Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

***Maintain* BUY**

Cautiously aggressive

***Unchanged* Target Price: RM0.44**

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 earnings improved to RM28.1m, from loss of RM27.2m in 1HFY21**
- **The results were below our expectation but above consensus**
- **Higher progress billings expected with several projects nearing completion**
- **Management to tender for all three MRT3 packages and LRT3 may see RM1b of extended job scopes**
- **Maintain BUY with unchanged TP of RM0.44**

Below our expectation. Malaysian Resources Corporation Berhad (MRCB) registered a normalised PATAMI of RM14.1m in 2QFY22, a significant improvement over the losses of RM32.4m in 2QFY21. For the 1HFY22, the group's normalised PATAMI was RM28.1m, which was below our expectations, making up 37.2% of our full year estimates but coming in above consensus expectations, making up 58.6% of full year estimates.

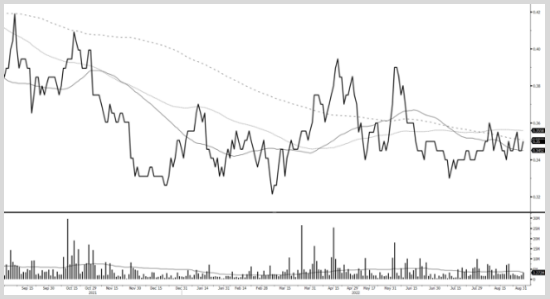
Engineering and construction division leads again. Revenue from the division for 1HFY22 was RM1.15b, making up 76% of the group's total revenue, bringing the segment's profit to RM55.7m, improving from a loss of -RM33m in 1HFY21. On top of the normalisation of operations, the stronger results came from the consolidation of results of Setia Utama LRT3 Sdn Bhd, which was fully acquired by MRCB last year. The project has reached a physical construction progress of 74% and a financial progress of 67% as of June-22. Other contributions came from the ongoing progress of Menara KWSP in Kwasa Damansara, Damansara-Shah Alam Elevated Expressway (DASH), MRT2, SUKE and the PR1MA Brickfields project.

Cancellation of sales. The property development and investment division recorded a +20.7%yoy growth in revenue to RM331.9m while the segment's profit grew 2.6 times to RM43.2m, attributable to higher construction progress of its development projects. Management highlighted that there were sales cancellations to the tune of RM30m in 2QFY22, as compared to about RM4m in 1QFY22. This has since been replaced but it has yet to be recognised in MRCB's books, pending the stamping of sales and purchase agreements. Management foresees potential challenges due to inflation and rising interest rates and will be more cautious on new launches. Their focus now is to monetise its inventory of unsold completed stock, which stood at RM349m in June'22. The division currently has RM706.7m of unbilled sales which will be recognised progressively.

Order book remains strong. MRCB's unbilled external order book stood at RM18.42b as of June-22, the bulk made up of 46% of infrastructure projects and 46% of transit-oriented development (TOD)

RETURN STATISTICS	
Price @ 30th August 2022 (RM)	**0.35**
Expected share price return (%)	**+25.7**
Expected dividend yield (%)	**+4.5**
Expected total return (%)	**+30.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.4	0.1
3 months	0.0	2.0
12 months	-11.4	-6.2

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆
Issue shares (m)	4446.54
Estimated free float (%)	37.97
Market Capitalisation (RM'm)	1,563.63
52-wk price range	RM0.32 - RM0.43
Beta vs FBM KLCI (x)	1.15
Monthly velocity (%)	0.00
Monthly volatility (%)	29.27
3-mth average daily volume (m)	3.82
3-mth average daily value (RM'm)	1.35
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.71

MIDF Research
research@midf.com.my

projects. In terms of the ongoing LRT3 project, management said it is in talks with Prasarana which intends to extend the scope of works, which would likely be to reinstate five stations that were previously omitted, on top additional bus terminals and light rail vehicles (LRV) to cater for the additional stations. This could range over RM1bil worth of works, as per management guidance.

