



Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Maintain NEUTRAL

Earnings Dragged by Weaker Property Division

Revised Target Price: RM0.63
(Previously RM0.42)

KEY INVESTMENT HIGHLIGHTS

- **Core earnings plunge -202%yoy to RM-66.3m for FY23 after stripping gains on land disposal**
- **Construction and engineering segment PBT surged +24.9%yoy to RM87.3m in FY23, led by LRT3**
- **Strong outstanding order book of RM15.7b; management actively tendering jobs with a tender book of RM30b**
- **Maintain NEUTRAL with a revised TP of RM0.63**

Below expectations. Malaysian Resources Corporation Berhad's (MRCB's) revenue for FY23 dipped -21.6%yoy to RM2.5b while its core earnings plunged -202% to -RM66.3m, after stripping gains from disposals of two properties amounting to RM167.2m. This came in below ours and consensus expectations.

Engineering, construction and environment. Full year revenue from the segment came in at RM1.7b for FY23, -22.3% lower while the segmental profit grew +24.9% to RM87.3m. The lower revenue recorded in 2023 was due to the completion of the Damansara-Shah Alam Elevated Highway Package CB2, Kwasa Utama C8 and MRT2 Package V210 infrastructure construction projects in 2022, while the higher profit mainly came from the ongoing LRT3 project, which has achieved construction progress of 92% and financial progress of 88%.

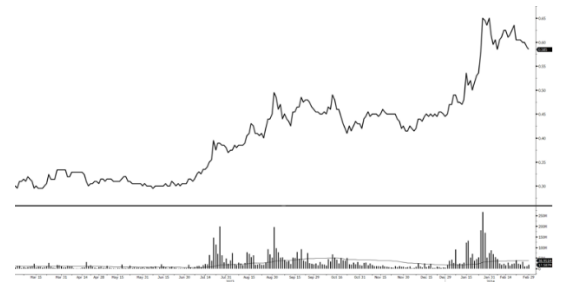
Long-term order book intact. MRCB currently has an unbilled order book of RM15.7b. Management is actively participating in tenders and aims to replenish RM5.0b of new jobs. The tender book currently stands at RM30.0b, which excludes projects that were already secured but its values which have yet to be finalised, such as the Shah Alam Stadium rebuilding project and the redevelopment of KL Sentral Station. Management is confident of timely job replenishments in FY24, just in time with the competition of its current LRT3 contract, of which RM1.37b of progress remains.

Property development and investment. The segment recorded a full year revenue of RM711.9m for FY23, coming in at a decline of -22.2% while the operating profit dropped -15.7% to RM148.8m. The decline was due to the construction completion of the Sentral Suites development project in KL Sentral in March 2023 and the TRIA 9 Seputeh mixed residential development project in Jalan Klang Lama in May 2023, despite strong residential property sales in 2023, which grew 74% to RM831.3 million over the corresponding period in 2022. The segment would have incurred an operating loss of -RM18.4m after removing the gains from disposals of Menara CelcomDigi and Plaza Alam Sentral. Management attributed the weaker performance to substantial marketing cost for its 26 Vista development in Gold Coast, Australia. Their target for FY24 is RM500m of sales in Malaysia and RM300m of sales in Australia.

RETURN STATISTICS

| | |
|--|-------------|
| Price @ 29 th Feb 2024 (RM) | 0.585 |
| Expected share price return (%) | +7.69 |
| Expected dividend yield (%) | 1.59 |
| Expected total return (%) | 9.28 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | -10.0 | -12.2 |
| 3 months | 31.5 | 29.2 |
| 12 months | 88.7 | 76.4 |

