

Research Team

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Recommendation: BUY

Current Price: RM 0.465

Previous Target Price: -

Target Price: RM 0.67

Upside/Downside: 44.1%

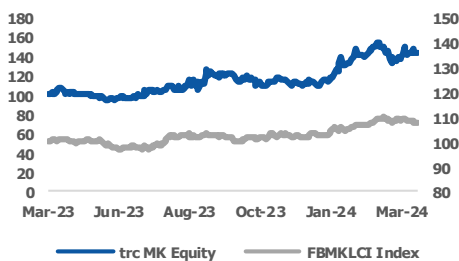
Stock information

Board	MAIN
Sector	Construction
Bursa / Bloomberg Code	5054 / TRC MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	471.3
Market Cap (RM' m)	219.1
52-Week Price Range (RM)	0.315-0.5
Beta (x)	0.7
Free float (%)	32.2
3M Average Volume (m)	1.2
3M Average Value (RM' m)	0.6

Top 3 Shareholders (%)

Kolektif Aman Sdn Bhd	13.8
TRC CAPITAL SDN BHD	12.6
Bin Haji Mohd Zin Sufri	10.7

Share Price Performance



	1M	3M	12M
Absolute (%)	1.1	25.7	38.8
Relative (%)	2.1	19.7	27.8

TRC Synergy Berhad

Construction Outfit Flying Under the Radar

Summary

- **Established construction player in the industry, primarily focuses on infrastructure projects, property development, and hotels in Melbourne, Australia.**
- **Core earnings is projected to accelerate from billings of current order book and anticipated strong replenishment. Additionally, in FY25F, TRC's earnings will further boost by the launch of the property segment Ara Sentral Phase 2.**
- **TRC is valued by pegging its FY24F core EPS of 4.45 sen to PE of 15.0x, leading to a FV of RM0.67 (44% potential upside from current price).**

Investment Highlights

- **Well established infrastructure constructor.** TRC Synergy Berhad (TRC) is a construction company specialises in diverse projects, including railways, highways, bridges, airports, submarine bases, port structures, prisons, stadiums, and high-rise buildings.
- **Eyeing on a slice of MRT 3 development** MRT3 Circle Line represents the final critical route required to complete the urban rail network in Kuala Lumpur, with its 50.8km alignment encircling the outskirts of the city. This project presents a significant opportunity for TRC, whom is among the bidders for the CMC301 packages, estimated at a value of RM3bn. Following the Group's track record of participation in mega railway projects such as MRT 1 & 2, LRT 3, and Depot, we believe TRC is well-positioned to secure a portion of this development. Should TRC unable to secure the turnkey contract for the development, we expect the Group to benefit from subcontracting works.
- **Aggressive tender.** After experiencing slower job replenishment in recent years, we anticipate TRC prospects will mark turning point in 2024, driven by the optimistic outlook of the construction sector in Malaysia. Potential improved sentiment is supported by several ongoing high-profile infrastructure projects. We gather that TRC be more capitalising on the favourable costing environment and increased opportunities. This is evident in the recent contract wins, such as the Subang airport and flood mitigation projects. We expect new orderbook replenishment over the near term will uplift outlook.
- **Sizable war chest and undemanding valuations.** TRC is operating in a net cash position of RM311.7m in FY23 and this translates to 1.4x of its current market cap. With c.RM100m of performance bond to be refund of 2024, we expect a more solid balance sheet to be equipped with stronger with further capacity to undertake expansions of additional projects. Meanwhile, with the cash rich position will enhance pricing competitiveness in project bidding and improved margins through internal financing of projects, rather than relying on bank loans and incurring interest expenses for construction and property development.
- **Well-positioned as Bumiputera contractor.** As a publicly listed Bumiputera contractor, TRC is well positioned in Government mandate over the involvement of

