

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Initiate)

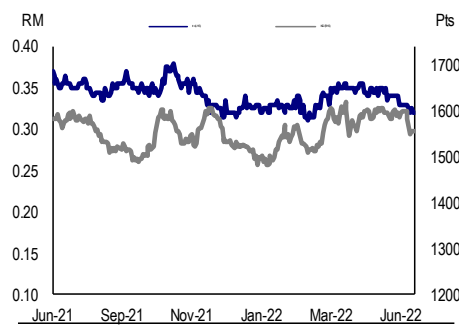
Target Price: RM0.40
Previously: NA
Current Price: RM0.325

Capital upside	23.1%
Dividend yield	3.0%
Expected total return	26.1%

Sector coverage: Construction

Company description: TRC is involved in construction (infra focused), property development and hospitality segments.

Share price



Historical return (%)	1M	3M	12M
Absolute	-8.6	-7.2	-15.8
Relative	-2.7	3.1	-8.9

Stock information

Bloomberg ticker	TRC MK
Bursa code	5054
Issued shares (m)	480
Market capitalisation (RM m)	156
3-mth average volume ('000)	109
SC Shariah compliant	Yes
F4GBM Index	NA

Major shareholders

Tan Sri Sufri	37.2%
Dato' Abdul Aziz	28.2%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core	20.7	18.8	18.6
EPS – core (sen)	4.3	3.9	3.9
P/E (x)	7.6	8.3	8.4

TRC Synergy

Down but not out

We initiate coverage on TRC Synergy with a BUY recommendation and TP of RM0.40/share based on our SOP calculation with a deep 50% discount; reflecting small cap status and heavy public sector reliance. Job opportunities are poised for an inflection buoyed by MRT3 to which we consider TRC a strong contender due to: (i) Bumi contractor status, (ii) extensive track record in mega railway projects spanning stations, viaducts and depots and (iii) healthy balance sheet (net cash). TRC's market cap trades at a -15% discount to its net cash position (1QFY22), we believe the market has ascribed a negative value to TRC's real estate assets which we think is unwarranted.

Established infra player. TRC Synergy Bhd was listed on the Main Market of Bursa in Aug 2002. Its core business is construction where it has completed an extensive range of projects such as railways, highways, bridges, airports, submarine bases, port structures, prisons, stadiums and high rise buildings. TRC is accorded a G7 license and Bumiputra status contractor by CIDB enabling it to undertake projects of unlimited size and tender for jobs that are only eligible for Bumiputra contractors. Thus far, the company has won RM3.65bn worth of mega railway jobs.

Inflection in contract wins ahead? After three consecutive years of anaemic contract wins (FY19-21), we believe jobs are in for an inflection point buoyed by the incoming MRT3 project. We consider TRC to be a key beneficiary considering its: (i) Bumi contractor status, (ii) extensive track record in mega railway projects spanning stations, viaducts and depots and (iii) healthy balance sheet (net cash). To note, in the past TRC secured bumper contracts worth RM1.32bn and RM846.5m from MRT Putrajaya and MRT Kajang lines respectively.

Foreign assets compound undervaluation. Across the pond, TRC owns a 4.5 star freehold hotel (100%) located in Melbourne, Australia. Based on actual transacted data for hotels in the area, we arrive at a conservatively estimated value of RM141.3m for TRC's hotel. The company also owns another ~200 plots of unsold land in Wallen, Melbourne through its 33% stake in Springridge Partnership. The going price for each plot is AUD300k-400k. Taking into account TRC's market cap trades at a -15% discount to its net cash position (1QFY22), we believe the market has ascribed a negative value to TRC's assets which we think is unwarranted.

Lacklustre before picking up. Going forward, we are forecasting uninspiring FY22 and FY23 earnings before picking up by 31.8% YoY in FY24. This will be primarily be driven by contract wins from the upcoming MRT3 project. We have factored in construction contract wins of RM800m in FY22 as well as RM500m in both FY23 and FY24. Nonetheless, billings recognition will only pick up meaningfully starting 2024 due to the "S-curve". All in for the period FY22f-24f our forecast suggests profit CAGR of 5.9%.

Initiating coverage with BUY; TP; RM0.40. We initiate coverage on TRC with a BUY rating and SOP-driven TP of RM0.40 based on 50% discount. At our TP, TRC trades at a FY22f/23f/24f P/E multiple of 10.3x/10.4x/7.9x. We believe attaching a 50% discount (vs 20-30% for larger peers) is warranted considering its smaller size and weak replenishment in the last 2 years. While our earnings forecasts suggest lacklustre financial performance in the near term, at current price trading below its net cash we deem TRC to be undervalued as we see the company as a key Bumi beneficiary of MRT3. Key upside risks: MRT3 contract wins, lower cost pressure; Downside risks: substantial project delays, higher costs pressure, labour shortage, and sluggish tourism recovery.

Financial Projections for TRC Synergy

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Cash	272.2	314.0	324.2	399.9	394.7
Receivables	442.2	438.6	442.5	331.6	358.2
Inventories	143.9	132.2	142.8	114.8	123.4
PPE	220.5	201.5	194.8	188.4	182.3
Others	96.5	76.8	77.2	77.6	81.6
Assets	1,175.3	1,163.1	1,181.5	1,112.2	1,140.0
Debts	243.8	163.0	173.0	183.0	163.0
Payables	433.7	492.8	487.2	393.9	423.3
Others	55.8	52.2	52.2	52.2	52.2
Liabilities	733.2	708.0	712.4	629.1	638.5
Shareholder's equity	434.8	450.3	464.4	478.4	496.8
Minority interest	7.3	4.8	4.8	4.8	4.8
Equity	442.1	455.0	469.1	483.1	501.5

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	36.7	24.2	22.6	22.1	29.9
Depreciation & amortisation	19.6	18.2	16.8	16.4	16.1
Changes in working capital	(92.8)	62.7	(10.6)	20.3	2.0
Taxation	(9.0)	(6.1)	(3.3)	(6.4)	(8.5)
Others	22.4	30.3	-	-	-
CFO	(23.2)	129.4	25.5	52.4	39.5
Net capex	(9.9)	7.5	(10.0)	(10.0)	(10.0)
Others	10.2	(5.1)	-	-	-
CFI	0.3	2.3	(10.0)	(10.0)	(10.0)
Changes in borrowings	24.1	(80.7)	10.0	10.0	(20.0)
Dividends paid	(4.8)	(5.8)	(4.7)	(4.7)	(6.1)
Others	(4.8)	(11.1)	-	-	-
CFF	14.6	(97.6)	5.3	5.3	(26.1)
Net cash flow	(8.3)	34.1	20.8	47.7	3.4
Forex	-	-	-	-	-
Others	(13.3)	7.7	(10.6)	28.0	(8.6)
Beginning cash	293.9	272.2	314.0	324.2	399.9
Ending cash	272.2	314.0	324.2	399.9	394.7

