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Sector Update

Construction

Countdown to the LRT

OVERWEIGHT ↔

We are of the view that the LRT extension job could be awarded soon, possibly by year-end. We have identified several locations where site clearing is now in progress. Our channel checks indicate that there will only be 2 main packages for civil works collectively worth RM2bn. The Kelana Jaya extension, for which TRC is said to be one of the front-runners, could more than quadruple the company's orderbook. Hence we have a RM2.03 trading target on the stock. We believe the impending LRT award will be a prelude to the flow of more mega jobs. Maintain OVERWEIGHT on sector, with Sunway as our top pick.

Return of the forgotten. With all the hype on the proposed Mass Rapid Transit (MRT) within Greater KL, we feel that investors have probably overlooked (or forgotten about) the Light Rail Transit (LRT) extension. Although the recently announced Budget 2011 did not mention the LRT, we sense that an award is looming. In fact, we believe that at least one of the extension lines could be dishd out by as soon as the year-end.

Evidence on Ground Zero. In May, the Selangor state govt compulsorily acquired a small plot of land at the Subang Parade shopping mall outdoor car park. It paid a compensation sum of RM4.2m to the landowner, Hektar REIT (BUY, TP: RM1.37). The land was acquired for the extension of the Kelana LRT line, which would pass through that area. At our recent visit to the site, we noticed that the car park has been closed and site clearing works are in progress. The site is also surrounded by construction barricades bearing the words "LRT Project". Another location on which site clearance is taking place is Putra Heights, which will have an interchange station for both the Kelana and Ampang lines. Apart from that, various locations in USJ are said to have been boarded up for the Kelana extension. We view the site clearance at these locations as firm indications that the LRT could be taking off soon.

Figure 1: The proposed site for the Kelana and Ampang interchange station at Putra Heights has been cleared of undergrowth



Source: The Star

Figure 2: LRT site in front of Subang Parade is now barricaded



Source : OSK Research

Figure 3: Site clearing for the LRT line to pass through has begun



Source : OSK Research

Figure 4: Tractors being mobilized at the LRT site



Source : OSK Research

Figure 5: Some underground works have also commenced



Source : OSK Research

Brief recap on the LRT. Before we proceed further, let's make a brief recap on the proposed LRT extension comprising the existing Kelana and Ampang lines. The Kelana line will be extended from the current Kelana Jaya station to Subang Jaya and USJ before ending in Putra Heights for a total of 17km. The Ampang extension will stretch 17.7km beginning from the existing Sri Petaling station, passing through Kinrara, Puchong and also ending in Putra Heights. Both extensions, which will have 13 stations each, will be built for a total of RM7bn. We understand that this is broken down into: (i) RM2bn for land acquisition, (ii) RM2bn for civil works, and (iii) RM3bn for the systems and rolling stock.

Award to be dished out soon. Our channel checks with various contractors indicate that work on the LRT is slated to begin before year-end with a 3-year construction period. We gather that there will only be 2 civil packages, one each for the Kelana and Ampang lines, collectively worth ~RM2bn. The former line is said to be worth slightly more given the greater complexity in its alignment. The civil works mainly constitute assembly of precast structures for the lines and station construction. While there were initially protests by some residents and lobbying by property developers to have the alignment altered, we understand that there will be no significant changes and the routes are "cast in stone". We believe that the Kelana line will be dished out by year-end followed by the Ampang line sometime early 2011.

Who stands to win? We gather from our checks that most of the tender prices submitted were rather close, which indicate stiff competition. Given the open tender nature of the job among the 17 prequalified contractors, we expect margins to be in the 4%-5% range on a pretax basis. For the Kelana extension, a recent media report said TRC Synergy (NR) and UEM Builders Intria Bina SB (UEM-IB) are believed to be the finalists. (See our attached *Trading Idea report on TRC*). As for the Ampang line, IJM Corp (NEUTRAL, TP: RM5.20) has been rumoured to be one of the front runners. IJM and Road Builder (acquired by IJM) have experience with the existing line via subcontracting

works. However, our sources claim that UEM-IB also stands a strong chance with the Ampang line as well. As for the supply of Segmental Box Girders (SBGs), we feel that the MTD-Persys JV could emerge the key winner.

