

## TRC Synergy Berhad

Won an RM60.2mn Arbitration Award

**TP: RM0.43** (+26.5%)

Last Traded: RM0.34

**BUY (ESG: ★★★)**

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### Won an RM60.2mn Arbitration Award

The Singapore International Arbitration Centre has ordered the Brunei Economic Development Board (BEDB) to pay 18.7mn Brunei dollars (RM60.2mn) to Trans Resources Corporation Sdn Bhd, a wholly-owned subsidiary of TRC Bhd (TRC), over a dispute pertaining to a contract to modernise the Brunei International Airport Terminal. BEDB is required to pay the total sum within 14 days from Jan 16, 2023.

Recap, TRC initiated the arbitration proceedings against BEDB over the dispute pertaining to the airport terminal works contract in January 2020. The group claimed for the payment of amounts wrongfully deducted by BEDB from the sums due to TRC and compensation for losses suffered by TRC as a result of certain acts and/or omissions of BEDB.

### Our View

We are positive about the news as the prolonged dispute with BEDB has finally ended, while TRC is entitled to receive RM60.2mn or 12.5sen/share as compensation, which will help the group further strengthen its capital position. If we assume the payment receives within the timeline, the net cash of TRC is estimated to improve from RM140.2mn as of end-September 2022 to RM200.4mn.

### Impact

After factoring in higher interest income, we raise FY23 and FY24 earnings forecasts by 4.6% and 4.0%.

### Valuation

Upon revising the earnings forecasts and rolling forward our valuation base year to CY24, we tweaked the target price higher from RM0.38 to **RM0.43**, based on unchanged 8x CY24 earnings. Maintain a **Buy** call on the stock.

### Share Information

Bloomberg Code	TRC MK
Stock Code	5054
Listing	Main Market
Share Cap (mn)	480.5
Market Cap (RMmn)	163.4
52-wk Hi/Lo (RM)	0.36/0.295
12-mth Avg Daily Vol ('000 shrs)	89.3
Estimated Free Float (%)	27.0
Beta (x)	0.6

### 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

	FY23	FY24
Forecast Revision (%)	4.6	4.0
Net Profit (RMm)	23.8	25.9
Consensus	20.0	22.1
TA's / Consensus (%)	118.9	117.2
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	0.37	

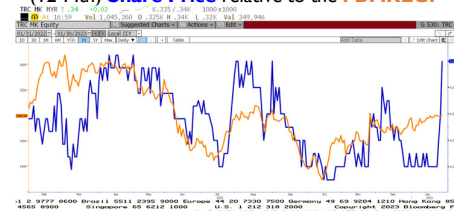
### Financial Indicators

	FY23	FY24
Net Gearing (%)	Net cash	Net cash
CFPS/share (sen)	23.0	5.1
P/CFPS (x)	1.5	6.6
ROA (%)	1.9	1.9
NTA/Share (RM)	1.2	1.2
Price/NTA (x)	0.3	0.3

### Share Performance (%)

Price Change	TRC	FBM KLCI
1 mth	13.3	0.3
3 mth	13.3	3.6
6 mth	1.5	0.5
12 mth	6.3	(1.4)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Earnings Summary**
**Profit & Loss (RMmn)**

YE Dec 31	2020	2021	2022F	2023F	2024F
Revenue	753.9	762.1	745.0	790.0	830.0
EBITDA	49.1	38.4	35.8	79.7	42.1
Depreciation	(10.4)	(11.5)	(11.5)	(12.5)	(12.7)
EBIT	29.5	20.2	21.5	64.0	25.6
Finance cost	(9.3)	(8.7)	(7.5)	(8.4)	(8.3)
PBT	36.7	24.2	18.4	69.5	32.0
Taxation	(9.0)	(6.1)	(4.4)	(7.0)	(7.7)
NCI	0.4	(2.5)	(1.0)	(1.2)	(1.6)
Net profit	27.3	20.7	14.9	63.8	25.9
Core net profit	23.9	22.2	14.9	23.8	25.9
GDPS (sen)	1.0	1.2	1.3	1.4	1.5
Share dividend (%)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	2.9	3.5	3.8	4.1	4.4

