

Malaysia

HOLD (no change)

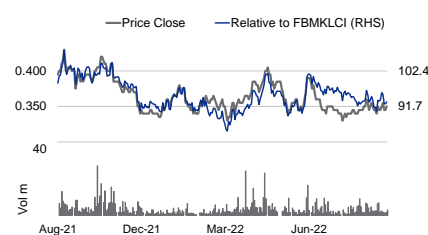
Consensus ratings*: Buy 3 Hold 5 Sell 0

Current price:	RM0.35
Target price:	RM0.37
Previous target:	RM0.39
Up/downside:	5.7%
CGS-CIMB / Consensus:	-8.2%
Reuters:	MYRS.KL
Bloomberg:	MRC MK
Market cap:	US\$349.3m
	RM1,564m
Average daily turnover:	US\$0.30m
	RM1.31m
Current shares o/s:	4,468m
Free float:	42.1%

*Source: Bloomberg

Key changes in this note

- TP lowered to RM0.37.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.4	0	-11.4
Relative (%)	0.1	2	-5.8

Major shareholders	% held
EPF	33.5
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	7.8

Analyst(s)



Sharizan ROSELY

T (60) 3 2635 9252
E sharizan.rosely@cgs-cimb.com

Malaysian Resources Corp

Hit with lower LRT 3 productivity level

- 1HFY22 results were broadly in line; strong recovery in 1H earnings but 2H22F may see weaker performance on weaker billings and labour shortage.
- We are cautious on 2HFY22F job flow outlook post-conference call. MRT 3 tenders, if successful, could reinstate contract catalysts.
- Reiterate Hold rating with a lower TP of RM0.37 (60% discount to RNAV).

1HFY22 results broadly in line; seeing signs of a weaker 2H22F

MRCB's 1HFY22 performance was impacted by several factors: 1) high property sales cancellations of RM33m in 2QFY22, a jump from RM4m in 1QFY22 – due to slow site progress, extension of time (EOT) and higher interest rates; and 2) lower site productivity for LRT 3 (consolidated with 100% stake), as the impact from higher labour costs and labour shortages filtered through. Although 1HFY22 core net profit made up 53% of our and consensus full-year forecasts, we deem the performance broadly in line as, due to the factors mentioned above, 2HFY22 revenue earnings could be weaker hoh. We believe this would be due to: 1) sustained impact of low LRT 3 productivity; and 2) timing of the recognition of property sales replacement. 2QFY22 revenue jumped 210% yoy but fell 14% qoq on weaker infra billings and sales cancellations, while 1HFY22 revenue surged 234% yoy largely due to the consolidation of LRT 3 project with 100% stake. 1HFY22 EBITDA margin stood at 8.3% vs. our FY22F forecast of 6%; we expect weaker EBITDA margin in 2HFY22F. Overall, 1HFY22 core net profit of RM28.1m was a strong turnaround from the RM27.2m core net loss in 1HFY21. No dividend was declared, as expected.

Highlights from results conference call

Key takeaways from results conference call: 1) labour shortage and higher labour costs for LRT 3 could extend into 2HFY22F though the impact of higher material costs remains manageable (prices of key materials could stay volatile in the medium term); 2) construction tender book has declined substantially from over RM400m in Jan 22 to RM35m currently; 3) new tender visibility focuses on MRT 3 tender submissions in Sep 22, flood mitigation projects, new packages for the Pan Borneo Highway (PBH) Sabah, and potential additional works for LRT 3 amounting to c.RM1bn. We came away from the conference with a more cautious stance on MRCB's job outlook in 2H22F, weighed by pre-election uncertainties on job rollout, while new property launches are only targeted in 4QFY22. As at end-2QFY22, unbilled property sales amounted to RM707m.

