

Investment summary

We recently met up with management to get clarity on its job-flows and oil&gas venture in Brunei. We remain positive on TRC: (1) Share price has fallen 50% from its peak in Jan08 and PE is at 50% discount to big-cap peers. (2) Our expectation that pump-priming in 2009 will be carved out into smaller packages, benefiting small Bumiputra contractors. (3) Heightened job-flow from Sabah/Sarawak, where it is one of just a handful of Peninsular-based contractors able to bid for state government jobs directly.

We are positive on the Malaysian construction sector and believe government job-flow may pick up: (1) pump-priming is an obvious and politically easy policy action in addressing the on-going external macro-economic slump; (2) building material market liberalization and fiscal-boosting fuel price adjustments hint at this direction. We prefer playing the pump-priming story via liquid big-cap contractors (eg. IJM, Gamuda).

Price target RM1.50

Share price at 16 Jan RM1.15

Positive newsflow ahead

We expect job awards to be announced in 1Q09 ahead of the political changeover in Apr09. The completion of detailed feasibility studies in May09 for its 26%-owned Petrobru will provide additional upside.

Buy ahead of job-flows

Expect job awards in 1Q09

Management guided that it is bidding for total job worth RM700m and estimates to secure RM200m in 1Q09. Current outstanding orderbook stands at RM714m (56% to be completed in FY09). We think TRC's FY09 job wins is likely to exceed its historical win rate of RM500m p.a. as we expect pump-priming in FY09 to be carved out into smaller packages, which may benefit small Bumiputra contractors. Additionally, as building material costs stabilized in 4Q08, we expect margin to revert to historical 12% (vs. 9% in 3Q08) and full-year FY08 results (which will be announced next month) to be in-line with our forecast.

Downstream Oil&Gas venture appears favorable

To recap, TRC's 26%-associate PetroBru has obtained Brunei government's approval on its proposed USD3bn 200,000bbl/day oil storage and refinery facility in Aug08. Detailed feasibility study is slated for completion in May09 and initial indication appears to be favorable. If the project is viable, we expect construction work to commence in FY10 (after finalization of funding, where management has identified oil majors to take-up equity stakes), adding RM1.5-2bn (over 3-4 years) to its annual job wins. To be conservative, we have not imputed any contribution from this project in our forecasts and SOTP. However, if the project takes off, we value civil work earnings at an additional RM0.60/share to our SOTP (RM1.5bn at 8% margin) and 47% upside to our FY10E EPS (15% contract value in Yr 1).

Analysis: Maintain BUY with SOTP-derived PT RM1.50/share. We maintain our BUY rating on TRC but with a lower price target of RM1.50/share (RM1.60/share previously), conservatively assuming job wins below FY08 and margin of 8%. At our price target, TRC trades at 6x FY09E PE and is 34%-backed by cash. We believe the completion of its PetroBru detailed feasibility study in May09 will provide additional upside to the share.

Price target derivation: Sum-of-the-parts

	RMm	RM/share	Remarks
Construction: Unbilled orderbook	56	0.30	RM700m at 8% margin
Construction: 1-yr forward wins	24	0.13	RM300m at 8% margin
Property investment	20	0.10	Book value
Working capital	83	0.44	As at Sep08
Net cash	93	0.49	As at Sep08
Target equity value	276	1.46	Current price RM1.15/ share
Outstanding shares (m)	189		Excludes 37m out-of-the-money warrants

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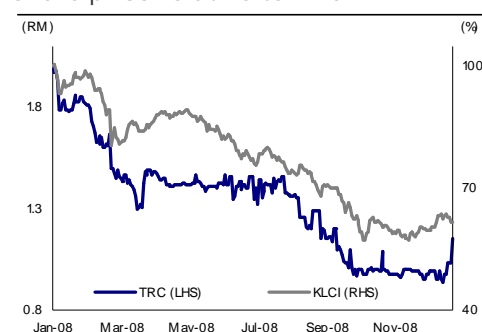
Financial & valuation summary

31 Dec (RMm)	2007A	2008E	2009E	2010E
Revenue	422	736	696	562
Reported net profit	30	46	45	38
Normalized net profit	30	46	45	38
Normalized EPS (sen)	18	28	27	22
EPS growth (%)	144	57	-4	-16
Normalized PER (x)	6	4	4	5
Fully-diluted PER (x)	8	5	5	6
EV/ EBITDA (x)	1	0	0	0
Net DPS (sen)	4	6	6	5
Net dividend yield (%)	4	6	5	4
FCF yield (%)	60	14	7	8

