



Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Maintain NEUTRAL

Dragged by Higher Tax and Weaker Property Division

Unchanged Target Price: RM0.42

KEY INVESTMENT HIGHLIGHTS

- **Core earnings down -93.8%yoy to RM1.5m in 3QFY23; 9MFY23 core earnings -59.9%yoy to RM20.8m, below expectations**
- **Construction and engineering segment PBT surged 7x to RM44.6m in 3QFY23, led by LRT3**
- **Strong outstanding order book of RM16.1b; management actively tendering jobs with a tender book of RM30b**
- **Maintain NEUTRAL with an unchanged TP of RM0.42**

Below expectations. Malaysian Resources Corporation Berhad's (MRCB's) revenue for 3QFY23 dipped -41.4%yoy to RM503.7m while its core earnings plunged -93.8%yoy to RM1.5m. For the cumulative nine-month period ending Sept-23, the group's core earnings declined -59.9%yoy to RM20.8m. This came in below ours and consensus expectations, making up only 41.9% and 44.0% of full-year estimates. The drag came mainly from the group's weaker property segment and higher tax rate due to higher under provision of tax in the previous year.

Engineering, construction and environment. Revenue from the segment came in -23.9%yoy lower at RM397.5m while the segmental profit grew more than 7x to RM44.6m. For the cumulative period, revenue declined -20.1%yoy to RM1.34b while the operating profit rose +43.1%yoy to RM87.6m. The lower revenue was due to the completion of major projects in 2022, such as the Damansara-Shah Alam Elevated Highway (Package CB2), Kwasa Utama C8 and MRT2 (Package V210) while the higher profit mainly came from the ongoing LRT3 project, which has achieved construction progress of 89% and financial progress of 85%.

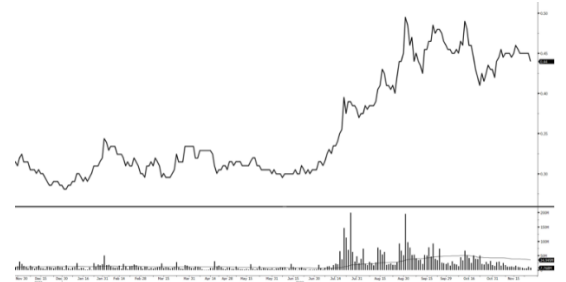
Long-term order book intact. MRCB currently has an unbilled order book of RM16.1b. Management is actively participating in tenders to replenish its order book. The tender book is currently at RM30.0b, which excludes projects that were already secured but its values which have yet to be finalised, such as the Shah Alam Stadium rebuilding project and the redevelopment of KL Sentral Station.

Property development and investment. The segment recorded a revenue of RM90.0m in 3QFY23, a decline of 3.6x while the operating profit plunged to RM2.7m from RM81.4m a year ago. For the 9MFY23, revenue came in -42.2%yoy lower at RM459.5m while the bottom line declined 3.5x to RM35.7m. This was mainly due to the completion of MRCB's Sentral Suites development in KL Sentral in Mar-23 and the TRIA 9 Seputeh in Old Klang Road in May-23. Unbilled sales currently stand at RM33.6m and completed unsold units at RM554.6m. Moving forward, the group will focus on selling its ongoing projects, especially Alstonia in Bukit Rahman Putra and 26 Vista in Gold Coast and the completed unsold units namely Sentral Suites, Vivo Residences and Kalista Park Homes.

RETURN STATISTICS

Price @ 27 th Nov 2023 (RM)	0.44
Expected share price return (%)	-4.54
Expected dividend yield (%)	2.38
Expected total return (%)	-2.16

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	0.7
3 months	-4.3	4.5
12 months	37.5	41.1

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	39.0	70.4	73.7
Core EPS	0.9	1.6	1.6
DPS	1	1	1
Dividend Yield	2.4%	2.4%	2.4%

KEY STATISTICS

FBM KLCI	1,448.15
Issue shares (m)	4467.51
Estimated free float (%)	38.33
Market Capitalisation (RM'm)	1,965.70
52-wk price range	RM0.28-RM0.51
3-mth average daily volume (m)	36.64
3-mth average daily value (RM'm)	16.77
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.57


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Other prospects. Recall that the group is disposing Menara CelcomDigi for RM450m to Sentral REIT and the transaction is expected to be completed in 4Q23, as it has been approved by shareholders. The group will continue to enjoy recurring income from the property, via its 27.94% stake in Sentral REIT. Meanwhile, MRCB has interests in 1,153 acres of land with a GDV of RM33.0b, providing them with a sustainable supply of long-term land for future projects. Also recall that under Budget 2024, the Government is allocating RM4.7b for the construction five LRT3 stations that were previously axed. This would benefit MRCB with an estimated order book replenishment of up to RM2b, though further clarity is needed.

Earnings estimates. We are slashing our FY23E earnings estimates by -21.4% to RM39.0m due to the weaker performance but we are holding on to our FY24F and FY25F 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.

Maintain NEUTRAL. We expect MRCB's performance in the near term to continue to be driven by its remaining progress for the systems and civil works of the LRT3, which has achieved physical completions of 8% and 91% respectively though margins can be expected to be slightly more volatile approaching the final phases of the project. We believe MRCB should be able to benefit from the expected improvement in infrastructure job flows. Rerating catalysts would come from better clarity of projects in the pipeline and faster than expected contract awards. We maintain our **NEUTRAL** call at this juncture. 

MRCB: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	3QFY23	2QFY23	3QFY22	QoQ	YoY	9MFY23	9MFY22	YoY
Income Statement								
Revenue	503.7	599.3	860.0	-16.0%	-41.4%	1,845.3	2,371.1	-22.2%
Expenses	(467.2)	(569.2)	(787.1)	17.9%	40.6%	(1,742.3)	(2,227.7)	21.8%
Other operating income	9.7	9.7	5.9	0.4%	64.5%	31.1	41.4	-24.7%
Profit from operations	46.3	39.9	78.8	16.1%	-41.2%	134.1	184.8	-27.4%
Finance costs	(30.2)	(28.9)	(24.3)	-4.5%	-24.2%	(86.9)	(71.9)	-20.8%
Share of results of associates	3.8	5.4	3.4	-30.6%	11.6%	11.0	7.0	57.2%
Share of results of joint ventures	(1.2)	(1.2)	(1.2)	-5.4%	-5.3%	(3.8)	(3.3)	-14.9%
Profit before tax	18.7	15.3	56.7	22.1%	-67.1%	54.5	116.6	-53.2%
Income tax expense	(17.2)	(4.4)	(41.2)	-293.0%	58.3%	(33.5)	(76.2)	56.0%
Profit for the financial period	1.5	10.9	15.5	-86.3%	-90.3%	21.0	40.4	-48.0%
PATAMI	1.5	10.9	23.7	-86.6%	-93.8%	20.8	51.8	-59.9%

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	86.7	143.9	155.1
Normalised PATAMI (RM'm)	16.1	64.8	39.0	70.4	73.7
FD EPS (sen)	1.4	1.5	0.9	1.6	1.6
Dividend (sen)	1.0	1.0	1.0	2.0	2.0
Dividend yield (%)	2.8	2.3	2.4	2.4	2.4

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	86.7	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%	3.0%	5.0%	4.6%
PAT margin	-0.6%	2.0%	1.3%	2.4%	2.3%
Core PAT margin	-0.1%	1.1%	1.3%	2.4%	2.3%

Source: Bloomberg, MIDFR

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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