

# Company Focus

Malaysia Equity Research PP 11272/7/2008

22 Jan 2008

## Buy RM2.43 KLCI : 1,439.49

Price Target : 12-Month RM 2.95

Reason for Report : Company update

Potential Catalyst: Rolling out of projects from the Ninth Malaysia Plan

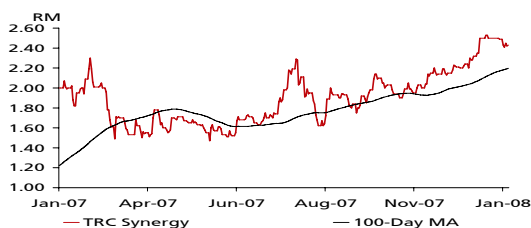
### ANALYST

Malaysia Research Team 603 2711 2222  
general@hwangdbsvickers.com.my

### FORECASTS AND VALUATION

FY Dec (RM m)	2006A	2007F	2008F	2009F
Turnover	225.7	382.2	541.4	626.2
EBITDA	25.0	52.4	69.9	79.3
Pre-tax Profit	13.1	38.7	55.7	64.7
Net Profit	10.5	28.3	41.2	48.6
Net Pft (Pre Ex.)	10.5	28.3	41.2	48.6
EPS (sen)	11.4	22.9	33.5	39.4
EPS Pre Ex. (sen)	11.4	22.9	33.5	39.4
EPS Gth Pre Ex (%)	(301)	101	46	18
Diluted EPS (sen)	11.4	15.3	22.3	26.3
Net DPS (sen)	0.0	5.7	8.4	9.9
BVPer Share (sen)	142.7	174.2	199.4	228.9
PE (X)	21.3	10.6	7.3	6.2
PE Pre Ex. (X)	21.3	10.6	7.3	6.2
P/Cash Flow (X)	14.8	8.6	6.2	5.4
EV/EBITDA (X)	10.8	6.2	4.4	3.6
Net Div Yield (%)	0.0	2.4	3.4	4.1
P/Book Value (X)	1.7	1.4	1.2	1.1
Net Debt/Equity (X)	0.3	0.1	0.0	CASH
ROAE (%)	8.3	16.3	17.9	18.4

### SHARE PRICE CHART



### AT A GLANCE

Issued Capital (m shrs)	140
Mkt. Cap (RMm/US\$m)	340 / 104
Major Shareholders	
Kolektif Aman Sdn Bhd (%)	19.7
TRC Capital Sdn Bhd (%)	19.7
Dato Haji Sufri (%)	13.7
Free Float (%)	46.9
Avg. Daily Vol. ('000)	472

Earnings Rev (%):	2008: -	2009: -
Consensus EPS (sen):	2008: 27.0	2009: 33.1
Variance vs Cons (%):	2008: 24.0	2009: 19.1

Sector : Industrials

Bloomberg/Reuters Code: N/A/TRCG.KL

Principal Business: Construction and property development

## TRC Synergy

### Foray into the oil & gas sector

➤ **Story:** PetroBru (B) Sdn Bhd officially signed a Memorandum of Understanding (MOU) with the Petroleum Unit of the Ministry of Energy, Brunei in a ceremony held yesterday. The MOU indicates the commencement of Phase 1 of the crude oil storage and refinery project jointly undertaken by TRC Energy and PetroBru.

➤ **Point:** Earlier, TRC had acquired a 26% stake in PetroBru for BND3m. This marks the Group's first venture into the O&G division. The construction of the crude oil storage facilities is expected to contribute to earnings from FY10 onwards.

➤ **Relevance:** Our numbers remain unchanged as the O&G venture is still in its preliminary stage. We maintain our Buy recommendation with target price of RM2.95 based on 11.0x FY08 EPS.

