

16 Apr 2020

Hold

Price
 RM0.30

Target Price
 RM0.36

Market Data

Bloomberg Code	TRC MK
No. of shares (m)	471.3
Market cap (RMm)	139.0
52-week high/low (RM)	0.74 / 0.24
Avg daily turnover (RMm)	0.4
KLCI (pts)	1,386.5

Source: Bloomberg, KAF

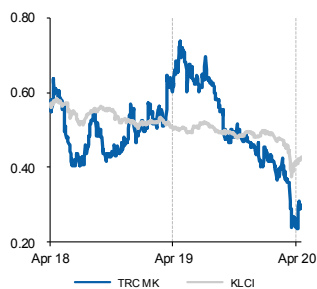
Major Shareholder (%)

TRC Capital	(12.4%)
Kolektif Aman	(12.2%)
Dato' Leong Kam Heng	(10.0%)
Free Float	47.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	13	(32)	(58)
Rel Market (%)	1	(22)	(51)



Source: Bloomberg, KAF

TRC Synergy

Resilient balance sheet

We maintain our Hold rating on TRC Synergy with a lower TP of RM0.35, factoring in the negative impact from an extended MCO and further weaknesses for its Australian operations. Its strong balance sheet (net cash of RM74m as of 31 December 2019) acts as a strong counterbalance against any unexpected cash flow needs in the near-term. This is supported by decent yields of 3%-5% and some share buybacks.

Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	755.7	840.0	758.4	838.2	897.0
Core net profit (RMm)	28.9	21.8	16.0	18.8	21.7
Core EPS (Sen)	6.0	4.5	3.3	3.9	4.5
EPS growth (%)	(23.2)	(24.5)	(26.9)	17.9	15.3
DPS (Sen)	1.9	1.3	1.0	1.2	1.5
Core PE (x)	8.9	12.3	8.9	7.5	6.5
Div yield (%)	3.5	2.3	3.4	4.1	5.1
ROE (%)	5.2	4.8	3.7	4.3	4.8
Net Gearing (%)	3.4	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.6	0.6	0.3	0.3	0.3

Source: Company, KAF

Maintain Hold; lower TP assigned

Our lower TP of RM0.35 (from RM0.46) is based on a wider discount to NAV (from 55% to 60% discount), and takes into account a one-and-a-half month impact from the government's Movement Control Order (MCO), which has been extended until 28 April. Due to the downtime, we predict that TRC will fall short of meeting its projected construction revenue of RM800m for this year, and therefore, lower our own forecast by 10% to RM719m.

By extension, we take down our new contract assumptions for FY20F from RM500m to RM300m as tender activities could be disrupted along with the recent change in federal administration.

We also conservatively project a lower take up rate of 25% (from 30%) for Phase 1 of Arra Residences, which has a GDV of RM300m.

While the long-term appeal of the transit oriented development (TOD) remains intact with initial bookings reaching ~70%, we think that the actual conversion into sales will soften amid increasing economic headwinds.

Early beneficiary of LRT 3 resumption

In mitigation, we expect TRC to benefit from a resumption of LRT 3, if submissions made to the Ministry of International Trade and Industry (MITI) for it to restart during the MCO receives a favourable response.

Note that TRC had earlier last month, signed a supplementary agreement (SA) with MRCB (MRC MK, RM0.51, Hold)-George Kent Holdings (GKENT MK, RM0.68, NC), the project's turnkey contractors for the Johan Setia Depot package.

Under the SA, TRC will continue with the depot works at a revised contract value of RM537m.

While this represents a reduction of 29% from the original contract value, the group hopes to scale up the project's returns through value engineering initiatives and tighter cost control.

Analyst

Mak Hoy Ken
 (603) 2171 0508
 mak.hoyken@kaf.com.my

Balance sheet resilience

TRC has one of the cleanest balance sheet among construction stocks under our coverage, sitting on a net cash position of RMxm as of 31 December 2019.

