



MALAYSIA EQUITY

Investment Research

Daily News

CONSTRUCTION

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Company Update

Private Circulation Only

TRC Synergy

| | |
|---------------|-----------------|
| BUY | Maintain |
| Price | RM1.69 |
| Target | RM2.60 |

Stock Profile/Statistics

| | |
|-----------------------------|-------------|
| Bloomberg Ticker | TRC MK |
| KLCI | 1153.70 |
| Issued Share Capital (m) | 157.35 |
| Market Capitalisation (RMm) | 265.93 |
| 52 week H L Price (RM) | 2.59 1.40 |
| Average Volume (3m) '000 | 66.66 |
| YTD Returns (%) | -0.79 |
| Net gearing (x) | -0.54 |
| Altman Z-Score | 3.64 |
| ROCE/WACC | 0.84 |
| Beta (x) | 1.24 |
| Book Value/share (RM) | 1.59 |

Major Shareholders (%)

| | |
|------------------|------|
| Kolektif Aman SB | 15.5 |
| TRC Capital SB | 15.5 |
| Yap Yon Tai | 12.8 |

Share Performance (%)

| Month | Absolute | Relative |
|-------|----------|----------|
| 1m | 0.5 | 6.5 |
| 3m | 9.3 | 12.2 |
| 6m | (30.5) | (15.9) |
| 12m | 4.7 | 20.4 |

6-month Share Price Performance



Bags Bintulu Port Project

TRC was recently awarded a RM88.9m contract from Bintulu Port for construction works at the latter's port. While TRC's project flow YTD seems healthy, we nevertheless see margins erosion as an inconvenient truth. Thus we continue to apply a further reduction to our margin assumption, trimming our earnings forecast by 8% to 9%. The forward multiples for FY08 and FY09 are now at 6x to 8x and the stock's TP has been lowered from RM2.87 to RM2.60.

New contract. TRC recently announced that it had received a RM88.9m contract from **Bintulu Port (not rated)**. The project involves the construction of a transit shed, pulp and paper warehouse, plant maintenance workshop, hazardous goods godown and operator's warehouse. It also involves the provision of some mechanical and electrical services.

Project flows healthy. Management guided that works are expected to commence in August and will take a total of 24 months to complete. Given the initial lower revenue recognition, we project that the impact will mostly be felt from FY09–10. YTD, the total number of projects awarded makes up 80% of our orderbook replenishment assumption.

But margins erosion inevitable. Despite TRC's positive project flows so this year totalling approximately RM490m, we opine that a margin erosion is inevitable. Although we had previously lowered our margin assumptions, we are applying another 2%–3% reduction to our gross margin assumptions to reflect spiralling materials prices.

Likely beneficiary of SCORE. To recap, TRC is the only peninsula-based contractor that holds a UPK Class A licence for Sarawak, which enables it to bid for government jobs from that state. This latest Sarawak-based job continues to reaffirm our view that TRC is a potential beneficiary of SCORE. Having said that, we continue to maintain our view that investors should avoid the NCER play and focus on SCORE.

Lowering TP to RM2.84. By recognising the value of this recent award and applying an even greater reduction to our margin projections, our FY08 and FY09 earnings have been reduced by 8%–9%. Earnings are now forecast to grow by 45.1% and 18.4% respectively for FY08 and FY09. The TP is lowered from RM2.87 to RM2.60 based on 11x FY08 earnings. However, the current share price weakness warrants maintaining our BUY call.

| FYE Dec (RMm) | FY05 | FY06 | FY07 | FY08f | FY09f |
|---------------|---------|-------|-------|-------|-------|
| Turnover | 141.8 | 225.7 | 422.2 | 609.7 | 739.7 |
| EBITDA | 8.8 | 24.8 | 51.4 | 67.7 | 78.4 |
| Net Profit | (5.2) | 10.5 | 30.0 | 43.6 | 51.6 |
| % chg YoY | -12274% | 301% | 186% | 45% | 18% |
| Consensus | | | | | |
| EPS (sen)^ | (2.8) | 5.7 | 16.3 | 23.6 | 27.9 |
| DPS (sen)^ | - | 1.2 | 4.1 | 5.9 | 7.0 |
| Div Yield | 0.0% | 0.7% | 2.4% | 3.5% | 4.1% |
| ROE | -4.2% | 8.3% | 17.0% | 18.2% | 18.8% |
| ROA | -1.8% | 3.7% | 8.9% | 10.7% | 11.1% |
| PER (x) | NA | 29.7 | 10.4 | 7.2 | 6.0 |
| P/BV (x) | 2.6 | 2.4 | 1.4 | 1.2 | 1.1 |

EARNINGS FORECAST

| FYE Dec (RMm) | FY05 | FY06 | FY07 | FY08f | FY09f |
|----------------------|-------------|-------------|-------------|--------------|--------------|
| Turnover | 141.8 | 225.7 | 422.2 | 609.7 | 739.7 |
| EBITDA | 8.8 | 24.8 | 51.4 | 67.7 | 78.4 |
| PBT | (4.8) | 13.1 | 41.7 | 59.7 | 70.7 |
| Net Profit | (5.2) | 10.5 | 30.0 | 43.6 | 51.6 |
| EPS (sen) | (2.8) | 5.7 | 16.3 | 23.6 | 27.9 |
| DPS (sen) | - | 1.2 | 4.1 | 5.9 | 7.0 |
| Margin | | | | | |
| EBITDA | 6.2% | 11.0% | 12.2% | 11.1% | 10.6% |
| PBT | -3.4% | 5.8% | 9.9% | 9.8% | 9.6% |
| Net Profit | -3.7% | 4.7% | 7.1% | 7.2% | 7.0% |
| ROE | -4.2% | 8.3% | 17.0% | 18.2% | 18.8% |
| ROA | -1.8% | 3.7% | 8.9% | 10.7% | 11.1% |
| Balance Sheet | | | | | |
| Fixed Assets | 39.4 | 41.7 | 57.1 | 54.1 | 51.1 |
| Current Assets | 232.6 | 247.5 | 326.6 | 379.0 | 447.9 |
| Total Assets | 272.0 | 289.1 | 383.7 | 433.0 | 499.0 |
| Current Liabilities | 106.0 | 114.3 | 110.3 | 122.2 | 144.3 |
| Net Current Assets | 126.6 | 133.2 | 216.3 | 256.8 | 303.7 |
| LT Liabilities | 44.7 | 43.0 | 50.8 | 55.5 | 60.7 |
| Shareholders Funds | 121.3 | 131.9 | 222.6 | 255.3 | 294.0 |

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:** Stock is not within regular research coverage

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