**Partnership with PetroBru.** On 25 Nov 2007, TRC Synergy, through its wholly-owned subsidiary TRC Energy Sdn Bhd, acquired a 26% stake in PetroBru(B) Sdn Bhd for BND3m cash (RM7m). PetroBru is involved in the oil & gas (O&G) industry in Brunei Darussalam, trading of O&G products and providing O&G related services. The company has received the consent and approval from the government of Brunei to proceed with the feasibility study on the viability of a crude oil storage and oil refinery in Brunei.

**Phase 1: Feasibility study.** The project involves the construction and operation of a crude oil storage and refinery in Pulau Muara Besar, Brunei. The MOU signed between the Government's Petroleum Unit enables PetroBru to carry out a feasibility study on the viability of the project where the Petroleum Unit would assist in the provision of data for the study. PetroBru is expected to sign another MOU with the Economic Development Board of Brunei, where the latter will also assist in the feasibility study.

**Sustainable earnings from O&G.** If the project materializes, TRC Energy will be involved in the construction of the proposed oil storage and refinery project which includes building supporting infrastructure such as roads and building. Construction works would only start after the completion of the feasibility study which will take about 18-24 months. Hence, we expect contribution to earnings from this venture from FY10 onwards. Apart from that, through its stake in PetroBru, TRC Energy could also be involved in the processing of crude and export of refined products – which would provide sustainable earnings for the Group.

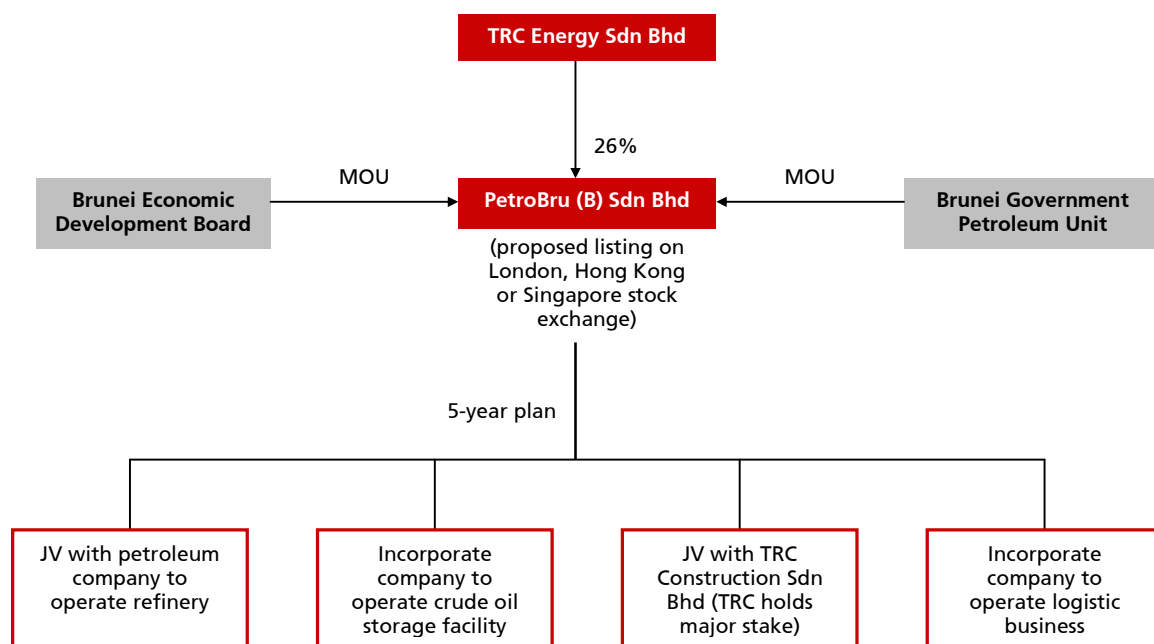
**Healthy orderbook.** TRC Synergy's current outstanding orderbook stands at RM1.0b. We understand the Group is in a good position to win another RM300-400m worth of construction projects which could help contribute to FY08 earnings. Outlook for the local construction sector remains promising with the rolling out of more projects from the Ninth Malaysia Plan.

