

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRCB MK/HOLD/RM0.40/Target: RM0.39)

2Q21: Not Out Of The Woods Yet

Year to 31 Dec	2Q21 (RMm)	1Q21 (RMm)	qoq % chg	yoy % chg	6M21 RMm	yoy % chg		EPS (sen)	Revision (sen)	DPS (sen)	PE (x)
Revenue	225.7	226.7	-0.4	35.0	452.5	-23.7	2021F	-0.7	From 0.5	1.0	N/A
Property development	142.8	132.2	8.0	42.8	274.9	-18.3	2022F	1.1	-	1.0	36.4
Construction	72.0	84.4	-14.7	27.0	156.4	-32.4	2023F	1.5	-	1.0	26.7
Facilities management	9.0	8.9	0.9	-6.1	17.9	-19.6					
Others	2.0	1.2	66.4	105.3	3.3	14.4					
EBIT / Operating Income	-28.7	14.9	n.m.	-86.3	-13.8	-92.0					
Property development	3.3	13.1	-74.5	63.6	16.5	-27.2					
Construction	-31.3	-1.6	>100	-85.0	-33.0	-83.1					
Facilities management	0.1	0.4	-70.7	-85.2	0.6	-82.7					
Others	-5.0	4.4	n.m.	0.0	-0.6	-86.0					
Shares of JV	5.9	4.9	20.7	-496.4	10.7	n.m.					
Shares of Associates	4.8	4.2	13.5	29.4	9.0	25.9					
PBT	-1.5	-1.8	-18.0	-149.5	-3.3	-60.6					
PATAMI	-32.4	5.2	n.m.	-85.3	-27.2	-86.7					
Core PATAMI	-32.4	5.2	n.m.	76.2	-27.2	>100					
EBIT Margin	%	%	qoq ppt chg	yoy ppt chg	%	ppt chg					
Core Net Margin	-14.4	2.3	n.m.	-3.4	-6.0	-5.6					
EBIT - Property development	2.3	9.9	-7.6	0.3	6.0	-0.7					
EBIT - Construction	-43.5	-1.9	-41.6	324.0	-21.1	63.4					

Source: MRCB, UOB Kay Hian

RESULTS

- 2Q21 earnings below expectations.** Malaysian Resources Corporation (MRCB) reported a 2Q21 core net loss of RM32.4m (1Q21: core net profit of RM5.2m, 2Q20: core net loss of RM18.4m) on revenue of RM225.7m (-0.4% qoq, +35% yoy). This brought MRCB's 6M21 to a core net loss of RM27.2m (6M20: core net loss of RM2.8m). The negative variance was mainly caused by the prolonged lockdown affecting MRCB's productivity level and property sales. The construction division's margin deteriorated as some of the projects are at the tail-end of their completion, where the margin is much thinner.
- The construction division reported an LBIT of RM31.3m** due to low productivity level and margin deterioration. According to the company, the prolonged movement control order (MCO 3.0) has slowed down MRCB's progress billings. It only had an effective one month of productivity during the quarter. Having two of its projects nearing completion, ie Desaru Convention Centre and MRT2 V210 Package, this has led to margin deterioration. Separately, the company shared its interest to bid for Sungai Pahang's phase 3 flood mitigation structure project with an estimated contract value of RM350m. The company's tender book stands at RM2.1b with 75% on buildings/complex structure projects, and the remaining are tenders on infrastructure projects.
- MRCB recorded RM55.8m (+8.1% qoq) of property sales during the quarter**, which was mainly contributed by the 1060 Carnegie (RM28.6m) and Sentral Suites (RM6.4m) developments. The division reported a lower EBIT of RM3.3m (-74.5% qoq) as margin deteriorated due to idling costs during the lockdown. MRCB looks forward to launching the Kwasa Land (Plot F) (Estimated GDV: RM250m) by 4Q21, while the KL Sentral (Lot J) project is being pushed back to 2022. MRCB has an unbilled sale of RM979m as of end-Jun 21.

EARNINGS REVISION

- We cut our 2021 forecast to a net loss of RM31.8m (from a net profit of RM21.4m)** to reflect the worse-than-expected results and potential impact of the enhanced movement control order (EMCO) in 3Q21.

RECOMMENDATION

- Maintain HOLD with unchanged target price of RM0.39.** Our target price is based on a 20% discount to our SOTP valuation of RM0.49/share, and implies 35x 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 total lockdown.

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SOTP VALUATION

	Remarks	RMm
Property development	70% discount to RNAV	2,387
Property investment	Net Book Value	550
Construction	FY22F 12x PE	369
Facilities management	FY22F 10x PE	55
Sentral REIT (27.9% stake)	TP: RM1.00	299
Net debt		-1,519
Total value		2,141
No. of shares		4,423
Total value/share (RM)		0.48
SOTP discount		20%
Target Price (RM)		0.39

Source: UOB Kay Hian

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