



Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Softer Earnings After Completion of Key Projects in FY22

KEY INVESTMENT HIGHLIGHTS

- **Core earnings down -22.9%yoy to RM10.9m in 2QFY23; 1HFY23 core earnings -31.3%yoy to RM19.3m, below expectations**
- **Construction and engineering segment PBT down -22.8%yoy in 2QFY23 due to completion of large projects in FY22**
- **Strong outstanding order book of RM16.45b; wide range of jobs in the pipeline but further clarity needed**
- **Downgrade to NEUTRAL with an unchanged TP of RM0.42**

Below expectations. Malaysian Resources Corporation Berhad's revenue for 2QFY23 declined -14.4%yoy to RM599.3m while its core earnings declined -22.9%yoy to RM10.9m. For the cumulative six months period ending June-23, the group's revenue declined -11.2%yoy to RM1.34b while its core earnings slipped -31.3%yoy to RM19.3m. The weaker performance was due to the completion of major infrastructure projects in late FY22, which are the mainly the MRT2 and DASH Highway packages and package C8 of Kwasa Utama. Results for the 1HFY23 were below expectations, coming in at 32.4% and 43.0% of ours and consensus estimates respectively.

Engineering, construction and environment. Revenue from the segment came in -18.4%yoy lower at RM940.8m with a segmental profit of RM43.1m, a reduction of -22.8%yoy due to the reasons mentioned above. Driving the top and bottom lines during the period were LRT3, Muara Sungai Pahang Phase 3 flood mitigation project and the construction of PR1MA Brickfields. Outstanding order book stands at RM16.45b while the group's tender book is RM30b comprising mainly MRT3 packages and other smaller jobs such as a power plant project in Kulim and a BRT project in Johor.

Targetting a wide range of jobs. Other jobs on MRCB's radar which are not yet in the tender book are the KL Sentral redevelopment plan, new Shah Alam Stadium, potential variation orders of LRT3 and flood mitigation projects. There is no certainty yet in terms of the timeline and sizes of these projects but they are set to drive MRCB's growth over the longer term. The group has also been invited by Malaysia Airports Holdings Bhd (MAHB) recently to retender for the KLIA aerotrain project after it terminated an earlier contract with Pestech International Bhd.

Property development and investment. The segment recorded a revenue of RM369.5m for the six-month period, an increase of +11.3%yoy with a segmental profit of RMRM32.9m, which was lower by -23.7%yoy. The reduction was mainly due to the completion of its Sentral Suits and TRIA 9 Seputeh projects and RM18m of other operating income last year, being the value of remaining land injected into SIDEC. Unbilled sales currently stands at RM43.7m and completed unsold units at RM587.1m.

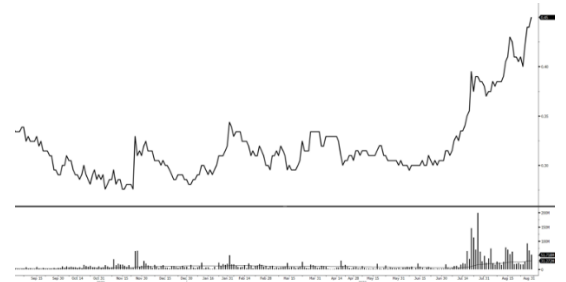
Downgrade to NEUTRAL

*(Previously BUY)***Unchanged Target Price: RM0.42**

RETURN STATISTICS

Price @ 30 th Aug 2023 (RM)	0.45
Expected share price return (%)	-6.67
Expected dividend yield (%)	2.38
Expected total return (%)	-4.29

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	18.4	19.0
3 months	47.5	43.3
12 months	28.6	33.9

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	2,891.0	3,122.3	3,350.5
EBIT	229.1	243.1	247.4
Profit Before Tax	143.6	143.9	155.1
Core PATAMI	49.6	70.4	73.7
Core EPS	1.5	1.6	1.6
DPS	1	1	1
Dividend Yield	2.4%	2.4%	2.4%

KEY STATISTICS


FBM KLCI	1,451.94
Issue shares (m)	4467.51
Estimated free float (%)	38.31
Market Capitalisation (RM'm)	2,010.38
52-wk price range	RM0.28-RM0.46
3-mth average daily volume (m)	29.60
3-mth average daily value (RM'm)	11.45
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Sutherland REIT Holdings LP	6.65
The Vanguard Group Inc	6.13

Analyst

Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

Earnings estimates. We are slashing our FY23E earnings estimates by -16.8% to RM49.6m while keeping our FY24F estimates unchanged.

Target price. We are maintaining our **TP** of **RM0.42** as we peg a forward PER of 26x to the group's fully-diluted EPS of 1.6 sen for FY24F.