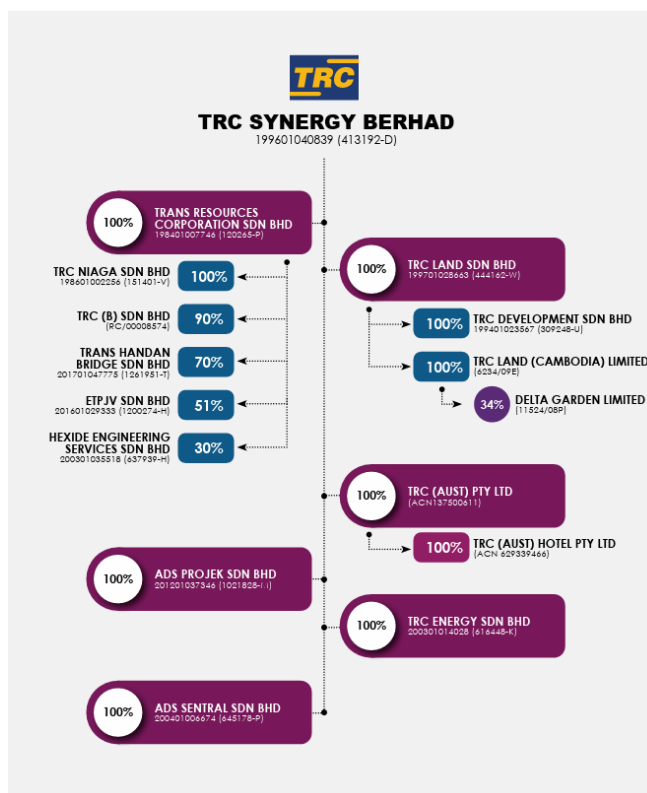
Bumiputera companies to promote broader socio-economic progress. TRC's status as both a Bumiputera contractor and a listed entity positions it favourably to fulfill these obligations, granting it a competitive edge over its counterparts. Moreover, TRC predominantly secures government-related projects, indicating its potential to capitalise on the government's substantial investments in infrastructure development.

- **Political tailwind to accelerate infrastructure development.** Following the political uncertainties experienced between 2018 and 2022, the political tailwind allows current Government to prioritise driving multi-billion Ringgit infrastructure development projects. With its robust balance sheet and proven track record, TRC is well-equipped to vie for contracts in major infrastructure endeavours such as MRT3, KUTS, Sabah Sarawak link road phase 2, Pan Borneo phase 1B, Penang LRT, and others. Additionally, the successful bid for the inaugural flood mitigation project from the government places TRC in prime position in securing further flood mitigation contracts in 2024, particularly from RM11.8bn high-priority flood mitigation infrastructure project
- **A foot in East Malaysia development.** We believe TRC will be able to capitalise from a multitude of opportunities arising in the development sector of East Malaysia, having effectively executed numerous projects and maintained close partnerships with two Bumiputera companies based in East Malaysia. Considering the relatively limited experience of local East Malaysian firms in handling large-scale infrastructure projects, we are confident that TRC is primed to leverage the region's swift development and forthcoming substantial infrastructure investments.
- **Property development boost.** The property development segment serves as a stable revenue stream for the Group, providing a buffer against potential challenges in procuring construction projects. TRC's flagship property project, Ara Sentral, with a total indicated GDV of approximately RM1.1bn, has achieved 100% take-up rate in Phase 1. The Group plans to commence Phase 2 in the 3Q24, with a launch scheduled for the 3Q25. We expect that progressing into Phase 2 will enhance the Group's earnings from property development segment.
- **Hotel business in Australia.** TRC possesses full ownership of a 4-star hotel in Melbourne, Australia, known as Element. Channel checks indicated that current estimated value of the hotel stands at approximately RM200.0m. Given TRC's current market capitalisation of RM223.0m, we believe the hotel's value isn't entirely reflected in the Group's books. We gather that the Group might be contemplating to dispose the hotel due to a low occupancy rate resulting from a decrease in tourist arrivals from China. Should the Group opt to divest the hotel business, the move may potentially strengthen the company's cash reserves and facilitates more efficient allocation of resources to its domestic construction projects.
- **Undemanding valuations.** Presently, TRC trades at a forward Price-to-Earnings Ratio (PER) of 10x and a Price-to-Book (PB) of 0.4x. By contrast, the Bursa construction index boasts an average forward PER of 15x and a forward PB of 0.9x. Despite these favourable aspects, we perceive TRC's shares to be undervalued, potentially due to lack of awareness due to limited coverage from research houses. We arrive a target price of RM 0.67/share by pegging P/E multiple of 15x to FY24F EPS of 4.45 sen. The assigned P/E are in line with Bursa Malaysia Construction index of forward P/E in 2024F at 15x, this also translates to a P/B ratio of 0.58x, which is lower than the industry average of 0.9x.

