

TRC Synergy Berhad

TP: RM0.51 (+41.7%)
Hit by Surging Tax Expenses
Last Traded: RM0.36
BUY (ESG: ★★★)

Raymond Ng Ing Yeow

Tel: +603-2167 9601

raymondng@ta.com.my

www.taonline.com.my

Review

- Excluding one-off items amounting to RM4.3mn, TRC reported disappointing core earnings of RM4.3mn in 9MFY24, representing only 28.1% and 33.7% of our and the street's full-year estimates, respectively. The shortfall was primarily due to a higher-than-expected effective tax rate, driven by non-tax-deductible items, including the reversal of property development costs totalling RM15.1mn.
- YoY, its 9MFY24 revenue declined sharply by 36.0%, mainly attributable to slower progress billing in the construction division and the deferred launch of a new phase in the property development division. Consequently, core earnings fell significantly by 49.1%, largely due to a surging effective tax rate (+35.4 ppt), which was impacted by non-tax-deductible items and an additional tax expense of approximately RM3.6mn arising from the reversal of property development costs.
- QoQ, its 3QFY24 core earnings barely broke even despite a substantial 44.9% revenue growth driven by higher revenue recognition in the construction division. This lacklustre performance was attributed to escalating effective tax expenses, which eroded profitability margins.
- Its net cash position decreased from RM267.0mn a quarter ago to RM255.9mn.

Impact

- Considering the weaker-than-expected results, we adjusted some of our assumptions for progress billing and project margins for certain construction projects. Meanwhile, we also incorporated a higher effective tax rate assumption. Consequently, our FY24-26F earnings estimates were reduced by 39.7%/0.5%/1.5%, respectively.

Outlook

- The group's outstanding construction order book is currently estimated at RM668.9mn, equivalent to approximately 1.0x FY23 revenue. Additionally, construction for TRC's Ara Sentral Phase 2 is expected to begin in mid-December 2024, ahead of the property project launch scheduled in 2QCY2026. With an estimated gross development value of RM500mn, this project could significantly boost the property division's contribution in FY26 and FY27.

Valuation

- We reiterate our **Buy** call on the stock with an unchanged target price of **RM0.51** based on unchanged 12x CY25 EPS.

Share Information

Bloomberg Code	TRC MK
Stock Code	5054
Listing	Main Market
Share Cap (mn)	471.3
Market Cap (RMmn)	169.7
52-wk Hi/Lo (RM)	0.53/0.345
12-mth Avg Daily Vol ('000 shrs)	828.3
Estimated Free Float (%)	26.7
Beta	1.0

Major Shareholders (%)

Kolektif Aman Sdn Bhd	-13.8%
TRC Capital Sdn Bhd	-12.6%
Tan Sri Dato' Sri Sufri Bin Hj Mohd Zin	-10.7%

Forecast Revision

	FY24	FY25
Forecast Revision (%)	(39.7)	(0.5)
Net profit (RMm)	9.2	20.2
Consensus	12.7	18.3
TA's / Consensus (%)	72.4	110.6
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	0.53	

Scorecard (%)

	% of FY	
vs TA	28.1	Below
vs Consensus	33.7	Below

Financial Indicators

	FY24	FY25
Net Gearing (%)	Net cash	Net cash
CFPS (sen)	-7.5	4.7
Price / CFPS (x)	(4.8)	7.7
ROA (%)	0.8	1.6
NTA/Share (sen)	1.1	1.2
Price/NTA (x)	0.3	0.3

Share Performance (%)

Price Change	TRC	FBM KLCI
1 mth	(10.0)	(0.9)
3 mth	(17.2)	(2.2)
6 mth	(28.0)	(1.0)
12 mth	0.0	10.3

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	678.4	679.5	480.0	630.0	780.0
EBITDA	58.3	38.4	22.3	31.9	38.1
EBITDA margin (%)	8.6	5.7	4.7	5.1	4.9
EBIT	43.7	25.9	7.6	16.3	21.7
Reported PBT	58.5	32.5	16.9	25.2	28.2
Core PBT	18.6	18.7	16.9	25.2	28.2
Reported net profit	53.3	25.3	9.2	20.2	22.4
Core profit	13.4	11.4	9.2	20.2	22.4
Core EPS (sen)	2.8	2.4	1.9	4.2	4.7
PER (x)	12.7	14.9	18.8	8.5	7.7
Gross dividend (sen)	1.2	1.2	1.5	1.5	2.0
Dividend yield (%)	3.3	3.3	4.2	4.2	5.6
ROE (%)	2.8	2.2	1.7	3.6	3.9

Table 2: 3QFY24 Results Analysis (RMmn)

FYE Dec	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	144.9	106.5	154.3	44.9	6.5	552.4	353.5	(36.0)
Operating profit	4.5	4.2	9.4	124.9	106.6	18.5	15.9	(14.1)
Finance cost	(1.7)	(1.6)	(6.2)	N.M.	N.M.	(5.2)	(9.5)	(82.8)
Share of results of joint ventures	(0.1)	2.0	1.1	(45.9)	N.M.	0.1	2.0	N.M.
Profit before taxation	6.1	7.3	7.5	1.7	22.7	21.9	17.6	(19.3)
Core PBT	5.2	7.4	4.5	(38.7)	(12.8)	12.0	13.4	11.5
Income tax expense	(0.2)	(2.0)	(4.3)	(109.6)	N.M.	(3.3)	(8.9)	168.1
PAT	5.9	5.3	3.2	(39.7)	(46.1)	18.5	8.7	(52.9)
Core net profit	5.0	5.4	0.1	(98.3)	(98.1)	8.4	4.3	(49.1)
Reported EPS (sen)	1.3	1.1	0.0	(100.0)	(100.0)	3.9	1.2	(69.8)
Core EPS (sen)	1.1	1.1	0.0	(98.3)	(98.1)	1.8	0.9	(49.1)
Cash dividend (sen)	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.
Margin (%):								
- Operating	3.1	3.9	6.1	2.2	2.9	3.3	4.5	1.1
- Core PBT	3.6	6.9	2.9	(4.0)	(0.6)	2.2	3.8	1.6
- Core PAT	3.4	5.1	0.1	(5.0)	(3.4)	1.5	1.2	(0.3)
- Effective tax rate	2.5	27.7	57.2	29.4	54.6	15.2	50.6	35.4

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Stock Recommendation Guideline

- BUY** : Total return of the stock exceeds 12%.
HOLD : Total return of the stock is within the range of 7% to 12%.
SELL : Total return of the stock is lower than 7%.
Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Noted visible efforts in reducing wastes through proper materials management.	The group has set up Yayasan TRC, a charitable arm that mainly focuses on corporate social responsibilities. The group is committed to offer employee training and development.	The board is represented by 55.6% independent directors. Relevant policies and procedures have been established to govern the group.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions. +5% premium to target price
- ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions. +3% premium to target price
- ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions. No changes to target price
- ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient. -3% discount to target price
- ★ (<20%) : Minimal or no integration of ESG factors in operations and management. -5% discount to target price

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As of Sunday, Wednesday, November 27, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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TA SECURITIES HOLDINGS BERHAD 197301001467 (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my