

12 October 2023

Malaysian Resources Corp (MRC MK)

LRT3 On Track To Reach The Finish Line; Stay BUY

- **Still BUY, with SOP-derived MYR0.55 TP, 19% upside and c.2% yield.** We visited the Light Rail Transit (LRT) 3 depot at Johan Setia (Klang) and came away feeling upbeat on the project. While it is nearing completion, Malaysian Resources Corp's track record in LRT3 in addition to other rail projects such as Mass Rapid Transit (MRT) 2 may enable it to clinch opportunities from upcoming rail related projects – Penang LRT and MRT3.
- **LRT3 recap.** MRC, in a previous JV with George Kent (GK) (GKEN MK, NR), was initially appointed as project delivery partner (PDP) by Prasarana Malaysia for the 37km LRT3 in Sep 2015 with an initial budget of MYR9bn (excluding land acquisition costs) at that time. This MYR9bn amount did not include other costs such as PDP fees (6%), other consultant fees, operational and overhead costs, as well as interest payments during construction, which resulted in cost overruns at MYR31.7bn. However, in Jul 2018, the LRT3 project cost was reduced by c.47% to MYR16.6bn. Post cost reduction, the PDP model was restructured to a fixed price contract in Nov 2018 – MRC-GK JV as a turnkey contractor – worth MYR11.9bn.
- **Later in Sep 2021, MRC took over GK's 50% stake** in the JV company formed to construct LRT3 for MYR53m – effectively recognising 100% of the project from then onwards. The LRT3 project was c.60% completed – which meant that MRC had c.MYR4.7bn of billings to recognise until completion. As of end 3Q23, line-wide progress of the LRT3 construction stood at c.86.5%. It is estimated for completion by Mar 2025. Therefore, we estimate the 13.5% balance of works for the LRT3 or c.MYR1.6bn of billings (9.8% of orderbook) and a MYR48m PAT (assuming a 3% net margin) to be recognised by MRC over 3Q23 until 1Q25.
- **Potential catalysts for LRT3.** Recall: LRT3's cost reduction in Jul 2018 entailed the cancellation of six stations. Prasarana Malaysia had approached MRC in 4Q22 regarding the potential reinstatement of the five previously axed stations (Persiaran Hishamuddin station not included) that could be worth MYR1bn.
- **Earnings estimates kept.** Our SOP-derived TP of MYR0.55 is unchanged, which bakes in a 0% ESG premium/discount based on an ESG score of 3.0. A near-term re-rating catalyst would be securing flood mitigation projects, particularly in Selangor, which the group was pre-qualified for worth c.MYR500m. We also favour the stock for its strong orderbook-to-revenue cover ratio of >5x and a sizeable land bank of 1,153 acres (MYR33bn GDV) – providing ample supply of land for future projects.
- **The stock is trading at a 0.45x FY24F P/BV**, below -2SD from the KL Construction Index's 5-year mean P/BV. This is undemanding in our view, in light of the aforementioned points, and – as such – our BUY call.
- **Key downside risks** include a slowdown in the property market and sluggish project rollouts.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,448	3,205	2,918	3,035	3,137
Recurring net profit (MYRm)	(108)	47	47	61	76
Recurring net profit growth (%)	(41.1)	-	1.5	29.1	24.9
Recurring P/E (x)	na	44.08	43.42	33.64	26.93
P/B (x)	0.5	0.5	0.5	0.5	0.4
P/CF (x)	na	na	7.13	2.72	5.37
Dividend Yield (%)	2.2	2.2	2.2	2.2	2.2
EV/EBITDA (x)	21.40	11.63	14.10	11.74	10.60
Return on average equity (%)	0.3	1.4	1.0	1.3	1.7
Net debt to equity (%)	29.8	33.6	34.2	27.2	37.0

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Buy (Maintained)

Target Price (Return):	MYR0.55 (+19%)
Price (Market Cap):	MYR0.46 (USD436m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	19.5m/4.22m

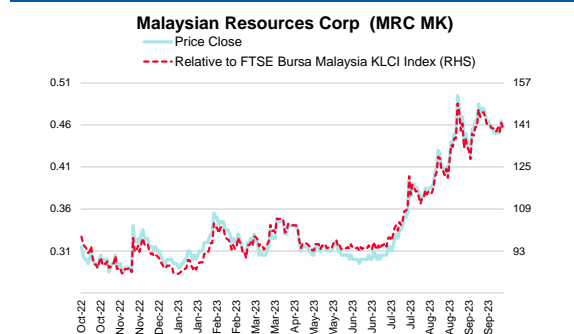
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	55.9	4.5	39.4	35.3	46.0
Relative	59.9	5.8	36.2	35.3	42.4
52-wk Price low/high (MYR)				0.29 – 0.50	



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

MRC is rated excellent in this category, partly due to a significant improvement in energy consumption, which was down by 53% YoY. This also applies to four green building rating systems used to help it increase efficiency in energy, water and materials usage at its property projects. MRC also contributes to the reduction of CO2, by encouraging the public to use public transportation made accessible by its developments.