Except for an A\$30m loan taken up to build Element Melbourne Richmond, the group does not have any US\$ dollar or other foreign-denominated borrowings.

Given its financial strength and lean staff strength, we do not expect TRC to face any cash flow issues in the short-term. Furthermore, the borrowings taken up for its Australian hotel involve interest-only loans for three years.

TRC's share price is further supported by its decent yields of 3%-5%, based on a conservative payout of 30%-33% (minimum policy: 25%).

Other updates

Waiting for pick- up in domestic flows

With one eye on job opportunities in Sarawak, management remains hopeful that the government would move soon to reactivate bids for the East Coast Rail Line (ECRL).

From our channel checks, 12 smaller earthwork packages (<RM200m) under Section B (Dungun-Mentakab) had earlier been identified, and are now ready to be tendered out.

Besides, the three-month public inspection for Section C (Mentakab-Port Klang) ended two days ago, and on 24 February for Section A (Kota Bharu-Dungun).

With its involvement in the last few major railway projects in the country, TRC could also be in the mix for other major rail-based jobs, including the MRT 3, KL-Singapore High Speed Rail (HSR) and JB-Singapore Rapid Transit System (RTS).

We are however less sanguine on the timeline for these projects, in view of the government's tight fiscal position and transitional issues post the change of political guards.

To be sure, our revised new job win assumptions of RM300m is lower than the RM450m it won for last year (inclusive of RM135m worth of internal building works under Phase 1 of Arra Residences).

Australia not spared

As the Covid-19 outbreak spreads globally, the number of confirmed cases in the state of Victoria stands at 1,299, or roughly one fifth of total cases in Australia.

Unless people stay at home, the Victorian state government forewarned that the number of cases are expected to rise significantly in the coming weeks.

In response, the state of emergency in Victoria has been extended until 11 May.

While TRC's operations in Melbourne are still allowed to continue, the containment measures will inevitably affect its hotel and property businesses, in our view.

As a result, we have cut further, the projected number of land plots to be sold for its Springridge project to 25 and 35 (from 35 and 40) for FY20F and FY21F, respectively.

We have also pencilled-in a small loss for Element Melbourne Richmond in FY20F, as Covid-19 begins to take its toll on leisure and tourism activities in Melbourne.

Exhibit 1: NAV calculations

Division	Value (RM)		Method	Effective stake (%)	% of NAV
	m	per share			
Construction	174.2	0.36	7x FY20F net profit	various	41.5
Property					
Development projects					
Impian Senibong Phase 2, Permas Jaya, Johor	0.2	0.00	NPV @ 9%	100.0	
Ara Damansara TOD project, Selangor	63.9	0.13	NPV @ 9%	80.0	
Springridge Development, Wallan, Melbourne	14.3	0.03	NPV @ 11%	33.3	
Melton, Melbourne	1.1	0.00	NPV @ 11%	33.3	
Bandar Seri Alam, Masai (27 acres)	7.2	0.01	MV at RM8 psf	100.0	
Sub-total	86.6	0.18			20.6
Property Investment					
Element Melbourne Richmond Hotel (168 rooms)	70.6	0.15	MV at A\$150k per room	100.0	16.8
Other assets	13.9	0.03	FY18 net book value		3.3
Gross NAV	345.3	0.72			82.3
Net cash/(debt)	74.4	0.15	As at 31 Dec 2019		17.7
Total NAV	419.7	0.87			100.0
FD no of shares (m)	480.9				
NAV/share	0.87				
TP (less 60% discount to NAV)	0.35				
Upside (%)	18.3				
Discount to NAV (%)	(66.2)				
Implied PE	10.5				

