UOBKH HIGHLIGHTS

Malaysian Resources Corporation Berhad (MRC MK/HOLD/RM0.45/Target:RM0.41)

2Q23: Below Expectations

2Q23 RESULTS

RESULTS SUMMARY

Year to 31 Dec (RMm)	2Q23	qoq % chg	yoy % chg	1H23	yoy % chg
Revenue	**599.3**	(19.3)	(14.4)	**1,341.6**	(11.2)
- Property Development	101.5	(62.1)	(30.1)	369.5	11.3
- Construction	482.0	5.1	(10.7)	940.5	(18.4)
- Others	15.8	0.4	3.7	31.6	17.7
EBIT	**33.3**	(25.6)	(36.4)	**78.0**	(24.4)
- Property Development	(0.4)	(101.1)	(101.7)	32.9	(23.7)
- Construction	35.8	396.2	19.2	43.1	(22.8)
- Others	(2.2)	(151.6)	(1,783.7)	2.0	(53.4)
PBT	**15.3**	(25.6)	(45.6)	**35.8**	(40.1)
PATAMI	**10.9**	28.3	(22.9)	**19.3**	(31.3)
Core PATAMI	**10.9**	28.3	(22.9)	**19.3**	(31.3)
Margins (%)		**+/-ppt**	**+/-ppt**		**+/-ppt**
EBIT - Property Development	(0.4)	(12.8)	(15.6)	8.9	(4.1)
EBIT - Construction	7.4	5.9	1.9	4.6	(0.3)
PBT	2.6	(0.2)	(1.5)	2.7	(1.3)
PATAMI	1.8	0.7	(0.2)	1.4	(0.4)
Core PATAMI	1.8	0.7	(0.2)	1.4	(0.4)

EARNINGS FORECASTS SUMMARY

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net Turnover	3205	2577	2742	2727
Net Profit (Adjusted)	33	42	75	102
EPS (sen)	0.7	0.9	1.7	2.3
PE (x)	60.9	47.5	26.6	19.7

Source: MRCB, UOB Kay Hian

RESULTS

- **Below expectations.** Malaysia Resources Corporation (MRCB) reported a 2Q23 core net profit of RM10.9m (+28.3% qoq, -22.9% yoy) despite a lower revenue of RM599.3m (-19.3% qoq, -14.4% yoy). This brought 1H23 core net profit to RM19.3m (-31.3% yoy) in tandem with a lower revenue of RM1.3b (-11.2% yoy). We deem 1H23 earnings below expectations as it accounted for only 43% of our forecasts and 39% of consensus' estimates. The underperformance in 1H23 was mainly due to weaker-than-expected earnings contributions from the property development segment.
- **Property development segment: Temporary setbacks due to timing difference in revenue and cost recognition.** The property development segment dipped into the red with an operating loss of RM0.4m (-101.1% qoq, -101.7% yoy) on lower revenue of RM101.5m (-62.1% qoq, -30.1% yoy). The weaker performance was mainly dragged by the timing difference in revenue and cost recognition for TRIA 9 Seputeh and Amaryllis, SIDEC as both projects achieved completion of construction works in the quarter. The management highlighted that for the two completed projects, there will be a time lag of three to four months in revenue recognition while most operating costs have mostly been booked in earlier in this quarter. We also note that 1H23's yoy weaker earnings were due to a high base in 1H22 on the RM18m contribution from the value of the remaining land injected into Seri Iskandar Development Corporation (SIDEC). On the other hand, ytd 1H23 new property sales came in flat at RM252.9m (compared to RM250.1m in 1H22), driven by sustained buying interests in its completed projects which made up 81% of the sales.
- **Construction segment: Lumpy earnings from LRT3 moving forward.** Meanwhile, the construction division's operating profit (EBIT) rose to RM35.8m (+396.2% qoq, +19.2% yoy) on revenue of RMRM482.0m (+5.1% qoq, -10.7% yoy) as a result of higher profit margins. We believe the higher profit margins in 2Q23 were mainly due to lumpy earnings contributions from LRT3 (82% completion as of end-2Q23) and may slowly taper off in the subsequent quarters. We understand that the civil engineering works of LRT3 have reached its tail-end and will gradually progress into "system works" which are milestone-based. This means revenue and earnings recognition from LRT3 may be lumpy moving forward.

STOCK IMPACT

- **Focus on monetisation of completed inventory.** Over the near term, the earnings outlook for MRCB's property division will be underpinned by its aggressive monetisation of its inventory of completed unsold property units as well as its gradual rollout of planned new project launches with a GDV of RM1.5b for 2023. In addition, its unbilled sales of RM43.7m as of end-2Q23 will also provide sustainable earnings momentum for the rest of 2023.
- **Riding on the tailwinds of upcoming rollout mega projects.** As of end-2Q23, the group's unbilled outstanding orderbook remains strong at RM16.4b which would provide long-term earnings visibility. However, the orderbook would have been smaller at RM2.7b if the RM10b

Bukit Jalil Sentral project (which has been idle in the past) and other fee-based contracts were stripped off. It also has a robust tender book of around RM30b which consists of mainly: a) MRT3, b) Iskandar Malaysia Bus Rapid Transit (BRT), c) a power plant in Kulim, as well as other smaller projects. MRCB is among the frontrunners for the packages of MRT3 given its proven track record in railway projects, coupled with its strong balance sheet (net gearing of 0.36x as of end-2Q23) that can help to meet the Private Funding Initiatives (PFI) requirement. Recall that MRCB had submitted bids for all three packages including: a) Civil Package 1 (CP1), b) Civil Package 2 (CP2) for elevated portions (around RM14b), as well as c) Civil Package 3 (CP3) for tunnelling jobs (around RM11b). However, MRCB will only be eligible to secure one out of the three packages ultimately. The tendering process for MRT3 is expected to be concluded in 2H23. As one of the largest bumiputera contractors, we believe MRCB can easily fulfil the 60% bumiputera shareholding requirement.

EARNINGS REVISION

- **Cut 2023/24/25 forecasts by 6%/8%/26%,** as we lowered our property sales and orderbook replenishment assumptions. Our larger decrease in 2025 earnings is mainly due to a more sluggish outlook for both construction and property development divisions over the long term.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM0.41 (from RM0.37 previously),** upon rolling forward the valuation base year to 2024. Our target price is based on a 20% discount to our SOTP valuation of RM0.58/share and implies around 24x 2024F PE which is its five-year average forward PE of 24 x. Our ascribed discount is justified by the relatively muted outlook in its property development division as well as a lack of clarity in its orderbook replenishment prospects.

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