Tendering for all MRT3 packages. MRCB will be submitting tenders for all three MRT3 packages. It is going in alone for CMC301 and CMC302, while CMC303 will see it going in with a partner, due to the tunneling requirement of the package. Note that any entity or JV/consortium are permitted to take on only one package, should they be successful. Management is still keeping mum on its partner of choice for the tunneling package.

Raw material and labour concerns. Even as raw material prices have eased off their peaks, management is still adopting a cautious stance as it expects prices to still remain volatile. As for labour, it remains a concern for MRCB as quite a number of its projects are nearing completion, such as the MRT2 and DASH packages it is working on and LRT3, most of the civil works of which were done. Management guided that productivity levels, especially for LRT3, were lower in 2QFY22 due to shortage of workers, leading to a slowdown in construction progress and lower revenue recognition. We foresee that this would only be a short-term pain that would improve moving forward, with the Government allowing three sectors including construction to hire from 15 source countries.

Earnings estimates. We are making no changes to our earnings estimates.

Target price. We are maintaining our **TP to RM0.44**, which we derive by pegging the group's FY23 EPS of 1.5 to a target PER of 29.4x, which is -0.5 SD below its five-year mean.

Maintain BUY. We remain positive on MRCB, as we expect to see it receiving higher progress billings with several projects almost reaching completion stage. Its current outstanding order book of RM18.42b also ensures a steady pipeline of projects over the long run and this will be bolstered when the Government starts rolling out large infrastructure projects. Management is also aggressive on monetising unsold property units, to raise cash levels. Coupled with a healthy net gearing of about 29.7%, this places MRCB in a good position to take on infrastructure projects with private finance initiative (PFI). We maintain our **BUY** recommendation on MRCB.

INVESTMENT STATISTICS

FYE 31st December	2020A	2021A	2022E	2023F	2024F
Revenue (RM'm)	1,199.5	1,448.5	1,849.8	1,668.5	1,801.9
EBIT (RM'm)	41.4	171.82	99.7	90.1	97.3
Pre-tax profit (RM'm)	53.0	61.3	92.49	83.4	90.1
Normalised PATAMI (RM'm)	-1.0	16.1	75.5	68.1	70.4
FD EPS (sen)	0.0	1.4	1.7	1.5	1.6
Dividend (sen)	1.0	1.0	1.0	2.0	2.0
Dividend yield (%)	2.3	2.8	2.3	4.5	4.5

Source: Company, MIDFR

MALAYSIAN RESOURCES CORPORATION BHD: 2QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q222**	**Q122**	**Q221**	**QoQ**	**YoY**	**1H22**	**1H21**	**YoY**
Revenue	700.4	810.7	225.7	**-14%**	**210%**	1,511.1	452.5	**234%**
Expenses	(674.7)	(765.8)	(262.6)	**12%**	**-157%**	(1,440.6)	(483.5)	**-198%**
Other operating income	28.0	7.5	8.1	**275%**	**244%**	35.4	17.2	**106%**
Loss from operations	53.7	52.3	(28.7)	**3%**	**287%**	106.0	(13.8)	**867%**
Finance costs	(24.4)	(23.2)	(20.2)	**-5%**	**-21%**	(47.7)	(38.5)	**-24%**
Share of results of associates	(0.1)	3.7	4.8	**-102%**	**-101%**	3.6	9.0	**-60%**
Share of results of joint ventures	(1.0)	(1.0)	5.9	**0%**	**-118%**	(2.1)	10.7	**-119%**
Loss before tax	28.1	31.8	(38.2)	**-12%**	**174%**	59.9	(32.5)	**284%**
Income tax expense	(17.1)	(17.8)	(1.5)	**4%**	**-1069%**	(34.9)	(3.3)	**-973%**
Loss for the financial period	11.0	14.0	(39.7)	**-22%**	**128%**	24.9	(35.8)	**170%**
PATAMI	14.1	14.0	(32.4)	**0%**	**144%**	28.1	(27.2)	**203%**

Source: Company, 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 companies 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 loess, 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 companies 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 *rise* 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 *fall* 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