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	753.9	762.1	769.2	712.0	769.0
EBITDA	49.1	38.4	42.5	42.5	50.3
EBIT	29.5	20.2	25.7	26.1	34.2
Finance income/ (cost)	(3.1)	(4.9)	(3.1)	(4.0)	(4.3)
Associates & JV	1.3	0.1	0.3	0.3	0.3
Profit before tax	36.7	24.2	22.1	25.1	33.1
Tax	(9.0)	(6.1)	(3.3)	(6.4)	(8.5)
Net profit	27.6	18.1	18.8	18.6	24.5
Minority interest	(0.4)	2.5	-	-	-
PATMI (core)	27.3	20.7	18.8	18.6	24.5
Exceptionals	-	-	-	-	-
PATMI (reported)	27.3	20.7	18.8	18.6	24.5

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	5.7	4.3	3.9	3.9	5.1
P/E (x)	5.7	7.6	8.3	8.4	6.4
EV/EBITDA (x)	6.4	8.1	7.3	7.3	6.2
DPS (sen)	1.0	1.2	1.0	1.0	1.3
Dividend yield	3.1%	3.7%	3.0%	3.0%	3.9%
BVPS (RM)	0.9	0.9	1.0	1.0	1.0
P/B (x)	0.4	0.3	0.3	0.3	0.3
EBITDA margin	6.5%	5.0%	5.5%	6.0%	6.5%
EBIT margin	3.9%	2.7%	3.3%	3.7%	4.4%
PBT margin	4.9%	3.2%	2.9%	3.5%	4.3%
Net margin	3.6%	2.7%	2.4%	2.6%	3.2%
ROE	6.4%	4.7%	9.0%	3.9%	5.0%
ROA	2.3%	1.8%	2.0%	1.6%	2.2%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

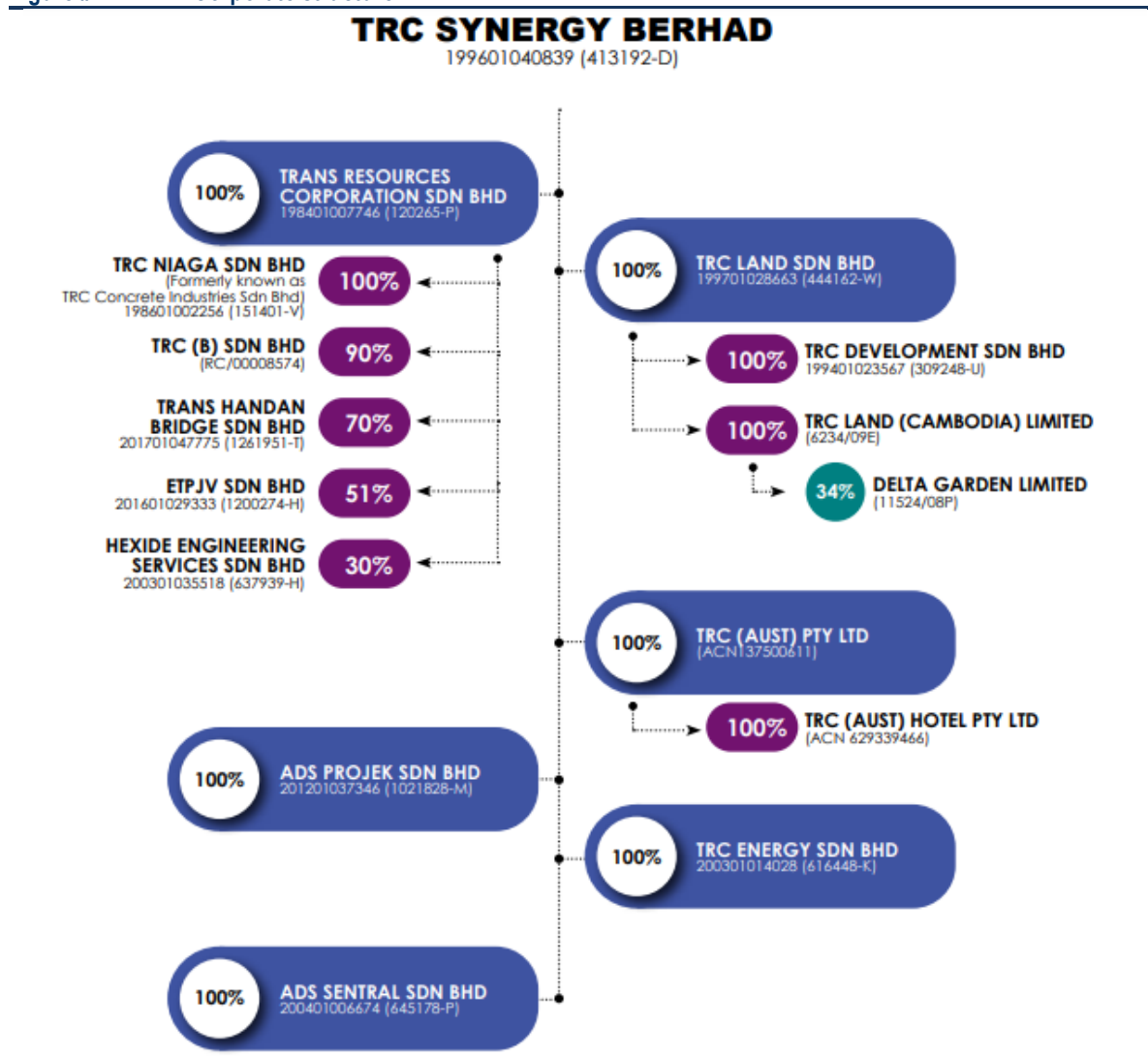
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Contracts secured	114	43	800	500	500

Company Background

Established infra player. TRC Synergy Bhd (“TRC”) was founded in Dec 1996 and listed on the Main Market of Bursa in Aug 2002. Its core business is construction where it has completed an extensive range of projects such as railways, highways, bridges, airports, submarine bases, port structures, prisons, stadiums and high rise buildings. Since listing, construction contributed ~70% of revenue. TRC is accorded a G7 license and Bumiputra status contractor by the Construction Industry and Development Board (CIDB), enabling it to undertake projects of unlimited size and tender for jobs that are only eligible for Bumiputra contractors. TRC also manufactures concrete products (~7% of revenue) although this is mainly used to support its construction divisions. Its property division (TRC Land) primarily centres on the ARA Sentral development in Ara Damansara, while notable overseas ventures comprise of Element Hotel in Melbourne, Australia operated by Marriott Hotels and sale of land plots in Wallan, Melbourne through its Springridge Partnership. Additionally the company holds an associate stake in property venture in Cambodia where development has been minimal so far.

Management and shareholding. TRC is led by its founder and Chairman, Tan Sri Sufri Bin Mohd Zin, who has more than three decades of experience in the construction industry. He holds a 37.2% stake in TRC, directly (10.71%) and indirectly via TRC Capital SB (12.64%) and Kolektif Aman SB (13.84%). Company directors collectively own approximately 70% of TRC.

