

HLIB Research

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BUY (Maintain)

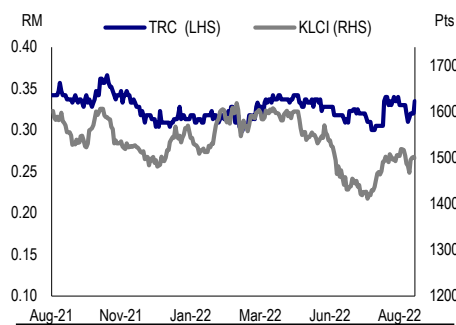
Target Price: RM0.40
Previously: RM0.40
Current Price: RM0.34

Capital upside 17.6%
 Dividend yield 2.9%
 Expected total return 20.5%

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	0.0	-1.5	-5.6
Relative	-0.5	1.4	0.8

Stock information

Bloomberg ticker	TRC MK
Bursa code	5398
Issued shares (m)	480
Market capitalisation (RM m)	163
3-mth average volume ('000)	69
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)	7.9	8.7	8.8

TRC Synergy

1HFY22 within expectations

TRC's 1HFY22 core PATAMI of RM9.8m was within our expectations. Core operations are generally improving but there are handover delays at its JV. Going forward, we expect TRC to be a beneficiary of upcoming railway project due to (i) extensive track record in mega railway projects and (ii) healthy balance sheet (net cash). To note, in the past TRC secured bumper contracts from previous mega railway projects. As for property, TRC is aiming to deliver its Perla@Ara Sentral (GDV: RM304m) in 4QCY22 with construction virtually completed. Maintain forecasts and BUY rating with unchanged TP of RM0.40. Trading near its NCPS (RM0.32) we deem TRC to be undervalued.

Within expectations. TRC reported 2QFY22 results with revenue of RM198.7m (+12.6% QoQ, +12.4% YoY) and core PATAMI of RM3.3 m (-48.8% QoQ, -4.1% YoY). This brings 1HFY22 core PATAMI to RM9.8m increasing by 8.0% YoY. We deem the results within expectations making up 52% of full year forecasts. No EIs have been assumed.

Dividends. No DPS was declared.

QoQ. Core PATAMI declined by -48.8% mainly due to unrealised forex gain of RM4.8m in 1QFY22. Operations-wise, TRC's operations continue to normalise with revenue and GP increasing by 12.6% and 43.8%. Improvements was anchored by its construction segment seeing a pick-up in billings while losses at its hotel segment continues to narrow, buoyed by higher occupancy rates (>50%). Profit contribution from property was flattish, where we expect a bigger pickup towards year end,

YoY. On a YoY basis performance was flattish with core PATAMI lower by -4.1%. Weaker contribution from share of JV (2QFY21: RM4.5m; 2QFY22: -RM0.2m) reversed an otherwise improved performance from its core operating divisions. The weakness from JV was brought about by delays in handover for its development at Wallan, Australia.

YTD. Despite a flattish top-line (-0.8%), bottom-line was higher by 8.0% aided by lower admin costs (-22.2%), lower finance costs (-37.2%) and lower taxation.

Outlook. Going forward, we expect TRC to be a beneficiary of upcoming railway project due to (i) extensive track record in mega railway projects spanning stations, viaducts and depots and (ii) healthy balance sheet (net cash). To note, in the past TRC secured bumper contracts past railway projects. TRC's unbilled orderbook currently stands at an estimated 1.4x cover, a thin cover ratio brought about by weak jobs flows in the past two years. As for property, TRC is aiming to deliver its Perla@Ara Sentral (GDV: RM304m) in 4QCY22 with construction virtually completed. We gather that it has garnered a strong overall take up of 83% (including affordable units) and should boost earnings later this year.

Forecasts. Maintained.

Maintain BUY; TP; RM0.40. Maintain BUY rating and unchanged SOP-driven TP of RM0.40 based on 50% discount. At our TP, TRC trades at a FY22f/23f/24f P/E multiple of 10.2x/10.3x/7.8x. 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. At current price trading near its NCPS (RM0.32 in 2QFY22) we deem TRC to be undervalued as we see the company as a key beneficiary of MRT3. Key upside risks: MRT3 contract wins; Downside risks: substantial project delays, higher costs pressure, labour shortage, politics and sluggish tourism recovery.

Figure #1 Quarterly results comparison

FYE Dec	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	176.7	176.4	198.7	12.6	12.4	378.1	375.1	(0.8)
EBIT	0.1	5.9	4.2	(28.7)	4,217.0	7.0	10.1	44.4
Finance cost	(2.4)	(1.6)	(1.6)	2.7	(32.0)	(5.0)	(3.2)	(37.2)
Share of JV	4.5	(0.2)	(0.2)	2.9	(104.4)	7.0	(0.4)	(105.5)
PBT	3.5	5.4	3.5	(35.5)	(1.0)	11.4	8.8	(22.6)
PAT	3.4	6.5	3.4	(46.7)	2.0	9.2	9.9	8.0
Core PATMI	3.5	6.5	3.3	(48.8)	(4.1)	9.1	9.8	8.0
Reported PATMI	3.5	6.5	3.3	(48.8)	(4.1)	9.1	9.8	8.0
Core EPS (sen)	0.7	1.3	0.7	(48.8)	(4.1)	1.9	2.0	8.0
EBIT margin (%)	0.1	3.3	2.1			1.8	2.7	
PBT margin (%)	2.0	3.0	1.7			3.0	2.3	
PATMI margin (%)	2.0	3.7	1.7			2.4	2.6	

Figure #2 SOP valuation for TRC

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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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)	6.0	7.9	8.7	8.8	6.7
EV/EBITDA (x)	6.5	8.3	7.5	7.5	6.3
DPS (sen)	1.0	1.2	1.0	1.0	1.3
Dividend yield	2.9%	3.5%	2.9%	2.8%	3.8%
BVPS (RM)	0.9	0.9	1.0	1.0	1.0
P/B (x)	0.4	0.4	0.4	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

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BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next -12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next -12 months.