

UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRC MK/HOLD/RM0.35/Target: RM0.37)

3Q21: Results Below Expectations

| Year to 31 Dec | 3Q21 (RMm) | 2Q21 (RMm) | qoq % chg | yoy % chg | 9M21 (RMm) | yoy % chg | Year | EPS (sen) | Revision (sen) | DPS (sen) | PE (x) |
|--------------------------------|---------------|---------------|---------------|----------------|---------------|---------------|-------|-----------|----------------|-----------|--------|
| Revenue | 137.9 | 225.7 | (38.9) | (53.7) | 590.3 | (33.7) | 2021F | (1.2) | From (0.7) | 1.0 | n.a. |
| Property Development | 71.0 | 142.8 | (50.3) | (53.6) | 345.9 | (29.3) | 2022F | 0.8 | From 1.1 | 1.0 | 42.2 |
| Construction | 50.0 | 72.0 | (30.5) | (62.0) | 206.5 | (43.2) | 2023F | 1.5 | - | 1.0 | 22.1 |
| Facilities Management | 8.2 | 9.0 | (8.0) | (28.0) | 26.1 | (22.5) | | | | | |
| Others | 8.6 | 2.0 | 321.4 | 512.5 | 11.8 | 178.6 | | | | | |
| EBIT / Operating Income | (16.5) | (28.7) | 42.5 | (203.9) | (30.3) | 80.7 | | | | | |
| Property Development | 1.2 | 3.3 | (65.4) | (90.2) | 17.6 | (48.7) | | | | | |
| Construction | (18.7) | (31.3) | 40.4 | (523.3) | (51.7) | 74.0 | | | | | |
| Facilities Management | 1.0 | 0.1 | 666.9 | (60.1) | 1.5 | (73.0) | | | | | |
| Others | (0.3) | (5.0) | 94.8 | (105.9) | (0.9) | >(100.0) | | | | | |
| Shares of JV | 4.6 | 5.9 | (22.1) | 672.3 | 15.3 | 808.8 | | | | | |
| Shares of Associates | 4.6 | 4.8 | (3.6) | 8.3 | 13.6 | 19.3 | | | | | |
| PBT | (1.9) | (1.5) | (27.7) | 72.6 | (5.1) | 66.0 | | | | | |
| PATAMI | (32.2) | (32.4) | 0.8 | >(100.0) | (59.4) | 70.9 | | | | | |
| Core PATAMI | (32.2) | (32.4) | 0.8 | >(100.0) | (59.4) | >(100.0) | | | | | |
| Margins (%) | | | | | | | | | | | |
| Core Net Margin | (23.3) | (14.4) | (9.0) | (23.6) | (10.1) | (9.9) | | | | | |
| EBIT – Property Development | 1.6 | 2.3 | (0.7) | (6.1) | 5.1 | (1.9) | | | | | |
| EBIT – Construction | (37.3) | (43.5) | 6.2 | (35.1) | (25.0) | 29.7 | | | | | |

Source: MRCB, UOB Kay Hian

RESULTS

- 3Q21 earnings below expectations.** Malaysian Resources Corporation (MRCB) reported a 3Q21 core net loss of RM32.2m (+0.8% qoq, 3Q20: core net profit of RM0.9m) on revenue of RM137.9m (-38.9% qoq, -53.7% yoy). This brought 9M21 to a core net loss of RM59.4m (9M20: core net loss of RM1.8m). The negative variance was mainly caused by the prolonged lockdown's impact on MRCB's productivity level and property sales. Disruptions in the construction supply chain also led to a shortage of workers and building materials accordingly.
- The construction division reported a lower LBIT of RM18.7m**, an improvement of 6.2% qoq, mainly due to the build-up in construction progress on the easing of lockdown, albeit at low productivity level. Note that in 2Q21, construction activities were halted for about four weeks, which has slowed down MRCB's progress billings. The division contributed about 35% of MRCB's revenue, mainly from EPF Headquarters at Kwasa Sentral, the DASH, MRT2 and SUKE projects. The company's tender book stands at RM2.2b with 75% on buildings/complex structure projects, and the remaining are tenders on infrastructure projects. Ytd, the external client order book stood at RM27.4b, while the unbilled portion was at RM19.9b. This will ensure MRCB's long-term earnings visibility.
- Not out of the woods yet.** Ytd, LRT3 project contributed higher PAT of RM18.8m (+1,075% yoy) due to higher construction progress achieved this year. Following the acquisition of the 50% remaining equity interest in Setia Utama LRT 3 (formerly known as MRCB George Kent), MRCB will recognise 100% of the profits in 4Q21. Construction progress of the project was 61% in 3Q21 and will reach 65% in 4Q21. While the company continues to proactively tender for more infrastructure projects to replenish its order book, we believe it may still be challenging in the near term as there are not many projects currently being tendered out.
- Property arm continued to be impacted by the pandemic.** MRCB registered 39% and 65% declines in revenue and earnings qoq from its property division. For its 1060 Carnegie development, only 1 unit sold reached financial settlement in 3Q21, compared with 35 units in 2Q21 as the progress was disrupted by the lockdowns imposed in Australia. Similarly, revenue recognition in Malaysia was also hindered by the pandemic's impact. Property sales during the quarter were mainly contributed by Sentral Suites, the 9 Seputeh and Alstonia as construction progress reached 55%, 55% and 22% while sales rates were at 84%, 41% and 31%. While MRCB will continue to focus on its marketing efforts, we believe the property market's outlook may remain cloudy before seeing a more meaningful recovery in 2022 when the border reopens, allowing access for foreign buyers to participate in the sales of its properties such as VIVO 9 Seputeh and St Regis units.

EARNINGS REVISION

- We cut our 2021 forecast to a net loss of RM52.2m (from a net loss of RM31.8m)** to reflect the worse-than-expected results and prolonged impact of the pandemic and inflationary pressure in 4Q21.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM0.37.** Our target price is based on a 20% discount to our SOTP valuation of RM0.46/share, and implies around 44x 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 pandemic and rising inflation.

SOTP VALUATION

| | Remarks | Value (RMm) |
|-------------------------------|----------------------|--------------|
| Property Development | 70% Discount to RNAV | 2,387 |
| Property Investment | Net Book Value | 550 |
| Construction | FY22F 12x PE | 276 |
| Facilities Management | FY22F 10x PE | 55 |
| Sentral REIT | TP: RM1.00 | 299 |
| Net debt | | -1,519 |
| Total Value | | 2,048 |
| No. of Shares (m) | | 4,423 |
| Total Value/share (RM) | | 0.46 |
| SOTP Discount (%) | | 20% |
| Fair Value/share (RM) | | 0.37 |

Source: UOB Kay Hian

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