celcom Tower also contributed to the revenue.
- As MRCB continues to focus on its marketing efforts, we believe the property arm will see a more meaningful recovery in 2022 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 April and May, indicating potentially higher revenue in the upcoming quarter.
- 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 capable of bidding 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). Tenders for the civil packages are 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/RISK

- **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.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

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

### EXTERNAL CONTRACTS' PROGRESS

	Contract Value (RMm)	Progress (%)
<b>Buildings</b>		
PR1MA Brickfields	276	25%
FINAS	170	10%
<b>Infrastructure</b>		
MRT2 V210 Package	497	91%
SUKE - CA2 Package	317	71%
DASH - Package CB2	400	89%
LRT3	11,372	63%
<b>TOD</b>		
Bukit Jalil Sentral	10,116	0%
Kwasa Utama C8	2,916	83%
<b>Fee-based orders</b>		
Kwasa Utama, C8	177	
Kwasa Land - PDP Infra	176	
Bukit Jalil Sentral	841	
Semarak City Phase 1	27	

Source: UOB Kay Hian, MRCB

### SEGMENT FORECAST

(RMm)	2022F	2023F	2024F
<b>Revenue</b>	<b>2,448.4</b>	<b>2,502.4</b>	<b>2,487.6</b>
Property	696.3	943.4	1,063.5
Construction	1,697.9	1,502.5	1,362.5
Facilities	48.0	50.0	53.6
<b>Operating profit</b>	<b>136.4</b>	<b>164.5</b>	<b>198.2</b>
Property	48.7	75.5	106.3
Construction	79.4	80.5	82.9
Facilities	7.4	7.6	8.0

Source: MRCB

### 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	27.9% stake (TP: RM1.00)	299
Net debt		-1,519
<b>Total value</b>		<b>2,048</b>
No. of shares		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, MRCB

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>1,448</b>	<b>1,311</b>	<b>1,599</b>	<b>2,158</b>
EBITDA	144	145	189	301
Deprec. & amort.	57	69	70	72
EBIT	118	74	117	227
Associate contributions	20	27	30	33
Net interest income/(expense)	(59)	(77)	(66)	(68)
<b>Pre-tax profit</b>	<b>(54.6)</b>	<b>38.9</b>	<b>82.5</b>	<b>186.7</b>
Tax	(23)	21	(7)	(12)
Minorities	0	0	0	0
<b>Net profit</b>	<b>15</b>	<b>36</b>	<b>69</b>	<b>145</b>
Net profit (adj.)	(107)	36	69	145

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>242</b>	<b>214</b>	<b>(20)</b>	<b>80</b>
Pre-tax profit	(54.6)	38.9	82.5	186.7
Tax	(23)	21	(7)	(12)
Deprec. & amort.	57	69	70	72
Associates	(16)	(18)	(21)	(24)
Working capital changes	202	128	(175)	(93)
Non-cash items	101	(27)	(30)	(33)
Other operating cashflows	75	95	87	92
<b>Investing</b>	<b>(219)</b>	<b>(23)</b>	<b>(23)</b>	<b>(23)</b>
Capex (maintenance)	(23)	(23)	(23)	(23)
Investments	(321)	(27)	(30)	(33)
Proceeds from sale of assets	136	0	0	0
Others	(11)	27	30	33
<b>Financing</b>	<b>107</b>	<b>(151)</b>	<b>(140)</b>	<b>(142)</b>
Dividend payments	(44)	(44)	(44)	(44)
Issue of shares	0	0	0	0
Loan repayment	92	(30)	(30)	(30)
Others/interest paid	59	(77)	(66)	(68)
<b>Net cash inflow (outflow)</b>	<b>130</b>	<b>40</b>	<b>(183)</b>	<b>(85)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>301</b>	<b>431</b>	<b>472</b>	<b>288</b>
Changes due to forex impact	109	109	109	109
<b>Ending cash &amp; cash equivalent</b>	<b>540</b>	<b>581</b>	<b>398</b>	<b>313</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Fixed assets</b>	<b>684</b>	<b>638</b>	<b>591</b>	<b>541</b>
Other LT assets	4,667	4,694	4,724	4,758
Cash/ST investment	540	581	398	313
Other current assets	2,458	2,081	2,597	2,870
<b>Total assets</b>	<b>8,349</b>	<b>7,993</b>	<b>8,309</b>	<b>8,482</b>
ST debt	602	602	602	602
Other current liabilities	1,032	783	1,124	1,305
LT debt	1,331	1,301	1,271	1,241
Other LT liabilities	795	795	795	795
Shareholders' equity	4,578	4,502	4,507	4,529
Minority interest	11	11	11	11
<b>Total liabilities &amp; equity</b>	<b>8,349</b>	<b>7,993</b>	<b>8,309</b>	<b>8,482</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	(4.8)	7.4	12.3	12.0
Pre-tax margin	(12.9)	(5.9)	4.2	5.0
Net margin	(14.8)	(3.6)	3.7	4.3
<b>Growth</b>				
Turnover	(9.1)	(26.0)	48.0	17.2
EBITDA	(137.4)	n.a.	147.5	14.0
Pre-tax profit	(391.7)	n.a.	n.a.	39.7
Net profit	(847.4)	n.a.	n.a.	34.9
Net profit (adj.)	n.a.	n.a.	n.a.	34.9
EPS	n.a.	n.a.	n.a.	34.9
<b>Leverage</b>				
Debt to total capital	29.6	29.7	29.3	28.9
Debt to equity	42.2	42.3	41.6	40.7
Net debt/(cash) to equity	30.4	29.4	32.7	33.8
Interest cover (x)	(1.0)	0.9	2.4	2.7

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