Figure #1 Corporate structure



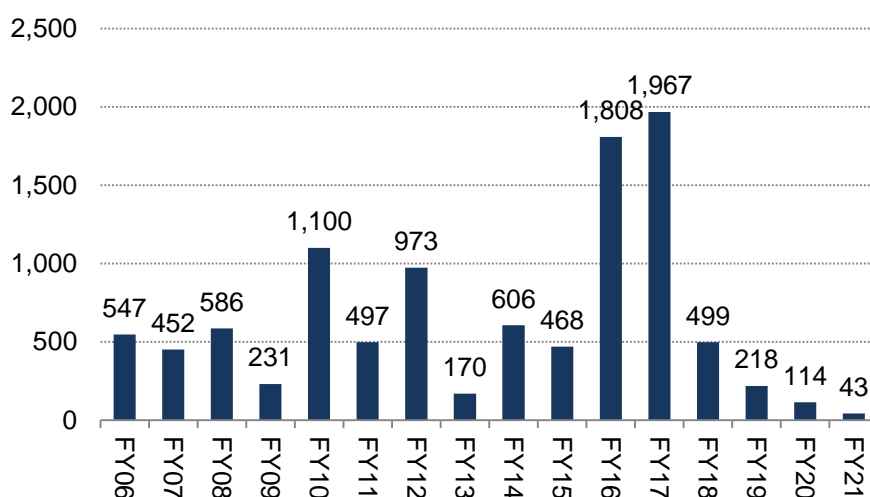
TRC

Investment Thesis

Inflection point in job opportunities down the road?

Strength became an Achilles heel. TRC's strength since its listing in 2002 has been its ability to garner construction contracts from government or government related entities. We reckon its status as a Bumiputera contractor gives TRC an edge over larger listed contractors as some government related projects are only reserved for such contractors. Based on our tabulations, government and government related projects have contributed approximately 90% of TRC's contract wins since 2006. That same strength has nevertheless turned into a bane over the past few years. Since Malaysia's repeated changes in governing coalitions over the last 3-4 years, big ticket infrastructure spending has suffered from policy changes, further made worst by the onslaught of Covid-19 pandemic. This has translated into slower public investments declining by -7.9% p.a over the period 2015-2020 (12MP). Given TRC's heavy reliance on government jobs, contract wins have similarly dried up since 2018. We note that based on amount of tenders submitted, the company's win rate has also likewise dwindled substantially. All in all during this difficult period, TRC's job wins dwindled down to RM43m in FY21 while its outstanding orderbook as of 31 Dec-21 stands at RM1.1bn, a far cry from unbilled orders of RM2.7bn as at 31 Dec 2019.

Figure #2 Historical job wins (RM m)



Bursa announcements

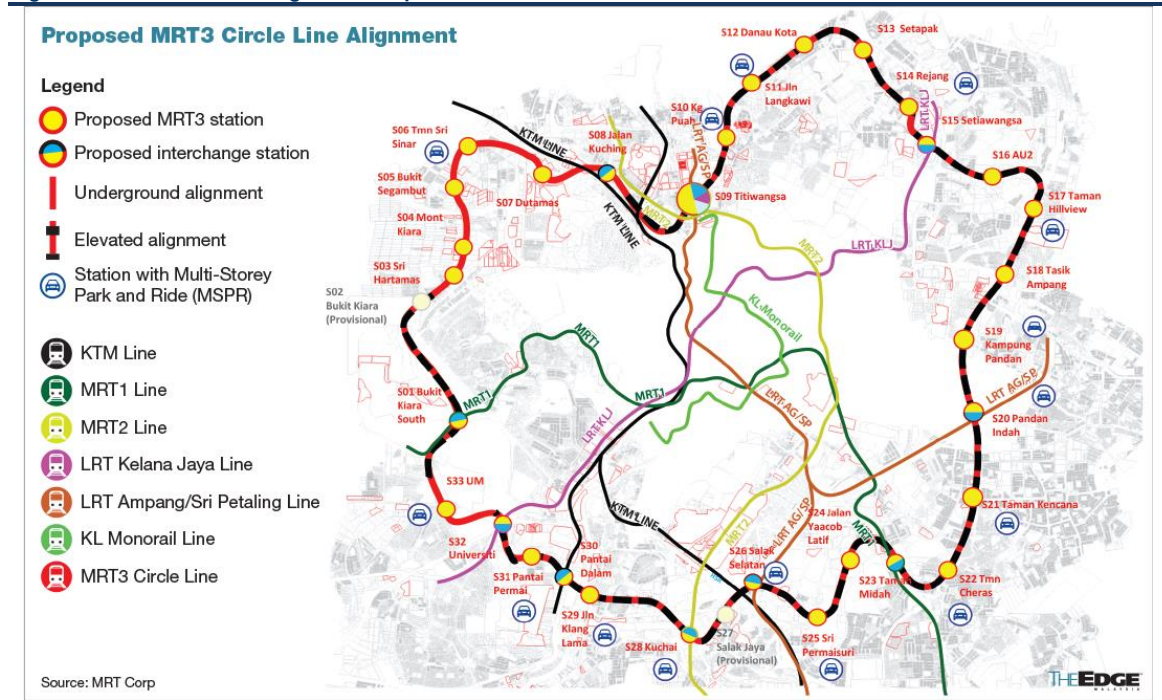
MRT3 to the rescue. With Covid-19 hopefully in the back mirror, expectations are that public infra job prospects would start improving. One such opportunity is the incoming MRT Circle Line (MRT3). The project is widely viewed as the final piece to KL's railway infrastructure puzzle as envisioned by ex-PM Najib back in 2011. Malaysia's urban public transport modal share has improved from 16.4% in 2011 to 21% in 2018, still far behind its 40% goal by 2020. The revised timeline now aims for 40% by 2030, to be spurred by the commencement of MRT Putrajaya Line and MRT Circle Line (two phased completion in 2028 and 2030). To this end, MRT Corp has called for civil package tenders in June-2022 with contract awards by Dec-2022. We believe should there be a GE-15 which yields immaterial government change; delays to the timeline would hopefully be insubstantial.

There are three turnkey civil packages up for grabs in this iteration comprising two elevated (CMC301 & CMC302) and one underground (CMC303). We gather that the elevated turnkey contracts are reserved for domestic only contractors with minimum 50% Bumi participation, conditions which augments TRC's chances. Package CMC301 (smallest civil package) involves the construction of 6km elevated viaduct guideway, stations and a depot fetching an estimated value in the range of RM3-4bn. We gather that TRC intends to join forces with other reputable contractors to bid for a slice of the cake. If successful, this would mark TRC's maiden participation in a mega railway project as turnkey contractor having participated notably in LRT Kelana Jaya Extension (RM950m), MRT Sungai Buloh-Kajang (RM846m), MRT Putrajaya (RM1.3bn) and LRT3 (downsized to RM537m) as works package contractor. TRC's track record for mega railway projects spans the entire range from stations, viaducts and depots making it ideal for the aforementioned package. In terms of balance sheet capacity, TRC sits on a net cash position of RM183m (based on 1QFY22) and an equity book value of RM457m which in partnership is sufficient to execute the smaller package under deferred payment terms, in our view. We gather that under this payment structure, unpaid billings in Year 1 and 2 will be repaid in instalments stretching two years beginning Year 3. At the same time, normal progress billings payments commences in Year 3 which could assuage market concerns about

excessive balance sheet deterioration.

