Malaysian Resources Corporation Berhad

(1651 | MRC MK) Main | Construction

Maintain BUY

Property Development Cushions Slower Construction

***Revised* Target Price: RM0.42**
(previously RM0.40)

KEY INVESTMENT HIGHLIGHTS

- **PATAMI of RM8.5m for the 1QFY23 came in -39.6%yoy**
- **Construction and engineering segment PBT down -71.9%yoy to RM7.2m, on the back of large project completion in previous year**
- **Stronger performance of this segment managed to cushion the weaker engineering and construction segment**
- **Maintain BUY with a revised TP of RM0.42**

Below expectations. Malaysian Resources Corporation Berhad posted a PATAMI of RM8.5m for the 1QFY23, which came in -39.6%yoy on the back of lower contribution from the engineering, construction and environment (ECE) division due to the completion of key infrastructure jobs late last year. Revenue for the quarter was down -8.4%yoy to RM742.2m. The result was below expectations, making up only 12.5% of ours and 12.0% of consensus' full year estimates.

ECE. Revenue from the segment dipped -25.1%yoy to RM458.4m, while PBT plunged -71.9%yoy to RM7.2m mainly due to the completion of MRCB's project related to the Damansara-Shah Alam Elevated Highway and Package V210 of the MRT2 last year. Its performance for the quarter was mainly driven by LRT3, Muara Sungai Pahang Phase 3 and PR1MA Brickfields. Unbilled construction order book stands at RM17.0b while tender book is RM30b.

Property development and investment. The stronger performance of this segment managed to cushion the weaker ECE segment. Revenue grew +43.6%yoy to RM268.0m, leading to a PBT growth of +58.2%yoy to RM33.3m. This was led by the Sentral Suites project, which has achieved 100% construction progress while the TRIA 9 Seputeh and Alstonia projects achieved progress of 96% and 61% respectively. MRCB has total unbilled sales of RM220.3m. It also has RM283.7m of unsold projects under construction and RM383.6m of completed unsold units.

Upcoming launches. MRCB recently launched the VISTA (GDV: AUD391m) in Gold Coast, Australia, a 51-storey residential development comprising 280 apartment units. Other planned launches for the year include Residensi Tujuh (GDV: RM329m) in Kwasa Sentral. The group will also soon commence development of The Symphony Centre and the refurbishment of Bledisloe House, both in New Zealand.

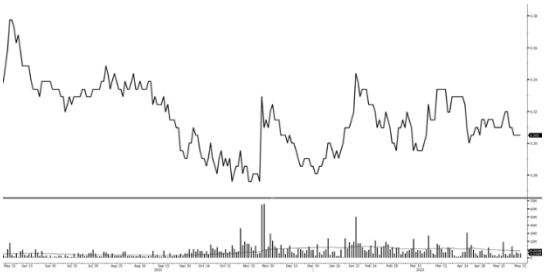
Earnings estimates. We are slashing our FY23E earnings estimates by -12.5% to RM59.6m. while keeping our FY24F estimates unchanged.

Target price. We are revising our **TP** to **RM0.42** as we peg a forward PER of 26x to the group's fully-diluted EPS of 1.6 sen for FY24F as we roll forward our valuation base year to FY24F.

Maintain BUY. Being among the household names of the construction sector in Malaysia, we can expect MRCB to benefit from improved job

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	0.305
Expected share price return (%)	+37.7
Expected dividend yield (%)	2.38
Expected total return (%)	**+40.08**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	0.8
3 months	-11.6	1.8
12 months	-11.6	-2.9

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	2,891.0	3,122.3	3,350.5
EBIT	229.1	243.1	247.4
Profit Before Tax	143.6	143.9	155.1
Core PATAMI	68.1	70.4	73.7
Core EPS	1.5	1.6	1.6
DPS	1	1	1
Dividend Yield	2.4%	2.4%	2.4%

KEY STATISTICS	
FBM KLCI	1,404.93
Issue shares (m)	4467.51
Estimated free float (%)	38.18
Market Capitalisation (RM'm)	1,362.59
52-wk price range	RM0.28 - RM0.4
3-mth average daily volume (m)	8.49
3-mth average daily value (RM'm)	2.73
Top Shareholders (%)	
Employees Provident Fund Board	36.21
Gapurna Sdn Bhd	15.48
Lembaga Tabung Haji	5.71