Company Background

- TRC was established in December 1996 and listed on the Main Market of Bursa in August 2002. The Group’s primary focus onto construction, encompassing a diverse portfolio of projects including railways, highways, bridges, airports, submarine bases, port structures, prisons, stadiums, and high-rise buildings.
- Construction activities have consistently contributed c.70.0% of its revenue since listing. TRC holds a G7 license and is recognized as a Bumiputra status contractor by the Construction Industry and Development Board (CIDB), allowing it to engage in projects of any scale and bid for contracts designated exclusively for Bumiputra contractors.
- TRC also engages in the manufacturing of concrete products, generating approximately 7% of its revenue. The said segment primarily serves to complement its construction operations. Meanwhile, the property division, TRC Land primarily focused on the development of ARA Sentral in Ara Damansara and PPAM in Putrajaya.
- Notable international ventures include the Element Hotel in Melbourne, Australia, operated by Marriott Hotels, and land plot sales in Wallan, Melbourne, through its Springridge Partnership. Additionally, TRC holds an associate stake in a property venture in Cambodia, although development progress in this venture has been limited thus far.

Corporate Structure



Source: TRC Synergy Bhd, Annual Report

Business Overview

- TRC operates across multiple business segments, including construction, property development, hotel operations, and others. Within construction, TRC handles contracts, material sales, and associated services. Property development primarily involves development of residential properties, while Hotel operations encompass activities related to hotels. TRC is actively involved in a broad spectrum of construction and infrastructure projects, ranging from railways and highways to buildings, airports, ports, bridges, and others.

Construction

- Over the past two years, the construction segment has consistently anchored the revenue and operating profit generation. In FY22, the said segment contributed 85% and 153% of revenue and operating profit, respectively, compared to 80% and 3% in the previous year, largely due to the settlement of an Arbitration Award and a reversal of credit loss allowances. Despite revenue decreased from tail-end of certain project completions, such as three MRT projects, the construction sector is well positioned for a recovery post Covid-19.
- In FY23, the Group also completed several projects such as the Pan Borneo Highway in Sarawak (Betong Section), MRSM in Ranau, and LRT3 Package TD2 in Johan Setia Depot. For the MRSM and LRT3 projects, however, both CPCs have yet to be issue.
- Recently, TRC secured a RM358m contract to refurbish buildings and infrastructure at Subang Engineering Complex A, Sultan Abdul Aziz Shah Airport, boosting TRC's order book to RM861.8m. With the recent success, concerns about the diminishing order book in the short term have eased. The orderbook replenishment highlights TRC's expertise in airport projects, demonstrated by past endeavours such as airfield rehabilitation in Brunei, Brunei Airport modernization, and Kota Bahru Airport upgrade. Additionally, Penang Airport's scheduled expansion in 2H24 further underscores TRC's role in the aviation sector.

Elevated Stations at Equine Park and Taman Putra Permai (Package S208)



Source: TRC Synergy, Annual Report

Viaduct Guideway and other associated works (Package V205)



Source: TRC Synergy, Annual Report

Serdang Maintenance Depot Terminal and other Associated Works (DPT201)



Source: TRC Synergy, Annual Report

Pan Borneo Highway, Sarawak



Source: TRC Synergy, Corporate Presentation

Building refurbishment and infrastructure at Subang Engineering Complex A, Sultan Abdul Aziz Shah Airport



Source: The Star, Subang Airport deal a positive for TRC Synergy

Property Development

- Over at the property development, the flagship project namely PERLA Residentials comprising 648 units in Ara Damansara was completed in 4Q22 and has successfully handed over sold units to purchasers three months ahead of schedule, with 96.5% take up rate. PERLA was also rated 74 points in the Quality Assessment System for Building Construction Works (QLASSIC) by the Construction Industry Development Board (CIDB), exceeding the 70-point target. Encouraged by these achievements, the division expedited the rollout of the second phase of the Ara Damansara development in 2H23. Another ongoing project, Perumahan Penjawat Awam Malaysia (PPAM) in Precinct 18 Putrajaya, a joint venture with Putrajaya Corporation (PJC), was completed in June 2023, consisting of 500 units of apartments named "Dalur" for government servants. As part of the joint venture agreement, TRC Land Sdn Bhd (TRCL) will receive a 2-ac piece of land adjacent to Dalur for future development, with the ownership transfer currently underway.

