

30 May 2013
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12-month upside potential

Previous target price	0.57
Revised target price	0.76
Current price (as at 30 May)	0.63
Capital upside (%)	20.6
Net dividends (%)	2.4
Total return (%)	23.0

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	298.1
Shares outstanding (m)	476.9
Free float (%)	36.7
52-week high / low (RM)	0.67 / 0.51
3-mth avg volume ('000)	436.8
3-mth avg turnover (RM m)	0.2

Share price performance

	1M	3M	6M
Absolute (%)	21.4	17.9	7.8
Relative (%)	17.4	8.7	-2.2

Share price chart


TRC Synergy

Construction

Trading Buy ↑

Bloomberg Ticker: TRC MK | Bursa Code: 5054

1QFY13: Strong but still short

TRC reported a strong 1QFY13 earnings of RM6m (>300% y-o-y, +34% q-o-q), but still missed our estimates. It is eyeing RM400-500m in new job wins this year and is set to launch apartments in Iskandar during 2H. Risk appetite for construction cyclical plays has returned with 13GE now over. TRC is a good way to ride on this theme given its earnings rebound and capacity to secure government related jobs. Upgrade to TRADING BUY with a higher TP of RM0.76.

Good start but numbers still below

- TRC reported 1QFY13 revenue of RM172.4m (+82% y-o-y, -13.2% q-o-q) and earnings of RM5.7m (>300% y-o-y, +34% q-o-q).
- Despite the strong y-o-y jump in earnings, this was still below our expectations at 17% of our full year forecasts and 17.7% of consensus.

Construction division

- On the Kelana LRT extension, management guides that the stop work order has been lifted following the fatal accident in mid-April and works have recommenced.
- TRC's orderbook currently stands at RM1.8bn (3.9x FY12 construction revenue). YTD job wins now total RM170m vs our full year assumption of RM400m.
- With 13GE over, management expects the momentum of contracts to pick up and is targeting RM400-500m in new job wins for FY13. TRC is tendering for road projects in Sarawak, buildings in Putrajaya and some PFI related jobs.
- 5 contractors including TRC are bidding for the Samalaju Port breakwater package worth >RM400m. TRC has completed 2 jobs for Bintulu Port (owner of Samalaju Port) and could leverage on this past track record. It is currently constructing the Samalaju Port interim facilities (RM194m), scheduled for completion this year.

Property division

- TRC will be launching low rise apartments in Permas Jaya, Johor in 2H with GDV of RM90m. Pricing appears attractive at RM350psf (unit size at 1000-1200 sq ft) when compared to current property prices in Iskandar. Despite no official launch, we gather that TRC has received bookings for almost all the units in Phase 1.
- On TRC's joint development with Prasarana in Ara Damansara, surrounding the new LRT station, launches could happen as soon as early 2014. The RM800m development comprises of retail podium, office units, SOHO, apartments and car parks. This will be TRC's largest property development undertaken as past ones were < RM100m GDV.

Impact on estimates

- Our projection on TRC's earnings rebound may have been too bullish. We scale back our FY13-14 earnings by -27.1% and -18.5% on construction revenue and margins.
- Despite earnings cut, FY13-14 earnings are still expected to grow 162% and 50% y-o-y. Our 3-year earnings CAGR stands at 72.1% after the earnings cut.

Valuation and recommendation

- We roll over our valuation parameter from FY13 to mid CY14 and also ascribe a higher P/E target of 12x (mean: 15.1x) from 8x previously. This raises our TP from RM0.57 to RM0.72 despite the earnings cut.
- Risk appetite for cyclical construction plays, especially amongst small-mid cap stocks, has returned with "election risk" removed.
- We believe that TRC is a good way to ride on this theme given (i) expected earnings rebound, and (ii) good proxy to the rollout of Government jobs. Upgrade to TRADING BUY (+21.8% upside potential) from neutral.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	1QFY13	1QFY12	4QFY12	% y-o-y change	% q-o-q change	Comments
Key financial highlights						
Revenue (RM m)	172.4	94.7	198.6	82.0	(13.2)	Up y-o-y as jobs secured last year gains momentum. Lower q-o-q given festivities and short Feb month.
Operating profit (RM m)	7.2	4.0	8.8	78.3	(18.4)	
Pretax profit (RM m)	6.5	3.9	7.9	64.1	(17.9)	
Net profit (RM m)	5.6	1.3	4.2	320.4	34.0	Low effective tax rate at 12.4% due to overprovision last year and capital allowances.
Core net profit (RM m)	5.6	1.3	4.2	320.4	34.0	1Q made up 17% of our full year forecast.
Per share data						
EPS (sen)	1.2	0.3	0.9	320.4	34.0	
Core EPS (sen)	1.2	0.3	0.9	320.4	34.0	
Net DPS (sen)	-	-	-			
BV/share (RM)	0.67	0.66	0.66			
Margins						
Pretax (%)	3.7	4.2	4.0			
Net profit (%)	3.3	1.4	2.1			Higher y-o-y due to lower effective tax rate.

Source: Company, Alliance Research

Figure 2 : Earnings revision

	FY13F	FY14F	FY15F
Previous EPS	7.0	9.3	-
Revised EPS	5.1	7.6	9.9
% change	-27.1%	-18.5%	New

Source: Alliance Research

Figure 3 : Key financial data

FYE 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	400.8	566.1	706.3	926.3	1,017.4
EBITDA (RM m)	15.6	23.8	38.1	55.3	70.4
EBIT (RM m)	10.3	18.2	32.0	48.8	63.4
Pretax profit (RM m)	16.6	22.8	32.3	49.0	63.6
Reported net profit (RM m)	13.0	9.2	24.2	36.3	47.1
Core net profit (RM m)	13.0	9.2	24.2	36.3	47.1
EPS (sen)	2.7	1.9	5.1	7.6	9.9
Core EPS (sen)	2.7	1.9	5.1	7.6	9.9
Alliance / Consensus (%)			75.8	92.2	93.6
Core EPS growth (%)	(19.8)	(28.9)	162.3	49.8	29.8
P/E (x)	23.0	32.3	12.3	8.2	6.3
EV/EBITDA (x)	18.5	12.1	7.6	5.2	4.1
ROE (%)	4.2	2.9	7.3	10.2	12.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net DPS (sen)	1.5	1.5	1.5	2.3	3.0
Net dividend yield (%)	2.5	2.4	2.4	3.7	4.7
BV/share (RM)	0.65	0.66	0.69	0.75	0.81
P/B (x)	1.0	1.0	0.9	0.8	0.8

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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Published & printed by:

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