



Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Maintain NEUTRAL

Slow Start to FY24

Revised Target Price: RM0.67
(Previously RM0.63)

KEY INVESTMENT HIGHLIGHTS

- **Revenue slipped -35.8%yoy to RM476.2m; core earnings dipped -64.6%yoy to RM3.0m, below expectations**
- **Construction and engineering revenue came in lower but operating profit rose 2.5x to RM17.8m, better margins from LRT3**
- **Strong outstanding order book of RM15.3b; management actively tendering jobs with a tender book of RM33b**
- **Maintain NEUTRAL with a revised TP of RM0.67**

Below expectations. Malaysian Resources Corporation Berhad's (MRCB's) revenue in 1QFY24 dipped -35.8%yoy to RM476.2m while its core earnings declined -64.6%yoy to RM3.0m. This came in below ours and consensus expectations, making up only 4.3% and 5.3% respectively of full year estimates. The weaker performance came from the weaker contribution of its property development division. In a call yesterday, management guided for a slower 1HFY24 followed by a ramp up in 2HFY24.

Engineering, construction, and environment. Although revenue came in -21.4%yoy lower at RM360.3m, the operating profit came in 2.5x higher at RM17.8m. Projects that contributed towards the quarter were the LRT3 and Muara Sungai Pahang Phase 3 flood mitigation projects. While the LRT3 delivered lower revenue as it is now at the tail end of the project, MRCB was able to recognise higher profit on the back of a recalibration of costs. Management expects the construction division to be the key driver for the group over the medium term.

RM5b job replenishment target intact. MRCB currently has an unbilled order book of RM15.3bn and targets to secure RM5.0b of new jobs. Upcoming jobs that have yet to be finalised are the five additional stations for the LRT3 and other works that may come up larger than RM1.5b, redevelopment of the Shah Alam stadium and redevelopment of KL Sentral. Management is actively bidding for jobs, with a tender book of RM33.0b, which includes projects such as MRT3, Pan Borneo packages, Penang International Airport expansion, among others.

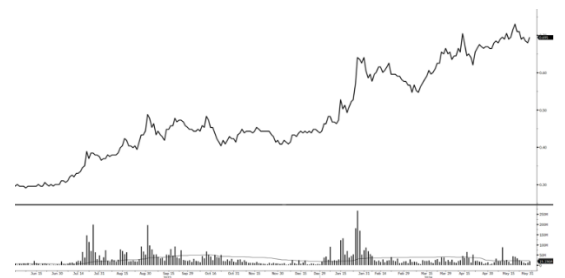
Property development and investment. The segment's revenue plunged -63.4%yoy to RM98.1m while its segmental profit was down -66.3%yoy to RM11.2m. Management attributed the weaker performance due to the completion of Sentral Suites in Mar-23 and the completion of TRIA 9 Seputeh in May-23. The group has earmarked RM3.6b of property launches – about RM2.3b in Malaysia and RM1.3b in New Zealand. MRCB's aim this year is to enhance its cash flow by monetising its unsold completed units, which is now at RM347.5m.

Sale of assets. Management reiterated that FY24 would see similar asset sales, such as the disposal of Menara CelcomDigi and Plaza Alam Sentral in FY23 as the group becomes more proactive in disposing non-core assets, or those that are perceived "too far down the road" in terms

RETURN STATISTICS

Price @ 30 th May 2024 (RM)	0.695
Expected share price return (%)	-3.6
Expected dividend yield (%)	+1.5
Expected total return (%)	-2.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.7	1.9
3 months	3.0	14.9
12 months	127.9	97.0

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	2,677.5	2,811.4	3148.8
EBIT	254.4	267.1	307.0
Profit Before Tax	147.3	154.6	173.2
Core PATAMI	58.9	61.9	69.3
Core EPS	1.3	1.4	1.6
DPS	1.0	1.0	1.0
Dividend Yield	1.5%	1.5%	1.5%

KEY STATISTICS

FBM KLCI	1,604.26
Issue shares (m)	4467.51
Estimated free float (%)	38.05
Market Capitalisation (RM'm)	3,104.92
52-wk price range	RM0.29-RM0.74
3-mth average daily volume (m)	22.83
3-mth average daily value (RM'm)	15.07
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapura Sdn Bhd	15.48
Lembaga Tabung Haji	5.57

Analyst


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of contributing to the bottom line. We view that this will allow the capital to be recycled into its upcoming projects, such as the redevelopment of the Shah Alam stadium and the redevelopment of KL Sentral, which will be built at no cost to the government and are to be funded by land swap. MRCB's net gearing is at a healthy 19.9%.

