

HLIB Research

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HOLD (Maintain)

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

Capital upside	5.9%
Dividend yield	2.8%
Expected total return	8.7%

Sector coverage: Construction

Company description: TRC is involved in construction (infra focused), property development and hospitality segments.

Share price



	1M	3M	12M
Historical return (%)	6.8	-1.6	-7.4
Absolute	3.9	-0.9	-5.3
Relative			

Stock information

Bloomberg ticker	TRC MK
Bursa code	5054
Issued shares (m)	480
Market capitalisation (RM m)	163
3-mth average volume ('000)	69
SC Shariah compliant	Yes
F4GBM Index	NA

Major shareholders

Tan Sri Sufri	37.2%
Dato' Abdul Aziz	28.2%

Earnings summary

	FY21	FY22f	FY23f
FYE (Dec)			
PATMI – core	20.7	18.2	17.2
EPS – core (sen)	4.3	3.8	3.6
P/E (x)	7.9	9.0	9.5

TRC Synergy

Positive resolution

TRC announced it has obtained the final award from the Singapore International Arbitration Centre amounting to ~RM75M, by our estimates. While TRC has not indicated for a potential special div, we flag possibilities of such a pay-out considering solid balance sheet and dwindling orderbook. A reasonable 10-30% pay-out ratio translates to yields of 4.6-13.7%. No change to forecasts as financial impact is non-core. Despite potential uplift to the stock on a total return basis, we retain our HOLD rating and unchanged SOP-driven TP of RM0.36 considering: (i) the company has not cement its intention to distribute proceeds and (ii) uncertain earnings prospects due to infrequent contract wins. At our TP, TRC trades at a FY22f/23f/24f P/E multiple of 9.4x/9.9x/8.9x. Key upside risks: MRT3 contract wins; special dividend. Downside risks: substantial project delays, higher costs pressure, labour shortage, politics and sluggish tourism recovery.

NEWSBREAK

TRC announced it has obtained the final award from the Singapore International Arbitration Centre against Brunei Economic Development Board in relation to the Brunei International Airport modernisation project. Under the judgement, TRC is awarded: (i) BND13m plus simple interest of 5.33% pa from 23 Oct-17 until payment date; (ii) BND3.3m plus simple interest of 5.33% pa from 23 May-18 until payment date; (iii) SGD2.2m for legal and other costs and (iv) SGD75k for arbitration costs.

HLIB'S VIEW

Good outcome. Based on our estimates, the above award including accrued interest amounts to approximately RM75m (~46% of market cap). The company will now focus on successful enforcement of the above award. According to management, at present TRC does not owe subcontractors or suppliers for the Brunei project. Our estimated RM75m could therefore be close to the nett amount to be received and retained by the company. TRC has not declared its intention to distribute the proceeds as special dividends pending payment but we believe based on current working capital needs and NCPS of RM0.29, there could be one going forward. Assuming a reasonable 10-30% pay-out ratio translates to yields of 4.6-13.7%.

Forecasts. Maintained as financial impact is non-core.

Maintain HOLD; TP; RM0.36. Despite potential uplift to the stock on a total return basis, we retain our HOLD rating and unchanged SOP-driven TP of RM0.36 considering: (i) the company has not cemented its intention to distribute proceeds and (ii) uncertain earnings prospects due to infrequent contract wins. At our TP, TRC trades at a FY22f/23f/24f P/E multiple of 9.4x/9.9x/8.9x. We believe attaching a 50% discount (vs 20-30% for larger peers) is warranted considering its smaller size and weak replenishment in the last 2 years. Key upside risks: MRT3 contract wins; special dividend. Downside risks: substantial project delays, higher costs pressure, labour shortage, politics and sluggish tourism recovery.