**Project details**

**Brief description of the project.** The planned refinery would be able to process about 500, 000 barrels per day of both light and heavy crude oil. On the other hand, the storage facility will have a generous capacity of 2m m<sup>3</sup> (1m<sup>3</sup> = 6.3 barrels). Both refinery and storage facilities will be on Pulau Muara Besar, Brunei covering an area of 400 acres. The site would require minimal dredging to achieve water depth to cater for Very Large Crude Carriers (VLCC). There will also be jetty and a berth.

**Construction works** on the refinery will begin in approximately 1.5 years' time for the preliminary processing of 200,000 barrels per day. This will cost USD3b (USD15 per barrel). We understand that PetroBru is looking into potential joint ventures with established petroleum companies to implement the project and for funding purposes.

**Appendix: Summary of the O&G venture**



Source: Company, HwangDBS Vickers Research

## Company Focus

TRC Synergy

### Income Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Turnover	225.7	382.2	541.4	626.2
Cost of Goods Sold	(195.1)	(311.3)	(442.6)	(513.0)
<b>Gross Profit</b>	<b>30.6</b>	<b>70.9</b>	<b>98.8</b>	<b>113.2</b>
Other Opg (Exp)/Inc	(10.3)	(25.0)	(35.8)	(41.2)
<b>EBIT</b>	<b>20.4</b>	<b>46.0</b>	<b>63.0</b>	<b>72.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.3)	(7.3)	(7.3)	(7.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>13.1</b>	<b>38.7</b>	<b>55.7</b>	<b>64.7</b>
Tax	(2.6)	(10.5)	(14.5)	(16.2)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>10.5</b>	<b>28.3</b>	<b>41.2</b>	<b>48.6</b>
Net profit before Except.	10.5	28.3	41.2	48.6
EBITDA	25.0	52.4	69.9	79.3
Sales Gth (%)	59.2	69.4	41.7	15.7
EBITDA Gth (%)	176.1	109.4	33.5	13.5
EBIT Gth (%)	710.7	125.7	37.0	14.3
Effective Tax Rate (%)	19.8	27.0	26.0	25.0

### Cash Flow Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Pre-Tax Profit	13.1	38.7	55.7	64.7
Dep. & Amort.	4.6	6.4	6.9	7.3
Tax Paid	(3.2)	(10.5)	(14.5)	(16.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0
Non-Cash Wkg.Cap.	3.3	(33.7)	(10.1)	(10.6)
Other Operating CF	(2.5)	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>15.4</b>	<b>0.9</b>	<b>38.0</b>	<b>45.3</b>
Capital Exp.(net)	2.1	(18.0)	(10.0)	(10.0)
Other Invts.(net)	0.0	(15.1)	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>2.1</b>	<b>(33.1)</b>	<b>(10.0)</b>	<b>(10.0)</b>
Div Paid	0.0	(7.1)	(10.3)	(12.1)
Chg in Gross Debt	7.4	0.0	0.0	0.0
Capital Issues	0.0	61.6	0.0	0.0
Other Financing CF	(22.7)	(3.2)	0.0	0.0
<b>Net Financing CF</b>	<b>(15.3)</b>	<b>51.3</b>	<b>(10.3)</b>	<b>(12.1)</b>
Net Cashflow	2.2	19.1	17.7	23.1