Besides bidding for the turnkey package, we reckon there would be plenty of subcontracting opportunities under the other two larger packages. In particular, the underground turnkey contract consists of 10km tunnel and a 6km elevated section. Considering that the package winner could well be a tunnelling expert, we believe there would be subcontracting opportunities for the elevated sections parked under this turnkey contract as well. We believe TRC was roped in as a rescue contractor by the MRT2 turnkey in 2020 to execute Package S208: Equine Park and Taman Putra Permai stations previously awarded to S.N. Akmdia Holdings Sdn Bhd in late 2017. The stations were completed by TRC last year and handed over. Assuming the same MRT2 turnkey wins the underground package, we reckon TRC stands a chance given its execution of the said rescue project.

Figure #3 MRT3 alignment map



MRT Corp, TheEdge

Figure #4 MRT3 tender summary

MRT3 Tender Summary			
Package	CMC301	CMC302	CMC303
Estimated Value	RM3-4bn	RM10bn	RM13-14bn
Description	Design, construction and completion of viaduct, elevated stations, depot and other associated works from Pandan to Jalan Cheras	Design, construction and completion of viaduct, elevated stations, depot and other associated works from Jalan Cheras to Pantai Dalam and Jalan Kuching to Pandan	Design, construction and completion of viaduct, tunnel stations, depot and other associated works from Jalan Cheras to Pantai Dalam and Jalan Kuching to Pandan
Participants	Malaysian contractors only	Malaysian contractors only	Foreign stake limited to 49%
Bumi requirements	1) 50% of JV/consortium members must be Bumi 2) Effective Bumi shareholding must be at least 31%	1) 50% of JV/consortium members must be Bumi 2) Effective Bumi shareholding must be at least 31%	1) 33% of JV/consortium members must be Bumi 2) Effective Bumi shareholding must be at least 20%
Financing requirements	Proposal to include minimum finance for initial 2 years or 10% of contract value; minimum moratorium of 2 years		
Financial prerequisites	Positive cumulative EBITDA Shareholders funds: CMC01: RM100m CMC02: RM250m CMC03: RM300m		

Technical prerequisites	1) Railway civil projects of at least RM500m in contract value; and 2) At least two elevated rail transit stations with 2 km of viaducts in a single project; and 3) At least one rail depot with heavy maintenance facilities.	1) Railway civil projects of at least RM2bn contract value; and 2) At least three urban tunnelling projects utilising Slurry/Mixed Shield or Multimode or Earth Pressure Balance (EPB) Tunnel Boring Machines (TBMs) greater than 6m diameter in rock and mixed face conditions with a minimum tunnelling length of 1.5km (twin bored) 3) At least six (6) elevated rail transit stations with 8km of viaducts 4) At least one (1) rail depot with heavy maintenance facilities	1) Railway civil projects of at least RM3bn contract value; and 2) At least three urban tunnelling projects utilising Slurry/Mixed Shield or Multimode or Earth Pressure Balance (EPB) Tunnel Boring Machines (TBMs) greater than 6m diameter in rock and mixed face conditions with a minimum tunnelling length of 3km (twin bored) 3) At least three (3) underground rail transit stations in a single project; 4) At least six (6) elevated rail transit stations with 8km of viaducts
Other requirements	JV/Consortium must not comprise of more than 3 companies		

MRT Corp, HLIB

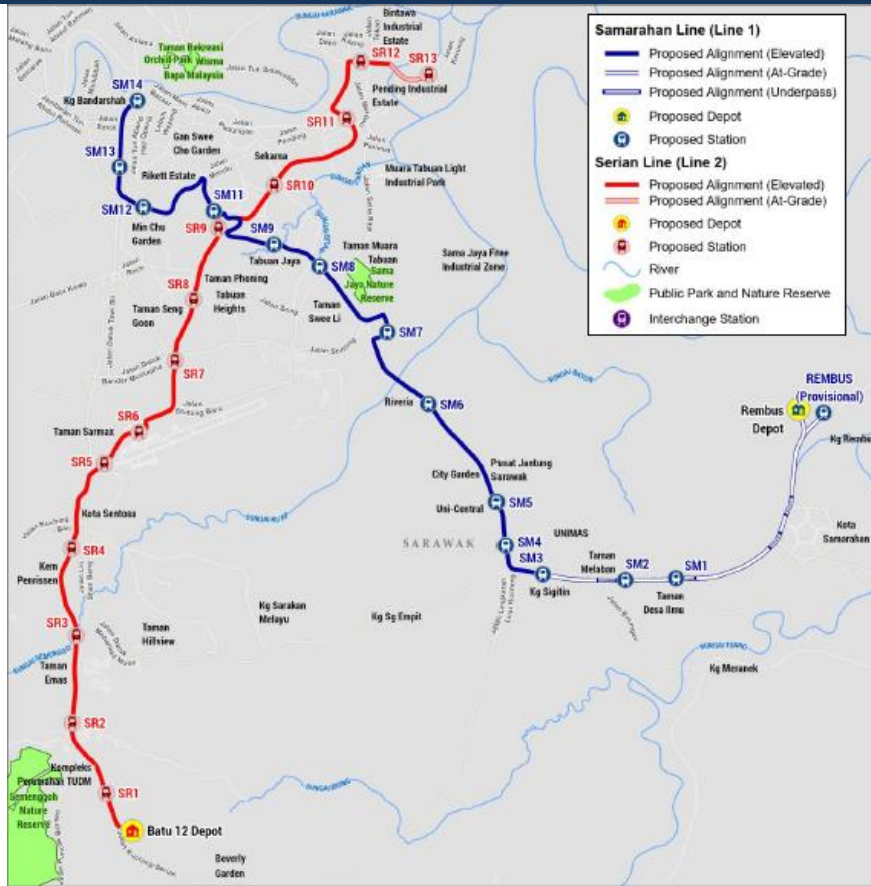
Figure #5 Major railway contracts secured by TRC

Date	Contract	Client	RM/m
17-Jun-20	Sub-Contract Work for MRT2	MMC-Gamuda	114.0
14-Sep-17	Package DPT201	MMC-Gamuda	348.3
05-Sep-17	Package TD2	MRCB	536.8
13-Mar-17	Package V205	MMC-Gamuda	858.2
28-Mar-16	Pasar Seni Link for MRT SBK	MRT Corp	103.8
07-Sep-12	MRT SBK line, stations (Package S1)	MRT Corp	283.7
18-May-12	MRT SBK line, Sg Buloh depot	MRT Corp	459.0
01-Dec-10	LRT extension (Package A) Kelana Line	Prasarana	950.0
	Total		3,653.7