Figure #1 **SOP valuation for TRC**

SOP Component	Amount (RM/m)	Multiplie/ COE	Stake	Value	Per share
Subsidiary earnings ex. Hotel - FY23	13.5	8.0	100%	108.0	0.22
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				342.2	0.71
Applied Discount		50%		(171.1)	(0.36)
SOP TP					0.36

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Financial Projections for TRC Synergy

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Cash	272.2	314.0	324.0	400.5	396.8
Receivables	442.2	438.6	442.5	320.0	318.6
Inventories	143.9	132.2	142.9	110.7	109.7
PPE	220.5	201.5	194.8	188.4	182.3
Others	96.5	76.8	77.2	77.2	80.3
Assets	1,175.3	1,163.1	1,181.6	1,096.8	1,087.6
Debts	243.8	163.0	173.0	183.0	163.0
Payables	433.7	492.8	487.7	380.0	376.4
Others	55.8	52.2	52.2	52.2	52.2
Liabilities	733.2	708.0	712.9	615.2	591.6
Shareholder's equity	434.8	450.3	463.9	476.8	491.2
Minority interest	7.3	4.8	4.8	4.8	4.8
Equity	442.1	455.0	468.7	481.6	496.0

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	36.7	24.2	21.9	20.3	22.7
Depreciation & amortisation	19.6	18.2	16.8	16.4	16.1
Changes in working capital	(92.8)	62.7	(10.1)	17.8	(2.1)
Taxation	(9.0)	(6.1)	(3.2)	(6.0)	(6.6)
Others	22.4	30.3	-	-	-
CFO	(23.2)	129.4	25.4	48.6	30.0
Net capex	(9.9)	7.5	(10.0)	(10.0)	(10.0)
Others	10.2	(5.1)	-	-	-
CFI	0.3	2.3	(10.0)	(10.0)	(10.0)
Changes in borrowings	24.1	(80.7)	10.0	10.0	(20.0)
Dividends paid	(4.8)	(5.8)	(4.5)	(4.3)	(4.8)
Others	(4.8)	(11.1)	-	-	-
CFF	14.6	(97.6)	5.5	5.7	(24.8)
Net cash flow	(8.3)	34.1	20.8	44.3	(4.8)
Forex	-	-	-	-	-
Others	(13.3)	7.7	(10.8)	32.2	1.0
Beginning cash	293.9	272.2	314.0	324.0	400.5
Ending cash	272.2	314.0	324.0	400.5	396.8

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	753.9	762.1	769.2	687.0	684.0
EBITDA	49.1	38.4	41.7	40.6	43.1
EBIT	29.5	20.2	25.0	24.2	27.0
Finance income/ (cost)	(3.1)	(4.9)	(3.1)	(4.0)	(4.3)
Associates & JV	1.3	0.1	0.3	0.3	0.3
Profit before tax	36.7	24.2	21.3	23.2	25.8
Tax	(9.0)	(6.1)	(3.2)	(6.0)	(6.6)
Net profit	27.6	18.1	18.2	17.2	19.2
Minority interest	(0.4)	2.5	-	-	-
PATMI (core)	27.3	20.7	18.2	17.2	19.2
Exceptionals	-	-	-	-	-
PATMI (reported)	27.3	20.7	18.2	17.2	19.2

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	5.7	4.3	3.8	3.6	4.0
P/E (x)	6.0	7.9	9.0	9.5	8.5
EV/EBITDA (x)	6.5	8.3	7.6	7.9	7.4
DPS (sen)	1.0	1.2	0.9	0.9	1.0
Dividend yield	2.9%	3.5%	2.8%	2.6%	2.9%
BVPS (RM)	0.9	0.9	1.0	1.0	1.0
P/B (x)	0.4	0.4	0.4	0.3	0.3
EBITDA margin	6.5%	5.0%	5.4%	5.9%	6.3%
EBIT margin	3.9%	2.7%	3.2%	3.5%	3.9%
PBT margin	4.9%	3.2%	2.8%	3.4%	3.8%
Net margin	3.6%	2.7%	2.4%	2.5%	2.8%
ROE	6.4%	4.7%	8.7%	3.7%	4.0%
ROA	2.3%	1.8%	1.9%	1.5%	1.8%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Contracts secured	114	43	-	800	500

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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.