S: GOOD

Efforts include being committed to local employment, using a mechanism to facilitate employee engagement, and stakeholder engagement on human rights issues. We note that MRC has also achieved 1m man hours without lost-time injury for Kwasa C8 Plot 1 (Employees Provident Fund headquarters).

G: GOOD

57% of MRC's board members are independent, with full disclosure on director remunerations, which include salaries and bonuses on a named basis. It has an in-house investor relations team and holds investor meetings regularly. The public can easily access information about the company's ongoing projects.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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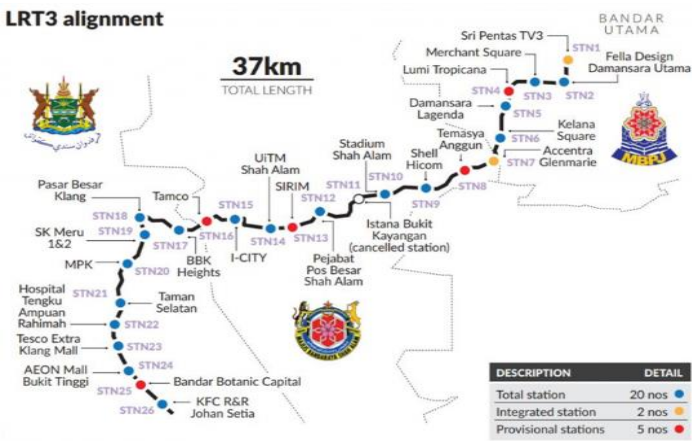
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Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	(0.02)	0.01	0.01	0.01	0.02
Construction & Engineering	DPS	0.01	0.01	0.01	0.01	0.01
Malaysian Resources Corp	BVPS	1.01	1.01	1.01	1.02	1.03
MRC MK	Return on average equity (%)	0.3	1.4	1.0	1.3	1.7
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	na	44.08	43.42	33.64	26.93
SOP	P/B (x)	0.5	0.5	0.5	0.5	0.4
	FCF Yield (%)	(11.6)	(4.0)	11.5	34.3	16.2
Key drivers	Dividend Yield (%)	2.2	2.2	2.2	2.2	2.2
New property sales, asset disposals, and new construction contracts.	EV/EBITDA (x)	21.40	11.63	14.10	11.74	10.60
	EV/EBIT (x)	31.54	14.46	18.10	14.80	12.74
Key risks	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key downside risks include a slowdown in the property market and sluggish project rollouts.	Total turnover	1,448	3,205	2,918	3,035	3,137
	Gross profit	180	189	479	528	576
Company Profile	EBITDA	160	308	255	279	351
Malaysian Resources Corp is engaged in construction (niche strength in environmental projects), property development and investment and toll road operations. It is known for its transit-oriented developments, eg Kuala Lumpur Sentral, Bukit Jalil City, Kwasa Damansara, and Penang Sentral.	Depreciation and amortisation	(51)	(60)	(56)	(58)	(59)
	Operating profit	109	248	199	221	292
	Net interest	(79)	(99)	(113)	(124)	(162)
	Pre-tax profit	61	154	122	140	174
	Taxation	(55)	(101)	(73)	(77)	(96)
	Reported net profit	16	65	47	61	76
	Recurring net profit	(108)	47	47	61	76
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(123)	(318)	219	676	289
	Cash flow from operations	(193)	(81)	288	755	383
	Capex	(44)	0	(51)	(50)	(50)
	Cash flow from investing activities	309	53	(66)	(65)	(65)
	Dividends paid	(20)	(53)	(45)	(45)	(45)
	Cash flow from financing activities	(67)	136	(45)	(45)	(45)
	Cash at beginning of period	540	579	534	502	817
	Net change in cash	49	108	177	645	273
	Ending balance cash	480	534	501	816	357
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	579	534	502	817	356
	Tangible fixed assets	2,182	2,231	2,166	2,158	2,149
	Total investments	0	0	15	30	45
	Total assets	9,205	9,235	9,042	9,140	8,846
	Short-term debt	479	841	841	841	841
	Total long-term debt	1,454	1,216	1,216	1,216	1,216
	Total liabilities	4,665	4,699	4,502	4,582	4,254
	Total equity	4,540	4,536	4,540	4,558	4,592
	Total liabilities & equity	9,205	9,235	9,042	9,140	8,846
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	20.8	121.3	(9.0)	4.0	3.4
	Recurrent EPS growth (%)	(40.8)	0.0	1.5	29.1	24.9
	Gross margin (%)	12.4	5.9	16.4	17.4	18.4
	Operating EBITDA margin (%)	11.1	9.6	8.8	9.2	11.2
	Net profit margin (%)	1.1	2.0	1.6	2.0	2.4
	Dividend payout ratio (%)	280.8	68.9	94.4	73.1	58.6
	Capex/sales (%)	3.0	0.0	1.8	1.6	1.6
	Interest cover (x)	1.22	2.50	1.72	1.71	1.82

