

TRC Synergy Berhad		Stock Code: 5054
		Price: RM1.74
		Market Capitalisation: RM243.3mn
		Board: Main Board
		Sector: Construction
Recommendation: Buy		

Key Stock Statistics	FY07	FY08F	FY09F
Basic EPS (sen)	21.3	32.6	25.2
P/E on EPS (x)	8.2	5.3	6.9
Dividend/Share (sen)	5.3	10.4	8.1
NTA/Share (RM)	1.59	1.84	2.06
Book Value/Share	1.59	1.84	2.06
Issued Capital (m shares)	139.8	139.8	139.8
52-weeks Share Price Range (RM)	1.40 - 2.59		

Major Shareholders:	%
Kolektif Aman Sdn Bhd	15.6
TRC Capital Sdn Bhd	15.6
Dato' Haji Surfi Bin Haji Mohd Zin	11.0
Lembaga Tabung Angkatan Tentera	9.0

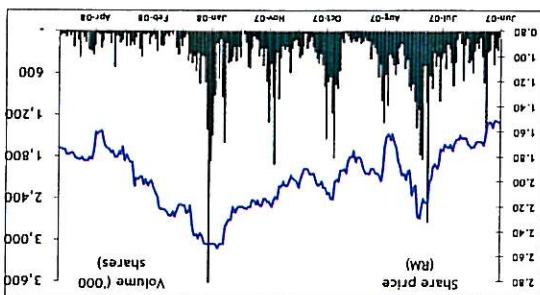
Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec Book Value (RM)	1.43	1.59	1.84	2.06
Cash Flow (sen)	16.7	86.4	37.8	29.5
Earnings (sen)	11.4	21.3	32.6	25.2
Dividend (sen)	2.8	6.7	13.1	10.1
Payout Ratio (%)	25.0	25.0	25.0	25.0
PER (x)	15.3	8.2	5.3	6.9
P/Cash Flow (x)	10.4	2.0	4.6	5.9
P/Book Value (x)	1.2	1.1	0.9	0.8
Dividend Yield (%)	1.6	3.8	7.5	5.8
ROE (%)	8.0	13.4	17.7	12.2
Net Gearing (%)	35.9	n.c.	n.c.	n.c.

P&L Analysis (RMm)	FY06	FY07	FY08F	FY09F
Year-end 31 Dec Revenue	226.5	422.1	607.8	493.5
Operating Profit	20.4	46.5	64.5	47.1
Depreciation	(5.0)	(4.9)	(4.9)	(4.9)
Net Interest Expense	(3.0)	0.3	0.3	0.8
Pre-tax profit	13.1	42.2	63.9	47.0
Effective Tax Rate (%)	(19.8)	(29.5)	(25.0)	(25.0)
Net Profit	10.5	29.8	45.6	35.3
Operating Margin (%)	9.0	11.0	10.6	9.5
Pre-tax margin (%)	5.8	10.0	10.5	9.5
Net margin (%)	4.6	7.1	7.5	7.1

1 Recent Developments

TRC Synergy Bhd (TRCS)'s fundamentals will enable the Group to withstand the anticipated downturn in the construction industry, given that the mid-term review of 9MP would likely see the cut back or delay of yet to be awarded projects due to rising raw material costs: 1) a further 3 new projects collectively worth RM514mn had been secured in the last 6 months, 2) earnings visibility for the next 2-3 years on the back of unbilled order book of RM970mn.

Maintain Buy recommendation. Currently TRCS is trading at undemanding FY08 and FY09 PERs of 5.3x and 6.9x respectively. On a fully diluted basis (assuming full conversion of the ICULS and warrants) the shares trade at FY07 and FY08 PERs of 6.7x and 8.6x respectively.



Share Price Chart

2. Highlights

Weathering medium term uncertainties for the construction industry. The government's reprioritising of yet-to-be awarded projects to take into account needs vs feasibility in view of rising raw material costs is already anticipated to result in delays and perhaps cancellation of selected projects still in the pipeline as already seen in the Penang bridge delay and the scrapping of the bullet train project to Singapore. Further, the move by 2 opposition states to favour the open tender system looks likely to drive down contract values in the states concerned, with some quarters not discounting implications for the entire industry as a whole. In all, this will result in an even more competitive environment where the more cost efficient companies with proven track record and strong balance sheets will have an edge over less efficient, smaller players and structurally, in our view, could pave the way to a consolidation period.

Nevertheless, we believe that TRCS' resilience in the medium term is underpinned by a number of positive factors:

- **Earnings visibility for TRCS for the next 2-3 years.** The Group's order book to-date of around RM1.4bn with an estimated unbilled portion of RM970mn will keep the company busy for the next 2-3 years. Seven out of eight projects were secured within the last 24 months, with the 3 most recent projects awarded between December 07 and April 08 comprising: Kuala Terengganu Airport upgrading works (RM202mn), construction of Putrajaya's government quarters (RM115.5mn) and the construction of University KL in Pasir Gudang (RM196.5mn).
- **Margins relatively resilient.** A number of mitigating factors against rising raw material costs include: 1) contracts recently secured which have factored in the prevailing costs of raw materials, 2) escalation clauses for cost overruns 3) 2-3 months of forward buying of raw materials and 4) gains from design optimisation and efficiency measures.
- **Strong balance sheet** with relatively low borrowings and strong cash position of around RM190mn from progressive billings.

Longer term prospects. TRCS has to-date tendered for around RM1.5bn worth of projects. Management's internal target to secure annual contract values of between RM1300-RM1600mn is believed to be still on track. Notwithstanding current issues faced by the industry presently, 2 key potential earnings upside for the group in the longer term could come from:

- TRCS' investment in Petrolu (26%), currently mandated by the Brunei government to carry out pre-feasibility, feasibility and engineering studies for a proposed US\$1.5-US\$3.5bn oil refinery. Contingent upon the completion of the studies in 12 months, potential construction opportunities for the Group could significantly lift earnings from FY10 onwards.
- SCORE - the proposed growth corridor in Sarawak to spearhead the development of the state, where a series of programmes have been earmarked to lift the state into an industrialised status by 2030. TRCS has already a proven track record in Sarawak and is well positioned to benefit from this development.

Recommendation

We are upgrading our FY08 forecasts to take into account the revenue enhancement from the works on Kuala Terengganu airport and construction of University KL during the year. This spike in revenue will be followed by a dip in FY09 in the worst case scenario of assuming that no new projects will be awarded in the next 12-18 months, which we believe is highly unlikely. We anticipate upgrades in earnings for FY09. In our view, risks to earnings for TRCS would be in the form of delay in award of projects. The stock is currently trading at FY08 and FY09 PERS of 5.3x and 6.9x respectively, and on a fully diluted basis PERS of 6.7x and 8.6x respectively. **Maintain Buy Recommendation.**

Investment ratings:

Buy (generally >10% upside over the next 12 months)
Hold (generally negative 10% downside to positive 10% upside over the next 12 months)
Sell (generally >10% downside over the next 12 months)

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