Reiterate Hold rating with a lower TP

We maintain our FY22-24F EPS forecasts. Reiterate Hold as we see limited potential catalysts for the stock. Our TP is lowered to RM0.37 as we update balance sheet items, still pegged to a 60% discount to RNAV. Upside risks include an improvement in tender book, MRT 3 contract win and stronger earnings. Downside risks include delays in new contract wins and weaker earnings due to further impact of labour shortage and higher labour costs.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	1,199	1,448	3,146	3,256	3,321
Operating EBITDA (RMm)	(164.9)	(53.1)	187.6	200.1	210.2
Net Profit (RMm)	(176.1)	15.0	52.8	61.1	67.6
Core EPS (RM)	(0.000)	0.003	0.012	0.014	0.015
Core EPS Growth	(102%)		249%	16%	11%
FD Core P/E (x)	NA	113.6	32.5	28.1	25.4
DPS (RM)	0.010	0.010	0.010	0.012	0.015
Dividend Yield	2.86%	2.86%	2.86%	3.43%	4.29%
EV/EBITDA (x)	NA	NA	13.06	12.20	11.54
P/FCFE (x)	10.54	12.66	9.34	8.80	8.39
Net Gearing	30.3%	29.8%	29.8%	30.1%	30.2%
P/BV (x)	0.34	0.35	0.35	0.36	0.36
ROE	(0.01%)	0.33%	1.18%	1.39%	1.56%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			0.99	0.85	0.80

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY22	2QFY21	yoy %	1QFY22	qoq %	2QFY22	2QFY21	yoy %	Prev.	
			chg		chg	Cum	Cum	chg	FY22F	Comments
Revenue	700.4	225.7	210.3	810.7	(13.6)	1,511.1	452.5	234.0	3,145.6	1) Full consolidation of LRT 3 revenue in 1HFY22
Operating costs	(638.6)	(244.8)	160.9	(747.0)	(14.5)	(1,385.5)	(447.5)	210	(2,958.0)	2) Construction revenue surged 637% yoy
EBITDA	61.8	(19.0)	425	63.8	(3.0)	125.6	4.9	2,451.3	187.6	3) Property dev't revenue grew 21% yoy
EBITDA margin (%)	8.8	(8.4)	205	7.9	12.3	8.3	1.1	663.9	6.0%	
Depn & amort.	(12.3)	(12.6)	(1.8)	(14.4)	(14.5)	(26.8)	(25.5)	5.0	(54.7)	
EBIT	49.5	(31.6)	257	49.3	0.3	98.8	(20.5)	580.9	132.9	
Interest expense	(24.4)	(20.2)	21.0	(23.2)	5.3	(47.7)	(38.5)	23.9	(92.8)	Total debt of RM2bn at end-Jun
Interest & invt inc	4.2	2.9	43.2	3.0	38.1	7.2	6.7	6.5	10.4	Cash of RM584m at end-Jun
Associates & JV	(1.1)	10.7	(110.4)	2.6	(141.7)	1.5	19.8	(92.2)	11.7	End-Jun net gearing: 0.3x
Pretax profit	28.1	(38.2)	173.5	31.8	(11.5)	59.9	(32.5)	284.1	75.1	1) LRT 3: weaker earnings qoq due to labor shortage
Tax	(17.1)	(1.5)	(7.0)	(17.8)	(4)	(34.9)	(3.3)	973.4	(22.5)	2) RM37m cancellation of sales in 1HFY22
Tax rate (%)	61.0	(3.8)	>100	56.0	9	58.4	(10.0)	683.0	30%	
Minority interests	3.1	7.3	(56.8)	0.1	4,971	3.2	8.6	(62.5)	0.3	
Net profit	14.1	(32.4)	143.5	14.0	0.5	28.1	(27.2)	203.4	52.6	1HFY22 core net profit made 53% of our and
Core net profit	14.1	(32.4)	143.5	14.0	0.5	28.1	(27.2)	203.4	52.6	consensus full-year forecasts
EPS (sen)	0.3	(0.7)	143.8	0.3	3.2	0.6	(0.6)	203.3	1.2	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: 1HFY22 segmental breakdown