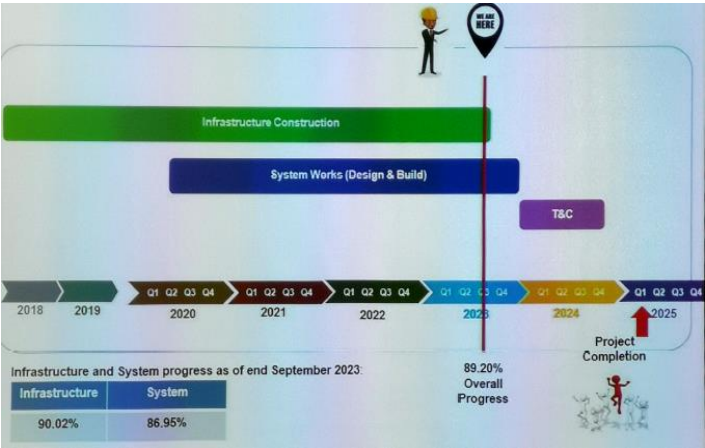
Source: Company data, RHB

Figure 1: LRT3 alignment



Source: Minconsult

Figure 2: Timeline of the LRT3 project



Source: Company data

Figure 3: LRT3 depot at Johan Setia, Klang



Note: HLMB - heavy and light maintenance building
Note 2: OCC – operation and control centre
Source: Company data

Figure 4: Heavy and light maintenance building at the LRT3 depot



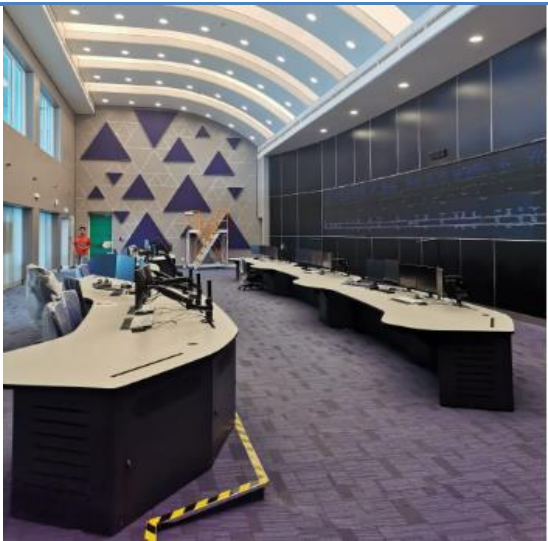
Source: RHB

Figure 5: Inside LRT3's rolling stock



Source: RHB

Figure 6: LRT3's operation control room



Source: RHB

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Figure 7: List of LRT3 contractors (not exhaustive) – expected completion by Mar 2025

Package	Contractor	Original value	Revised value
Johan Setia Depot (Phase 2)	TRC Synergy (TRC MK, NR)	760.6	536.8
GS01	Mudajaya (MDJ MK, NR)	1,160	655
GS04	Gabungan AQRS (AQRS MK, BUY, TP: MYR0.43)	1,137	709.8
GS05	Private (Apex Communication)	Not publicly available	Not publicly available
GS06	Private (Rahimkon)	Not publicly available	Not publicly available
GS07 & GS08	Sunway Construction (SCGB MK, BUY, TP: MYR2.22)	2,180	1,290
GS09	Private	Not publicly available	Not publicly available
GS10	Private	Not publicly available	Not publicly available
Underground	IJM Corp* (IJM MK, NEUTRAL, TP: MYR1.74)	1,120	Not publicly available

