

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRC MK/HOLD/RM0.44/Target:RM0.40)

3Q23: Below Expectations

3Q23 RESULTS

RESULTS SUMMARY						EARNINGS FORECASTS SUMMARY				
Year to 31 Dec (RMm)	3Q23	qoq % chg	yoy % chg	9M23	yoy % chg	Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Revenue	503.7	(16.0)	(41.4)	1,845.3	(22.2)	Net Turnover	3205	2252	2453	2727
- Property Development	90.0	(11.3)	(72.0)	459.5	(29.7)	Net Profit (Adjusted)	33	33	51	66
- Construction	397.5	(17.5)	(23.9)	1,338.0	(20.1)	EPS (sen)	0.7	0.7	1.1	1.5
- Others	16.2	2.6	2.5	47.8	12.1	PE (x)	60.9	60.2	39.2	30.3
EBIT	47.1	41.4	(40.1)	125.1	(31.2)					
- Property Development	2.7	839.4	(96.6)	35.7	(71.4)					
- Construction	44.6	24.5	706.5	87.6	43.1					
- Others	(0.3)	88.4	97.0	1.8	144.2					
PBT	18.7	22.1	(67.1)	54.5	(53.2)					
PATAMI	1.5	(86.6)	(93.8)	20.8	(59.9)					
Core PATAMI	1.5	(86.6)	(93.8)	20.8	(59.9)					
Margins (%)		+/-ppt	+/-ppt		+/-ppt					
EBIT - Property Development	3.0	3.4	(22.3)	7.8	(11.3)					
EBIT - Construction	11.2	3.8	10.2	6.6	2.9					
PBT	3.7	1.2	(2.9)	3.0	(2.0)					
PATAMI	0.3	(1.5)	(2.5)	1.1	(1.1)					
Core PATAMI	0.3	(1.5)	(2.5)	1.1	(1.1)					

Source: MRCB, UOB Kay Hian

RESULTS

- **Below expectations.** Malaysia Resources Corporation (MRCB) reported a lower 3Q23 core net profit of RM1.5m (-86.6% qoq, -93.8% yoy) on a weaker revenue of RM503.7m (-16.0% qoq, -41.4% yoy). This brought 9M23 core net profit to RM20.8m (-59.9% yoy), in line with a lower revenue of RM1.8b (-22.2% yoy). We deem 9M23 earnings below expectations as it accounted for only 49% of our forecast and 44% of consensus estimate. The negative deviation was mainly due to weaker-than-expected earnings from both the property development and construction segments as well as higher tax expenses. We also note that the spike in effective tax rate to 92% in 3Q23 was a result of: a) higher under provision of tax in the previous year, b) loss generating subsidiary companies but without deferred tax assets, and c) consolidation adjustments.
- **Property development segment: Weaker earnings on project completions.** The property development segment returned to the black with an operating profit of RM2.7m (+839.4% qoq, -96.6% yoy) on lower revenue of RM90.0m (-11.3% qoq, -72.0% yoy) in 3Q23. The weaker performance was mainly due to the completion of Sentral Suites in Mar 23 and TRIA 9 Seputeh in May 23. Also note that yoy weaker earnings were due to a high base in 9M22 on the RM18m contribution from the value of the remaining land injected into Seri Iskandar Development Corporation (SIDEC). On the other hand, 9M23 new property sales increased RM459.4m (compared with RM342.2m in 9M22), driven by sustained buying interests in its completed projects which made up 66% of the sales.
- **Construction segment: Boosted by higher profit margins from LRT3.** Meanwhile, the construction division's operating profit (EBIT) rose to RM44.6m (+24.5% qoq, +706.5% yoy) despite a lower revenue of RMRM397.5m (-17.5% qoq, -23.9% yoy) as a result of higher profit margins recorded in LRT3. However, we warn that the higher profit margins from LRT3 may slowly taper off in the subsequent quarters as per management's earlier guidance. Operationally, the LRT3 project achieved physical construction progress of 89% and financial progress of 85% as at end-Sep 23.

STOCK IMPACT

- **New property launches to inject fresh earnings momentum.** Despite the weaker earnings reported by the property development segment over the past few quarters, we believe the division's earnings outlook would gradually recover supported by the ongoing monetisation of its inventory of completed unsold property units as well as its rollout of new project launches with a gross development value of RM1.5b for 2023 and RM4b in 2024. In addition, its unbilled sales of RM33.6m as of end-3Q23 will also anchor short-term earnings for the rest of 2023.
- **Awaiting awards of mega projects.** As of end-3Q23, the group's unbilled outstanding orderbook stood at RM16.1b which would provide long-term earnings visibility. However, the orderbook would have been smaller at RM5.1b if the RM10b Bukit Jalil Sentral project (which had been idle in the past) is stripped off. It also has a robust tenderbook of around RM30b (excluding potential redevelopment of Shah Alam Stadium and KL Sentral station) 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.

EARNINGS REVISION

- **Cut 2023/24/25 forecasts by 21%/32%/35% respectively**, as we lowered the property sales assumptions while pencilling in a higher effective tax rate of 28% (from 26% previously).

VALUATION/RECOMMENDATION

- **Maintain HOLD with a slightly lower target price of RM0.40 (from RM0.41 previously)**, upon tweaking 2024 earnings. Our target price is based on a 30% discount to our SOTP valuation of RM0.58/share and implies around 34x 2024F PE which is higher than 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.

ANALYST

Lucas Tan Jun Sian

+603 2147 1913

junsian@uobkayhian.com

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