

HLIB Research

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HOLD (from Buy)

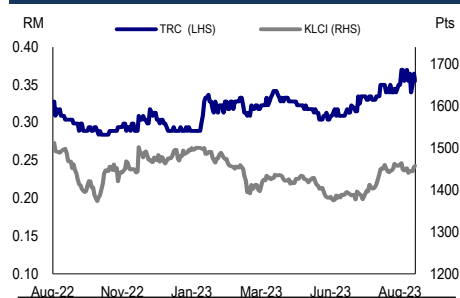
Target Price: RM0.38
Previously: RM0.38
Current Price: RM0.36

Capital upside 5.6%
Dividend yield 2.4%
Expected total return 8.0%

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	1.4	10.9	4.4
Relative	1.0	6.3	8.3

Stock information

Bloomberg ticker	TRC MK
Bursa code	5054
Issued shares (m)	480
Market capitalisation (RM m)	173
3-mth average volume ('000)	134
SC Shariah compliant	Yes
F4GBM Index	NA

Major shareholders

Tan Sri Sufri	37.2%
Dato' Abdul Aziz	28.2%

Earnings summary

	FY22	FY23f	FY24f
FYE (Dec)			
PATMI – core	21.2	12.2	18.9
EPS – core (sen)	4.4	2.5	3.9
P/E (x)	8.2	14.2	9.2

TRC Synergy

No room for more delays

TRC's 1HFY23 core PATAMI of RM3.6m missed expectations. Deviation was from weaker than expected construction and property margins. Unbilled orderbook is running low at RM480m (0.8x cover). This makes its MRT3 CMC301 tender a crucial win. Development of Phase 2 Ara could help plug future property earnings gap. Arbitration proceeds have boosted net cash per share to RM0.67. Scope for distribution depends on its MRT3 tender success. Cut FY23f/24f/25f earnings by -32.4%/-2.2%/-2.1%. Post recent share price run-up, we downgrade the stock to **HOLD** with unchanged SOP-driven TP of RM0.38.

Missing expectations. TRC reported 2QFY23 results with revenue of RM264.0m (84.0% QoQ, 32.9% YoY) and core PATAMI of RM1.1 m (-55.0% QoQ, -65.4% YoY). This brings 1HFY23 core PATAMI to RM3.6m decreasing by 26.2%. Results missed our expectations coming in at 19.3% of full year forecasts. Results miss came from weaker than expected construction and property margins.

Eis. We have adjusted 1QFY22 and 2QFY23 core PATAMI for unrealised forex gains of RM4.8m and RM8.8m respectively.

Dividends. No dividends was declared for the quarter.

QoQ. Core PATAMI fell by -55.0% on the back of weaker margins. Sequentially, GPM fell by 5.7ppts with weaker margins seen across all segments. There was also a 12.3% rise in admin costs further squeezing profitability in 2QFY23.

YoY. Similarly, core PATAMI declined by -65.4% driven by the margin weakness across the board. This more than offset the 32.9% improvement in revenue (property driven). Construction, its main profit engine declined by -16.6% (operating profit) possibly due to lower orderbook trends.

YTD. Core PATAMI declined by -26.2% offsetting a higher revenue performance of 8.6%. We attribute this to higher admin costs (+18.6%) and higher tax expense totalling RM3.2m in 1HFY23 (compared with tax credit of RM1.1m in 1HFY22).

Construction. Unbilled orderbook stands at RM480m, translating to 0.8x cover on FY22 construction revenue. The company has secured two projects in FY23 YTD (<RM40m). Based on its quarterly run rate, current orderbook could run for slightly more than 3 quarters. This makes its MRT3 CMC301 tender a crucial win. We continue to expect Tier 1 awards somewhere in 1Q24. Assuming an unsuccessful Tier 1 bid, TRC aims for RM600-800m wins as Tier 2 contractor (awards around 9-12 months after Tier 1 awards). On previous guidance, tenderbook amounted to RM3.8bn where we estimate ~RM3.0bn to be the MRT3 CMC301 tender. Remainder could consist of open tender road projects. MRT3 aside, there are opportunities in Sarawak for PBH Sarawak extension, SSLR as well as multiple "sick" projects to be resuscitated (est. value ~RM50m each).

Property. Construction of Phase 2 Ara Sentral (GDV: RM500m) is slated to commence in 4QFY23 and management expects to launch the project in 2024. Phase 2 is a mixed development consisting of retail units and serviced apartments. Approximately RM60-70m will be utilised to complete substructure works. Meanwhile in Australia, its JV continues to face challenges due to higher interest rates and strict lending conditions. Thus, we expect settlements to remain sluggish.

Forecasts. Cut FY23f/24f/25f earnings by -32.4%/-2.2%/-2.1% after adjusting for the miss.

Downgrade to HOLD; TP: RM0.38. Post recent share price run up, we downgrade the stock to a HOLD (from Buy) with unchanged TP of RM0.38 after rolling over to FY24. TRC sits on a net cash position of RM0.67 per share, exceeding its share price. Scope for distribution depends on its MRT3 success. At our TP, TRC trades at a FY23f/24f/25f P/E multiple of 15.0x/9.7x/8.9x. Key upside risks: MRT3 Tier 1 contract wins; Downside risks: weak replenishment, substantial project delays, higher costs pressure, labour shortage, politics and sluggish tourism recovery.