Revenue	2QFY22	2QFY21	YoY	1QFY22	QoQ	1HFY22	1HFY21	YoY	Comments
Property development	145.3	142.8	2%	186.6	(0.2)	331.9	274.9	21%	Recovery in billings; dragged by RM37m sales cancellation in 1HFY22
Engineering, construction & environment	539.8	72.0	650%	612.5	(0.1)	1,152.3	156.4	637%	Weaker qoq due to low productivity (labor shortage)
Facilities management & parking	11.3	9.0	26%	9.5	0.2	20.8	17.9	16%	Reflective of economic reopening post-lockdown
Investment holding and others	4.0	2.0	95%	2.1	0.9	6.1	3.3	87%	Lumpy recurring revenue
Total	700.4	225.7	210%	810.7	(0.1)	1,511.1	452.5	234%	
EBIT	2QFY22	2QFY21	YoY	1QFY22	QoQ	1HFY22	1HFY21	YoY	
Property development	22.1	3.3	562%	21.1	0.1	43.2	16.5	162%	75.2%-79.7% progress for Sentral Suites and TRIA 9 Seputeh
Engineering, construction & environment	30.1	(31.3)	-196%	25.7	0.2	55.7	(33.0)	-269%	LRT 3 impacted by labor shortage - low productivity
Facilities management & parking	(0.3)	0.1	-375%	2.2	(1.2)	1.8	0.6	224%	Likely impacted by higher cost and labor shortage
Investment holding and others	0.5	(5.0)	-109%	2.1	(0.8)	2.5	(0.6)	-501%	Profits tend to be lumpy
Total	52.3	(32.9)	-259%	51.0	0.0	103.3	(16.6)	-723%	
EBIT margins	2QFY22	2QFY21	YoY	1QFY22	QoQ	1HFY22	1HFY21	% pts	
Property development	15%	2%	13%	11%	4%	13%	6%	117%	Margins likely not sustainable due to higher material costs
Engineering, construction & environment	6%	-44%	49%	4%	1%	5%	-21%	26%	Margins expected to be stable at 1HFY22 level
Facilities management & parking	-3%	1%	-5%	23%	-26%	9%	3%	6%	Back to pre-pandemic levels
Investment holding and others	12%	-248%	260%	97%	-85%	42%	-19%	-314%	
Total	7%	-15%	22%	6%	1%	7%	-4%	-286%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: RNAV

	Land bank		GDV	Stake	Value	Value
Ongoing property development	(Acres)	(m sq ft)	(RM m)	(%)	(RM psf)	(RM m)
Bukit Jalil KL Sports City	76.1	3.3	20,700.0	17%	350.0	197.2
Kwasa Sentral (Kwasa Damansara)	64.1	2.8	8,606.0	70%	180.0	351.8
Cyberjaya City	113.3	4.9	5,350.0	70%	100.0	345.5
KL Sentral - Lot F	5.7	0.2	2,993.0	100%	750.0	186.2
Semarak City - Setapak	27.4	1.2	2,977.0	100%	300.0	358.1
Penang Sentral - phases 3 & 7	16.7	0.7	2,100.0	70%	120.0	61.1
PJ Sentral - Nilaitera	7.8	0.3	1,656.0	100%	350.0	118.9
Lot 349, KL Sentral (service apartments)	4.9	0.2	1,413.0	100%	850.0	181.4
Q Sentral Office Tower	1.9	0.1	1,228.0	66%	900.0	49.2
Lot 94 Jalan Kia Peng	1.9	0.1	1,012.0	100%	500.0	41.4
9 Seputeh - Old Klang Road	8.0	0.3	795.0	100%	200.0	69.7
Pulai Johor	67.5	2.9	770.0	100%	35.0	102.9
PJ Sentral - Tower 1	0.0	0.0	700.0	100%	550.0	0.0
Penang Sentral - phases 1 & 2	6.0	0.3	590.0	100%	120.0	31.4
PJ Sentral - Tower 5	0.0	0.0	455.0	100%	550.0	0.0
PJ Sentral - Celcom Tower	2.3	0.1	428.0	100%	450.0	45.1
Suria Subang	3.2	0.1	401.0	100%	200.0	27.9
Seri Iskandar - phase 3	159.0	6.9	350.0	70%	10.0	48.5
Seri Iskandar - Phase 2	245.0	10.7	321.0	70%	5.0	37.4
Rahman Putra - phase 3	4.6	0.2	307.0	100%	20.0	4.0
Canegie - Melbourne	1.0	0.0	305.0	100%	450.0	19.6
Selbourne 2 - Shah Alam	2.4	0.1	198.0	100%	200.0	20.9
Rahman Putra - phase 2	4.1	0.2	175.0	100%	20.0	3.6
Rahman Putra - phase 1	5.5	0.2	84.0	100%	20.0	4.8
Total	828.4	36.1	53,914.0			2,306.5
				Stake		
Construction Net profit (FY23) at 15x P/E				100%		45.0
Sentral REIT (market capitalisation based on TP)				31%		320.5
Property investments (2Q22)						1,487.0
Associates & investments (2Q22)						746.8
Net working capital (2Q22)						1,120.3
Total borrowings (2Q22)						(2,039.5)
Total RNAV (RM m)						3,986.6
No. of shares (m)						4,412.0
New free warrants (10-years)						438.5
Proceeds from new warrants @RM1.25 strike price						548.1
FD no.of shares (m)						4,850.6
FD RNAV (RM m)						4,534.7
FD RNAV/share (RM)						0.93
Discount to RNAV (%)						60%
Target price (RM/share)						0.37