Bursa

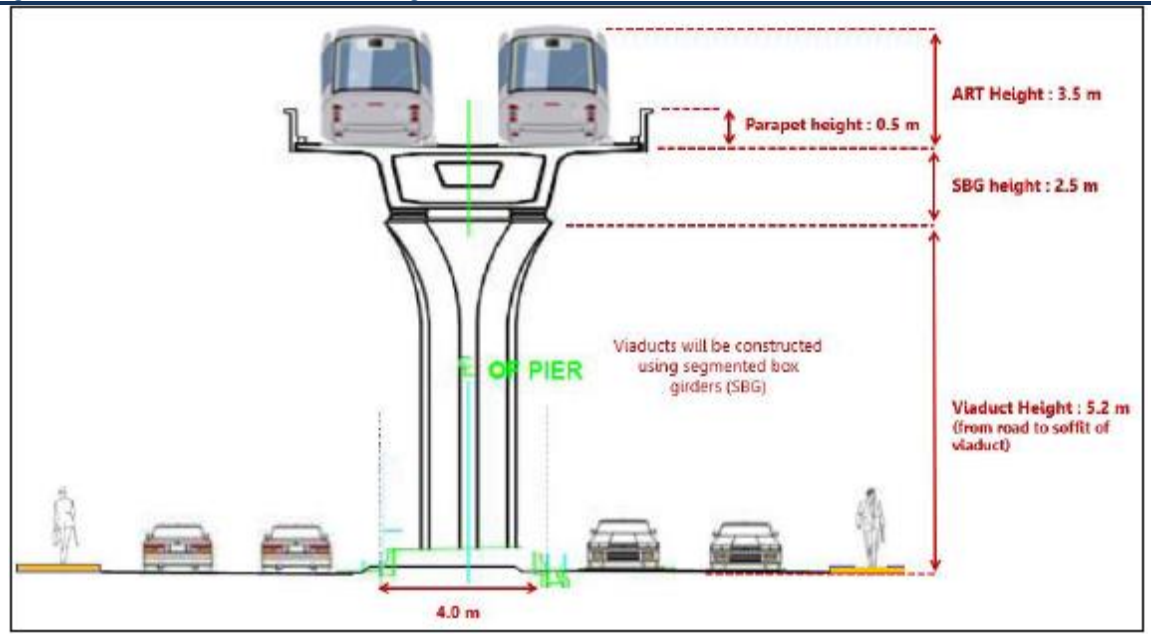
No stranger in Sarawak... TRC possesses a Unit Pendaftaran Kontraktor (UPK) license in Sarawak which allows for participation in state funded jobs. Since 2006, TRC has won RM2.1bn worth of jobs in Sarawak. Nonetheless, in recent years the Sarawak pipeline has been dry with its last job secured being the mammoth RM1.3bn WP05 package for PBH Sarawak in 2016. The various state funded road projects rollouts since have resulted in TRC going home empty handed amidst the stiff competition. Going forward, there are selected job opportunities like the Kuching Urban Transportation System Phase 1 project worth RM6bn (Kuching ART). The project consists of two lines, namely Samarahan and Serian lines stretching 53km collectively. Approximately 80% of the project is elevated with 26 stations in total and 2 depots. Considering Sarawakian contractors have limited experience in constructing railway-like structures, the project might require joint participation from Peninsular railway contractors. The state aims to commence construction on the Samarahan line in 3Q22 which could see jobs gradually trickling out. With a track record of executing jobs in Sarawak and railway-like structures in Peninsular, TRC could be positioned for action when the project picks up steam.

Figure #6 Kuching ART alignment map



Sarawak Metro

Figure #7 Illustration of Kuching ART viaducts



Sarawak Metro

...and Sabah. The company also has a long history of operating in Sabah with notable jobs being Sapangar Bay Submarine project as well as other jobs mainly attributed to the same submarine base. In the past TRC has also been involved with smaller road projects within the state which is an ongoing focus of the federal government. Moving forward, with the relocation of Indonesia’s capital from Jakarta to East Kalimantan, we understand there will be more focus by the federal government on developing border infrastructure projects such as upgrades on customs complex and roads along the Sabah/Kalimantan border. Indonesia’s capital city relocation was passed into law in Jan-2022 and the official opening of the new capital city is slated for Oct-2024, coinciding with the end of President Jokowi’s tenure. Cognisant of this, under the 12MP, focus is given to enhance economic ties with Kalimantan, Indonesia and in part would require infrastructure development.

Australian assets compounds undervaluation

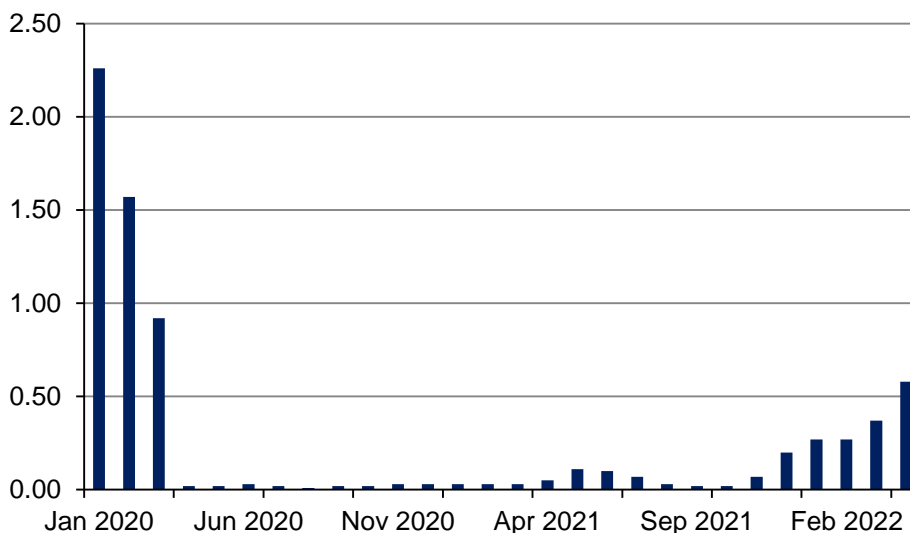
Hotel business. TRC through its 100% owned subsidiary, TRC Australia owns a freehold 5-storey, 168 bed hotel named Element Melbourne Richmond located within the confines of Botanica Corporate Park in Burnley, Melbourne, Australia. The hotel is rated 4.5 stars, operated by Marriott International Group. Location-wise, it is approximately 3-4km from the Melbourne Central Business District (CBD) and widely accessible through various means of public transportation. Construction was fully completed in 1H19 while commercial business operations commenced in July 2019. During this period of operational ramp up it was able to achieve occupancy rates of roughly 40-50% before edging close to 65% in Dec-19, coinciding with the holiday season. Nonetheless, this was completely derailed by the onset of the global pandemic. However, with a stroke of good luck, in 2021 Element was selected by the authorities as a quarantine hotel resulting in 100% occupancy rates for most of FY21. As a result it clocked in a maiden operating profit of RM7.4m for the year. For FY22, we have baked in 60% average occupancy rate to be supported by accelerating momentum of overseas arrivals into Australia (Fig 9). By comparison, according to STR, Melbourne’s average occupancy rates across its hotels have increased from 40% to 65% during the period Jan-22 to April-22 (4M22 average: 51.5%). While April was likely boosted by Formula One event, we reckon eased travel restrictions and pent up travel demand would mean our forecast is a reasonable estimate.

