

### COMPANY RESULTS

## Malaysian Resources Corporation (MRC MK)

1Q21: MCO 2.0 Dragged Earnings; Total Lockdown Impact Remains Uncertain

1Q21 core earnings of RM5.2m fell short of our and consensus expectations, accounting for only 9% and 15% of full-year forecasts respectively. The MCO 2.0 implementation caused slower progress billings and lower-than-expected property sales and dragged earnings. The full impact of the national lockdown remains uncertain as industry players are waiting for official guidelines and approval from the authorised body. Maintain HOLD with a lower target price of RM0.39.

### 1Q21 RESULTS

Year to 31 Dec	1Q21 (RMm)	4Q20 (RMm)	qoq % chg	1Q20 (RMm)	yoy % chg
Revenue	226.7	308.9	-26.6	425.8	-46.8
Property development	132.2	145.7	-9.3	236.4	-44.1
Construction	84.4	151.6	-44.3	174.8	-51.7
Facilities management	8.9	10.1	-12.1	12.7	-29.7
Others	1.2	1.5	-16.2	1.9	-34.1
EBIT / Operating Income	14.9	42.1	-64.7	35.9	-58.6
Property development	13.1	12.3	6.3	20.6	-36.2
Construction	-1.6	24.4	n.m.	12.6	-113.1
Facilities management	0.4	1.2	-63.7	2.4	-81.8
Others	4.4	0.9	400.1	0.5	733.8
Shares of JV	4.9	5.5	-12.0	0.1	3954.2
Shares of Associates	4.2	4.7	-10.9	3.5	22.1
PBT	-1.8	-7.5	-76.0	-11.2	-84.1
PATAMI	5.2	26.9	-80.7	15.6	-66.8
Core PATAMI	5.2	-5.4	n.m.	15.6	-66.8
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/-ppt</b>	<b>%</b>	<b>+/-ppt</b>
Core Net Margin	2.3	-1.7	4.0	3.7	-1.4
EBIT - Property development	9.9	8.5	1.5	8.7	1.2
EBIT - Construction	-1.9	16.1	-18.0	7.2	-9.1

Source: MRCB, UOB Kay Hian

### RESULTS

- **1Q21 earnings below expectations.** Malaysian Resources Corporation (MRCB) reported 1Q21 core net profit of RM5.2m (1Q20: Core net loss of RM5.4m, -66.8% yoy) on revenue of RM226.7m (-26.6% qoq, -46.8% yoy). This accounted for 9% and 15% of our and consensus' full-year estimates. The negative variance was mainly due to the worse-than-expected impact of the Movement Control Order (MCO) 2.0 on MRCB's productivity level and property sales.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	1,319	1,199	932	1,314	1,539
EBITDA	154	(60)	123	165	184
Operating profit	92	(117)	55	94	112
Net profit (rep./act.)	24	(176)	21	52	66
Net profit (adj.)	(20)	(6)	21	52	66
EPS (sen)	(0.4)	(0.1)	0.5	1.2	1.5
PE (x)	n.m.	n.m.	89.0	36.8	28.7
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	20.9	n.m.	26.0	19.5	17.4
Dividend yield (%)	2.3	2.3	2.3	2.3	2.3
Net margin (%)	1.8	(14.7)	2.3	3.9	4.3
Net debt/(cash) to equity (%)	27.4	30.4	28.2	30.9	31.7
Interest cover (x)	3.4	(1.1)	2.1	2.9	3.3
Consensus net profit	-	-	38	61	72
UOBKH/Consensus (x)	-	-	0.56	0.85	0.92

Source: MRCB, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM0.430
Target Price	RM0.390
Upside	-9.3%
(Previous TP)	RM0.420

### 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):	1,921.0
Market cap (US\$m):	465.7
3-mth avg daily t'over (US\$m):	1.3

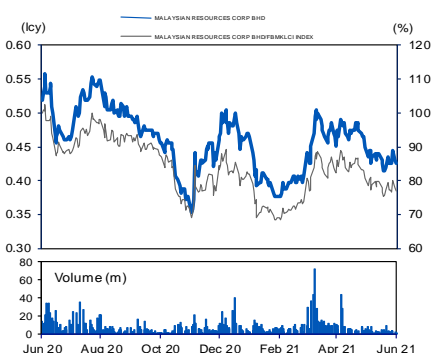
### Price Performance (%)

