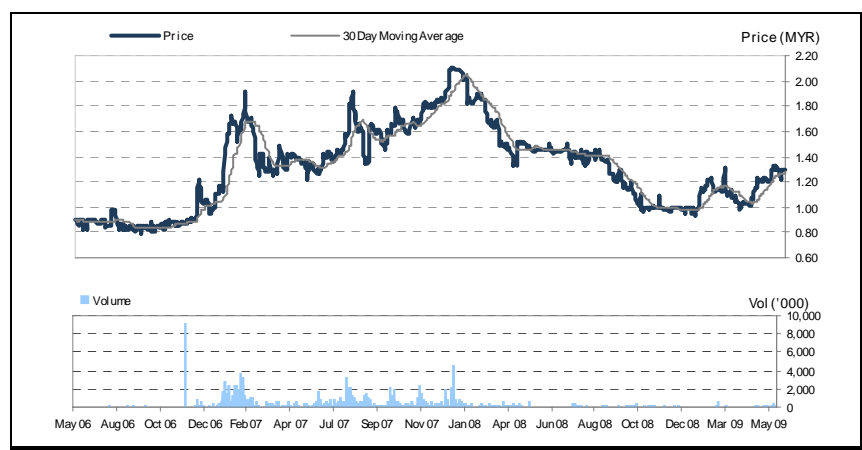


**Board:** Main**Sector:** Construction**GICS:** Industrials/Construction & Engineering**Market Value - Total:** MYR244.6 mln

**Summary:** TRC Synergy (TRC) is an investment holding company with subsidiaries engaged in construction, manufacturing of construction materials and property development. The stock is a component of FBMEMAS.

**Analyst:** Seu Yee Lau**Results Review & Earnings Outlook**

- TRC reported a net profit of MYR10.1 mln for 1Q09 (-15.6% YoY). The results were broadly within our expectations, making up about 21% of our original full-year net profit forecast. Better-than-expected revenue due to higher progressive billings from on-going key construction projects was offset by lower EBIT margin of 8.1% (vs. 2009E: 10.7%) due to completion of certain higher margin projects. Meanwhile, the group reported a lower-than-expected effective tax rate of 24.7% (vs. 2009E:28%). No interim dividend was declared, as expected.
- Group revenue was up 31.2% YoY to MYR180.2 mln from strong pick-up in construction activities (+29.4% YoY to MYR184.3 mln) offset by lower property sales (-95.1% YoY to MYR0.3 mln) due to the absence of new launches. Group pre-tax margin declined (-4.8% pts YoY to 7.5%) mainly as a result of lower construction margins (-5.7%-pts YoY to 7.8%). Meanwhile, the group reported lower effective tax rate (-4.4%-pts YoY to 24.7%). The net effect was a decrease in pre-tax and net profit by 20.5% and 15.6%, respectively.
- After some fine-tuning, we have reduced our 2009 and 2010 net profit forecasts slightly by 2.2% and 1.2% respectively to incorporate weaker construction margins offset by a lower effective tax rate of 26% (from 28%). Our 2010 forecast includes potential new construction contracts worth MYR500 mln. We understand that the group is actively bidding for about MYR1.5 bln worth of local and overseas projects. Meanwhile, TRC expects to launch its property development in Ulu Klang (GDV = MYR50 mln) comprising mainly of terrace houses by end of the year. This will help lift the group's profitability and reduce its dependency on construction earnings.