Figure #8 Element Melbourne Richmond by Westin



TRC

Figure #9 Monthly overseas arrivals in Australia



NBS

Transaction data supportive of asset based angle... Based on our compilation of actual transacted hotel data in Melbourne, Australia stretching back to mid-2019, we arrive at a conservatively estimated value of

RM141.3m (AUD44.7m) for TRC's 100% owned hotel. Our price per key averages is excluding of larger hotels which we have categorised as >200 rooms. Considering our data has significant overlap with pandemic period which will undoubtedly feature distressed type valuations, we believe there is upside to our estimates in the post-pandemic era buoyed by normalisation of business fundamentals in the hospitality industry. We reckon based on TRC's current market capitalisation RM156m the market has not priced in value of its hotel. This undervaluation is significantly compounded when accounting for TRC's net cash position of RM183m (based on 1QFY22).

Figure #10 List of hotel transactions in Melbourne

Transactions	No. of rooms	Price (AUD m)	Price per key (AUD)	Date	Location
167 City Road, Melbourne	162	45.0	277,800	Mid-2019	Southbank, Melbourne
Ibis Budget Melbourne	146	23.8	162,671	Jan-22	Melbourne CBD
W Melbourne	294	220.0	748,299	Jun-20	Melbourne CBD
Vibe Hotel Melbourne	206	108.0	524,272	Jul-20	Melbourne CBD
Sebel Monee Ponds	97	40.0	412,371	Dec-19	Melbourne CBD
Aurora Melbourne Central	252	127.0	503,968	Late 2020	Melbourne CBD
Ibis Melbourne Airport	73	11.0	150,685	1H21	18KM from CBD
Rydges on Swanston	107	35.0	327,103	Jul-20	Carlton, Melbourne
Average*			266,126		

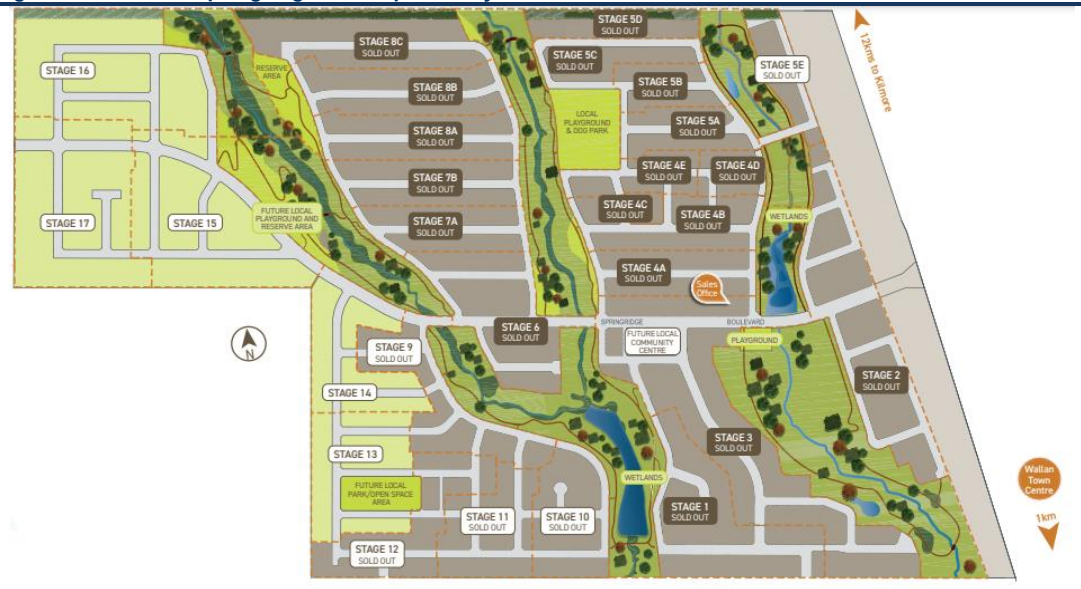
* excludes hotels with more than 200 rooms

Element Melbourne Richmond	
No. of rooms	168
Price per key (AUD)	266,126
Price (AUD m)	44.7
AUD/MYR	3.16
Price (RM m)	141.3

Savills, Colliers, CBRE, HLIB

...and that's not all. Apart from the aforementioned hotel business, TRC owns a 33% effective stake through Springridge Partnership, involved in the sale of land plots in Wallan, Melbourne (~40km from the CBD). The plots will be developed into bungalow units to be constructed by external home builders. In the past, TRC's 33% owned associate, Pretty Sally used to be engaged in the construction of these units but since 2019 ceased to be an associate company following TRC's disposal (due to more stringent control on foreign ownership of construction companies). The entire development spans 128 hectares and carries 1,100 subdivided lots for sale with remaining unsold lots totalling ~200 in May-2022. The selling price per plot as divulged on the website is currently AUD300-400k per plot up from ~AUD250k pre-Covid-19, fuelled by strong demand. Considering the higher cost of dwelling in Melbourne City, we gather that affordable outer city developments such as Springridge have been gaining traction fast. We gather that the total current unbilled sales from Springridge amounts to AUD60m but the bulk of this recognition will only begin in FY23. Nevertheless, we do take note of a potential slowdown in sales with the aggressive rate hiking path implemented by the RBA of late.

Figure #11 Springridge development layout



Springridge

Local property division to pick up the slack

Domestic property. TRC's flagship property project is its Ara Sentral development project (indicative GDV: RM1.1bn) which designed as a Transit Oriented Development (TOD). Ara Sentral is envisaged as a intergrated mixed development project leveraging on the Ara Damansara LRT station as its key selling point. Further boosting its attractiveness is the location of the project which is nestled within the mature township of Ara Damansara. We believe this project would benefit from potential buyers residing in matured surrounding townships like Bandar Utama, Kota Damansara, Subang Jaya and PJ.

The entire 15 acres project is a JV with Prasarana who will be entitled to 20% of the revenue generated. In total, Ara Sentral comprises of four phases being: (i) Phase 1 - residential serviced apartments, (ii) Phase 2 - F&B retail with serviced apartments, (iii) Phase 3 - office tower and Phase 4 - hotel. Phase 1, being Perla@Ara Sentral (GDV: RM304m) carries 648 units of apartment units split across two 24 storey blocks. Since its launch in 2020, we gather that it has garnered a strong overall take up of 83% (including affordable units) and construction is on track for completion in 3Q22. Hence, we are expecting a strong property contribution in FY22. According to management, TRC intends to progress onto Phase 2 of Ara Sentral next year which would unlock further earnings stream from the development going forward.

