

Company Update

27 January 2014

TRC Synergy Berhad

Joining the KWASA fray

BUY
Maintained

Share Price	RM0.535
Target Price	RM0.63

Company Description

TRC Synergy Berhad operates as general contractors carrying out construction works, sell construction materials, and develops property.

Stock Data

Bursa / Bloomberg code	5054 / TRC MK
Board / Sector	Main/Industrial
Syariah Compliant status	Yes
Issued shares (m)	477
Par Value (RM)	0.50
Market cap. (RM'm)	255.2
52-week price Range(RM)	0.50-0.68
Beta (against KLCI)	1.53
3-m Average Daily Volume	0.17m
3-m Average Daily Value [^]	RM0.10m

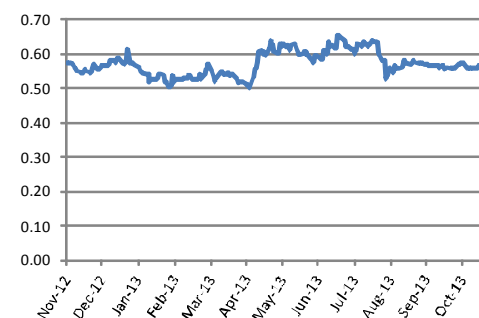
Share Performance

	1m	3m	12m
Absolute (%)	-6.14	-5.31	-7.76
Relative (%-pts)	-5.58	-6.72	-18.02

Major Shareholders

	%
TRC Capital Sdn Bhd	12.5
Kolektif Aman Sdn Bhd	12.3
Sufri Mohd Zin	9.7

Historical Chart



Source: Bloomberg

Soong Wei Siang

03-87361118, ext. 754

wsoong@jfpex.com.my

What's new?

- Media reported that TRC, via its wholly owned subsidiary TRC Land Sdn Bhd, has won the bid for a 0.695ha land in Sungai Buloh under the Bumiputera companies' category for RM6.133m. The land was awarded by KWASA Land Sdn Bhd, a wholly owned subsidiary of Employees Provident Fund (EPF).

Comment

- Good deal for TRC** - We deem the bid price of RM82psf for the land fair as compared to nearby transacted land price whereby Mah Sing paid RM298psf for the Damansara Sentral project land last year. Whilst TRC has not decided on the final development plan on the land, we believe the Group could undertake the development of serviced apartment in view of the small size of the land (c.1.7 acres).
- Timely boost to the property division** – We are positive on the successful bid as it served as timely land bank replenishment for the property division of the Group. TRC has only two more property projects under its belt, namely the Ara Damansara mixed development project (GDV:RM688m), which is a JV between TRC and Prasarana, and the Phase 2 of Impian Senibong project (GDV:RM90m) in Johor. Meanwhile, TRC is in a net cash position of RM24.8m as of 3Q2013, thus we do not expect funding to post big problem to the Group.
- We believe the project would be a sell-out**, as it is strategically located near the MRT (Sg Buloh and Kota Damansara stations) and LRT (Kelana Jaya stations), and nearby matured townships e.g. Sg Buloh, Kota Damansara, Ara Damansara, Tropicana Golf & Country Resort. More importantly, this successful bid would give TRC first-mover advantage over the future bids at the subsequent RRIM integrated development.
- Estimated GDV of RM200m** - Based on our back-of-the-envelope calculation, the project could render about RM200m GDV to the Group based on average plot ratio of 4x, efficiency ratio of 85% and ASP of RM750psf (judging from the nearby project launches such as Mah Sing's Damansara Sentral and SDB's SqWHERE with average selling price of RM700-750psf).

Earnings Outlook/Revision

- **Significant earnings contributions from the project.**
Assuming gross development margin of 25% and estimated GDV of RM200m, the project would contribute extra net earnings of c.RM12.5m p.a. or 24% to the Group's bottomline in FY2015. However, we are leaving our earnings forecast unchanged until further clarification and concrete plan is lined up.

Valuation & Recommendation

- **Maintain BUY with Target Price of RM0.63** – We continue to peg our TP at 10.5x FD FY2014F PER. Our TP translates into a potential upside of 17.8% from the last closing price.
- Despite the recent lackluster share price performance which in our view was probably due to the lack of contract win, we reckon that the stock is supported by the c.RM1.5b outstanding order book (2.7x 2012 construction revenue) as well as its YTD earnings growth of 200% yoy. The upcoming launches of the large scale mixed development project in Ara Damansara would be the near-term booster for its earnings while the successful land bank acquisition with attractive pricing could catalyze the share price.

Financial Summary

FYE Dec (RM'm)	2011	2012	2013F	2014F	2015F
Revenue	400.8	566.1	790.0	1017.5	1220.0
EBIT	10.3	18.2	36.4	52.6	75.0
PBT	16.6	22.8	39.1	56.3	75.0
Net Profit	13.0	9.2	26.2	39.4	52.5
FD EPS (sen)	2.0	1.4	4.0	6.0	8.0
PE(x)	27.0	38.2	13.4	8.9	6.7
EPS growth	-20%	-29%	185%	51%	33%
EBIT Margin (%)	2.6	3.2	4.6	5.2	6.1
PBT Margin (%)	4.1	4.0	4.9	5.5	6.1
Net Margin (%)	3.2	1.6	3.3	3.9	4.3

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 6th Floor, Menara Apex Off Jalan Semenyih Bukit Mewah 43000 Kajang Selangor Darul Ehsan Malaysia</p> <p>General Line: (603) 8736 1118 Facsimile: (603) 8737 4532</p> <p>PJ Office: 15th Floor, Menara Choy Fook On No. 1B, Jalan Yong Shook Lin 46050 Petaling Jaya Selangor Darul Ehsan Malaysia</p> <p>General Line: (603) 7620 1118 Facsimile: (603) 7620 6388</p>	<p>Head Office: Kong Ming Ming (ext 3237) Shirley Chang (ext 3211) Norisam Bojo (ext 3233) Wong Wing Haur, Alvin (ext 3226)</p> <p>Institutional Dealing Team: Lim Teck Seng Sanusi Bin Mansor (ext 740) Fathul Rahman Buyong (ext 741) Ahmad Mansor (ext 744) Lum Meng Chan (ext 743)</p> <p>PJ Office: Mervyn Wong (ext 363) Mohd Hanif Wan Said (ext 111) Fong Jia Wen (ext 822) Nursyazaleen Hazwani (ext 362)</p>	<p>Head Office: Lee Chung Cheng (ext 758) Lee Cherng Wee (ext 759) Jessica Low Jze Tieng (ext 756) Soong Wei Siang (ext 754) Gabriela Fang Minn Fern (ext 753) Elliya Harisna binti Junaedi (ext 752)</p>

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

BUY	: The stock's total returns* are expected to exceed 10% within the next 12 months.
HOLD	: The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL	: The stock's total returns* are expected to be below -10% within the next 12 months.
TRADING BUY	: The stock's total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL	: The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

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

*capital gain + dividend yield

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