Data centre prospects? MRCB is in active discussions with several companies on the development of a data centre. Management is considering a build and lease model.

Earnings estimates. We slash our FY24/FY25 earnings estimates by -16.3%/-16.0% to account for the slower than expected performance.

Target price. We are revising our **TP** to **RM0.67** from RM0.63 previously as we peg a forward P/B ratio of 0.65x to the group's estimated BVPS of RM1.04 as we roll forward our valuation base year to FY25F.

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 94% and 90% respectively. We believe MRCB should be able to benefit from the expected improvement in infrastructure job flows, as seen from its large active tender book. All factors considered, we maintain our **NEUTRAL** recommendation as we believe that the positives are largely priced in for now. Rating catalysts would come from faster and larger than expected contract awards and stronger property sales. 

MRCB: 1QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
	1QFY24	4QFY23	1QFY23	QoQ	YoY
Income Statement					
Revenue	476.2	668.8	742.2	-28.8%	-35.8%
Expenses	(445.9)	(747.0)	(706.0)	40.3%	36.8%
Other operating income	10.2	178.6	11.7	-94.3%	-12.6%
Profit from operations	40.5	100.4	47.9	-59.7%	-15.5%
Finance costs	(23.9)	(25.9)	(27.9)	7.7%	14.3%
Share of results of associates	3.8	6.9	1.8	-44.6%	111.2%
Share of results of joint ventures	(1.5)	(1.7)	(1.3)	13.9%	-10.8%
Profit before tax	19.0	79.7	20.6	-76.2%	-7.7%
Income tax expense	(16.0)	0.4	(12.0)	-4647.2%	-33.7%
Profit for the financial period	3.0	80.1	8.6	-96.3%	-65.6%
PATAMI	3.0	80.2	8.5	-96.3%	-64.6%
Core PATAMI	3.0	(87.1)	8.5	103.4%	-64.6%

Source: Company

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue (RM'm)	3,205.1	2,514.1	2,677.5	2,811.4	3148.8
EBIT (RM'm)	253.4	234.6	254.4	267.1	307.0
Pre-tax profit (RM'm)	154.3	134.2	147.3	154.6	173.2
Normalised PATAMI (RM'm)	64.8	-66.3	58.9	61.9	69.3
Core EPS (sen)	1.5	-1.5	1.3	1.4	1.6
Dividend (sen)	1.0	1.0	1.0	1.0	1.0
Dividend yield (%)	2.3	2.5	1.5	1.5	1.5
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	699.2	680.9	646.9	656.6	669.7
Intangible assets	194.8	177.0	175.8	167.0	167.0
Non-current assets	5,681.3	5,448.5	5,413.3	5,414.2	5,427.3
Cash	533.6	972.0	500.0	500.0	501.0
Trade receivables	1,328.3	1,262.8	2,601.9	2,810.1	0.0
Current assets	3,547.3	3,920.3	4,787.4	4,995.5	2,186.5
Trade payables	1,765.0	1,773.3	1,734.6	1,873.4	0.0
Short-term debt	840.8	311.0	915.6	869.8	870.8
Current liabilities	2,697.3	2,154.8	3,088.9	3,367.5	570.5
Long-term debt	1,215.9	1,490.5	1,732.7	1,646.0	1,647.0
Non-current liabilities	1,994.6	2,255.6	2,497.8	2,411.1	2,412.1
Share capital	4,356.1	4,356.1	4,356.1	4,356.1	4,356.1
Retained earnings	183.0	240.7	254.9	272.1	272.1
Equity	4,536.7	4,599.7	4,613.9	4,631.1	4,631.1
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	61.3	134.2	147.3	154.6	173.2
Operating cash flow	-80.9	429.9	-133.3	-126.0	-107.4
Capital expenditure	32.7	-25.0	27.9	25.1	26.1
Investing cash flow	53.4	419.9	39.1	36.3	37.3
Debt raised/(repaid)	517.6	-264.5	-32.2	-30.7	-29.7
Financing cash flow	14.0	-444.3	48.4	49.9	50.9
Net cash flow	-13.5	405.5	-45.8	-39.8	-19.2
Beginning cash flow	479.9	465.6	644.4	598.6	558.7
Ending cash flow	571.9	871.1	598.6	558.7	539.5
Profitability Margins	2022A	2023A	2023A	2024E	2025F
EBIT margin	7.9%	9.3%	9.5%	9.5%	9.8%
PBT margin	4.8%	5.3%	5.5%	5.5%	5.5%
PAT margin	2.0%	4.0%	2.2%	2.2%	2.2%
Core PAT margin	2.0%	-2.6%	2.2%	2.2%	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