Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

***Maintain* BUY**

Gaining traction alongside normalisation

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

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings improved to RM51.8m, from a loss of -RM32.2m in 9MFY21**
- **The results were below our expectations but above consensus**
- **Higher progress billings expected with several projects nearing completion such as DASH and SUKE**
- **LRT3 progress to hasten in 4QFY22 to make up shortfall of lost progress due to recent safety audit**
- **Maintain BUY with unchanged TP of RM0.44**

Below expectations. Malaysian Resources Corporation Berhad (MRCB) registered a normalised PATAMI of RM23.7m in 3QFY22, an improvement over the losses of -RM32.2m in 3QFY21, on the back of normalising operations. For the cumulative 9MFY22, the group's normalised PATAMI was RM51.8m, which came in below our expectations, making up 68.6% of our full year estimates but coming in above consensus expectations, making up 97.4% of full year estimates.

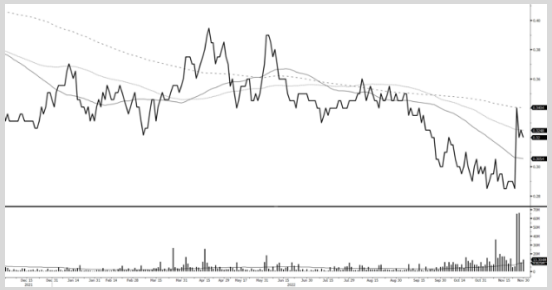
Engineering and construction division leads again. Revenue from the division for the nine-month period rose eight-fold to RM1.67b, delivering an operating profit of RM61.3m, as compared to a loss of -RM51.7m in the same period last year. This largely came from the group's ongoing projects such as LRT3, Menara KWSP in Kwasa Damansara, Damansara-Shah Alam Elevated Expressway (DASH), MRT2, and SUKE. The LRT3 project has reached physical construction progress of 77% and financial progress of 71%. The progress would have been faster if not for a safety audit conducted during the quarter.

Property driven year. The property development and investment division almost doubled in revenue to RM653.5m while its profit grew seven-fold to RM124.6m during the period on the back of improved operating conditions and construction progress. MRCB has a total unbilled sale of RM624m which will be recognised progressively. It also managed to clear RM80m of completed unsold units in 3QFY22, bringing the level down to RM269m as management continue to focus on monetising its inventory.

Order book remains strong. MRCB's unbilled external construction order book stood at RM17.9b as of Sep-22, the bulk made up of 47% of transit-oriented development (TOD) and 45% of infrastructure projects. Its open tenders stood at RM30b as management participates actively in tenders to secure new jobs. The tender book excludes those undergoing direct negotiations, such as the Shah Alam Stadium rebuilding/refurbishment and flood mitigation projects.

RETURN STATISTICS	
Price @ 30th Nov 2022 (RM)	**0.32**
Expected share price return (%)	**+37.5**
Expected dividend yield (%)	**+4.5**
Expected total return (%)	**+42.00**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	6.7	4.6
3 months	6.7	-7.1
12 months	-5.9	-4.3

KEY STATISTICS	
FBM KLCI	1,488.80
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆
Issue shares (m)	4446.54
Estimated free float (%)	37.98
Market Capitalisation (RM'm)	1,429.60
52-wk price range	RM0.28 - RM0.41
Beta vs FBM KLCI (x)	1.03
3-mth average daily volume (m)	9.53
3-mth average daily value (RM'm)	2.94
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.71

MIDF Research
research@midf.com.my

Earnings estimates. We are making no changes to our earnings estimates, as we estimate a stronger 4QFY22, underpinned by greater progress made in the LRT3 project.

Target price. We are maintaining our **TP of 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 in subsequent quarters as several projects almost reaching completion stage, such as DASH and SUKE which is now at 92% and 82% respectively, on top of the strong progress that can be expected from the LRT3 project. We expect MRCB to be among the front-runners of flood mitigation projects with its experience in rehabilitation and flood mitigation of rivers and coastal areas, as this will likely be the focus of the new administration in terms of project rollouts. All factors considered, 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: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q322**	**Q222**	**Q321**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	860.0	700.4	137.9	**23%**	**>100%**	2,371.1	590.3	**>100%**
Expenses	(787.1)	(674.7)	(163.9)	**-17%**	**<-100%**	(2,227.7)	(647.4)	**<-100%**
Other operating income	5.9	28.0	9.5	**-79%**	**-38%**	41.4	26.7	**55%**
Loss from operations	78.8	53.7	(16.5)	**47%**	**>100%**	184.8	(30.3)	**>100%**
Finance costs	(24.3)	(24.4)	(22.8)	**1%**	**-7%**	(71.9)	(61.2)	**-18%**
Share of results of associates	3.4	(0.1)	4.6	**>100%**	**-27%**	7.0	13.6	**-49%**
Share of results of joint ventures	(1.2)	(1.0)	4.6	**-13%**	**<-100%**	(3.3)	15.3	**<-100%**
Profit/(loss) before tax	56.7	28.1	(30.1)	**>100%**	**>100%**	116.6	(62.6)	**>100%**
Income tax expense	(41.2)	(17.1)	(1.9)	**<-100%**	**<-100%**	(76.2)	(5.1)	**<-100%**
Profit/(loss) for the financial period	15.5	11.0	(32.0)	**41%**	**>100%**	40.4	(67.7)	**>100%**
PATAMI	23.7	14.1	(32.2)	**68%**	**>100%**	51.8	(59.4)	**>100%**

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