

14 November 2008

BUY
RM1.09

Target Price: RM2.90

TRC Synergy

9M08 net profit within expectations

Stock data

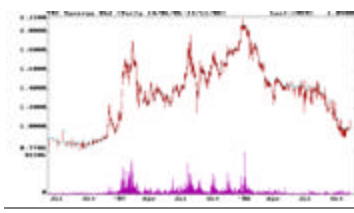
Market cap (RMm) :	206.6
Issued shares (m) :	189.5
52-week range:	RM0.90-RM2.16
3-mth avg daily volume:	58,201 shrs
Bloomberg code:	TRC MK
Syariah	Yes
YTD price chg:	-52.5%
YTD KLCI chg:	-39.1%
Est. free float:	39.1%
Major shareholders:	
Yap Yon Tai:	14.1%
TRC Capital S/B	13.1%
Kolektif Aman S/B:	12.9%
Dato' HJ Sufri B. Hj	10.9%
Mohd Zin:	
Lembaga Tabung Haji:	9.9%

Consensus

FYE 31 Dec	2008E	2009E
Net profit (RMm):	45.4	48.9
EPS (sen):	24.3	26.1

Forecast revision

FYE 31 Dec	2008E	2009E
Previous Net profit (RMm):	47.8	46.0
Revision (%)	-	-

Share price chart

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- **9M08 net profit of RM 36.7m was within our estimates at 77% and 80% of our full year estimates and consensus of RM47.8m and RM45.4m respectively.** One time losses from property division of RM15.8m in 2Q08 resulted in erosion of EBITDA margin to 11.5% compared to 15.5% in 9M08. Nevertheless, TRC is meeting forecast as its recognition of work completed on existing contracts is on schedule without cost overruns.
- **9M08 net profit was 66% higher despite weaker EBITDA margin of 11.5%** compared to 15.6% for 9M07 as turnover was 86% higher as TRC is working on more contracts in 9M08 compared to the preceding 9 months. Margin compression due to higher material cost is inevitable as it affect the industry as a whole.
- **3Q08 net profit RM14.1m was 32.7% higher QoQ and 161.8% higher YoY,** largely driven by progressive recognition of work completed over a large number of projects. Margins improved as its current construction projects are higher margin projects being more technically complex. Moreover, the absence of property development losses also boosted margins.
- **We are maintaining FY08 and FY09 forecast of RM47.8m and RM46.0m respectively.** TRC has RM650m of unbilled order book to be completed up to early 2010 which are all on track and within budget
- **Its enviable balance sheet with a net cash position of RM85.5m (45sen per share).** A strong balance sheet would provide flexibility in securing lucrative negotiated contacts where the ability to provide delayed payment terms may clinch the contract. In addition, TRC is well positioned to acquire assets and company at distressed prices in the current economic environment. This is demonstrated in its ability to secure 3 projects totalling RM187.45m in 3Q08 despite being a difficult period for the construction sector with high building material prices and credit squeeze.
- **Maintain BUY with revised target price of RM2.90 (previously RM3.70) based on FY09 Fully Diluted EPS of 24.3 sen using the average PER of 12x for smaller construction companies.** The share is currently trading at attractive FY08E and FY09E PER of 4.3x and 4.5x respectively.

Results Highlights

FYE 31 Dec (RMm)	3Q07	4Q07	1Q08	2Q08	3Q08	9M08	9M07	QoQ %	YoY %	9MYoY %
Revenue	126.0	121.5	137.3	198.8	224.1	560.3	300.6	12.7%	77.9%	86.4%
Cost of sales	(114.6)	(107.8)	(114.9)	(182.8)	(200.6)	(495.8)	(253.8)	9.8%	75.0%	95.3%
EBITDA	11.4	13.7	22.4	16.1	23.5	64.5	46.7	45.8%	106.8%	37.9%
EBITDA Margin (%)	9.0%	11.3%	16.3%	8.1%	10.5%	11.5%	15.6%			
Depreciation	(0.8)	(0.9)	(1.0)	(1.5)	(1.2)	(3.7)	(4.0)	-23.2%	40.7%	-7.7%
Operating Profit	10.5	12.8	21.4	14.6	22.3	60.8	42.8	53.1%	112.0%	42.2%
Pretax Profit	7.7	11.5	16.9	13.4	18.5	48.8	30.2	37.5%	138.8%	61.4%
Taxation	(2.4)	(4.1)	(4.9)	(2.8)	(4.4)	(12.1)	(8.2)	55.6%	86.4%	48.8%
Tax Rate (%)	30.5%	35.8%	29.1%	21.0%	23.8%	24.9%	27.0%			
Minority Interest	-	-	-	-	-	-	-			
Net Profit	5.4	7.4	12.0	10.6	14.1	36.7	22.1	32.7%	161.8%	66.0%
EPS	3.46	4.75	7.70	6.74	7.42	19.34	11.65	10.1%	114.8%	66.0%

Results Review

QoQ (RMm)	3Q08	2Q08	Chg	Comments
Revenue	224.1	198.8	12.7%	Higher progress billings from advancement in works on existing contracts
Pretax Profit	18.5	13.4	37.5%	Absence of one time loss from property development division of RM15.8m blunted the 2Q08 pretax profit
Net Profit	14.1	10.6	32.7%	Same as above and stronger operating profit from construction division

YoY (RMm)	9M08	9M07	Chg	Comments
Revenue	560.3	300.6	86.4%	Higher billings on faster execution of contracts
EBITDA	64.5	46.7	37.9%	The aforementioned one time loss from property development division reduced EBITDA margin to 11.5%
Net Profit	41.1	22.1	85.9%	Same as above.

Earnings Estimates

FYE 31 Dec (RMm)	2006	2007	2008E	2009E	2010E
Total Revenue	226.5	422.1	753.7	711.7	550.0
EBITDA	30.7	56.5	79.9	76.7	56.0
EBITDA Margin	13.6%	13.4%	10.6%	10.8%	10.2%
Pretax Profit	13.1	41.7	64.7	62.1	41.6
Net Profit	8.2	29.5	47.8	46.0	30.8
Net Profit Growth (%)	257%	259%	62%	-4%	-33%
EPS (sen)	4.3	15.5	25.2	24.3	16.2
EPS Growth (%)	257%	259%	62%	-4%	-33%
GDPS (sen)	-	3.9	6.3	6.0	4.1
NTA/ share (RM)	1.4	1.4	1.7	1.9	2.1
Net Gearing	0.3	(0.3)	(0.3)	(0.3)	(0.1)
PER (x)	25.2	7.0	4.3	4.5	6.7
P/NTA (x)	0.8	0.8	0.6	0.6	0.5
Dividend Yield (%)	0.0%	3.6%	5.8%	5.5%	3.7%
EV/EBITDA	4.7	2.6	1.8	1.9	2.6
ROE (%)	6.2%	14.6%	20.1%	16.9%	10.4%

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