Downgrade to NEUTRAL. MRCB's top and bottom lines in the near term will be driven by its remaining progress for the systems and civil works of the LRT3, which has achieved physical completions of 86% and 87% respectively. Management expects margins to be slightly more volatile as they approach the final phases of the project. We are still optimistic on MRCB's prospects with the expectations of improvement in infrastructure job flows, but the recent rally in its share price by +47.5% from Jul-23 until Aug-23 shifts our view to **NEUTRAL** as we believe the positives have been priced in at this juncture. Rerating catalysts would come from better clarity of projects in the pipeline and faster than expected contract awards. 

MRCB: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	2QFY23	1QFY23	2QFY22	QoQ	YoY	6MFY23	6MFY22	YoY
Income Statement								
Revenue	599.3	742.2	700.4	-19.3%	-14.4%	1,341.6	1,511.1	-11.2%
Expenses	(569.2)	(706.0)	(674.7)	19.4%	15.6%	(1,275.1)	(1,440.6)	11.5%
Other operating income	9.7	11.7	28.0	-17.0%	-65.3%	21.4	35.4	-39.7%
Loss from operations	39.9	47.9	53.7	-16.8%	-25.6%	87.8	106.0	-17.1%
Finance costs	(28.9)	(27.9)	(24.4)	-3.6%	-18.1%	(56.7)	(47.7)	-19.0%
Share of results of associates	5.4	1.8	(0.1)	201.8%	9026.2%	7.2	3.6	99.7%
Share of results of joint ventures	(1.2)	(1.3)	(1.0)	11.6%	-13.0%	(2.5)	(2.1)	-20.2%
Loss before tax	15.3	20.6	28.1	-25.6%	-45.6%	35.8	59.9	-40.1%
Income tax expense	(4.4)	(12.0)	(17.1)	63.5%	74.5%	(16.3)	(34.9)	53.2%
Loss for the financial period	10.9	8.6	11.0	27.4%	-0.3%	19.5	24.9	-21.7%
PATAMI	10.9	8.5	14.1	28.3%	-22.9%	19.3	28.1	-31.3%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue (RM'm)	1,448.5	3,205.1	2,891.0	3,122.3	3,350.5
EBIT (RM'm)	171.8	253.4	229.1	243.1	247.4
Pre-tax profit (RM'm)	61.3	154.3	143.6	143.9	155.1
Normalised PATAMI (RM'm)	16.1	64.8	49.6	70.4	73.7
FD EPS (sen)	1.4	1.5	1.5	1.6	1.6
Dividend (sen)	1.0	1.0	1.0	1.0	1.0
Dividend yield (%)	2.8	2.3	2.5	4.5	4.5

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	704.2	696.3	731.1	753.0	745.5
Intangible assets	215.7	194.8	185.1	175.8	167.0
Non-current assets	5,554.0	5,658.2	5,683.3	5,695.9	5,679.6
Cash	578.7	533.6	506.9	500.0	500.0
Trade receivables	1,424.6	1,348.0	2,884.6	2,601.9	2,810.1
Current assets	3,651.4	3,576.6	5,086.5	4,796.9	5,005.1
Trade payables	1,772.5	1,772.2	1,923.1	1,734.6	1,873.4
Short-term debt	478.6	840.8	924.9	915.6	869.8
Current liabilities	2,451.3	2,702.1	3,564.2	3,310.3	3,518.5
Long-term debt	1,453.6	1,215.9	1,823.9	1,732.7	1,646.0
Non-current liabilities	2,213.7	1,997.0	2,605.0	2,513.8	2,427.1
Share capital	4,356.1	4,356.1	4,356.1	4,356.1	4,356.1
Retained earnings	160.5	183.0	247.8	315.9	386.3
Equity	4,540.5	4,535.8	4,600.6	4,668.7	4,739.1
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	53.0	61.3	154.3	143.6	143.9
Operating cash flow	-53.7	-219.3	-126.3	-137.0	-136.7
Capital expenditure	40.4	32.7	29.4	27.9	25.1
Investing cash flow	53.9	43.9	40.6	39.1	36.3
Debt raised/(repaid)	159.8	517.6	77.6	-32.2	-30.7
Financing cash flow	-34.8	281.8	158.2	48.4	49.9
Net cash flow	-34.8	281.8	72.5	-49.5	-50.5
Beginning cash flow	479.9	465.6	571.9	644.4	594.9
Ending cash flow	450.1	571.9	644.4	594.9	544.3

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	3.5%	11.9%	7.9%	7.9%	7.8%
PBT margin	4.4%	4.2%	4.8%	5.0%	4.6%
PAT margin	-0.6%	2.0%	2.0%	2.4%	2.3%
Core PAT margin	-0.1%	1.1%	2.0%	2.4%	2.3%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology