

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRCB MK/HOLD/RM0.42/Target: RM0.42)

4Q20: Beat expectations, lifted by acceleration in LRT3 progress billings

Year to 31 Dec	4Q20 (RMm)	3Q20 (RMm)	qoq % chg	yoy % chg	2020 (RMm)	yoy % chg		EPS (sen)	Revision (%)	DPS (sen)	PE (x)
Revenue	616.5	297.6	107.1	65.4	1,507.0	14.2	2021F	1.1	-	1.0	37.1
Construction	441.0	131.7	234.8	221.1	804.3	18.4	2022F	1.3	-	1.5	32.5
Property Development	163.9	153.0	7.1	(23.8)	653.3	15.3	2023F	1.4	-	1.5	31.0
Others	11.6	12.9	(10.0)	(43.1)	49.5	(32.4)					
EBIT	38.8	15.6	148.1	38.2	(119.9)	(217.5)					
Engineering & Construction	24.4	(3.0)	(912.4)	1,276.0	(174.3)	(856.0)					
Property Development	12.3	11.8	5.1	(46.0)	46.7	(39.2)					
Others	2.1	6.9	(69.8)	(39.5)	7.7	242.8					
Associates & JV	10.3	3.5	196.2	(213.5)	19.5	197.2					
PBT	34.6	7.6	354.0	1,185.9	(152.9)	(388.8)					
Net Profit	26.9	0.9	2,823.7	88.3	(175.9)	(840.8)					
Core Net Profit	26.9	0.9	2,823.7	968.2	26.6	(21.0)					
EBIT Margin	%	%	qoq ppt chg	yoy ppt chg	%	ppt chg					
Construction	5.5	(2.3)	7.8	4.2	(21.7)	(25.1)					
Property	7.5	7.7	(0.1)	(3.1)	7.1	(6.4)					
Core Net Margin	4.4	0.3	4.1	3.7	1.8	(0.8)					

Source: MRCB, UOB Kay Hian

RESULTS

- 2020: Beat expectations.** Malaysian Resources Corporation (MRCB) reported 4Q20 core net profit of RM26.9m (+>100% qoq, +>100% yoy) on revenue of RM616.5m (+>100% qoq, +65.4% yoy). This brings MRCB's full-year 2020 core net profit to RM26.6m (excluding impairment loss of RM203m incurred in 2Q20), beating both our (RM3m) and consensus (RM5.7m) estimates. The better-than-expected performance was mainly attributed to acceleration in recognition of LRT3 construction billings in 4Q20 with RM6.5m profit earned (full-year 2020 contribution: RM8.1m). In line with the higher recognition, construction revenue grew 234.8% qoq and 221.1% yoy to RM441m during the quarter.
- Property development.** The property division reported higher revenue in 2020 at RM653.3m (+15.3% yoy) mainly driven by: a) the delivery of 113 units (from 122 units sold) of the 1060 Carnegie, Melbourne development, b) stronger billings at Sentral Suites project (44% completed), and c) 9 Seputeh project (30% completed). However, 2020 operating profit for the property arm declined as some of its property sales, especially those recorded in 1H20, yielded lower margins (on high rebates), with fixed overheads and minimal billings. Nevertheless, billings of unbilled sales have been picking up gradually since mid-3Q20, in line with the easing of movement restrictions. MRCB currently has an unbilled sale of RM1.1b. For 2021, the group has set a sales target of RM600m and has three new property launches in the pipeline with total GDV of about RM1b, namely: a) Kwasa Land (Plot F), b) KL Sentral (Lot J), and c) a commercial plot in PJ Sentral.
- Construction.** This division was lifted by LRT3 billings. After excluding the impairment loss of RM197m incurred in 2Q20, the construction division reported a lower 2020 core EBIT of RM22.7m (-1.6% yoy). Despite reporting a higher revenue of RM804m (+18.4% yoy), the division's earnings were affected by lower productivity, especially in 1H20 during the movement control order period. Construction activities have been picking up gradually starting 3Q20, and this was reflected in the acceleration of LRT3 project progress billings in 4Q20; we could expect this to continue in 2021. The LRT3 project's progress currently stands at 45%.

EARNINGS REVISION

- No change in our earnings forecasts.

RECOMMENDATION

- Maintain HOLD with an unchanged target price of RM0.42.** Our target price is based on a 20% discount to our SOTP valuation of RM0.52/share, and implies 37x 2021F PE, or +1SD to its 5-year average forward PE of 29. Our ascribed discount is justified, given the sluggish property outlook. We continue to expect good trading opportunities for the stock should the revival of mega projects (ECRL and Pan Borneo Sabah) materialise, and on an improvement in sentiment in the construction sector. Entry price is RM0.38.

ANALYST

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SOTP VALUATION

	RMm
Property	2,127
Construction	405
DCF of LRT3 PDP fees	120
Investment Properties	651
Net Debt	(1,392.3)
QCT 33% stake	412.4
Total RNAV	2,322.3
Sharebase (m)	4,385
SOTP/share (RM)	0.53
Discount	20%
Target Price (RM)	0.42

Source: UOB Kay Hian

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