

HLIB Retail Research

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Loui LowLey Yee, MSTA
lylow@hlib.hongleong.com.my
(603) 2083 1727

Company description: TRC Synergy (listed in Aug 2002) is mainly involved in the construction, property development and hospitality businesses.

Technical Risk Profile



Financials and technical snapshots

Last price (RM)	0.635
1 Day Change (%)	-0.78
5 Day Change (%)	-2.31
1 Day Range Percentile (%)	100.00
5 Day Range Percentile (%)	40.00
52Wk High	0.765
52Wk Low	0.42
52Week Range Percentile (%)	62.32
Outlook (4-6 weeks)	Peniding a downtrend line breakout
Daily RSI	43.91
Daily Stochastics	65.52
Daily MACD	0.00
Average Volumes 90D ('000)	3.56
S1/S2	0.61 / 0.6
R1/R2	0.65 / 0.685
LT Technical Objective (RM)	0.765
Upside reward (%)	20.47
Stop Loss	0.59
Downside risk (%)	-7.09
HLIB Institutional TP (RM)	-
Bloomberg TP (RM)	0.75
Trading period (max)	4 Weeks
BVPS (RM)	0.89
P/BV (times)	0.71
Dividend yield (%)	2.99

Source: HLIB, Bloomberg

TRC Synergy

A good proxy to Sarawak mega infrastructure projects

As construction contract awards are expected to gain tractions in the mid to long term to kickstart the economy, TRC is a laggard play to mega projects revival in Peninsular Malaysia and also well-positioned for infrastructure boom in Sarawak (ahead of the state elections in Sept 2021), given its unique UPK licence and a strong 30 years of business presence. Valuations are undemanding at 5.7x (ex-cash 3.4x) FY20 PE (41% discount to its peers) and 0.71x P/B (44% lower than its peers), supported by strong outstanding order book of RM2.6bn (could last for the 3-4 years), solid balance sheet with RM0.25 net cash/share (39% of share price) and attractive 4.7-5.5% yields for FY20-21. Technically, the stock is poised for a flag breakout before moving higher to RM0.685-0.765 zones.

Figure #1 Daily chart: Pending a flag breakout



The investment case. The bases of our investment case for TRC are:

1) A “down-to-earth” contractor founded in 1980s with proven track record of execution capabilities and expertise. TRC’s strength lies in airport/seaport/marine base, rail infrastructures, specialised building, roads and highways jobs. TRC had completed over RM8bn value of contracts and is currently tendering over RM2bn of construction contracts.

2) Strong Sarawak presence. TRC has an additional appeal vis-à-vis its peers in West Malaysia as it is a good proxy to the infrastructure spending boom in East Malaysia, given its status as a Unit Pendaftaran Kontraktor Negeri Sarawak (UPK) registered contractor (issued by Sarawak state and this is a pre-requisite to bid for the state projects) and a strong presence of more than 30 years of business presence in Sarawak.

3) Potential projects in Sarawak include: i) Coastal Road Project (RM11bn), ii) 2nd Trunk Road Project (RM6bn), iii) Water Grid Project (RM8bn). Overall, we expect momentum of project flows in Sarawak to gain traction ahead of the next state elections which must be held before Sept 2021. Funding is available for implementation of these projects and is expected to come from Sarawak’s state reserves (c.RM31bn) which may insulate the projects from risk of reduction of federal government spending.

Property segment. Property development earnings and recurring income from the hospitality business in Melbourne are set to complement the group’s core construction business. For domestic property division, TRC is currently involved in the Transit Oriented Development (TOD) project at Ara Damansara LRT Station (RM1.1bn)

known as Ara Residence. In Australia, its ongoing property development projects are for Springridge Estate at Wallan, Australia (RM525m) and upcoming Bridge Road project in Melton, Australia (RM148m). TRC also has a 100%-stake in Element by Westin Hotel in Richmond, Melbourne, Australia. This 168-room hotel is valued at RM195m and has a 12-year lease agreement with Marriott International.

Undemanding valuations with solid balance sheet and order book. TRC is currently trading at undemanding 5.7x (ex-cash 3.4x) FY20 PE (41% discount to its peers) and 0.71x P/B (44% lower than its peers), supported by a strong outstanding order book of RM2.6bn which could last for the next 3-4 years. Moreover, TRC's balance sheet is sound with a net cash of RM123m at as 31 Mar 2019, translating to RM0.25/share (39% to share price) and helped TRC to consistently paying out more than 30% of net profit to shareholders.

Pending a flag breakout. Following the successful triangle breakout in March, TRC surged to a 52-week high at RM0.765 (22 Apr) before correcting 17% on profit taking at RM0.635 yesterday. We believe a bullish flag pattern is in the offing after 10 weeks of consolidation. When the trendline resistance near RM0.65 on the flag breaks, it is likely to trigger a next upleg towards RM0.685 (61.8% FR) before reaching our LT objective at RM0.765. Conversely, failure to break above RM0.65 will witness a retracement back towards RM0.61 (23.6% FR) and RM0.60 psychological levels. Cut loss at RM0.59.

Figure #2 Peers comparison

Stocks	Price (RM)	FY20E EPS (sen)	P/E (x)	BVPS (RM)	P/B (x)
TRC	0.635	11.2	5.7	0.89	0.71
GKENT	1.190	12.4	9.6	0.89	1.34
GBGAQRS	1.360	15.0	9.1	0.99	1.37
KERJAYA	1.410	12.5	11.3	0.82	1.72
KIMLUN	1.410	17.0	8.3	2.05	0.69
Average			9.6		1.3
TRC vs avg			-41%		-44%

Bloomberg

Figure #3 Financial Results

FYE 31 Dec	2016	2017	2018	2019E	2020E	2021E
Revenue (RM'm)	754	728	755	895	1,183	1,320
Core PATAMI (m)	27.9	29.7	21.2	38.0	54.0	60.0
Issued shares (m)	480.5	480.5	480.5	480.5	480.5	480.5
EPS (sen)	5.8	6.2	4.4	7.9	11.2	12.5
DPS (sen)	0.7	2.8	1.9	2.8	3.0	3.5
P/E (x)	10.9	10.3	14.4	8.0	5.7	5.1
DY (%)	1.0	4.4	3.0	4.4	4.7	5.5

Bloomberg

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% 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 in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

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.

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