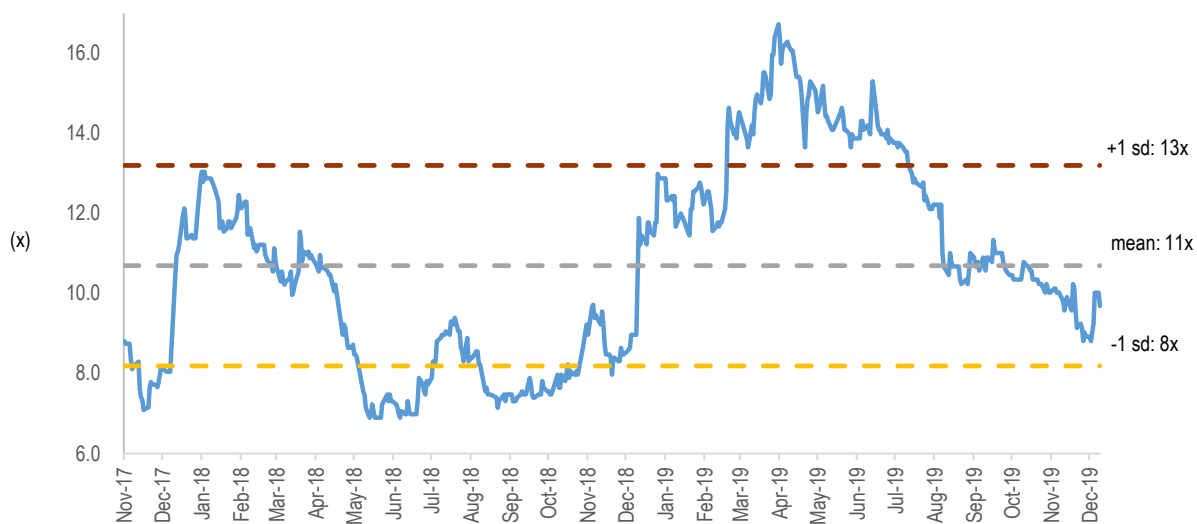
Source: Company, Bloomberg, KAF

Exhibit 2: Financial results

YE 31 Dec (RM m)	9M18	9M19	% YoY	2Q19	3Q19	% QoQ
Turnover	527.5	649.1	23.1	218.9	234.4	7.1
EBIT	30.4	24.8	(18.4)	0.6	4.3	631.3
Interest Expense	(3.3)	(4.0)		(1.2)	(1.1)	
Interest Income	3.4	5.1		2.0	1.9	
Pre-Exceptionals Profit	30.5	25.9		1.3	5.2	
Exceptionals	(5.8)	(2.9)		1.1	(2.7)	
Pre-Associates/JV Profit	24.7	23.0		2.5	2.5	
Associates/JVs	1.1	2.9		1.1	0.9	
Pretax Profit	25.8	26.0	0.5	3.6	3.3	(7.3)
Taxation	(9.5)	(9.4)		(0.6)	(3.0)	
Minority Interest	(0.4)	(0.4)		(0.2)	(0.1)	
Net Profit	16.0	16.1	1.1	2.8	0.3	(90.4)
Core Net Profit	21.8	19.1	(12.5)	1.7	3.0	72.5
Core EPS (sen)	4.5	4.0		0.4	0.6	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	0.85	0.88		0.90	0.88	
EBIT Margin (%)	5.8	3.8		0.3	1.8	
Pretax Margin (%)	4.9	4.0		1.6	1.4	
Effective Tax (%)	36.6	36.4		15.8	88.8	
Segmental Breakdown (RM m)						
Turnover						
Construction	581.0	767.1	32.0	239.1	301.9	26.2
Property development	64.2	31.8	(50.5)	9.0	2.6	(71.2)
Others	9.8	24.0	143.7	3.2	18.9	n/m
Eliminations	(127.5)	(173.8)	n/m	(32.4)	(89.0)	n/m
Total	527.5	649.1	23.1	218.9	234.4	7.1
Pre-tax profit						
Construction	37.6	28.1	(25.3)	(4.6)	11.0	n/m
Property development	1.6	4.8	197.3	1.7	2.5	50.4
Others	(10.1)	(1.0)	n/m	0.0	0.3	n/m
Eliminations	(3.2)	(5.9)	n/m	6.5	(10.5)	n/m
Total	25.8	26.0	0.5	3.6	3.3	(7.8)
Pre-tax margin (%)						
Construction	6.5	3.7		(1.9)	3.6	
Property development	2.5	15.0		18.7	97.9	
Others	n/m	(4.2)		0.6	1.6	
Total	4.9	4.0		1.7	1.4	