Earnings revisions

Previous net profit	46	45	38
Current net profit	46	45	38
Consensus net profit	45	48	50
Variance (%)	4	-8	-25

Share price relative to KLCI



	1M	3M	12M
Absolute	16	14	-44
Rel to KLCI	11	17	-9
52-week range (RM)		0.86 - 2.04	
Issued shares (m)			168
Market cap (RMm)			193
Free float (%)			40
3-mth avg daily volume ('000)			58
Derivatives	TRC-WA	SP RM1.00, WP RM0.655	

Major shareholders

Yap Yon Tai	14%
TRC Capital Sdn Bhd	13%
Kolektif Aman Sdn Bhd	13%
Haji Mohd Zin Sufri	10%
Lembaga Tabung Haji	10%

Peer comparison

	B'berg ticker	FYE	Mkt Cap (RMm)	PE hist (x)	PE pros 1 (x)	PE pros 2 (x)	P/BV hist (x)	DY hist (%)
Gamuda (BUY, PT RM2.40)	GAM	July	3,992	12.3	13.2	11.0	1.3	8.3
IJM (BUY, PT RM3.00)	IJM	Mar	3,242	8.3	9.6	9.8	0.6	7.2
WCT (BUY, PT RM1.70)	WCT	Dec	856	5.1	4.8	3.4	0.7	8.6
Zelan	ZELN	Jan	468	NM	4.8	5.1	0.7	13.9
MRCB	MRC	Dec	749	NM	51.6	15.3	1.1	1.5
MTD	MTD	Mar	540	69.5	13.8	7.2	0.8	2.2
Muhibbah (BUY, PT RM2.00)	MUHI	Dec	417	5.8	5.0	3.8	1.1	4.2
Hock Seng Lee	HSL	Dec	271	6.2	6.5	5.2	1.1	6.9
TRC (BUY, PT RM1.50)	TRC	Dec	218	6.5	4.2	4.3	0.9	3.6
AZRB	AZR	Dec	131	7.6	7.3	6.1	0.7	10.5
Average				15.2	12.1	7.1	0.9	6.7

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Outstanding orderbook

Project	Client	Value (RMm)	Outstanding (RMm)	Completion date
Sepangar Bay Submarine Base, Sabah	JKR	405	205	May-09
University KL, Pasir Gudang	MARA	200	150	Apr-10
Runway extension, Kuala Terengganu Airport	JKR	202	92	Apr-10
Refurbishment of govt quarters, Putrajaya	Putrajaya Hldg	115	75	Dec08
Construction of warehouses, Bintulu	Bintulu Port	89	70	Jul-10
Bawang/Assam/Seredang Road, Sibul	JKR	222	60	Oct-09
District Police Headquarter, Dang Wangi	KDN	125	50	Oct-09
Building civil work for radar system, Tawau/Sibu	AAT	12	12	Jun-09
		1,369	714	

Company

Income statement

FYE 31 Dec (RMm)	2006A	2007A	2008E	2009E	2010E
Revenue	226	422	736	696	562
Operating cost	-205	-375	-668	-627	-499
EBITDA	21	48	68	68	63
Depreciation	-5	-5	-6	-6	-7
Interest income	2	3	5	5	5
Interest expense	-7	-4	-4	-7	-10
Associates	0	0	0	0	0
Exceptionals	2	0	0	0	0
Pretax profit	13	42	63	60	51
Taxation	-3	-12	-16	-16	-13
Minorities	0	0	0	0	0
Net profit	11	30	46	45	38
Basic shares (m)	111	168	168	168	168
Basic EPS (sen)	9	18	28	27	22

Balance sheet

FYE 31 Dec (RMm)	2006A	2007A	2008E	2009E	2010E
Fixed assets	24	17	17	16	14
Other long-term assets	21	40	39	39	39
Other short-term assets	27	24	26	63	102
Working capital	111	32	53	51	42
Receivables	168	109	191	180	145
Payables	58	78	140	131	104
Inventory	1	1	2	2	1
Net cash	-45	117	167	168	169
Cash	48	191	226	267	308
ST debt	53	24	9	49	89
LT debt	41	50	50	50	50
Shareholders' funds	132	223	287	323	352
Share capital	92	140	168	168	168
Reserves	39	83	120	155	184
Minorities	0	0	0	0	0
Other liabilities	6	9	9	9	9

Operating statistics

FYE 31 Dec	2006A	2007A	2008E	2009E	2010E
Revenue	226	422	736	696	562
Construction	198	399	730	672	515
Property	19	6	7	24	46
Others	46	90	91	93	95
Adjustment	-37	-72	-91	-93	-95
Construction					
External win rate	547	452	500	500	300
Backlog year end	1,306	907	677	506	290
Pretax margin	6	12	8	8	8