Figure #12 Ara Sentral



Ara Sentral

Figure #13 Ara Sentral

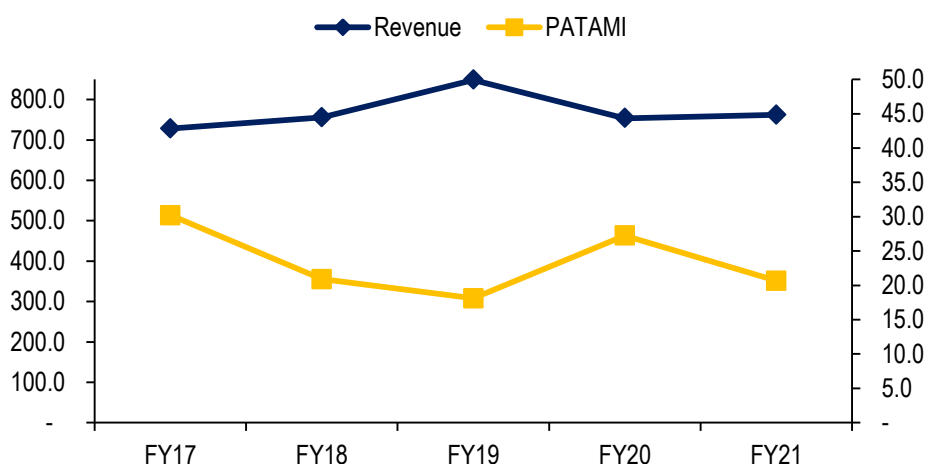


Ara Sentral

Financials

Historical performance. TRC's revenue performance peaked in FY19 driven by billings recognition of record high contract wins in FY16 and FY17 comprising mainly of MRT2, LRT3 as well as PBH Sarawak jobs. Total contracts secured in both FY16 and FY17 totalled RM3.8bn. Despite a growing top-line trajectory in FY17-19, PATAMI declined resulting from a steep drop in property segment contribution for both years while FY19 saw further drag from start-up costs at its Element hotel. Subsequent to this, FY20 and FY21 was affected by various lockdowns affecting its construction division. Nonetheless, FY20 PATAMI picked up sequentially mainly riding on the launch and strong take-up from Perla@Ara Sentral. The project's foundation work was completed in years prior when TRC was executing work on the Ara Damansara LRT station which facilitated quicker billings recognition. In FY21, despite achieving similar revenue, PATAMI fell mainly due to higher admin costs, we reckon due to temporary nature of costs savings implemented in FY20.

Figure #14 5 year revenue and PATAMI trend



TRC, HLIB

1QFY22 results commentary. TRC reported 1QFY22 results with revenue of RM176.4m (-12.4% QoQ, -26.7% YoY) and core PATAMI of RM6.5m (-15.4% QoQ, 5.0% YoY). On a QoQ basis, core PATAMI rebounded offsetting lower revenue mainly driven by favourable currency movements (AUD appreciation) and tax credit. Overall, revenue performance was still weak dragged by its construction segment which saw dwindling orderbook and labour shortages continuing to plague the industry. Its hotel chalked in an operating loss as the quarantine programme ended while tourism recovery is still in its nascent stages. On the other hand, its property division continues to be stable buoyed by billings for its Perla project.

Forecast. Going forward, we are forecasting uninspiring FY22 and FY23 earnings before picking up by 31.8% YoY in FY24. This will be primarily driven by contract wins from the upcoming MRT3 project. We have factored in construction contract wins of RM800m in FY22 as well as RM500m in both FY23 and FY24. Nonetheless, billings recognition will only pick up meaningfully starting 2024 due to the "S-curve". Partially negating this pick up in construction billings is dwindling contribution from its property division as Phase 2 of Ara Sentral will only be launched in 2023. All in for the period FY22-24 our forecast suggests profit CAGR of 5.9%.

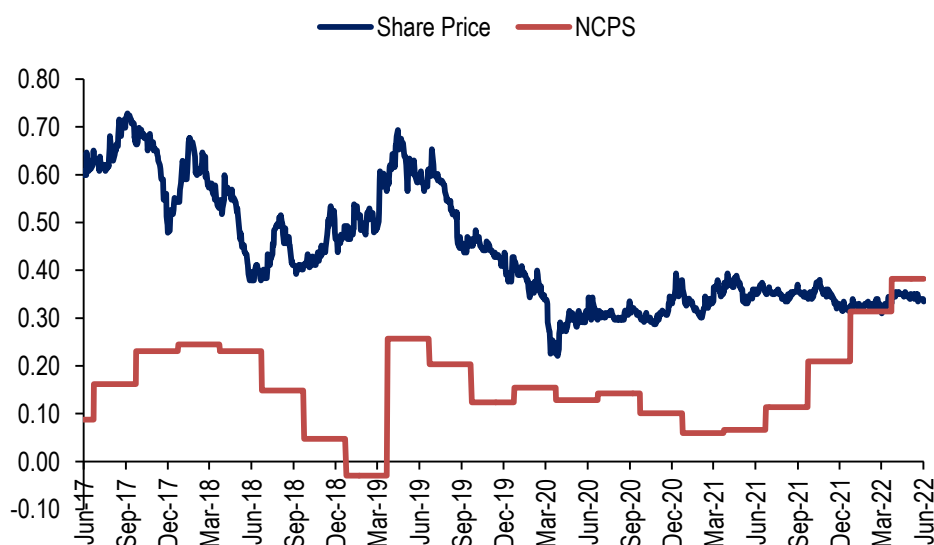
Valuation & Recommendation

Bombed out. In our opinion, TRC's share price has been battered due to: i) overall sector slowdown, ii) heavy reliance on government jobs amidst political uncertainties, iii) concerns on cost inflation and iv) no sell-side coverage. At current price, TRC is trading at a -15% discount to its net cash of RM183m, effectively market has ascribed negative value to its earnings streams and/or its real estate assets. We believe this could possibly represent a bottom in its share price. Based on our compilation of Bursa listed net-cash contractors, TRC is the only one trading at a discount to its net cash position (based on latest quarterly reports). From a historical standpoint over the past 5 years, TRC has never traded at a discount to its net cash before. Against this bombed out valuation backdrop, we reckon the stock presents an attractive risk reward considering its exposure to the incoming MRT3 project.