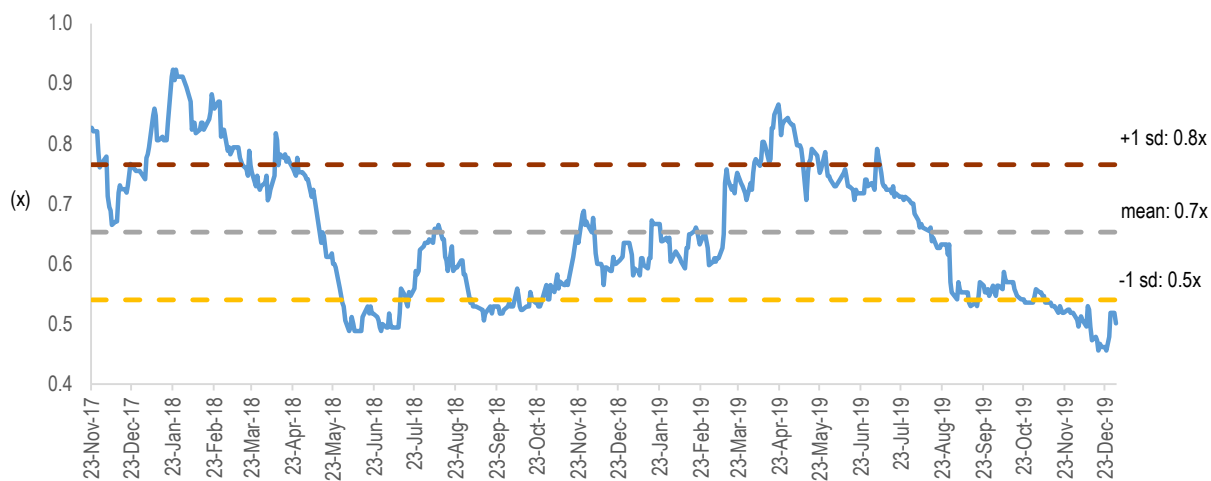
Source: Company, KAF

Exhibit 3: PE Band



Source: Company, Bloomberg, KAF

Exhibit 4: P/BV Band



Source: Company, Bloomberg, KAF

Exhibit 5: Arra Residences – key components

Synergy
ARRA RESIDENCES

FREEHOLD

BLOCK 4 Parcel A Serviced Apartment
 BLOCK 1A & 1B Parcel B Serviced Apartment
 BLOCK 3A & 3B Parcel C Serviced Apartment
 BLOCK 5 Parcel B Hotel & Serviced Apartment
 BLOCK 2 Parcel B Serviced Apartment
 BLOCK 6 Parcel D Office

Jalan Lapangan Terbang Subang
 Ara Damansara LRT Station

Transcend To A New Horizon Of Urbanity In A
T.R.U.L.Y Integrated Transit-Oriented-Development

T **TRANSITIONAL**
 Excellent connectivity encouraging regional-context's integration

R **Revolutionary**
 A "Live-Work-Play" living concept that's integrated with movement conveniences

U **Ultra-Urban**
 Multiple leisure, business and residential components that are enriched with urban facilities

L **Livable** Pedestrian-friendly, linked to LRT station, lush greenery and value-added with convenience retailers

Y **Yieldable**
 TOD-factor optimises yield return on investment

Block 3A & 3B
NOW OPEN FOR REGISTRATION!

