

TRC Synergy (HOLD ↔, EPS ↔)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

31 May 2013

Price Target: RM0.68 (↑)

Share price: RM0.625

1Q results: Earnings recovers

- | | |
|------------|--|
| Results | <ul style="list-style-type: none"> 1QFY13 earnings surged by 320% YoY, to RM5.7m (1.19 sen/share) making up 22% of our estimates but missed street's expectations by making up 18% of full year forecast. |
| Deviations | <ul style="list-style-type: none"> Seasonal weakness. Hence, we consider earnings to be largely in line. |
| Dividends | <ul style="list-style-type: none"> None. Dividends usually declared during AGM. |
| Comments | <ul style="list-style-type: none"> Results review... YoY, revenue surged by 82% to RM172.4m, driven by its huge order book of ~RM1.9bn. However, due to GP margin contraction from 10.8% to 5.5%, GP fell by 8% to RM9.4m. We believe that this is due to low margins for the LRT extension project. Earnings on the other hand, grew by 320% to RM5.7m, due to lower expenses arising from the absence of tax penalty expenses in 1QFY12. QoQ... Revenue fell by 13%, as 1Q tends to be seasonally slower. Likewise, PBT fell by 18% to RM6.5m. However, due to lower effective tax rate of 12.4%, earnings grew by 34%. Earnings visibility... Total outstanding order book of ~RM1.9bn, translating to ~3.3x FY12's revenue and ~6.4x order book-to-market cap ratio. |
| Risks | <ul style="list-style-type: none"> Single project concentration and execution risk in the LRT project; Regulatory and political risk; Rising raw material prices; and Unexpected downturn in the construction sector. |
| Forecasts | <ul style="list-style-type: none"> Unchanged. |
| Rating | <p>HOLD (↔)</p> <ul style="list-style-type: none"> We are encouraged by the 1QFY13's earnings as it was the highest since 2QFY11. The prospects for earnings recovery in the subsequent quarters remain strong. However, we believe that TRC has to maintain earnings growth consistency to attract the attention of investors. With less than 10% upside from our current price, we maintain our HOLD call on the company. |
| Valuation | <ul style="list-style-type: none"> Target Price raised by 19.3% to RM0.68 based on P/E of 12x average FY13-14 earnings. The higher P/E multiple of 12x was used instead of 10x due to stronger prospects (after this encouraging results) of earnings recovery. |

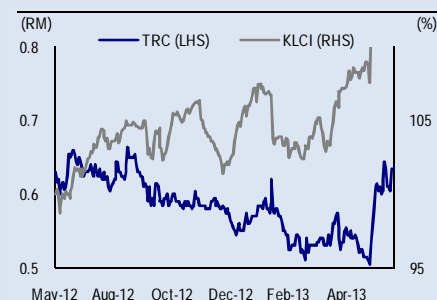
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KLCI	1,774.9
Expected share price return	8.8%
Expected dividend return	2.4%
Expected total return	11.2%

Share price



Information

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	477
Market cap (RM m)	298
3-mth avg. volume ('000)	437

Price Performance	1M	3M	12M
Absolute	21.4	17.9	-3.8
Relative	17.4	8.8	-14.7

Major shareholders

TRC Capital	12.5%
Kolektif Aman	12.3%
Dato' Sri Sufri	9.7%
Free Float	36.7%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	400.8	570.2	714.4	836.5
EBITDA	15.6	25.5	41.3	44.2
EBIT	10.3	19.9	35.4	37.7
Profit Before Tax	16.6	24.1	34.6	37.7
Core PATAMI	13.0	10.2	26.0	28.2
Core EPS (sen)	2.8	2.1	5.5	5.9
FD EPS (sen)	2.0	1.6	4.0	4.3
Net DPS (sen)	1.5	1.5	1.5	1.5
Net DY (%)	2.4	2.4	2.4	2.4
P/E (x)	22.5	29.2	11.5	10.5
FD P/E (x)	31.3	40.3	15.8	14.5
P/B (x)	0.9	0.9	0.9	0.8
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	4.3	3.3	8.0	8.2
ROA (%)	2.9	1.9	4.0	4.1