**Key Stock Statistics**

FY Dec.	2008	2009E
Reported EPS (sen)	24.0	24.9
PER (x)	5.4	5.2
Dividend/Share (sen)	6.0	6.0
NTA/Share (MYR)	1.41	1.61
Book Value/Share (MYR)	1.41	1.61
No. of Outstanding Shares (mln)	189.6	
52-week Share Price Range (MYR)	0.94 - 1.50	
Major Shareholders:	%	
TRC Capital Sdn. Bhd.	14.1	
Kolektif Aman Sdn. Bhd.	13.9	

\*Stock deemed Shariah compliant by the Securities Commission

**Recommendation & Investment Risks**

- We downgrade our recommendation on TRC to Buy from Strong Buy with an unchanged 12-month target price of MYR1.60, due to its recent share price strength. At current levels, TRC is trading on projected PERs of 5.2x and 6.0x on our revised 2009 and 2010 forecast, which is undemanding given its earnings visibility from a growing order book that lasts till 2011.
- We continue to value TRC based on blended 7x (unchanged) PER and 0.8x (unchanged) P/B target multiples (assuming full dilution of ICULS) on our 2009 estimates. As at end-March 2009, only about MYR1.2 mln 5% ICULS were left unconverted. Our target price also includes a projected net DPS of 4.5 sen (vs. 3 sen previously).
- We believe TRC's fundamentals remain intact given i) its growing order book at MYR1.6 bln of which MYR745 mln is outstanding; ii) strong presence in East Malaysia where it stands to benefit from increased spending there; iii) strong financials (net cash flow of about MYR89 mln in end-March 2009, zero gearing); and iv) expansion into the O&G sector via its 26% stake in Brunei-based PetroBru to build and operate a crude oil storage and refinery. Further earnings upside will depend on TRC's ability to secure infrastructure works for the Brunei refinery which include roads, bridges and reclamation works worth about USD500 mln, expected to start in 2010.
- Risks to our recommendation and target price include delays in the completion of existing projects and in start-up of potential jobs, slower-than-expected replenishment of its construction order book and property sales, and higher-than-expected volatility in material prices.

**Per Share Data**

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.08	1.33	1.41	1.61
Cash Flow (sen)	12.2	25.0	26.8	27.3
Reported Earnings (sen)	8.6	17.9	24.0	24.9
Dividend (sen)	1.9	4.2	6.0	6.0
Payout Ratio (%)	25.4	17.0	18.6	18.1
PER (x)	15.0	7.2	5.4	5.2
P/Cash Flow (x)	10.6	5.2	4.8	4.7
P/Book Value (x)	1.2	1.0	0.9	0.8
Dividend Yield (%)	1.5	3.2	4.7	4.7
ROE (%)	6.3	17.0	18.5	16.5
Net Gearing (%)	33.9	0.0	0.0	0.0

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**Quarterly Performance**

FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	180.2	137.3	31.2
Reported Operating Profit	14.7	18.1	-19.0
Depreciation & Amortization	-1.2	-1.0	23.1
Net Interest Income / (Expense)	-1.1	1.1	NM
Reported Pre-tax Profit	13.4	16.9	-20.5
Reported Net Profit	10.1	12.0	-15.6
Reported Operating Margin (%)	8.1	13.2	-
Reported Pre-tax Margin (%)	7.5	12.3	-
Reported Net Margin (%)	5.6	8.7	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	422.1	739.6	712.6	597.4
Reported Operating Profit	43.9	66.4	69.0	59.9
Depreciation & Amortization	-4.9	-5.6	-4.5	-4.5
Net Interest Income / (Expense)	-1.7	-4.7	-4.7	-4.7
Reported Pre-tax Profit	41.7	61.5	63.8	55.3
Effective Tax Rate (%)	28.0	26.2	26.0	26.0
Reported Net Profit	30.0	45.4	47.2	40.9
Reported Operating Margin (%)	10.4	9.0	9.7	10.0
Reported Pre-tax Margin (%)	9.9	8.3	9.0	9.3
Reported Net Margin (%)	7.1	6.1	6.6	6.8

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.60
25-Feb-09	Strong Buy	1.60
14-Nov-08	Strong Buy	1.70
29-Aug-08	Strong Buy	1.80
28-May-08	Strong Buy	2.00
25-Oct-07	Strong Buy	2.21
27-Aug-07	Buy	1.98
25-May-07	Hold	1.54
27-Feb-07	Hold	1.75
6-Dec-06	Buy	1.42
28-Nov-06	Hold	1.03