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

MRCB's sustainability framework revolves around building livable and resilient communities, caring for the environment, and driving sustainable growth. Its sustainability focus areas include: 1) Internal action, 2) Sustainable impact, 3) Risk and governance, 4) Corporate social responsibility, and 5) Stakeholder engagement. All its ESG-related initiatives are aligned with the United Nations Sustainability Development Goals (UN-SDGs).

Keep your eye on

- 1) Key targets of the group's 5-year sustainability roadmap include 1% yoy reduction in carbon intensity by 2022, 1% yoy reduction in energy, water and waste intensity by 2022, and net zero carbon by 2040. The roadmap is supervised by the group's Sustainability Management Committee (SMC).
- 2) The government potentially repackaging new public transport infrastructure projects as "green infrastructure" under the 12th Malaysia Plan (12MP). New urban and interstate rail projects include the MRT 3 (Circle Line) and the KL-JB High Speed Rail (HSR).

Implications

- 1) As an urban property developer with a niche in transit-oriented developments (TODs), the rollout of new rail public transport projects should bode well for MRCB, allowing it to expand its growth area in TODs – similar to KL Sentral.
- 2) Opportunities to increase its construction order book and to participate in new rail contract tenders should the MRT 3 and KL-JB HSR projects be implemented

ESG highlights

- 1) The group's transit-oriented developments (TODs), such as the MRT 2 and LRT 3, encourage the use of public transport, which reduces carbon emissions.
- 2) MRCB is a pioneer in Green Building developments; it received sustainability accreditation for various projects and has adopted various Green Building Certification criteria across all its developments.
- 3) Major sustainability ratings/certifications: Green Building Index (GBI), GreenRE, MyCrest, and BCA Green Mark.
- 4) Channelled RM1.4m of Covid-19-related donations to various government agencies, NGOs and the community in 2020.

Implications

- 1) MRCB is the first contractor to achieve the 5-star Sustainable INFRASTAR rating by the Construction Industry Development Board (CIDB), which it received for the LRT 3 project.
- 2) It has selectively adopted Building Information Modelling (BIM) to reduce construction waste. It developed and deployed the MRCB Building System (MBS) which focuses on modular construction (aligned to six UN-SDGs).