PERLA Residentials



Source: TRC Synergy, Annual Report

Pembangunan Perumahan Awam Malaysia (“PPAM”)



Source: TRC Synergy, Annual Report

Ongoing projects

- There are still ongoing projects such as the Mixed Development Tower in Precinct 8, Putrajaya (“8MD3”), and the BNM MINT Modernisation Project. Section 1 of the 8MD3 project has been completed, and it is anticipated to be fully completed by the end of 2024. Similarly, Phase 1 of the BNM MINT Modernisation Project has been concluded, with Phase 2 expected to be completed by July 2024.

Mixed Development Tower, Precinct 8, Putrajaya (“8MD3”)



Source: TRC Synergy, Corporate Presentation

BNM MINT Modernisation Project



Source: TRC Synergy, Corporate Presentation

Hotel

- The group established its presence in Australia in 2009 through its wholly-owned subsidiary, TRC (Aust) Pty Ltd, which operates in both Property Development and Hospitality segments. The hotel, Element Melbourne Richmond, is a freehold 5-storey property comprising 168 beds. In 2017, TRCA signed a 12-year operating service agreement with Starwood Australia to manage this 4-star property. Starwood Australia, affiliated with Marriott International, acquired Starwood Hotels & Resorts Worldwide Inc. in September 2016 for US\$13bn (RM53.8bn). The hotel is situated within the Botanica Corporate Park in Burnley, Melbourne, Australia, the hotel holds a 4.5-star rating and operates under the Marriott International Group. Positioned approximately 3-4km from Melbourne's Central Business District (CBD), it enjoys convenient accessibility via various public transportation options.
- The inauguration of Element reflects TRC Synergy's strategic commitment to sustainable tourism assets and lifestyle communities in Melbourne's hospitality sector and its presence in property development and home-building businesses across Victoria. In FY23, the hotel segment experienced a 15% growth in revenue compared to the preceding year, increasing from RM19.8m to RM22.8m. Improvement is primarily attributed to the tourism recovery in Australia post Covid-19 lockdown. In 9M23, international visitors recorded 6.1m trips to Australia, doubling from the previous year's 3.4m trips in the whole of 2022.

Element by Westin Hotel in Melbourne



Source: TRC Synergy, Annual Report

Industry Overview

- Malaysia's construction sector is demonstrating signs of recovery following the Covid-19 pandemic. According to Malaysia's 3Q23 GDP report, the construction industry has sustained a positive growth trajectory, recording a 9.6% yoy increase, with completed project values amounting to RM33.4bn. This growth has been predominantly fuelled by civil engineering projects, including road and railway construction (+17.1% yoy), as well as special trades activities (+16.2% yoy), and residential buildings (+7.9% yoy). These gains have offset a slight decline of -0.7% yoy in non-residential buildings. Private sector investments constituted 58.5% or RM19.6bn of the market share, with the remaining 41.5% or RM13.9bn attributed to the public sector.
- The construction index rose 25.8% yoy to 191.93 pts in 2023 alongside with the recovery in construction activities. Looking ahead to 2024, the sector is positioned for a more optimistic outlook, propelled by several factors fostering growth and progress. One notable catalyst is the Malaysian government's rollout of the New Industrial Master Plan 2030, aimed at reshaping the nation's manufacturing sector into a high-value, technology-led, and globally competitive industry by the year 2030.
- According to Malaysia Construction Industry Databook Series analyst report, Malaysia's construction sector is anticipated to sustain consistent growth over the coming four quarters, with a forecasted Compound Annual Growth Rate (CAGR) of 5.5% spanning 2023 to 2027. By the year 2027, Malaysia's construction output is expected to hit RM241.1bn.
- Looking ahead to 2024, the construction sector is expected to speedup, driven by political tailwind following favourable outcome from state elections. The upswing will be further supported by the launch of several major infrastructure projects and increased allocation for development expenditure under the 12th Malaysia Plan mid-term review, aimed at stimulating economic growth. Key projects include East Coast Highway 3, flood-mitigation projects, West Coast Expressway, East Coast Rail Link, Central Spine Road, Mass Rapid Transit 3 (MRT3) starting in 1Q24, Bayan Lepas Light Rapid Transit (BLLRT) in Penang, Pan Borneo Highway (Sabah section), and Johor-Singapore Rapid Transit System.

