

TRC Synergy

Recommendation: **STRONG BUY**

Stock Code: 5054

Bloomberg: TRC MK

Price: MYR1.13

12-Month Target Price: MYR1.70

Date: January 20, 2009

Board: Main**Sector:** Construction**GICS:** Industrials/Construction & Engineering**Market Value - Total:** MYR214.2 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**Recent Developments**

- TRC announced that it has secured a project worth MYR218 mln to build a training center for the maritime enforcement agency in Kuantan, Pahang. The contract, awarded by the director general of Public Works Malaysia, Air Base and Maritime Branch is expected to be completed within two years on Jan. 27, 2011.
- With the project, TRC's construction orderbook stands at MYR1.6 bln, of which, MYR1.4 bln are government-related projects. The unbilled portion is about MYR890 mln, lasting up to 2011. We understand that the group is actively bidding for MYR700 mln-MYR800 mln worth of mostly local projects. In 2008, the group successfully secured MYR500 mln worth of new projects, exceeding its annual target of MYR300mln-MYR400 mln per annum. We believe that TRC's track record and strong financials should place it in a good position to clinch more projects despite the challenging economic environment.
- On the status of the group's 26% stake in PetroBru, which plans to build a USD3-bln (MYR11 bln) oil refinery in Brunei, a detailed feasibility study is currently in progress and is expected to be completed by mid-year. Management is confident that formal approval to start the refinery project will be obtained from the Brunei government as soon as the feasibility study is completed. TRC plans to participate in infrastructure works such as roads, bridges and reclamation works worth about USD500 mln, expected to start in 2010. The ability for TRC to secure the infra works at the refinery will significantly boost its orderbook.

Recommendation & Investment Risks

- We maintain our Strong Buy recommendation with an unchanged 12-month target price of MYR1.70. Trading at 4.5x and 4.3x our 2008 and 2009 EPS forecasts, we believe TRC's valuation is undemanding given its earnings visibility from a growing orderbook.
- 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-September 2008, only about MYR1.2 mln 5% ICULS were left unconverted.
- We believe TRC's fundamentals remain sound given (i) its growing orderbook; (ii) strong presence in East Malaysia; (iii) strong financials (net cash flow of MYR86 mln end-September 2008, zero gearing); and (iii) expansion into the O&G sector via its 26% stake in Brunei-based PetroBru to build and operate a crude oil storage and refinery.
- 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 orderbook and property sales, and higher-than-expected volatility in construction material prices and fuel costs.

Earnings Outlook

- We have fine-tuned our projections and left our 2008 and 2009 forecasts relatively unchanged. We have already included the new project in our forecasts.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	17.9	25.3
PER (x)	6.3	4.5
Dividend/Share (sen)	4.2	4.0
NTA/Share (MYR)	1.33	1.59
Book Value/Share (MYR)	1.33	1.59
No. of Outstanding Shares (mln)	189.6	
52-week Share Price Range (MYR)	0.94 - 1.97	
Major Shareholders:	%	
Kolektif Aman Sdn. Bhd.	12.9	
TRC Capital Sdn. Bhd.	13.1	

*Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.99	1.08	1.33	1.59
Cash Flow (sen)	-2.0	12.2	25.0	27.6
Reported Earnings (sen)	-4.3	8.6	17.9	25.3
Dividend (sen)	0.0	1.9	4.2	4.0
Payout Ratio (%)	0.0	25.4	17.0	11.7
PER (x)	NM	13.2	6.3	4.5
P/Cash Flow (x)	NM	9.3	4.5	4.1
P/Book Value (x)	1.1	1.1	0.9	0.7
Dividend Yield (%)	0.0	1.7	3.7	3.5
ROE (%)	-6.7	6.3	17.0	18.3
Net Gearing (%)	51.1	33.9	0.0	0.0

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FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	225.7	422.1	700.6	664.9
Reported Operating Profit	16.0	43.9	64.4	67.9
Depreciation & Amortization	-4.4	-4.9	-4.5	-4.5
Net Interest Income / (Expense)	-5.4	-1.7	2.5	2.5
Reported Pre-tax Profit	13.1	41.7	66.6	69.9
Effective Tax Rate (%)	19.8	28.0	27.9	28.0
Reported Net Profit	10.5	30.0	48.0	50.3
Reported Operating Margin (%)	7.1	10.4	9.2	10.2
Reported Pre-tax Margin (%)	5.8	9.9	9.5	10.5
Reported Net Margin (%)	4.7	7.1	6.9	7.6

Source: Company data, S&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.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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
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
28-Feb-06	Hold	0.99