Figure #15 Comparison vs other net cash contractors

Company	Net Cash	Market Cap	Premium/(Discount)	Trailing P/B(x)
TRC	183.6	156.2	-15%	0.34
<u>Peers</u>				
Kerjaya Prospek	197.3	1,399.8	609%	1.19
GDB	61.0	290.6	377%	1.92
Nestcon	52.7	257.5	389%	1.99
Tuju Setia	1.9	99.8	5214%	0.93
Fajarbahru	74.3	100.1	35%	0.26
Naim	23.2	251.8	983%	0.20
Average	NA	NA	1268%	1.08

Bursa quarterly reports, Bloomberg, HLIB

Figure #16 5 year share price vs quarterly NCPS

Bloomberg, Bursa, TRC

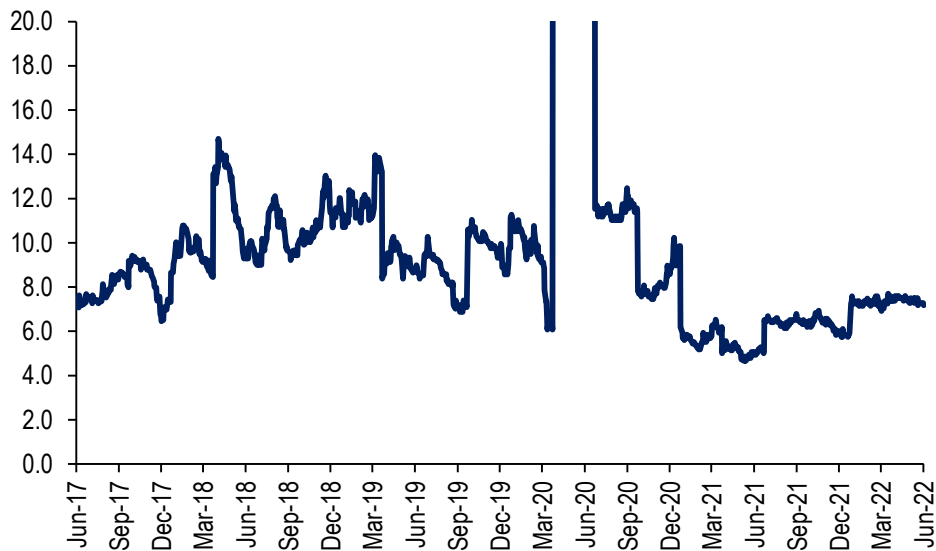
Initiating coverage with BUY; TP; RM0.40. We initiate coverage on TRC with a BUY rating and SOP-driven TP of RM0.40 based on 50% discount. At our TP, TRC trades at a FY22f/23f/24f P/E multiple of 10.3x/10.4x/7.9x. We believe attaching a 50% discount (vs 20-30% for larger peers) is warranted considering its smaller size and weak replenishment in the last 2 years. While our earnings forecasts suggest lacklustre financial performance in the near term, at current price trading below its net cash we deem TRC to be undervalued as we see the company as a key Bumi beneficiary of MRT3. Key upside risks: MRT3 contract wins, lower cost pressure; Downside risks: higher costs pressure, labour shortage and slow contract replenishment.

Figure #17 Sum of Parts TP

SOP Component	Amount (RM/m)	Multiplie/ COE	Stake	Value	Per share
Subsidiary earnings ex. Hotel - FY22	18.8	8.0	100%	150.6	0.31
Element Hotel - Transaction comps	141.3		100%	141.3	0.29
Bandar Seri Alam land ~27 acres (BV)	12.9		100%	12.9	0.03
Net Cash ex. WC buffer	80.0		100%	80.0	0.17
SOP Value				384.8	0.80
Applied Discount		50%		(192.4)	(0.40)
SOP TP					0.40

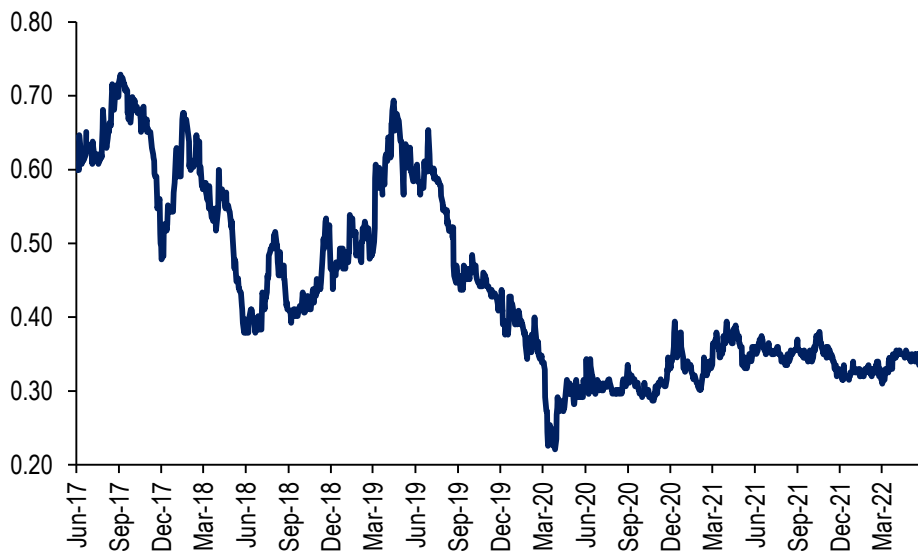
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Figure #18 Trailing 12m P/E multiple



Bloomberg

Figure #19 Trailing P/B multiple



Bloomberg

Appendix

Figure #20 Key management

Name	Role	Description
Tun Jeanne Abdullah	Independent Director and Chairman	<ul style="list-style-type: none"> - Appointed to the Board in 2017 and re-designated as Chairman in 2018 - Wife of the Former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi - Chancellor of Open University Malaysia, Chairman of Landscape Malaysia and Tropical Rainforest Conservation and Research Centre

Tan Sri Dato' Sri Sufri	Managing Director	<ul style="list-style-type: none"> - Founder of TRC Group - Graduated from MARA Institute of Technology in 1982 with Diploma in Business Studies; Bachelor Degree in Jurisprudence at Universiti Malaya; Master Degree in Business Law at Universiti Kebangsaan Malaysia - Honoured as the CEO of the Year by the Construction Industry Development Board (CIDB) in 2009
Dato' Abdul Aziz	Deputy Managing Director	<ul style="list-style-type: none"> - Appointed Executive Director in 2002 - Graduated from Trent Polytechnic in Nottingham, England - Quantity Surveyor by profession and a member of Royal Institution of Surveyors, Malaysia
Dato' Richard Khoo	Executive Director and COO	<ul style="list-style-type: none"> - Appointed Chief Operating Officer on 1 January 2009. - Joined the group as a Project Coordinator in 1991 - Graduated with a Bachelor of Engineering (Civil Engineering) from University of Strathclyde (UK) in 1989
Siti Sarlina	Acting CEO	<ul style="list-style-type: none"> -Appointed Deputy CEO in 2015 and re-designated as Acting CEO in 2019 - Joined the group as a Quality Assurance Manager in 2002. Since 2005, she was directly involved in various projects undertaken by the group and assumed key positions such as Project Head and General Manager - Graduate of State University of New York at Buffalo with a degree in Aerospace Engineering in 1993, and also holds a Masters Degree in Human Resource Management from Open University Malaysia (OUM)
Ir. Tan Khoon Khian	Deputy COO	<ul style="list-style-type: none"> -Appointed Deputy COO in 2015 - Joined the group as a Construction and Planning Manager in 1996 and ascended to Chief Project Coordinator in 2011 - Graduate of University of Adelaide with a degree in Civil Engineering in 1987 and MBA from Herriot-Watt University in 1998

TRC

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UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
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