Figure 6: Prequalified contractors for the proposed LRT extension

Prequalified Applicants	Main	SBGs
Sunway Holdings	•	•
Fajarbaru Builder - Signatium Construction SB	•	•
WCT - Sinohydro JV	•	•
IJM Corp	•	•
Ranhill - CCCC JV	•	•
Muhibbah Engineering	•	•
Gamuda	•	
UEM Builders - Intria Bina SB	•	•
MMC Corp - Zelan	•	•
MRCB	•	•
TRC Synergy	•	
BPHB - Tim Sekata JV	•	•
Zabima - Leighton JV	•	•
Mudajaya Group	•	
MTDC - Persys JV	•	•
Loh&Loh Corp	•	
Ahmad Zaki Resources	•	•
Bina Puri - Acre Works - SNC Lavalin JV		•
UEM Construction - PROPEL		•
Total prequalified contractors	17	15

Source: Syarikat Pasarana Negara Bhd (SPNB)

Maintain OVERWEIGHT on construction. We think that the impending LRT award is a prelude to more mega contract flows. In our recent Strategy report, we highlighted the possibility of an early General Election in 2011, possibly in 1H (see *Further Election Indicators* dated 25 Oct). As such, we expect the momentum of positive news within the sector to accelerate in the coming months and rerate our valuations upwards. Our top pick is Sunway (BUY, TP: RM2.52) and for the small caps, we like Ahmad Zaki (BUY, TP: RM1.45). For MRT play, we recommend Gamuda (TRADING BUY, TP: RM4.31) and for the LRT, investors should look at TRC (NR). We also recommend Naim (BUY, TP: RM5.10) as a proxy to the Sarawak state election theme

Stock	Price RM	Target RM	Mkt Cap RMm	Volume '000	PER (x)		FY0 ROE %	FY1 DY %	Rel. Performance %			P/NTA (x)	Rating
					FY1	FY2			1-mth	3-mth	12mth		
AZRB	1.01	1.45	279.5	1,027.0	8.8	6.6	9.3%	3.4%	(1.6)	(1.6)	(9.9)	1.2	BUY
GAMUDA	3.80	4.31	7,760.9	8,152.6	19.3	16.2	8.6%	3.7%	(3.1)	2.5	2.7	2.4	T.BUY
HSL	1.84	1.92	1,072.1	1,390.7	14.9	11.5	21.1%	2.0%	(1.0)	4.3	36.6	3.4	BUY
IJM	5.53	5.20	7,471.0	4,469.8	18.9	15.8	5.5%	2.1%	2.6	(0.7)	1.9	1.5	NEUTRAL
MUDAJAYA	4.19	7.22	1,723.1	2,589.5	8.0	6.2	32.8%	0.6%	(7.1)	(5.6)	(0.4)	2.7	BUY
MRCB	2.19	2.05	3,021.3	5,493.9	53.4	38.4	5.2%	0.5%	3.5	12.8	48.6	4.5	NEUTRAL
NAIM	3.68	5.10	920.0	131.5	10.5	8.1	13.2%	1.9%	3.3	0.2	4.2	1.4	BUY
SUNWAY	2.06	2.52	1,245.3	1,237.0	8.5	7.6	16.0%	1.2%	0.3	14.6	24.7	1.5	BUY
WCT	3.05	3.66	2,394.9	2,297.7	17.2	13.3	10.4%	2.3%	(7.2)	(3.2)	1.2	1.9	BUY

Share price as at 5 Nov 2010

Figure 7: Proposed alignment of the LRT extension



Source: Syarikat Pasarana Negara Bhd

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NOT RATED

Target **RM2.03**
Previous **-**
Price **RM1.40**

CONSTRUCTION

TRC is primarily involved in construction. Its 26% associate, Petro Bru, is undertaking an O&G venture in Brunei.

