



Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Within the Transition Phase

KEY INVESTMENT HIGHLIGHTS

- Revenue slipped -37.9%yoy in 2QFY24 to RM372.2m; core earnings up 4.7x to RM51.2m, above expectations
- Construction and engineering revenue came in lower but operating profit rose 2.5x to RM88.0m, strongly contributed by LRT3
- Outstanding order book of RM4.7b; management actively tendering jobs with a tender book of RM34b
- Upgrade to BUY with a unchanged TP of RM0.67

Below expectations. Malaysian Resources Corporation Berhad's (MRCB's) revenue in 2QFY24 dipped -37.9%yoy to RM372.2m while its core earnings grew 4.7x to RM51.2m as stronger construction earnings negated the losses from property development. The 1HFY24 core earnings grew 2.8x to RM54.2m which is above estimates, making up 92.0% of our full-year estimates, and surpassed consensus by +47.2%.

Engineering, construction and environment. Although revenue for the quarter came in -70.7%yoy lower at RM282.3m, the operating profit came in 2.5x higher at RM88.0m. Among the drivers of the stronger bottom line was the recognition of cost savings upon finalisation of accounts of certain projects. As for ongoing projects, the largest contributors during the quarter were the LRT3 and the Muara Sungai Pahang Phase 3 flood mitigation project.

Behind replenishment target. MRCB currently has an unbilled order book of RM4.7b, excluding the long-term Bukit Jalil Sentral TOD project. It has so far, secured only RM250m of new jobs in FY24, way behind its target of RM5.0b. This will likely be made up of the projects it is currently negotiating, namely the five additional LRT3 stations, the redevelopment of the Shah Alam stadium and the redevelopment of the KL Sentral station. The group's active tender book currently stands at RM34.0b, comprising MRT3, Penang International Airport expansion, Pan Borneo Package 34, a water treatment plant in Kelantan, a 15km stretch of the Central Spine Road in Kelantan, three large scale solar plants and a flood mitigation project at Sungai Damansara.

Property development and investment. The segment's revenue dipped -29.8%yoy to RM71.3m during the quarter and recorded a deeper loss of -RM25.7m as compared to -RM0.4m in 2QFY23. These were due to delays in terms of recognition of its property sales attributable to strate title issuances for the Sentral Suites and Tria 9 Seputeh projects. Management guided that there were some 110 units pending closure, which should be recognised in late 3QFY24 or early 4QFY24.

Earnings estimates. We adjust our FY24/FY25/FY26 earnings estimates by +13.6%/+18.1%/-10.8% to account for the stronger than expected performance. While management guided for a slower 3QFY24, it expected 4QFY24 to come in stronger sequentially.

Upgrade to BUY*(Previously NEUTRAL)***Unchanged Target Price: RM0.67**

RETURN STATISTICS

Price @ 30 th Aug 2024 (RM)	0.55
Expected share price return (%)	+21.8
Expected dividend yield (%)	+1.8
Expected total return (%)	+23.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-11.3	-14.9
3 months	-9.1	-20.1
12 months	22.2	6.5

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	2,677.5	2,811.4	2952.0
EBIT	254.4	267.1	287.8
Profit Before Tax	147.3	154.6	162.4
Core PATAMI	66.9	73.1	76.8
Core EPS	1.5	1.6	1.7
DPS	1.0	1.0	1.0
Dividend Yield	1.8%	1.8%	1.8%


KEY STATISTICS

FBM KLCI	1,678.80
Issue shares (m)	4467.51
Estimated free float (%)	38.27
Market Capitalisation (RM'm)	2,457.13
52-wk price range	RM0.40-RM0.74
3-mth average daily volume (m)	20.20
3-mth average daily value (RM'm)	12.53
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapura Sdn Bhd	15.48
Lembaga Tabung Haji	5.35

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Target price. Our **TP** remains at **RM0.67** as we peg a forward P/B ratio of 0.65x to the group's estimated FY25F BVPS of RM1.04.