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construction job flows as the government rolls out the infrastructure and civil jobs as stated in Budget 2023. We also like that MRCB is diversifying away from being too Malaysia-centric and begin to seek more opportunities in Australia and New Zealand. All factors considered, we still maintain our **BUY** recommendation on **MRCB.**

MRCB: 1QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Revenue	742.2	833.9	810.7	-11.0%	-8.4%
Expenses	(706.0)	(787.9)	(765.8)	10.4%	7.8%
Other operating income	11.7	17.0	7.5	-31.3%	56.6%
Loss from operations	47.9	63.0	52.3	-24.0%	-8.4%
Finance costs	(27.9)	(27.1)	(23.2)	-2.7%	-20.0%
Share of results of associates	1.8	3.1	3.7	-42.1%	-51.1%
Share of results of joint ventures	(1.3)	(1.3)	(1.0)	-2.7%	-27.4%
Loss before tax	20.6	37.7	31.8	-45.6%	-35.3%
Income tax expense	(12.0)	(24.6)	(17.8)	51.4%	32.7%
Loss for the financial period	8.6	13.1	14.0	-34.6%	-38.6%
PATAMI	8.5	13.0	14.0	-34.9%	-39.6%

FINANCIAL SUMMARY

Income Statement (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Revenue (RM'm)	1,199.5	1,448.5	3,205.1	2,891.0	3,122.3
EBIT (RM'm)	41.4	171.8	253.4	229.1	243.1
Pre-tax profit (RM'm)	53.0	61.3	154.3	143.6	143.9
Normalised PATAMI (RM'm)	-1.0	16.1	64.8	68.1	70.4
FD EPS (sen)	0.0	1.4	1.5	1.5	1.6
Dividend (sen)	1.0	1.0	1.0	1.0	2.0
Dividend yield (%)	2.3	2.8	2.3	2.5	4.5

Balance Sheet (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Fixed assets	704.2	696.3	731.1	753.0	745.5
Intangible assets	215.7	194.8	185.1	175.8	167.0
Non-current assets	**5,554.0**	**5,658.2**	**5,683.3**	**5,695.9**	**5,679.6**
Cash	578.7	533.6	506.9	500.0	500.0
Trade receivables	1,424.6	1,348.0	2,884.6	2,601.9	2,810.1
Current assets	**3,651.4**	**3,576.6**	**5,086.5**	**4,796.9**	**5,005.1**
Trade payables	1,772.5	1,772.2	1,923.1	1,734.6	1,873.4
Short-term debt	478.6	840.8	924.9	915.6	869.8
Current liabilities	**2,451.3**	**2,702.1**	**3,564.2**	**3,310.3**	**3,518.5**
Long-term debt	1,453.6	1,215.9	1,823.9	1,732.7	1,646.0
Non-current liabilities	**2,213.7**	**1,997.0**	**2,605.0**	**2,513.8**	**2,427.1**
Share capital	4,356.1	4,356.1	4,356.1	4,356.1	4,356.1
Retained earnings	160.5	183.0	247.8	315.9	386.3
Equity	**4,540.5**	**4,535.8**	**4,600.6**	**4,668.7**	**4,739.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	53.0	61.3	154.3	143.6	143.9
Operating cash flow	**-53.7**	**-219.3**	**-126.3**	**-137.0**	**-136.7**
Capital expenditure	40.4	32.7	29.4	27.9	25.1
Investing cash flow	**53.9**	**43.9**	**40.6**	**39.1**	**36.3**
Debt raised/(repaid)	159.8	517.6	77.6	-32.2	**-30.7**
Financing cash flow	**-34.8**	**281.8**	**158.2**	**48.4**	**49.9**
Net cash flow	**-34.8**	**281.8**	**72.5**	**-49.5**	**-50.5**
Beginning cash flow	**479.9**	**465.6**	**571.9**	**644.4**	**594.9**
Ending cash flow	**450.1**	**571.9**	**644.4**	**594.9**	**544.3**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	3.5%	11.9%	7.9%	7.9%	7.8%
PBT margin	4.4%	4.2%	4.8%	5.0%	4.6%
PAT margin	**-0.6%**	**2.0%**	2.0%	2.4%	2.3%
Core PAT margin	-0.1%	1.1%	2.0%	2.4%	2.3%

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 *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