Financial Highlights

- In FY23, TRC's revenue and core net profit recorded at RM713.9m and RM12.7m, respectively. There was a 15% yoy decrease in core net profit, primarily attributed to diminished contributions from the property sector, which incurred losses. On a brighter note, the construction segment exhibited strong performance in the final quarter, primarily from acknowledgment of final billings during that period.
- Moving forward, we anticipate core net profit will hit RM21.3m in FY24F and RM22.5m in FY25F, respectively. Growth is expected to be supported by the current order book and anticipated strong replenishment. Additionally, in FY25F, TRC's earnings will further boost by the launch of the property segment Ara Sentral Phase 2.

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	762.1	678.4	678.7	664.2	713.9
EBITDA	38.4	58.3	38.1	41.2	42.8
Pre-tax Profit	24.2	58.5	32.2	27.0	28.6
Profit After Tax	18.1	57.1	25.7	20.8	22.0
Net Profit	20.7	53.4	25.3	21.3	22.5
Core Net Profit	20.2	21.2	12.7	21.3	22.5
Core EPS (sen)	11.3	10.8	18.0	10.7	10.1
Core P/E (x)	2.5	2.5	2.5	2.5	2.5
Dividend Yield (%)	2.6	2.6	0.00	4.2	2.6
P/B (x)	0.5	0.4	0.4	0.4	0.4
ROE (%)	7.5%	20.2%	8.4%	7.2%	7.7%
Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Apex Securities

Valuation & Recommendation

- We favour TRC for its undemanding valuations and its position to capitalise on rapid infrastructure development initiatives by the government. We encourage investors to accumulate shares given its attractive risk-reward profile. This is further reinforced by the Group's robust balance sheet and cash-rich position.
- Our target price of RM0.67 is derived by applying a P/E multiple of 15x to the FY24F EPS of 4.5 sen. This assigned P/E is in line with the forward P/E of 15x for the Bursa Malaysia Construction index in 2024F. Additionally, this translates to a P/B of 0.6x, which is lower than the industry average of 0.9x.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY23	FY24f			
TRC Synergy Bhd	MAIN	Dec	0.475	228.2	9.0	9.0	-	678.7	25.3
FajarBaru Builder Grp Bhd	MAIN	Jun	0.360	268.1	-	59.6	-	319.3	4.5
Tuju Setia Berhad	MAIN	Dec	0.200	63.4	-	-	-	586.0	-8.9
Nestcon Berhad	ACE	Dec	0.355	251.4	72.0	71.8	-	775.2	3.5
GDB Holdings Berhad	MAIN	Dec	0.265	248.4	30.9	31.1	-	248.4	8.0
Naim Holdings Berhad	MAIN	Dec	0.840	431.6	12.3	12.3	-	317.0	35.0
KimLun Corporation Berhad	MAIN	Dec	0.990	349.9	49.6	49.3	-	852.6	7.1
Mitrajaya Holdings Bhd	MAIN	Dec	0.265	205.7	14.6	14.6	-	294.8	14.1
Avg TRC Synergy Bhd					25.6	34.1	-	484.7	9.0

Source: Bloomberg, Apex Securities

Investment Risk

- Challenging cost environments on labour, material cost.
- Failure of orderbook replenishment, particularly from mega infra projects.

APEX SECURITIES BERHAD – CONTACT LIST

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General Line: (603) 7620 1118		

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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