Cashflow

FYE 31 Dec (RMm)	2006A	2007A	2008E	2009E	2010E
EBITDA	21	48	68	68	62
Working cap changes	3	81	-23	-35	-30
Non-cash adjustments	8	6	5	8	12
Taxation	-3	-8	-16	-16	-13
Net interest received	-5	-1	1	-2	-5
Operating cashflow	21	121	29	17	19
Capex & acquisitions	-2	-24	-5	-5	-5
Free cashflow	19	97	24	12	14
Other inv cashflow	4	5	0	0	0
New borrowings	-15	-55	20	40	40
Share issuance	0	67	0	0	0
Dividends paid	0	-2	-10	-9	-8
Other fin cashflow	0	-1	0	0	0
Net cashflow	2	143	35	41	41

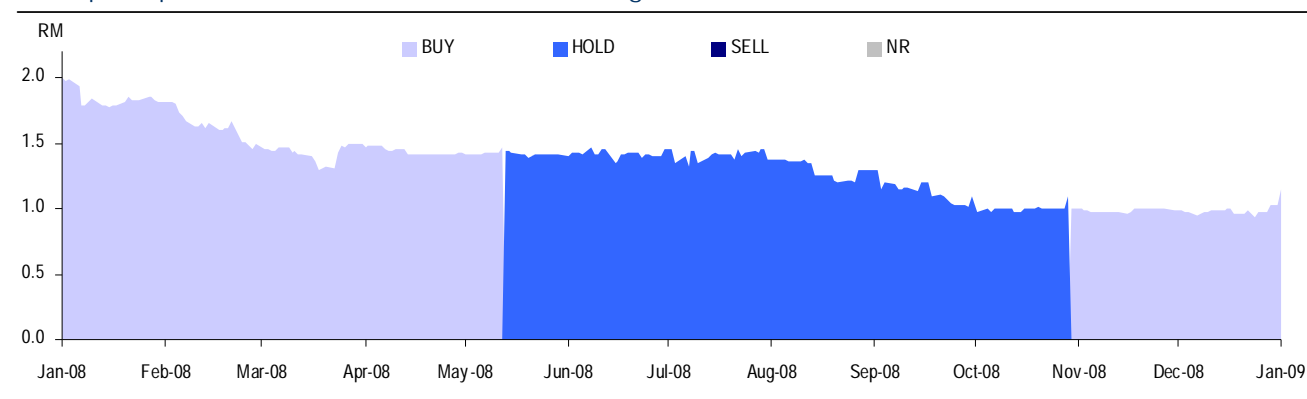
Financial statistics

FYE 31 Dec (RMm)	2006A	2007A	2008E	2009E	2010E
Reported basic EPS (sen)	9	18	28	27	22
Normalized basic EPS (sen)	7	18	28	27	22
Normalized FD EPS (sen)	7	14	21	21	17
PER (x)	15	6	4	4	5
FD PER (x)	15	8	5	5	6
Net DPS (sen)	2	4	6	6	5
Net DY (%)	2	4	6	5	4
NTA/share (sen)	1	2	2	2	2
P/NTA (x)	1	1	1	1	0
FCF/share (sen)	0	1	0	0	0
FCF yield (%)	16	60	14	7	8
Market capitalization	116	176	176	176	176
Net cash	-45	117	167	168	169
Enterprise value	162	59	9	8	7
EV/EBITDA (x)	8	1	0	0	0
ROE (%)	8	13	16	14	11

Quarterly financial summary

FYE 31 Dec (RMm)	Q307	Q407	Q108	Q208	Q308
Revenue	126	122	137	199	224
Operating cost	-115	-107	-118	-182	-203
EBIT	11	15	19	17	21
Net interest income	-1	-1	0	-1	0
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
Pretax profit	8	12	17	13	18
Net profit	5	7	12	11	14
Basic shares (m)	139	140	141	157	190
Basic EPS (sen)	4	5	8	7	7
DPS (sen)	0	4	0	0	0
FCF/share (sen)	20	39	-24	-5	6
Net cash/share (sen)	46	84	60	44	45

Share price performance vs. HLG investment rating



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(a) -.

2. As of 19 January 2009, the analyst, Jason Saw Koon Khim who prepared this report, has interest in the following securities covered in this report:

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of +15% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -15% and +15% over 12-months, with low risk of sustained downside.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
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