Source: Company, KAF

Exhibit 6: Arra Residences – unit types



Varying, Practical & Well-Crafted Space and Design

- Various sizes of 550sf, 759sf, 891sf, 1019sf & 1271sf for different needs.
- Creative layout to capture best views.
- GBI certified.
- High speed internet provided.
- Fully equipped with lifestyle facilities such as swimming pools, gyms, children playgrounds, cafes & shops.



TYPE B2 1 Bedroom + 1 Bath
(48 Units)
550 sf



TYPE C1 2 Bedrooms + 2 Baths
(240 Units)
759 sf



TYPE D1 A 3 Bedrooms + 3 Baths
(36 Units)
1,271 sf



Source: Company, KAF

Exhibit 7: Arra Residences TOD



Lifestyle Amenities Nearby:

- Citta Mall, Oasis Square, TESCO Hypermarket, Saujana Golf and Country Club, Subang Parade, Subang Airport, Sime Darby Medical Centre
- Subang - Sg Buloh Corridor
- North Klang Valley Corridor (NKVE)
- East-West Klang Valley Corridor (Federal Highway)
- Kelana Jaya LRT Line Catchment Area



For Registration
Purchaser's Information:

Name : _____

Contact No. : _____

Email : _____

Please email to arrasales@trc.com.my or fax to **+6 03 - 4106 6348**



Source: Company, KAF

Exhibit 8: Location of Springridge, Wallan, Melbourne



Source: Google maps, KAF

Exhibit 9: Springridge Masterplan





springridge MASTERPLAN
WALLAN · VICTORIA

CALL 1300 854 127
625 NORTHERN HIGHWAY, WALLAN, VIC 3756

This plan is a representation of the proposed development to be approved by Mitchell Shire Council. Parties should note that while all reasonable care has been taken in the preparation of this plan it is intended for marketing purposes only. The actual constructed development is subject to change without notice and may vary from this illustration. Synergy Living & Pretty Sally Holdings Pty Ltd. disclaims all responsibility for any losses or claims that may arise as a result of the literal interpretation of this plan.

Source: Company, KAF

Exhibit 10: Different packages offered at Springridge

<p>Lot 751 Gardenia Avenue Wallan Stage 7B Kingsbridge Homes Land Size: 413(m²)</p>  <p>4 2 2 DOWNLOAD BROCHURE</p> <p>Starting from \$435,000*</p>	<p>Lot 727 Rose Ave Wallan Stage 7A Stroud Homes Land Size: 543(m²)</p>  <p>3 2 2 DOWNLOAD BROCHURE</p> <p>Starting from \$511,077*</p>	<p>Lot 705 Rose Ave Wallan Stage 7A Stroud Homes Land Size: 561(m²)</p>  <p>4 2 2 DOWNLOAD BROCHURE</p> <p>Starting from \$547,843*</p>
<p>Lot 8061 Lilac Ave Wallan Stage 8B Taylor Morrison Land Size: 561(m²)</p>  <p>3 2 2 DOWNLOAD BROCHURE</p> <p>Starting from \$511,283*</p>		

Source: Company, KAF

Exhibit 11: Display homes at Springridge

KINGSBRIDGE HOMES

THE ASHFORD 23

We're proud to be showcasing a home design from Kingsbridge Homes at Springridge. The Ashford 23' is a spacious four bedroom home features an ensuite and walk-in-robe within the master bedroom, an open living area and double garage. A great choice for a 12.5m block or larger.

