HLIB Research
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TRC Synergy

The wait continues

HOLD (Maintain)

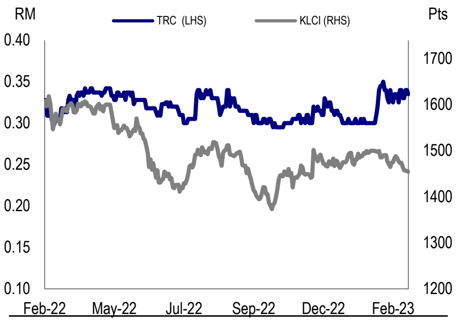
Target Price:	**RM0.34**
Previously:	**RM0.36**
Current Price:	**RM0.33**

Capital upside	3.0%
Dividend yield	2.4%
Expected total return	5.4%

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	-2.9	6.3	-1.5
Relative	-0.8	8.9	8.9

Stock information

Bloomberg ticker	TRC MK
Bursa code	5398
Issued shares (m)	480
Market capitalisation (RM m)	154
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

FYE (Dec)	FY22	FY23f	FY24f
PATMI – core	22.2	15.3	16.7
EPS – core (sen)	4.6	3.2	3.5
P/E (x)	7.1	10.4	9.5

TRC's FY22 core PATAMI of RM22.2m exceeded our expectations. Key deviation was lower than expected net finance expense and effective tax rate. Going forward, we see TRC as a high MRT3 beta stock due to (i) extensive track record in railways and (ii) weak replenishment pipeline aside from MRT3. Barring any significant realignment of the project, we expect awards only in 2H23. TRC's unbilled orderbook currently stands at an estimated 0.9x cover, a thin cover ratio brought about by weak jobs flows. Cut FY23/24 earnings by -11.3%/-13.1%. Maintain HOLD rating with lower SOP-driven TP of RM0.34.

Beat expectations. TRC reported 4QFY22 results with revenue of RM164.5m (19.4% QoQ, -31.7% YoY) and core PATAMI of RM9.5 m (214.3% QoQ, 53.5% YoY). This brings FY22 core PATAMI to RM22.2m increasing by 5.3% YoY. Results exceeded our expectations coming in at 122% of full year forecasts. Deviation came from lower than expected net finance expense and effective tax rate.

Dividends. No DPS was declared.

QoQ/YoY. Core PATAMI increased by 214.3% QoQ and 53.5% YoY boosted by higher profitability margins from construction and property segments. During the quarter there was recognition of final account for a completed project as well as upward revision of project margins for certain ongoing projects.

YTD. TRC saw core PATAMI increasing by 5.3% offsetting revenue decline of -11.2%. The lower top-line was felt across the board in construction, property and hotel segments. Nevertheless, bottom-line fared better due to TRC's leaner administrative costs which fell by -15.2% in FY22.

Outlook. Going forward, we see TRC as a high MRT3 beta stock due to (i) extensive track record in mega railway projects spanning stations, viaducts & depot and (ii) weak replenishment pipeline aside from MRT3. TRC is allegedly the preferred bidder for MRT3 CMC301 package (RM3.1bn) during the previous bidding round held last year, according to The Edge. Barring any significant realignment of the project, we expect awards only in 2H23. Elsewhere, TRC does have track record in executing infrastructure projects in Sarawak and Sabah and could benefit from sustained levels of DE in both states. Nonetheless, we gather that bidding competition is intense resulting in thin margins. TRC's unbilled orderbook currently stands at an estimated 0.9x cover, a thin cover ratio brought about by weak jobs flows.

Forecasts. Despite the earnings beat, we cut FY23/24 earnings forecasts by -11.3% and -13.1% post delaying contract win assumptions.

Maintain HOLD; TP: RM0.34. Maintain HOLD with lower SOP-driven TP of RM0.34 (from RM0.36) based on 50% discount. At our TP, TRC trades at a FY23f/24f P/E multiple of 10.7x/9.8x. We believe attaching a 50% discount (vs 20-30% for larger peers) is warranted considering its smaller size and weak replenishment in the last 3 years. NCPS remains rather healthy at RM0.24 (in 4QFY22), as such, further downside could be limited. 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	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	240.7	137.8	164.5	*19.4*	*(31.7)*	762.8	677.4	*(11.2)*
EBIT	5.5	3.2	9.0	*184.8*	*63.4*	20.8	22.2	*6.8*
Finance cost	(1.2)	(1.6)	0.1	*(107.2)*	*(109.6)*	(8.7)	(4.7)	*(46.2)*
Share of JV	0.8	(0.1)	(0.3)	*165.0*	*(138.4)*	8.8	(0.8)	*(109.5)*
PBT	5.5	2.7	11.1	*311.3*	*100.6*	24.8	22.5	*(9.4)*
PAT	3.6	3.1	9.5	*202.3*	*164.8*	18.6	22.5	*20.8*
Core PATMI	6.2	3.0	9.5	*214.3*	*53.5*	21.1	22.2	*5.3*
Reported PATMI	6.2	3.0	9.5	*214.3*	*53.5*	21.1	22.2	*5.3*
Core EPS (sen)	1.3	0.6	2.0	*214.3*	*53.5*	4.4	4.6	*5.3*
EBIT margin (%)	2.3	2.3	5.5			2.7	3.3	
PBT margin (%)	2.3	2.0	6.7			3.3	3.3	
PATMI margin (%)	2.6	2.2	5.8			2.8	3.3	

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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 - FY23	11.6	8.0	100%	92.5	0.19
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				**326.7**	**0.68**
Applied Discount		50%		(163.3)	(0.34)
SOP TP					**0.34**

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Figure #2 Financial forecast

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	753.9	762.1	677.4	652.0	644.0
EBITDA	49.1	38.4	37.2	38.0	39.7
EBIT	29.5	20.2	22.2	21.6	23.6
PBT	36.7	24.2	22.5	20.6	22.4
PAT	27.6	18.1	22.5	15.3	16.7
PATMI – Core	27.3	20.7	22.2	15.3	16.7
PATMI – Reported	27.3	20.7	22.2	15.3	16.7
Core EPS (sen)	5.7	4.3	4.6	3.2	3.5
P/E (x)	5.8	7.7	7.1	10.4	9.5
EV/EBITDA (x)	5.7	7.3	6.7	7.3	7.0
DPS (sen)	1.0	1.2	-	0.8	0.9
Yield (%)	3.0%	3.6%	0.0%	2.4%	2.6%
BVPS (RM/share)	0.9	0.9	1.0	1.0	1.0
P/B (x)	0.4	0.4	0.3	0.3	0.3
ROE (%)	6.4%	4.7%	4.8%	3.3%	3.5%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

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Stock rating definitions

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.