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY12	4QFY12	1QFY13	QoQ (%)	YoY (%)	Comments
Revenue	94.7	198.6	172.4	-13	82	YoY: Buoyed by huge order book of ~RM1.9bn. QoQ: Affected by seasonality. Made up 24% and 23% of ours and consensus' estimates respectively.
GP	10.2	13.1	9.4	-28	-8	YoY/QoQ: Due to lower GP margin.
EBIT	2.8	7.0	5.7	-19	>100	YoY: Due to absence of tax penalty which increased 1QFY12 expenses.
Net Interest	0.8	1.1	0.7	-35	-13	Net cash position inched up to RM15.7m (3.3 sen/share) from RM7.2m (1.5 sen/share) in 4QFY12.
Associates	0.3	(0.3)	0.0	n/a	-98	
PBT	3.9	7.9	6.5	-18	64	
Tax	(2.6)	(3.6)	(0.8)	-78	-69	Effective tax rate of 12.4% after over provision in the previous quarters.
PATAMI	1.3	4.2	5.7	34	>100	Made up 22% and 18% of ours and consensus' estimates respectively.
EPS (sen)	0.28	0.89	1.19	34	>100	
GP Margin (%)	10.8%	6.6%	5.5%	-17	-49	Lower margin due to LRT project.
EBIT Margin (%)	3.0%	3.5%	3.3%	-6	12	
PBT Margin Ex-Assoc (%)	3.8%	4.1%	3.7%	-9	-3	

TRC, HLIB

Figure #2 Outstanding order book as of Mar-13

Projects secured YTD	Contract Sum (RM m)
Putrajaya Precinct 8 & 14 housing	25
Lumut jetty	30
Brunei Airport	265
Sepang Bay submarine facilities	20
KJ LRT extension Package A	680
Dayabumi Phase 2	20
MRT Sungai Buloh depot	440
Samalaju interim port facility	140
MRT stations Package S1	280
Sangan-Kapit access road	170
Total	2,070
Minus 1QFY13 Revenue	172
Estimated Order Outstanding Order Book	1,898

TRC, HLIB

Figure #3 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	714.4	766.6	-7%	836.5	949.1	-12%
PATAMI	26.0	31.9	-19%	28.2	39.3	-28%

Bloomberg, HLIB

Financial Projections for TRC Synergy (HOLD; TP: RM0.68)

Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	376.7	400.8	570.2	714.4	836.5
EBITDA	25.5	15.6	25.5	41.3	44.2
D&A	(5.1)	(5.4)	(5.6)	(5.8)	(6.4)
EBIT	20.4	10.3	19.9	35.4	37.7
Interest Income	3.3	7.0	5.5	5.0	5.8
Finance Costs	(0.3)	(0.4)	(1.5)	(5.8)	(5.8)
Associates	(0.4)	(0.3)	0.2	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	23.0	16.6	24.1	34.6	37.7
Tax	(6.8)	(3.6)	(13.9)	(8.7)	(9.4)
Net Profit	16.2	13.0	10.2	26.0	28.2
Minority Interests	-	-	-	-	-
PATAMI	16.2	13.0	10.2	26.0	28.2
Core Earnings	16.2	13.0	10.2	26.0	28.2
Basic Shares (m)	456.6	467.7	476.3	476.3	476.3
Basic EPS (sen)	3.5	2.8	2.1	5.5	5.9
FD EPS (sen)	3.0	2.0	1.6	4.0	4.3

Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
Revenue	94.7	118.1	158.8	198.6	172.4
COGS	(84.5)	(109.6)	(143.2)	(185.5)	(162.9)
Gross Profit	10.2	8.4	15.6	13.1	9.4
Other Income	4.1	0.3	0.8	1.7	2.4
Expenses	(11.5)	(8.5)	(6.5)	(7.8)	(6.1)
EBIT	2.8	0.2	9.9	7.0	5.7
Net Interest	0.8	1.0	1.0	1.1	0.7
Associates	0.3	0.2	(0.0)	(0.3)	0.0
Profit Before Tax	3.9	1.4	10.9	7.9	6.5
Tax	(2.6)	(1.8)	(5.9)	(3.6)	(0.8)
Net Profit	1.3	(0.4)	5.0	4.2	5.7
Minority Interests	-	-	-	-	-
PATAMI	1.3	(0.4)	5.0	4.2	5.7
Basic EPS (sen)	0.28	(0.08)	1.05	0.89	1.19
FD EPS (sen)	0.26	(0.08)	1.02	0.87	1.16

Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Cash	200.7	129.3	124.0	169.5	173.4
Receivables	113.1	121.8	246.9	234.9	275.0
Inventories	1.2	1.9	1.9	2.0	2.3
Development Costs	10.2	10.4	23.8	23.8	23.8
Associates	11.7	12.0	11.8	11.8	11.8
PPE	21.6	23.4	38.7	42.9	46.5
Others	99.5	146.2	186.6	186.6	186.6
Total Assets	458.1	444.9	633.7	671.5	719.3
Payables	75.1	91.8	137.7	156.6	183.3
Total Debt	0.4	4.6	116.9	116.9	116.9
Others	84.4	39.0	64.7	64.7	64.7
Total Liabilities	159.8	135.4	319.3	338.2	364.9
Shareholders' Funds	298.2	309.6	314.5	333.3	354.4
Minority Interests	-	-	-	-	-
Total Capital	298.2	309.6	314.5	333.3	354.4

Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
PER (x)	17.6	22.5	29.2	11.5	10.5
FD PER (x)	21.1	31.3	40.3	15.8	14.5
DPS (sen)	1.6	1.5	1.5	1.5	1.5
DY (%)	2.6	2.4	2.4	2.4	2.4
BVPS (RM)	0.7	0.7	0.7	0.7	0.7
P/B (x)	1.0	0.9	0.9	0.9	0.8
NTA/Share (RM)	0.7	0.7	0.7	0.7	0.7
EBITDA Margin (%)	6.8	3.9	4.5	5.8	5.3
EBIT Margin (%)	5.4	2.6	3.5	5.0	4.5
PBT Margin (%)	6.1	4.1	4.2	4.8	4.5
Net Margin (%)	4.3	3.2	1.8	3.6	3.4
ROE (%)	5.5	4.3	3.3	8.0	8.2
ROA (%)	3.5	2.9	1.9	4.0	4.1
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
EBITDA	25.5	15.6	25.5	41.3	44.2
Working Capital	4.9	7.1	(92.7)	30.9	(13.7)
Net Interest	3.0	6.6	3.9	(0.8)	(0.1)
Others	4.6	(83.6)	(29.7)	(8.7)	(9.4)
CFO	38.0	(54.3)	(92.9)	62.7	21.0
Capex	(25.1)	(20.8)	(21.1)	(10.0)	(10.0)
Purchase/Disposal	1.0	1.0	33.5	-	-
Associate	0.6	(0.6)	0.4	-	-
Others	0.0	0.9	(34.0)	-	-
CFI	(23.5)	(19.4)	(21.1)	(10.0)	(10.0)
Financing	(2.0)	(14.2)	101.7	-	-
Shares Issued	0.5	5.1	3.1	-	-
Dividends	(5.7)	(7.3)	(7.1)	(7.1)	(7.1)
Others	-	-	-	-	-
CFF	(7.2)	(16.4)	97.6	(7.1)	(7.1)
Net Cashflow	7.3	(90.1)	(16.4)	45.5	3.8

Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue			570.2	714.4	836.5
EBIT Margin (%)			3.5	5.0	4.5
Order Book Wins			973.0	500.0	600.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.