Open: Mon – Fri: 12pm – 5pm
Sat – Sun: 12pm – 5pm

Phone Rawad Dbaissy 0448 339 559
18 Springridge Blvd, Springridge
www.kingsbridgehomes.com.au



Source: Company, KAF

Exhibit 12: Element Melbourne Richmond



Source: Company, KAF

Income Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Revenue	755.7	840.0	758.4	838.2	897.0
EBITDA	49.2	46.5	38.7	44.5	49.2
Depreciation/Amortisation	(11.8)	(16.0)	(19.0)	(19.9)	(20.5)
Operating income (EBIT)	37.4	30.5	19.7	24.6	28.7
Other income & associates	2.1	0.8	2.7	2.5	2.3
Net interest	0.6	2.6	(0.4)	(1.3)	(1.6)
Exceptional items	(8.0)	(2.0)	0.0	0.0	0.0
Pretax profit	32.0	31.9	22.0	25.8	29.5
Taxation	(10.8)	(11.7)	(4.8)	(5.5)	(5.9)
Minorities/pref dividends	(0.3)	(0.4)	(1.2)	(1.5)	(1.8)
Net profit	20.9	19.8	16.0	18.8	21.7
Core net profit	28.9	21.8	16.0	18.8	21.7

Balance Sheet

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	174.4	205.2	206.2	196.3	185.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	84.4	83.4	86.2	88.7	91.0
Total non-current assets	258.8	288.6	292.3	285.0	276.8
Cash & equivalent	201.2	280.8	261.2	250.2	229.8
Stock	17.3	16.4	16.9	18.6	19.9
Trade debtors	467.6	336.8	311.7	344.5	368.6
Other current assets	85.5	118.7	100.0	100.0	100.0
Total current assets	771.5	752.7	689.7	713.3	718.3
Trade creditors	391.0	401.3	337.2	340.9	331.0
Short-term borrowings	207.5	108.8	124.5	134.3	139.0
Other current liabilities	8.0	3.3	3.3	3.3	3.3
Total current liabilities	606.5	513.4	465.0	478.4	473.3
Long-term borrowings	7.7	97.7	75.9	63.2	47.4
Other long-term liabilities	2.1	2.5	2.5	2.5	2.5
Total long-term liabilities	9.8	100.1	78.4	65.6	49.9
Shareholders' funds	408.8	422.2	431.9	445.9	461.9
Minority interests	5.1	5.5	6.8	8.2	10.0

Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	32.0	31.9	22.0	25.8	29.5
Depreciation/Amortisation	11.8	16.0	19.0	19.9	20.5
Net change in working capital	(48.4)	108.8	(20.8)	(30.9)	(35.3)
Others	(12.4)	(21.2)	(7.6)	(8.1)	(8.2)
Cash flow from operations	(17.0)	135.5	12.6	6.8	6.4
Capital expenditure	(93.7)	(40.5)	(20.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	3.2	2.6	0.0	0.0	0.0
Others	0.3	0.0	0.0	0.0	0.0
Cash flow from investing	(90.2)	(37.9)	(20.0)	(10.0)	(10.0)
Debt raised/(repaid)	139.3	(8.8)	(6.0)	(3.0)	(11.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(13.5)	(9.1)	(6.3)	(4.8)	(5.8)
Others	(41.0)	(6.6)	0.0	0.0	0.0
Cash flow from financing	84.9	(24.5)	(12.3)	(7.8)	(16.8)
Net cash flow	(22.3)	73.1	(19.6)	(11.0)	(20.4)
Net cash/(debt) b/f	55.8	33.4	106.5	86.8	75.8
Net cash/(debt) c/f	33.4	106.5	86.8	75.8	55.5

Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	3.8	11.1	(9.7)	10.5	7.0
EBITDA growth (%)	(17.0)	(5.5)	(16.8)	15.0	10.6
Pretax margins (%)	4.2	3.8	2.9	3.1	3.3
Net profit margins (%)	2.8	2.4	2.1	2.2	2.4
Interest cover (x)	n/m	n/m	50.7	19.3	18.6
Effective tax rate (%)	33.7	36.6	21.9	21.4	20.2
Net dividend payout (%)	43.7	31.5	30.1	30.7	33.2
Debtors turnover (days)	226	146	150	150	150
Stock turnover (days)	9	8	9	9	9
Creditors turnover (days)	211	192	180	165	150

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)