Trends

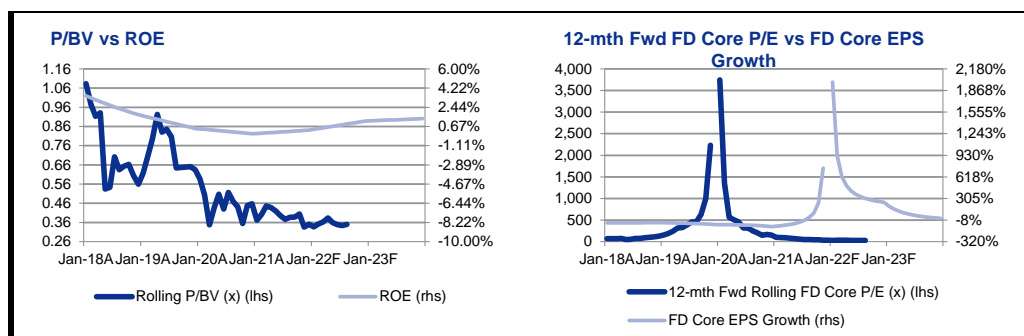
- 1) MRCB is a constituent of the FTSE4Good Bursa Malaysia Index. It achieved a 3-star grading band under FTSE Russell (at the Jun 2021 review), similar to 2020. It has been an FTSE4Good constituent since 2017.
- 2) MSCI ESG rating: BBB.
- 3) To enhance its sustainability initiatives and ESG profile, the group said it will over the longer-term continue to focus on core sustainability issues, i.e. high dependency on foreign labour, environmental risks, and energy/material wastage (shifts towards sustainable construction methods).

Implications

- Recognition of best practices in governance/ESG includes:
- 1) 1SO 37001 – Anti-Bribery Management System
 - 2) Ranked 38th for Overall Good Corporate Governance Disclosures in the MSWG-ASEAN CG Scorecard
 - 3) Gold Award (2017/2018) recipient of the Australian Reporting Awards (ARA)
 - 4) Recipient of the ASEAN Class Award for the 2019 ASEAN Corporate Governance Scorecard Assessment
 - 5) Ranked 1st in Malaysian Institute of Corporate Governance's Transparency in Corporate Reporting in 2019.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	1,199	1,448	3,146	3,256	3,321
Gross Profit	1,199	1,448	3,146	3,256	3,321
Operating EBITDA	(165)	(53)	188	200	210
Depreciation And Amortisation	(60)	(54)	(55)	(55)	(56)
Operating EBIT	(225)	(107)	133	145	154
Financial Income/(Expense)	(39)	(79)	(82)	(83)	(84)
Pretax Income/(Loss) from Assoc.	20	31	12	12	13
Non-Operating Income/(Expense)	91	216	13	13	13
Profit Before Tax (pre-EI)	(153)	61	75	87	96
Exceptional Items	0	0	0	0	0
Pre-tax Profit	(153)	61	75	87	96
Taxation	(23)	(55)	(23)	(26)	(29)
Exceptional Income - post-tax					
Profit After Tax	(176)	7	53	61	67
Minority Interests	(0)	9	0	0	0
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax		(1)			
Net Profit	(176)	15	53	61	68
Recurring Net Profit	(0)	15	53	61	68
Fully Diluted Recurring Net Profit	(0)	15	53	61	68

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(164.9)	(53.1)	187.6	200.1	210.2
Cash Flow from Invt. & Assoc.					
Change In Working Capital	53.0	67.4	67.4	67.4	67.4
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	389.0	(64.6)	(61.4)	(58.3)	(55.4)
Net Interest (Paid)/Received	(38.6)	(78.7)	(82.4)	(83.2)	(84.1)
Tax Paid	(23.0)	(54.6)	(22.5)	(26.0)	(28.9)
Cashflow From Operations	215.6	(183.6)	88.7	99.9	109.3
Capex	(86.1)	(177.6)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries	50.1	0.0			
Acq. Of Subsidiaries/investments	0.0	(127.6)	0.0	0.0	0.0
Other Investing Cashflow	(97.7)	633.2	150.0	150.0	150.0
Cash Flow From Investing	(133.6)	328.0	100.0	100.0	100.0
Debt Raised/(repaid)	79.2	(9.6)	(4.8)	(4.7)	(4.7)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(65.7)	(19.7)	(44.7)	(53.6)	(67.0)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	41.3	(66.1)	(59.5)	(66.4)	(52.4)
Cash Flow From Financing	54.8	(95.4)	(108.9)	(124.8)	(124.1)
Total Cash Generated	136.7	49.0	79.8	75.1	85.2
Free Cashflow To Equity	161.1	134.8	183.9	195.2	204.6
Free Cashflow To Firm	137.1	233.1	281.5	293.7	304.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	540	579	596	602	614
Total Debtors	1,271	2,050	1,979	1,912	1,849
Inventories	852	858	866	875	884
Total Other Current Assets	339	147	149	150	152
Total Current Assets	3,002	3,633	3,590	3,540	3,498
Fixed Assets	684	704	713	717	720
Total Investments	2,260	2,242	2,165	2,092	2,022
Intangible Assets	219	216	216	216	216
Total Other Non-Current Assets	2,188	2,390	2,367	2,345	2,322
Total Non-current Assets	5,350	5,552	5,461	5,369	5,280
Short-term Debt	639	479	475	470	465
Current Portion of Long-Term Debt	0	0	0	0	0
Total Creditors	997	1,794	1,758	1,723	1,689
Other Current Liabilities	39	161	161	161	161
Total Current Liabilities	1,675	2,434	2,394	2,355	2,316
Total Long-term Debt	1,294	1,453	1,453	1,453	1,453
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	718	684	657	630	605
Total Non-current Liabilities	2,012	2,137	2,109	2,083	2,058
Total Provisions	79	74	76	78	81
Total Liabilities	3,766	4,645	4,579	4,516	4,454
Shareholders' Equity	4,578	4,513	4,442	4,362	4,292
Minority Interests	11	28	29	31	32
Total Equity	4,589	4,540	4,471	4,393	4,324