INVESTMENT STATISTICS

| FYE Dec | 2023A | 2024F | 2025F |
|-------------------|---------|---------|---------|
| Revenue | 2,514.1 | 3,122.3 | 3,350.5 |
| EBIT | 234.6 | 254.1 | 247.4 |
| Profit Before Tax | 134.2 | 146.8 | 155.1 |
| Core PATAMI | -66.3 | 70.4 | 73.7 |
| Core EPS | -1.5 | 1.6 | 1.6 |
| DPS | 1.0 | 2.0 | 2.0 |
| Dividend Yield | 2.5% | 4.5% | 4.5% |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,551.44 |
| Issue shares (m) | 4467.51 |
| Estimated free float (%) | 38.33 |
| Market Capitalisation (RM'm) | 2,613.49 |
| 52-wk price range | RM0.29-RM0.70 |
| 3-mth average daily volume (m) | 37.89 |
| 3-mth average daily value (RM'm) | 21.29 |
| Top Shareholders (%) | |
| Employees Provident Fund Board | 36.21 |
| Gapura Sdn Bhd | 15.48 |
| Lembaga Tabung Haji | 5.57 |

Analyst


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Land sale. The Group completed the disposal of Menara CelcomDigi on 11 December 2023 for RM450m to Sentral REIT. The Group will continue to enjoy recurring income from the property, via its 27.94% stake in Sentral REIT. MRCB, via its wholly owned subsidiary, P.J Sentral Development Sdn Bhd ("PJSD"), entered into a sale and purchase agreement with Perbadanan Kemajuan Negeri Selangor (PKNS) in relation to the Proposed Acquisition of development rights of Tower 2 in the PJ Sentral development for a cash consideration of RM270 million. In addition, the Company's wholly owned subsidiary, MRCB Sentral Properties Sdn Bhd also entered into a sale and purchase agreement with PKNS for the proposed disposal of Plaza Alam Sentral and the adjoining land for a cash consideration of RM178 million. Management guided that there will be similar transactions in FY24 as the group takes on more proactive measures with their assets and would monetise those that are perceived "too far down the road" in terms of contributing to the bottom line.

Other prospects. The Group continues to actively tender for other large infrastructure projects, prioritising climate change adaptation infrastructure projects, like flood mitigation. MRCB also has interests in 1,148 acres of land with a GDV of RM31.0b, providing them with a sustainable supply of long-term land for future projects.

Earnings estimates. We are keeping to our FY24/FY25 estimates for now.

Target price. We are revising our **TP** to **RM0.63** from RM0.42 previously as we peg a P/B ratio of 0.6x to the group's estimated BVPS of RM1.05 for FY24E.

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 89% and 94% 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. Re-rating catalysts would come from better clarity of projects in the pipeline and faster than expected contract awards. We maintain our **NEUTRAL** call. 

MRCB: 4QFY23 RESULTS SUMMARY

| All in RM'm unless stated otherwise | Quarterly Results | | | | | Cumulative | | |
|-------------------------------------|-------------------|---------|---------|--------|--------|------------|-----------|--------|
| | Q423 | Q323 | Q422 | QoQ | YoY | 12MFY23 | 12MFY22 | YoY |
| Income Statement | | | | | | | | |
| Revenue | 668.8 | 503.7 | 833.9 | 32.8% | -19.8% | 2,514.1 | 3,205.1 | -21.6% |
| Expenses | (747.0) | (467.2) | (787.9) | -59.9% | 5.2% | (2,489.3) | (3,015.6) | 17.5% |
| Other operating income | 178.6 | 9.7 | 17.0 | >+100% | >+100% | 209.8 | 58.4 | >+100% |
| Profit from operations | 100.4 | 46.3 | 63.0 | >+100% | 59.3% | 234.6 | 247.8 | -5.3% |
| Finance costs | (25.9) | (30.2) | (27.1) | 14.2% | 4.5% | (112.8) | (99.1) | -13.8% |
| Share of results of associates | 6.9 | 3.8 | 3.1 | 82.0% | >+100% | 17.9 | 10.1 | 76.7% |
| Share of results of joint ventures | (1.7) | (1.2) | (1.3) | -38.0% | -32.1% | (5.5) | (4.6) | -19.8% |
| Profit before tax | 79.7 | 18.7 | 37.7 | >+100% | >+100% | 134.2 | 154.3 | -13.0% |
| Income tax expense | 0.4 | (17.2) | (24.6) | >+100% | >+100% | (33.2) | (100.8) | 67.1% |
| Profit for the financial period | 80.1 | 1.5 | 13.1 | >+100% | >+100% | 101.1 | 53.5 | 88.8% |
| PATAMI | 80.2 | 1.5 | 13.0 | >+100% | >+100% | 101.0 | 64.8 | 55.8% |
| Core PATAMI | (87.1) | 1.5 | 13.0 | <-100% | <-100% | (66.3) | 64.8 | <-100% |