### Quarterly / Interim Income Statement (RM m)

FY Dec	3Q2006	4Q2006	1Q2007	2Q2007
Turnover	67.0	55.2	73.0	101.5
Cost of Goods Sold	(57.2)	(47.7)	(57.9)	(84.5)
<b>Gross Profit</b>	<b>9.9</b>	<b>7.6</b>	<b>15.2</b>	<b>17.1</b>
Other Oper. (Exp)/Inc	(2.1)	(4.0)	(4.1)	(2.6)
<b>EBIT</b>	<b>7.8</b>	<b>3.6</b>	<b>11.1</b>	<b>14.5</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.8)	(1.7)	(1.7)	(1.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>5.9</b>	<b>1.9</b>	<b>9.5</b>	<b>13.0</b>
Tax	(1.4)	(1.3)	(2.9)	(2.8)
Minority Interest	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>4.5</b>	<b>0.5</b>	<b>6.5</b>	<b>10.2</b>
Net profit bef Except.	4.5	0.5	6.5	10.2
EBITDA	7.8	3.6	11.1	14.5
Sales Gth (%)	41.2	(17.6)	32.2	39.1
EBITDA Gth (%)	132.3	(54.0)	211.7	30.2
EBIT Gth (%)	132.3	(54.0)	211.7	30.2
Gross Margins (%)	14.7	13.7	20.8	16.8
EBIT Margins (%)	11.6	6.5	15.2	14.2

Source: Company, DBS Vickers

### Balance Sheet (RM m)

FY Dec	2006A	2007F	2008F	2009F
Net Fixed Assets	24.4	39.3	42.4	45.0
Invts in Assocs & JVs	0.0	0.0	0.0	0.0
Other LT Assets	17.3	32.3	32.3	32.3
Cash & ST Invts	48.1	67.2	84.9	108.1
Other Current Assets	199.4	233.2	243.3	253.9
<b>Total Assets</b>	<b>289.1</b>	<b>371.9</b>	<b>402.9</b>	<b>439.3</b>
ST Debt	52.8	52.8	52.8	52.8
Other Current Liab	61.5	61.5	61.5	61.5
LT Debt	40.6	40.6	40.6	40.6
Other LT Liabilities	2.4	2.4	2.4	2.4
Shareholder's Equity	131.9	214.7	245.6	282.0
Minority Interests	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>289.1</b>	<b>371.9</b>	<b>402.9</b>	<b>439.3</b>
Non-Cash Wkg. Cap	138.0	171.7	181.8	192.4
Net Cash/(Debt)	(45.4)	(26.2)	(8.5)	14.6

### Rates & Ratios

FY Dec	2006A	2007F	2008F	2009F
Gross Margin (%)	13.6	18.6	18.2	18.1
EBITDA Margin (%)	11.1	13.7	12.9	12.7
EBIT Margin (%)	9.0	12.0	11.6	11.5
Net Profit Margin (%)	4.7	7.4	7.6	7.8
ROAE (%)	8.3	16.3	17.9	18.4
ROA (%)	3.7	8.6	10.6	11.5
ROCE (%)	9.0	16.1	18.8	20.1
Div Payout Ratio (%)	0.0	25.0	25.0	25.0
Interest Cover (x)	2.8	6.3	8.7	9.9
Debtors Turn (avg days)	259.9	176.6	139.4	126.6
Creditors Turn (avg days)	85.5	64.2	44.9	38.7
Inventory Turn (avg days)	2.0	0.7	0.6	0.5
Current Ratio (x)	2.2	2.6	2.9	3.2
Quick Ratio (x)	2.2	2.6	2.9	3.2
Net Debt/Equity (X)	0.3	0.1	0.0	CASH
Capex to Debt (%)	(2.3)	19.3	10.7	10.7
N.Cash/(Debt)PS (sen)	(49.1)	(21.3)	(6.9)	11.9
Opg CFPS (sen)	13.1	28.1	39.1	45.4
Free CFPS (sen)	18.9	(13.9)	22.7	28.6

### PE Chart (x)



---

This document is published by HWANGDBS Vickers Research Sdn Bhd ("HDBSVR") (formerly known as Hwang-DBS Vickers Research Sdn Bhd), a subsidiary of HWANGDBS Investment Bank Berhad ("HDBS") (formerly known as Hwang-DBS Securities Berhad) and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). The research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. HDBSVR accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBS Vickers Securities Holdings Pte Ltd is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. HDBSVR, HDBS, DBSVH, DBS Bank Ltd, and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other banking services for these companies. HDBSVR, HDBS, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this document. HDBSVR, HDBS, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.



Wong Ming Tek, Head of Research