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(9%)	21%	117%	3%	2%
Operating EBITDA Growth	1775%	(68%)	N/A	7%	5%
Operating EBITDA Margin	(13.7%)	(3.7%)	6.0%	6.1%	6.3%
Net Cash Per Share (RM)	(0.32)	(0.30)	(0.30)	(0.30)	(0.29)
BVPS (RM)	1.04	1.01	0.99	0.98	0.96
Gross Interest Cover	(4.08)	(1.21)	1.43	1.54	1.63
Effective Tax Rate	0.0%	89.0%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	NA	220%	63%	65%	73%
Accounts Receivables Days	224.9	252.9	159.1	146.0	136.4
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	(4.81%)	(2.38%)	3.01%	3.31%	3.57%
ROCE (%)	(3.12%)	(1.48%)	2.20%	2.41%	2.60%
Return On Average Assets	(1.64%)	0.96%	1.48%	1.60%	1.71%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	-9.1%	20.8%	117.2%	3.5%	2.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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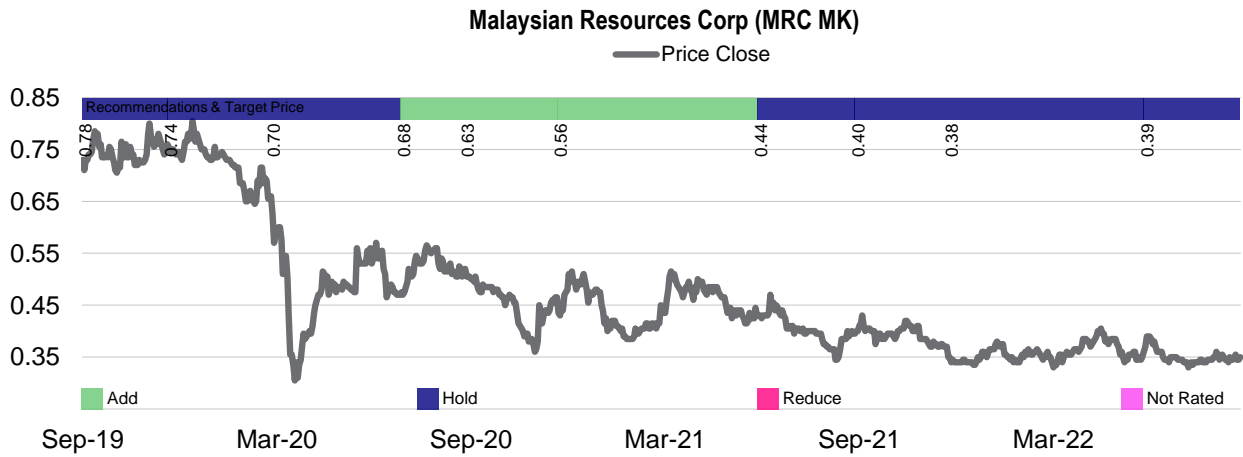
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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