Figure #1 Quarterly results comparison

FYE Dec	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	198.7	143.5	264.0	84.0	32.9	375.1	407.5	8.6
EBIT	4.2	4.6	0.6	(86.5)	(85.2)	5.3	5.2	(1.0)
Finance cost	(1.6)	(1.7)	(1.9)	11.1	16.4	(3.2)	(3.5)	12.1
Share of JV	(0.2)	(0.4)	0.6	(241.5)	(385.1)	(0.4)	0.2	(142.4)
PBT	3.4	4.8	2.2	(52.8)	(33.7)	3.9	7.0	78.4
PAT	3.4	2.7	1.2	(56.1)	(65.4)	5.0	3.8	(23.8)
Core PATMI	3.3	2.5	1.1	(55.0)	(65.4)	4.9	3.6	(26.2)
Reported PATMI	3.3	2.5	9.9	294.3	203.6	9.7	12.4	27.2
Core EPS (sen)	0.7	0.5	0.2	(55.0)	(65.4)	1.0	0.8	(26.2)
EBIT margin (%)	2.1	3.2	0.2			1.4	1.3	
PBT margin (%)	1.7	3.3	0.9			1.0	1.7	
PATMI margin (%)	1.6	1.7	0.4			1.3	0.9	

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Figure #2 SOP valuation for TRC

SOP Component	Amount (RM/m)	Multiplie/ COE	Stake	Value	Per share
Subsidiary earnings ex. Hotel	17.4	7.0	100%	121.9	0.25
Element Hotel - Transaction comps	141.3		100%	141.3	0.29
Bandar Seri Alam land ~27 acres (BV)	12.2		100%	12.2	0.03
Net Cash ex. WC buffer	90.0		100%	90.0	0.19
SOP Value				365.3	0.76
Applied Discount		50%		(182.7)	(0.38)
SOP TP					0.38

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Financial Projections for TRC Synergy

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Cash	314.0	277.7	443.6	429.8	427.6
Receivables	438.6	530.7	252.2	318.9	337.5
Inventories	132.2	53.1	76.8	97.1	103.1
PPE	201.5	188.9	182.8	177.0	171.4
Others	76.8	76.1	75.7	80.9	82.6
Assets	1,163.1	1,126.5	1,031.1	1,103.7	1,122.2
Debts	163.0	159.5	169.5	149.5	129.5
Payables	492.8	409.2	296.9	375.5	398.6
Others	52.2	53.4	52.2	52.2	52.2
Liabilities	708.0	622.0	518.6	577.1	580.2
Shareholder's equity	450.3	496.0	507.7	521.8	537.2
Minority interest	4.8	8.5	4.8	4.8	4.8
Equity	455.0	504.5	512.4	526.6	542.0

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	24.2	26.9	16.7	24.8	27.3
Depreciation & amortisation	18.2	14.7	16.1	15.8	15.5
Changes in working capital	62.7	(175.8)	160.9	7.1	3.2
Taxation	(6.1)	(1.4)	(4.2)	(6.5)	(7.1)
Others	30.3	112.9	-	-	-
CFO	129.4	(22.7)	189.5	41.2	38.9
Net capex	7.5	(2.0)	(10.0)	(10.0)	(10.0)
Others	(5.1)	5.9	-	-	-
CFI	2.3	3.9	(10.0)	(10.0)	(10.0)
Changes in borrowings	(80.7)	(3.5)	10.0	(20.0)	(20.0)
Dividends paid	(5.8)	(5.8)	(2.4)	(4.7)	(5.1)
Others	(11.1)	39.9	-	-	-
CFF	(97.6)	30.6	7.6	(24.7)	(25.1)
Net cash flow	34.1	11.8	187.1	6.5	3.7
Forex	-	-	-	-	-
Others	7.7	(48.0)	(21.2)	(20.3)	(6.0)
Beginning cash	272.2	314.0	277.7	443.6	429.8
Ending cash	314.0	277.7	443.6	429.8	427.6

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	762.1	678.4	541.4	684.7	724.7
EBITDA	38.4	41.0	34.0	42.1	43.0
EBIT	20.2	26.4	17.9	26.2	27.5
Finance income/ (cost)	(4.9)	0.6	(1.1)	(1.4)	(0.2)
Associates & JV	0.1	0.3	0.3	0.3	0.3
Profit before tax	24.2	26.4	16.4	25.4	27.6
Tax	(6.1)	(1.4)	(4.2)	(6.5)	(7.1)
Net profit	18.1	25.0	12.2	18.9	20.5
Minority interest	2.5	(3.8)	-	-	-
PATMI (core)	20.7	21.2	12.2	18.9	20.5
Exceptionals	-	-	-	-	-
PATMI (reported)	20.7	21.2	12.2	18.9	20.5

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	4.3	4.4	2.5	3.9	4.3
P/E (x)	8.4	8.2	14.2	9.2	8.4
EV/EBITDA (x)	7.6	7.1	8.6	7.0	6.8
DPS (sen)	1.2	1.2	0.5	1.0	1.1
Dividend yield	3.3%	3.3%	1.4%	2.7%	3.0%
BVPS (RM)	0.9	1.0	1.1	1.1	1.1
P/B (x)	0.4	0.3	0.3	0.3	0.3
EBITDA margin	5.0%	6.0%	6.3%	6.1%	5.9%
EBIT margin	2.7%	3.9%	3.3%	3.8%	3.8%
PBT margin	3.2%	3.9%	3.0%	3.7%	3.8%
Net margin	2.7%	3.1%	2.3%	2.8%	2.8%
ROE	4.7%	10.0%	2.4%	3.7%	3.9%
ROA	1.8%	2.2%	1.1%	1.8%	1.8%
Net gearing	CASH	CASH	CASH	CASH	CASH

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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.
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