52-week high/low	RM0.570/RM0.360			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(4.4)	3.6	(8.5)	(23.2)	(9.5)

### Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1
FY21 NAV/Share (RM)	1.03
FY21 Net Debt/Share (RM)	0.29

### PRICE CHART



Source: Bloomberg

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- The construction division reported an LBIT of RM1.6m** as the MCO 2.0 affected the progress billings. According to MRCB, several of its construction sites were closed, for a minimum of two weeks, due to COVID-19 cases, and the labour shortages issue further exacerbated the situation. There were no new tenders submitted during the quarter as most of the projects available are small, ie about RM100m and do not interest MRCB. Depending on the full MCO arrangement (FMCO), MRCB expects the progress of LRT3 to drive the division's earnings as the progress billing picks up. The project contributed PAT of RM5.9m during the quarter (vs RM8.1m in 2020), reaching 51% completion.
- Property sales of RM51.6m (-15.8% qoq, +43.3% yoy)** during the quarter, were mainly contributed by the 1060 Carnegie (RM29.5m) and Sentral Suites (RM7.9m) developments. The lower revenue of RM132.2m (-9.3% qoq, -44.1% yoy) is in line with lower sales contribution from the completed 1060 Carnegie project and slower progress billings of Sentral Suites (48.6% completed) which make up 71% of MRCB's unbilled sales. We expect MRCB to delay its planned RM1b of GDV property launches, ie: a) Kwasa Land (Plot F), b) KL Sentral (Lot J), and c) a commercial plot in PJ Sentral due to the FMCO implementation. This would risk the company not achieving its 2021 sales target of RM600m (our forecast: RM255m). MRCB has an unbilled sale of RM1.0b.

### STOCK IMPACT

- Total lockdown: Dampens near-term outlook.** On 28 May 21, the Government announced that from 1-14 Jun 21 Malaysia would go into a total nationwide lockdown, or FMCO. For the property sector, sales galleries are not allowed to open during the period, dampening property sales take-up and negatively affecting consumer sentiment. For the construction sector, exceptions were given for critical construction, maintenance and repair works, construction of key public infrastructure, and construction sites that provide Centralised Labour Quarters, but at a reduced 60% of the workforce. However, these exceptions are still open to interpretation, and industry players are still waiting for guidelines and official approval from the authority. Besides the direct impact on the progress billings and property sales, the effect of the lockdown on the economy and the Government's finances also might cause further delays of the mega infrastructure rollout, affecting the construction sector's outlook.

### EARNINGS REVISION/RISK

- We cut our 2021-22 earnings** by RM38m (from RM59.3m) and RM15m (from RM66.5m) to reflect the worse-than-expected results, impact of the FMCO and more conservative property sales assumption.

### VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of RM0.39 (from RM0.42)**, based on revised earnings and updated property investment's book value and net debt numbers. Our target price is based on a 20% discount to our SOTP valuation of RM0.49/share, and implies 80x 2021F PE, or +2SD to its five-year average forward PE of 29. 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 total lockdown.

### EXTERNAL CONTRACTS' PROGRESS

	Contract Value (RMm)	Progress
<b>Buildings</b>		
Desaru Convention Centre	62	99%
PR1MA Brickfields	335	14%
FINAS	170	8%
Putrajaya School	9	0%
<b>Infrastructure</b>		
MRT2 V210 Package	497	84%
SUKE - CA2 Package	317	53%
DASH - Package CB2	341	95%
LRT3	5,686	51%
<b>Transit Oriented Development</b>		
Bukit Jalil Sentral (provisional contract costs)	10,116	0%
Kwasa Utama C8 (provisional TCC)	2958	53%
<b>Fee-based orders</b>		
Kwasa Utama, C8 - management contract	177	
Kwasa Land - PDP Infra	176	
Bukit Jalil Sentral - management contract	841	
Semarak City Phase 1 - management contract	27	

Source: UOB Kay Hian, MRCB

### SEGMENT FORECAST

Revenue (RMm)	2021F	2022F	2023F
Property Development	514.5	698.9	883.3
Construction	366.7	560.7	599.6
Facilities Management	45.0	48.0	50.0
<b>EBIT (RMm)</b>			
Property Development	36.0	55.1	70.7
Construction	11.0	30.8	33.0
Facilities Management	7.0	7.4	7.6