**Cash Flow (RMmn)**

YE Dec 31	2020	2021	2022F	2023F	2024F
PBT	36.7	24.2	18.4	69.5	32.0
Adjustments	9.0	15.4	15.0	60.5	15.4
Changes in WC	(65.1)	94.9	17.4	12.8	11.7
Interest & tax	(3.7)	(5.1)	(0.4)	(1.6)	(2.1)
<b>Operational cash flow</b>	<b>(23.2)</b>	<b>129.4</b>	<b>50.4</b>	<b>141.2</b>	<b>57.0</b>
Capex	(2.7)	(0.4)	(30.0)	(18.0)	(17.0)
Others	3.0	2.8	(2.4)	(5.1)	(5.1)
<b>Investment cash flow</b>	<b>0.3</b>	<b>2.3</b>	<b>(32.4)</b>	<b>(23.1)</b>	<b>(22.1)</b>
Debt raised/(repaid)	15.7	(63.9)	6.0	(1.0)	(3.0)
Dividend	(5.2)	(4.7)	(6.2)	(6.7)	(7.2)
Others	4.0	(29.0)	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>14.6</b>	<b>(97.6)</b>	<b>(0.2)</b>	<b>(7.7)</b>	<b>(10.2)</b>
<b>Net cash flow</b>	<b>(8.3)</b>	<b>34.1</b>	<b>17.7</b>	<b>110.4</b>	<b>24.7</b>
<b>Beginning cash</b>	<b>109.7</b>	<b>101.6</b>	<b>135.8</b>	<b>153.5</b>	<b>263.9</b>
<b>Ending cash</b>	<b>101.6</b>	<b>135.8</b>	<b>153.5</b>	<b>263.9</b>	<b>288.6</b>
Adjustments	170.6	178.2	178.2	178.2	178.2
<b>Cash</b>	<b>272.2</b>	<b>314.0</b>	<b>331.6</b>	<b>442.0</b>	<b>466.7</b>

**Assumptions (RMbn)**

YE Dec 31	2020	2021	2022F	2023F	2024F
New job wins	114.0	43.0	300.0	500.0	700.0

**Balance Sheet (RMmn)**

YE Dec 31	2020	2021	2022F	2023F	2024F
Fixed assets	213.3	202.1	218.3	221.4	223.9
Others	102.6	75.1	75.4	75.8	76.2
<b>NCA</b>	<b>316.0</b>	<b>277.2</b>	<b>293.6</b>	<b>297.1</b>	<b>300.1</b>
Cash	272.2	314.0	331.6	442.0	466.7
Others	587.2	571.9	574.6	600.8	625.4
<b>CA</b>	<b>859.4</b>	<b>885.9</b>	<b>906.2</b>	<b>1,042.8</b>	<b>1,092.1</b>
<b>Total assets</b>	<b>1,175.3</b>	<b>1,163.1</b>	<b>1,199.8</b>	<b>1,339.9</b>	<b>1,392.1</b>
ST borrowings	140.7	63.6	61.6	58.6	53.6
Other liabilities	442.7	507.5	528.7	567.7	604.0
<b>CL</b>	<b>583.4</b>	<b>571.1</b>	<b>590.3</b>	<b>626.3</b>	<b>657.6</b>
<b>Shareholders' funds</b>	<b>434.8</b>	<b>450.3</b>	<b>459.0</b>	<b>561.0</b>	<b>579.7</b>
NCI	7.3	4.8	5.6	5.7	5.9
LT borrowings	103.0	99.4	107.4	109.4	111.4
Other LT liabilities	46.8	37.5	37.5	37.5	37.5
<b>NCL</b>	<b>149.8</b>	<b>136.9</b>	<b>144.9</b>	<b>146.9</b>	<b>148.9</b>
<b>Total capital</b>	<b>1,175.3</b>	<b>1,163.1</b>	<b>1,199.8</b>	<b>1,339.9</b>	<b>1,392.1</b>

**Ratio**

YE Dec 31	2020	2021	2022F	2023F	2024F
EBITDA Margins (%)	6.5	5.0	4.8	10.1	5.1
Core EPS (sen)	5.0	4.7	3.1	4.9	5.4
EPS Growth (%)	(8.4)	(6.5)	(34.1)	59.1	9.0
PER (x)	6.7	7.2	10.9	6.9	6.3
GDPS (sen)	1.0	1.2	1.3	1.4	1.5
Div Yield (%)	2.9	3.5	3.8	4.1	4.4
Net cash (RMmn)	28.4	150.9	162.6	274.0	301.7
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
ROE (%)	5.6	5.0	3.3	4.7	4.5
ROA (%)	2.0	1.9	1.3	1.9	1.9
NTA (RM)	0.9	1.0	1.0	1.2	1.2
P/NTA(x)	0.4	0.4	0.4	0.3	0.3

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	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.  
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Tuesday, January 31, 2023, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:  
 (a) nil

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**Kaladher Govindan – Head of Research**

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