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TRC Synergy Berhad

TP: RM0.43 (+24.6%)
Still Eying to Win the Jackpot from the MRT3 Project

Last Traded: RM0.345

BUY (ESG: ★★★)

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Following our recent meet-up with TRC, we remain cautiously optimistic about the group's outlook. The group is currently backed by an outstanding construction order book of around RM0.7bn, translating to about 1.1x FY22 revenue. The group is still eying to strike a jackpot from the MRT3 project. The current tender book stands at around RM3.8bn. On the other hand, the group will proceed with phase 2 of the Ara Sentral Project, which carries an estimated gross development value of RM500.0mn. Meanwhile, management guided that the property business in Australia is expected to remain lacklustre. Nevertheless, the hotel business in Australia is on track to recovery. Pertaining to the arbitration award, TRC recently received the full payment from Brunei Economic Development Board (BEDB). Overall, we maintain a Buy call with an unchanged target price of RM0.43.

Still Eying for the MRT3 Project

Based on management's guidance, the current outstanding construction order book is around RM0.7bn, translating to about 1.1x FY22 revenue. Management guided that the group did not secure any substantial jobs last year as the group was not aggressively bidding for jobs amid a labour shortage and escalated materials cost environment. Currently, the group is eying to win a jackpot from the MRT3 project. According to the media, TRC has bid RM3.1bn for work package CMC301, which is mainly involved in designing, constructing and completing a viaduct guideway, elevated stations, depot and other associated works from Pandan to Jalan Cheras in Kuala Lumpur. Due to its extensive track record in railway and related works, TRC has a good chance of winning the job. If the group fails to win the bid to become the main civil contractor, we believe TRC still has a decent chance to become the work package contractor. The current tender book stands at around RM3.8bn.

Intends to Proceed with Phase 2 of Ara Sentral

Management guided that the group will proceed with phase 2 of the Ara Sentral Project in Ara Damansara, Selangor. Phase 2 mainly consists of retail units and three blocks of apartments with an estimated gross development value of RM500.0mn. The group is targeting to launch next year. Meanwhile, management also guided that the property business in Australia is expected to remain lacklustre amid a rising interest rate environment. On the other hand, the hotel business in Australia is also on track to recovery. The occupancy and average daily rate have started to improve following the re-opening of the international border.

Share Information

Bloomberg Code	TRC MK
Stock Code	5054
Listing	Main Market
Share Cap (mn)	480.5
Market Cap (RMmn)	165.8
52-wk Hi/Lo (RM)	0.36/0.295
12-mth Avg Daily Vol ('000 shrs)	106.4
Estimated Free Float (%)	26.9
Beta (x)	0.5

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 (%)	0.0	0.0
Net Profit (RMm)	24.0	26.0
Consensus	19.6	21.9
TA's / Consensus (%)	122.3	118.9
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	0.37	

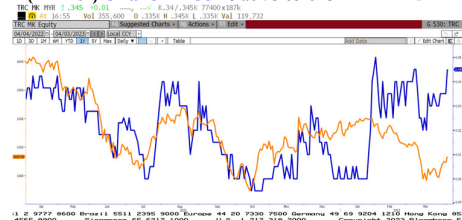
Financial Indicators

	FY23	FY24
Net Gearing (%)	Net cash	Net cash
CFPS/share (sen)	28.9	4.8
P/CFPS (x)	1.2	7.2
ROA (%)	2.0	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	1.5	(1.4)
3 mth	15.0	(2.8)
6 mth	15.0	2.6
12 mth	(1.4)	(10.5)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Received the Full Payment from BEDB

Recap, TRC initiated the arbitration proceedings against BEDB over the airport terminal works contract dispute in January 2020. TRC had won the arbitration, and BEDB was required to pay 18.7mn Brunei dollars (RM60.2mn) to the group. After including the interest and legal fees, the final settlement amount was around RM70.0mn. According to management, BEDB had recently made the payment to the group. Following the payment, the net cash of TRC is estimated to improve from RM115.4mn (24.0sen/share) as of 4QFY22 to RM185.4mn (38.5sen/share).

Forecast

Maintain our FY23 to FY25 earnings forecasts.

Valuation

No change to our target price of **RM0.43**, based on unchanged 8x CY24 earnings. Maintain **Buy** on TRC.