Source: UOB Kay Hian

### NEW JOBS WIN ASSUMPTIONS

Year	(RMm)
2021F	500
2022F	800
2023F	800

Source: UOB Kay Hian

### SOTP-BASED VALUATION

	Remarks	RMm
Property development	70% discount to RNAV	2,551
Property investment	Net Book Value	550
Construction	12x PE	203
Facilities management	10x PE	54
Sentral REIT (27.9% stake)	TP: RM1.00	299
Net debt		-1,475
<b>Total value</b>		<b>2,182</b>
No. of shares		4,423
<b>Total value/share (RM)</b>		<b>0.49</b>
SOTP discount		20%
<b>Target Price (RM)</b>		<b>0.39</b>

Source: UOB Kay Hian, MRCB

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	<b>1,199</b>	<b>932</b>	<b>1,314</b>	<b>1,539</b>
EBITDA	(60)	123	165	184
Deprec. & amort.	57	69	70	72
EBIT	(117)	55	94	112
Associate contributions	20	23	24	24
Net interest income/(expense)	(55)	(58)	(57)	(56)
<b>Pre-tax profit</b>	<b>(153)</b>	<b>21</b>	<b>61</b>	<b>81</b>
Tax	(23)	1	(10)	(15)
Minorities	0	0	0	0
<b>Net profit</b>	<b>(176)</b>	<b>21</b>	<b>52</b>	<b>66</b>
Net profit (adj.)	(6)	21	52	66

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>242</b>	<b>234</b>	<b>(2)</b>	<b>77</b>
Pre-tax profit	(153)	21	61	81
Tax	(23)	1	(10)	(15)
Deprec. & amort.	57	69	70	72
Associates	(16)	(20)	(21)	(24)
Working capital changes	202	110	(157)	(93)
Non-cash items	103	(23)	(24)	(24)
Other operating cash flows	71	77	78	80
<b>Investing</b>	<b>(219)</b>	<b>(23)</b>	<b>(23)</b>	<b>(23)</b>
Capex (maintenance)	(23)	(23)	(23)	(23)
Investments	(321)	(23)	(24)	(24)
Proceeds from sale of assets	136	0	0	0
Others	(11)	23	24	24
<b>Financing</b>	<b>107</b>	<b>(132)</b>	<b>(131)</b>	<b>(130)</b>
Dividend payments	(44)	(44)	(44)	(44)
Issue of shares	0	0	0	0
Loan repayment	92	(30)	(30)	(30)
Others/interest paid	59	(58)	(57)	(56)
<b>Net cash inflow (outflow)</b>	<b>130</b>	<b>79</b>	<b>(156)</b>	<b>(76)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>301</b>	<b>431</b>	<b>510</b>	<b>355</b>
Changes due to forex impact	109	109	109	109
<b>Ending cash &amp; cash equivalent</b>	<b>540</b>	<b>620</b>	<b>464</b>	<b>388</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	684	638	591	541
Other LT assets	4,667	4,690	4,714	4,738
Cash/ST investment	540	620	464	388
Other current assets	2,458	2,134	2,597	2,870
<b>Total assets</b>	<b>8,349</b>	<b>8,082</b>	<b>8,365</b>	<b>8,538</b>
ST debt	602	602	602	602
Other current liabilities	1,032	818	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	4,555	4,563	4,585
Minority interest	11	11	11	11
<b>Total liabilities &amp; equity</b>	<b>8,349</b>	<b>8,082</b>	<b>8,365</b>	<b>8,538</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	(5.0)	13.2	12.5	12.0
Pre-tax margin	(12.7)	2.2	4.7	5.3
Net margin	(14.7)	2.3	3.9	4.3
<b>Growth</b>				
Turnover	(9.1)	(22.3)	40.9	17.2
EBITDA	(138.9)	n.a.	33.4	12.0
Pre-tax profit	(388.8)	n.a.	197.5	31.7
Net profit	(842.0)	n.a.	142.1	28.2
Net profit (adj.)	n.a.	n.a.	142.1	28.2
EPS	n.a.	n.a.	142.1	28.2
<b>Leverage</b>				
Debt to total capital	29.6	29.4	29.1	28.6
Debt to equity	42.2	41.8	41.0	40.2
Net debt/(cash) to equity	30.4	28.2	30.9	31.7
Interest cover (x)	(1.1)	2.1	2.9	3.3

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