Stock Statistics

Bloomberg Ticker	TRC MK
Share Capital (m)	189.9
Market Cap (RMm)	265.8
52 week H L Price (RM)	1.49 1.00
3mth Avg Vol ('000)	223.8
YTD Returns	3.7
Beta (x)	0.66

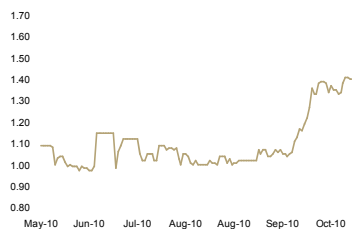
Major Shareholders (%)

TRC Capital Sdn Bhd	13.1
Kolektif Aman Sdn Bhd	12.8
Sufri Bin Haji Mohd Zin	10.0

Share Performance (%)

Month	Absolute	Relative
1m	26.1	14.6
3m	38.6	23.7
6m	28.2	11.4
12m	2.0	-18.2

6-month Share Price Performance



Trading Idea

TRC Synergy

Headier Times Await

A recent news report said TRC is one of the finalists for the Kelana LRT extension. Winning the ~RM1bn civil works would more than quadruple TRC's orderbook and provide strong earnings visibility for the next 2-3 years. The company has also tendered for various jobs in the SCORE and ECER corridors. We sense that TRC's orderbook, now at an inflection point, is set to balloon over the coming months. While its earnings will contract this year, we expect a 31% and 17% growth for FY11-12. Our trading target of RM2.03 provides a strong 45% upside.

In the lead to bag LRT job. The Edge Daily recently reported that TRC and UEM Builders (unlisted) are the finalists for the Kelana LRT extension. Of the 2, it reported that TRC was recommended by Syarikat Pasarana Negara Bhd to the Ministry of Finance as the main contractor for the Kelana extension. When contacted, management was mum on the issue but confirmed that it had bid for both the Kelana and Ampang extensions. While TRC may not have any direct experience in LRT works, we gather that the civil portion is a rather generic job, and contractors with experience in building bridges and elevated structures such as TRC can undertake the job with relative ease. Winning the civil portion of the Kelana extension (~RM1bn) would more than quadruple its orderbook.

Sizeable tenderbook. TRC's orderbook is currently worth merely RM300m vs the heights it reached of close to a billion in 2008. In efforts to replenish its orderbook, TRC has tendered for over RM3.3bn worth of jobs. The non-LRT related tenders total RM1.6bn, some of which are for the SCORE region and mainly comprise rural road networks. YTD job awards in Sarawak have jumped 53.7% y-o-y based on our tracking and we expect this momentum to continue in the run-up to the state election. Some of the state's jobs are only open to holders of the Sarawak UPK Class A licence, and TRC is the only peninsula-based player that holds one. Outside Sarawak, TRC is also bidding for some jobs in the ECER comprising township housing. Other potential jobs could come from its overseas property development associates in Australia and Cambodia.

Trading target of RM2.03. Given its currently meager orderbook, we expect earnings to contract 25.5% this year to RM20.3m. However, in view of our optimism on TRC's potential contracts flow, we project a 31.4% earnings growth for FY11 and 16.7% for FY12. The key assumptions underlying our forecasts include (i) RM500m p.a. new job wins for FY11-12, and (ii) gross construction margins of 12%-13%. For FY10, we assume TRC will bag RM200m worth of new jobs, of which RM152m has been secured YTD. In deriving our RM2.03 TP, we have ascribed: (i) a 10x multiplier to its mid-CY11 earnings (lower end of our target PER for small cap contractors), and (ii) added to this its net cash of RM0.79/share. As TRC is not under our regular coverage, we have a NOT RATED call on the stock.

FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Revenue	740.7	533.8	307.2	370.3	418.8
Net Profit	45.6	27.3	20.3	26.7	31.2
% chg y-o-y	51.9	-40.2	-25.5	31.4	16.7
Consensus	-	-	21.5	41.0	49.0
EPS (sen)	24.0	14.4	10.7	14.1	16.4
DPS (sen)	3.1	4.5	1.6	2.1	2.5
Dividend yield (%)	2.2	3.2	1.1	1.5	1.8
ROE (%)	18.6	9.9	6.9	8.5	9.2
ROA (%)	10.9	6.0	5.0	7.0	7.5
PER (x)	5.8	9.7	13.1	9.9	8.5
BV/share (RM)	1.41	1.51	1.60	1.72	1.86
P/BV (x)	1.0	0.9	0.9	0.8	0.8

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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