Earnings Summary

Profit & Loss (RMmn)

YE Dec 31	2021	2022	2023F	2024F	2025F
Revenue	762.1	677.4	790.0	830.0	890.0
EBITDA	38.4	36.9	82.1	40.4	44.0
Depreciation	(11.5)	(12.6)	(10.8)	(11.1)	(11.4)
EBIT	20.2	22.2	68.1	25.6	28.4
Finance cost	(8.7)	(4.7)	(8.0)	(7.9)	(7.6)
PBT	24.2	22.6	73.9	32.2	35.0
Taxation	(6.1)	(0.0)	(11.1)	(7.7)	(8.4)
NCI	(2.5)	0.2	(1.2)	(1.6)	(1.6)
Net profit	20.7	22.3	64.0	26.0	28.2
Core net profit	22.2	17.9	24.0	26.0	28.2
GDPS (sen)	1.2	0.0	1.4	1.5	1.5
Share dividend (%)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	3.5	0.0	4.1	4.3	4.3

Cash Flow (RMmn)

YE Dec 31	2021	2022	2023F	2024F	2025F
PBT	24.2	22.6	73.9	32.2	35.0
Adjustments	15.4	13.1	58.4	13.4	13.4
Changes in WC	94.9	(60.7)	42.9	11.7	13.4
Interest & tax	(5.1)	(2.2)	(5.7)	(2.1)	(2.8)
Operational cash flow	129.4	(27.1)	169.5	55.1	59.0
Capex	(0.4)	(1.2)	(18.0)	(17.0)	(17.0)
Others	2.8	5.2	(5.1)	(4.9)	(4.4)
Investment cash flow	2.3	4.0	(23.1)	(21.9)	(21.4)
Debt raised/(repaid)	(63.9)	(1.1)	(1.0)	(3.0)	(8.0)
Dividend	(4.7)	(5.7)	(6.7)	(7.2)	(7.2)
Others	(29.0)	38.9	0.0	0.0	0.0
Financial cash flow	(97.6)	32.2	(7.7)	(10.2)	(15.2)
Net cash flow	34.1	9.1	138.6	23.0	22.4
Beginning cash	101.6	135.8	144.8	283.4	306.5
Ending cash	135.8	144.8	283.4	306.5	328.9
Adjustments	178.2	130.1	130.1	130.1	130.1
Cash	314.0	274.9	413.5	436.6	459.0

Assumptions (RMbn)

YE Dec 31	2021	2022	2023F	2024F	2025F
New job wins	43.0	0.0	500.0	700.0	700.0

Balance Sheet (RMmn)

YE Dec 31	2021	2022	2023F	2024F	2025F
Fixed assets	202.1	190.3	195.3	199.6	203.7
Others	75.1	72.7	74.9	75.3	75.3
NCA	277.2	263.0	270.2	274.9	279.1
Cash	314.0	274.9	413.5	436.6	459.0
Others	571.9	531.2	650.7	675.3	704.5
CA	885.9	806.1	1,064.3	1,111.9	1,163.5
Total assets	1,163.1	1,069.1	1,334.5	1,386.8	1,442.5
ST borrowings	63.6	66.6	63.6	58.6	48.6
Other liabilities	507.5	400.6	564.0	600.3	642.9
CL	571.1	467.2	627.6	658.9	691.5
Shareholders' funds	450.3	465.3	567.6	586.4	607.4
NCI	4.8	4.9	5.6	5.8	5.9
LT borrowings	99.4	92.9	94.9	96.9	98.9
Other LT liabilities	37.5	38.8	38.8	38.8	38.8
NCL	136.9	131.8	133.8	135.8	137.8
Total capital	1,163.1	1,069.1	1,334.5	1,386.8	1,442.5

Ratio

YE Dec 31	2021	2022	2023F	2024F	2025F
EBITDA Margins (%)	5.0	5.4	10.4	4.9	4.9
Core EPS (sen)	4.7	3.8	5.0	5.4	5.9
EPS Growth (%)	(6.5)	(19.4)	31.2	8.6	8.3
PER (x)	7.3	9.1	6.9	6.4	5.9
GDPS (sen)	1.2	0.0	1.4	1.5	1.5
Div Yield (%)	3.5	0.0	4.1	4.3	4.3
Net cash (RMmn)	150.9	115.4	255.0	281.1	311.5
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
ROE (%)	5.0	3.9	4.6	4.5	4.7
ROA (%)	1.9	1.6	2.0	1.9	2.0
NTA (RM)	1.0	1.0	1.2	1.2	1.3
P/NTA(x)	0.4	0.3	0.3	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
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.
★★★★★ (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, April 04, 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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