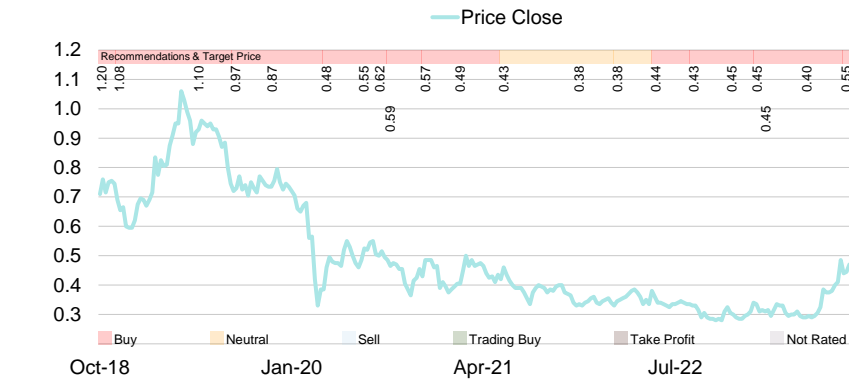
Note: *Cancelled in Jul 2019 post reduction of LRT3 cost and new contractor not made known to public
Source: Bursa Malaysia, Various sources

Figure 8: MRCB's SOP valuation

Items	P/E/ WACC/valuation	Equity value/surplus (MYRm)
Construction (FY24F year earnings)	P/E of 11x	291.5
Surplus RNAV for property and investments	WACC of 11%	923.5
28% Sentral REIT	TP: 0.89	266.1
Kwasa Damansara PDP for infrastructure works (DCF)	WACC of 9%	67.3
Shareholders' Funds (ex-construction & REIT)		3,884.9
Total RNAV		5,433.3
Share base		4,467.5
RNAV per share		1.22
Discount ⁽¹⁾		55%
Intrinsic value/share (MYR)		0.55
ESG premium/discount	0%	0.00
TP		0.55

Note: ¹We believe a 55% discount to RNAV is justified. We think this is fair, taking into account the lifting of the political overhang post state elections, which may pave the way for project rollouts
Source: Company data, RHB

Recommendation Chart

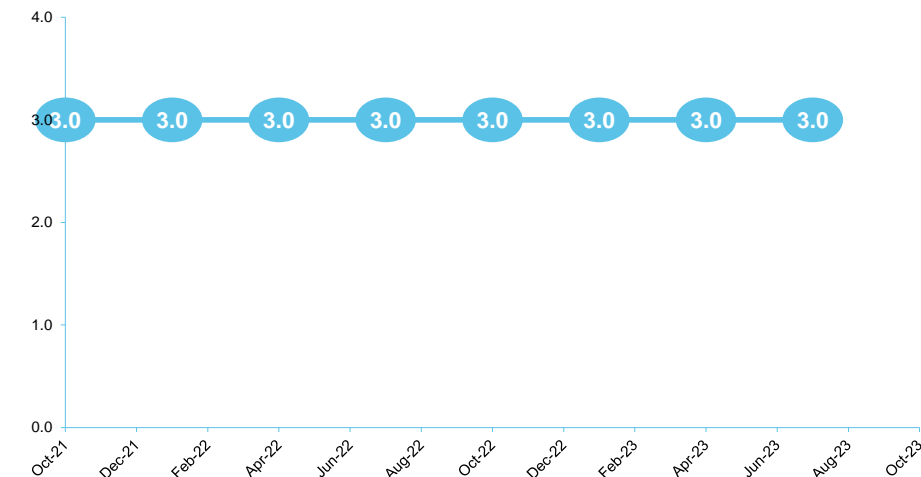


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-01	Buy	0.55	0.50
2023-05-30	Buy	0.40	0.31
2023-02-21	Buy	0.45	0.32
2023-01-30	Buy	0.45	0.33
2022-12-01	Buy	0.45	0.33
2022-08-31	Buy	0.43	0.35
2022-06-01	Buy	0.44	0.37
2022-03-01	Neutral	0.38	0.36
2021-11-29	Neutral	0.38	0.35
2021-09-01	Neutral	0.43	0.40
2021-05-31	Neutral	0.43	0.43
2021-05-31	Neutral	0.49	0.43
2021-02-26	Buy	0.49	0.42
2021-02-16	Buy	0.49	0.42
2020-11-24	Buy	0.57	0.44

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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