Upgrade to BUY. We expect MRCB's performance to be driven by its construction segment. As the LRT3 project winds down, the ongoing progress of its Muara Sungai Pahang and Sungai Langat Phase 2 flood mitigation projects to contribute to the group's revenue and earnings. Future construction growth drivers include the redevelopment projects for the Shah Alam Stadium and KL Sentral station and the five additional stations for LRT3, on top of the expected improvement in infrastructure job flows. All factors considered and with our TP remaining unchanged at RM0.67, we upgrade our recommendation from NEUTRAL to **BUY**, due to the recent weakness in its share price which provides opportunities for investors. 

MRCB: 2QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise Income Statement	Quarterly Results				Cumulative			
	2QFY24	1QFY24	2QFY23	QoQ	YoY	1HFY24	1HFY23	YoY
Revenue	372.2	476.2	599.3	-21.8%	-37.9%	848.4	1,341.6	-36.8%
Expenses	(314.8)	(445.9)	(569.2)	29.4%	44.7%	(760.7)	(1,275.1)	40.3%
Other operating income	14.8	10.2	9.7	44.9%	52.6%	25.0	21.4	>+100%
Loss from operations	72.2	40.5	39.9	78.2%	80.9%	112.7	87.8	28.3%
Finance costs	(26.9)	(23.9)	(28.9)	-12.8%	6.7%	(50.8)	(56.7)	10.4%
Share of results of associates	4.4	3.8	5.4	14.6%	-19.8%	8.2	7.2	12.8%
Share of results of joint ventures	(1.2)	(1.5)	(1.2)	15.9%	-5.3%	(2.7)	(2.5)	-8.2%
Loss before tax	48.4	19.0	15.3	155.1%	216.1%	67.3	35.8	87.8%
Income tax expense	2.9	(16.0)	(4.4)	118.3%	166.9%	(13.1)	(16.3)	19.9%
Loss for the financial period	51.3	3.0	10.9	1637.2%	369.2%	54.2	19.5	178.0%
PATAMI	51.2	3.0	10.9	1604.9%	370.9%	54.2	19.3	180.1%
Core PATAMI	51.2	3.0	10.9	1604.9%	370.9%	54.2	19.3	180.1%

FINANCIAL SUMMARY

FYE 31st December	2022A	2023A	2024E	2025F	2026F
Revenue (RM'm)	3,205.1	2,514.1	2,677.5	2,811.4	2,952.0
EBIT (RM'm)	253.4	234.6	254.4	267.1	287.8
Pre-tax profit (RM'm)	154.3	134.2	147.3	154.6	162.4
Normalised PATAMI (RM'm)	64.8	-66.3	66.9	73.1	76.8
FD EPS (sen)	1.5	-1.5	1.5	1.6	1.7
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	2,810.1
Current assets	3,547.3	3,920.3	4,787.4	4,995.5	4,996.5
Trade payables	1,765.0	1,773.3	1,734.6	1,873.4	1,873.4
Short-term debt	840.8	311.0	915.6	869.8	870.8
Current liabilities	2,697.3	2,154.8	3,082.9	3,352.3	3,335.4
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	260.9	287.3	317.3
Equity	4,536.7	4,599.7	4,619.9	4,646.3	4,676.3

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	61.3	134.2	147.3	154.6	162.4
Operating cash flow	-219.3	-146.4	-133.3	-126.0	-118.2
Capital expenditure	32.7	29.4	27.9	25.1	26.1
Investing cash flow	43.9	40.6	39.1	36.3	37.3
Debt raised/(repaid)	517.6	77.6	-32.2	-30.7	-29.7
Financing cash flow	281.8	158.2	48.4	49.9	50.9
Net cash flow	281.8	52.4	-45.9	-39.8	-30.1
Beginning cash flow	465.6	571.9	624.3	578.4	538.6
Ending cash flow	571.9	624.3	578.4	538.6	508.5

Profitability Margins	2022A	2023A	2024E	2025F	2026F
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%	2.5%	2.6%	2.6%
Core PAT margin	2.0%	-2.6%	2.5%	2.6%	2.6%

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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