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023A | 2024F | 2025F |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue (RM'm) | 1,448.5 | 3,205.1 | 2,514.1 | 3,122.3 | 3,350.5 |
| EBIT (RM'm) | 171.8 | 253.4 | 234.6 | 254.1 | 247.4 |
| Pre-tax profit (RM'm) | 61.3 | 154.3 | 134.2 | 146.8 | 155.1 |
| Normalised PATAMI (RM'm) | 16.1 | 64.8 | -66.3 | 70.4 | 73.7 |
| Core EPS (sen) | 1.4 | 1.5 | -1.5 | 1.6 | 1.6 |
| Dividend (sen) | 1.0 | 1.0 | 1.0 | 2.0 | 2.0 |
| Dividend yield (%) | 2.8 | 2.3 | 2.5 | 4.5 | 4.5 |
| Balance Sheet (RM'm) | 2021A | 2022A | 2023A | 2024F | 2025F |
| Fixed assets | 704.2 | 699.2 | 680.9 | 753.0 | 745.5 |
| Intangible assets | 215.7 | 194.8 | 177.0 | 175.8 | 167.0 |
| Non-current assets | 5,554.0 | 5,681.3 | 5,448.5 | 5,519.4 | 5,503.1 |
| Cash | 578.7 | 533.6 | 972.0 | 500.0 | 500.0 |
| Trade receivables | 1,424.6 | 1,328.3 | 1,262.8 | 2,601.9 | 2,810.1 |
| Current assets | 3,651.4 | 3,547.3 | 3,920.3 | 4,787.4 | 4,995.5 |
| Trade payables | 1,772.5 | 1,765.0 | 1,773.3 | 1,734.6 | 1,873.4 |
| Short-term debt | 478.6 | 840.8 | 311.0 | 915.6 | 869.8 |
| Current liabilities | 2,451.3 | 2,697.3 | 2,154.8 | 3,141.1 | 3,349.3 |
| Long-term debt | 1,453.6 | 1,215.9 | 1,490.5 | 1,732.7 | 1,646.0 |
| Non-current liabilities | 2,213.7 | 1,994.6 | 2,255.6 | 2,497.8 | 2,411.1 |
| Share capital | 4,356.1 | 4,356.1 | 4,356.1 | 4,356.1 | 4,356.1 |
| Retained earnings | 160.5 | 183.0 | 240.7 | 308.8 | 379.2 |
| Equity | 4,540.5 | 4,536.7 | 4,599.7 | 4,667.8 | 4,738.2 |
| Cash Flow (RM'm) | 2021A | 2022A | 2023A | 2024E | 2025F |
| PBT | 53.0 | 61.3 | 134.2 | 143.6 | 143.9 |
| Operating cash flow | -53.7 | -80.9 | 429.9 | 439.3 | 439.6 |
| Capital expenditure | 40.4 | 32.7 | -25.0 | 27.9 | 25.1 |
| Investing cash flow | 53.9 | 53.4 | 419.9 | 472.8 | 470.0 |
| Debt raised/(repaid) | 159.8 | 517.6 | -264.5 | -32.2 | -30.7 |
| Financing cash flow | -34.8 | 14.0 | -444.3 | -212.0 | -210.5 |
| Net cash flow | -34.8 | -13.5 | 405.5 | 700.1 | 699.1 |
| Beginning cash flow | 479.9 | 479.9 | 465.6 | 871.1 | 1571.2 |
| Ending cash flow | 450.1 | 571.9 | 871.1 | 1571.2 | 2270.3 |

| Profitability Margins | 2021A | 2022A | 2023A | 2024E | 2025F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBIT margin | 11.9% | 7.9% | 9.3% | 8.1% | 7.4% |
| PBT margin | 4.2% | 4.8% | 5.3% | 4.7% | 4.6% |
| PAT margin | 1.1% | 2.0% | 4.0% | 2.3% | 2.2% |
| Core PAT margin | 1.1% | 2.0% | -2.6% | 2.3% | 2.2% |

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