

**TRC Synergy (BUY ↑, EPS ↔)**

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT

30 July 2013

Price Target: RM0.68 (↔)

Share price: RM0.61

**Moving towards rerating**
**Highlights**

- **Laggard so far...** YTD, the KLCON Index has risen 22.5%, while TRC's share price has lagged behind, rising by only 7.0%. We believe that this is due to disappointing earnings growth over the last four years despite having successfully replenished its order book.
- Following 1Q's encouraging results, we believe that TRC is reaching its inflection point for an upwards rerating in its share price on the back of earnings recovery, potential contract wins and stronger property development profits.
- **LRT progresses forward...** Delays in utility relocation works and DO permits from the respective town councils have been resolved allowing works for the LRT to progress ahead smoothly. Moreover, the stop work order has been lifted following the LRT mishap which occurred back in Apr-13. More importantly, we believe that the concentration risk of relying on the LRT project for construction profits has been diversified substantially from as high as 85% (in Mar-11) to 35% as of Apr-13.
- **Taxman bites...** Based on our estimates, normalising tax rate to 25% for FY12 earnings, TRC would have posted stronger earnings of RM18.1m, translating to earnings growth of 39% instead.
- **Good start...** TRC was off to a good start in 1QFY13 whereby revenue and earnings made up 24.1% and 21.8% of our estimates respectively. 1QFY13's earnings were also the highest since 2QFY11. With two unfortunate events out of the way, we believe that TRC is back on track for earnings growth.
- **Value in Ara D'sara...** The prized asset for TRC would be the JV with Prasarana to develop a 12.3 acres land located in Jalan Lapangan Terbang Subang, Petaling Jaya, surrounding Ara Damansara station. The expected GDV of this development has increased by ~24% to RM850m from RM687.6m. Based on our estimates, this venture translates to **22.5 sen/share** (FD: 16.4 sen/share) for TRC.

**Risks**

- 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**

- Unchanged.

**Rating**
**BUY (↑)**

- We are encouraged with the prospects for earnings recovery in the subsequent quarters and the potential profits from the Ara Damansara development venture. We believe that the outlook for order book replenishment remains bright for TRC and its earnings are backed by order book visibility which translates to 3.2x FY12's revenue. In view of slightly >10% upside, we upgrade our call on TRC to a **BUY**.

**Valuation**

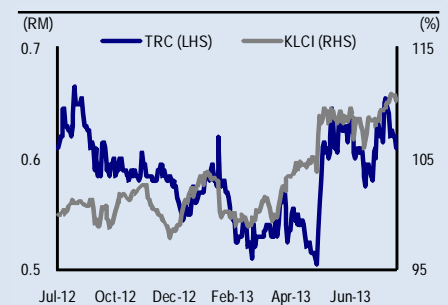
- Maintain Target Price of **RM0.68** based on unchanged 12x average FY13-14 earnings.

Jarod Soon

[smssoon@hlib.hongleong.com.my](mailto:smssoon@hlib.hongleong.com.my)

(603) 2168 1073

KLCON	1,798.8
Expected share price return	11.5%
Expected dividend return	2.5%
Expected total return	13.9%

**Share price**

**Information**

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	477
Market cap (RM m)	291
3-mth avg. volume ('000)	724

Price Performance	1M	3M	12M
Absolute	2.5	18.4	0.0
Relative	1.1	13.1	-9.3

**Major shareholders**

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

**Summary Earnings Table**

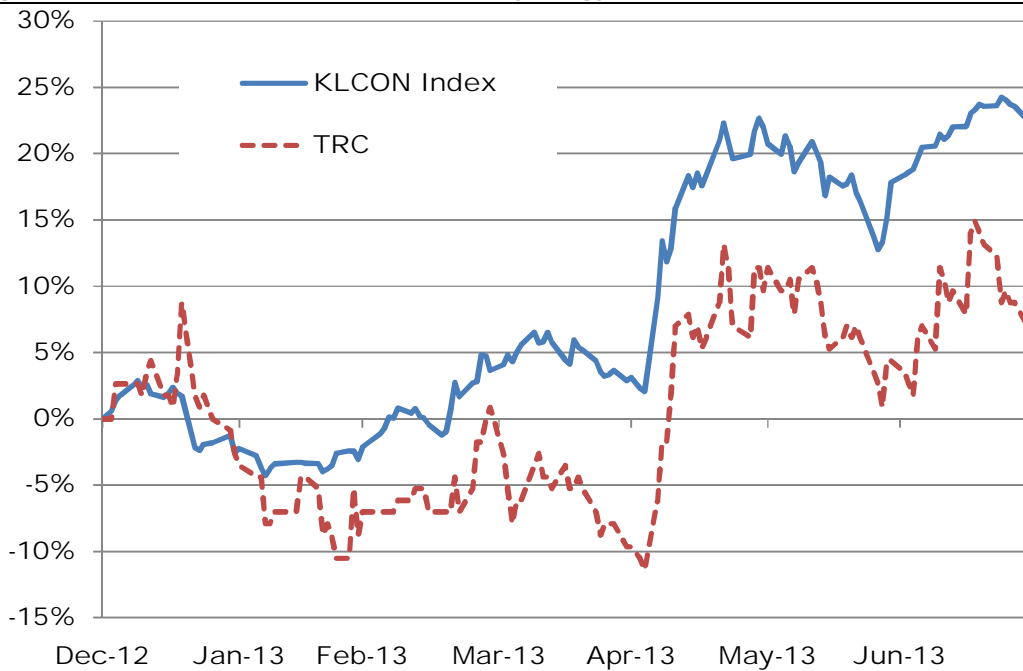
FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	400.8	570.2	714.4	836.5
EBITDA	15.6	25.5	41.3	44.2
EBIT	10.3	19.9	35.4	37.7
Profit Before Tax	16.6	24.1	34.6	37.7
Core PATAMI	13.0	10.2	26.0	28.2
Core EPS (sen)	2.8	2.1	5.5	5.9
FD EPS (sen)	2.0	1.6	4.0	4.3
Net DPS (sen)	1.5	1.5	1.5	1.5
Net DY (%)	2.5	2.5	2.5	2.5
P/E (x)	22.0	28.5	11.2	10.3
FD P/E (x)	30.6	39.3	15.4	14.2
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

## Highlights

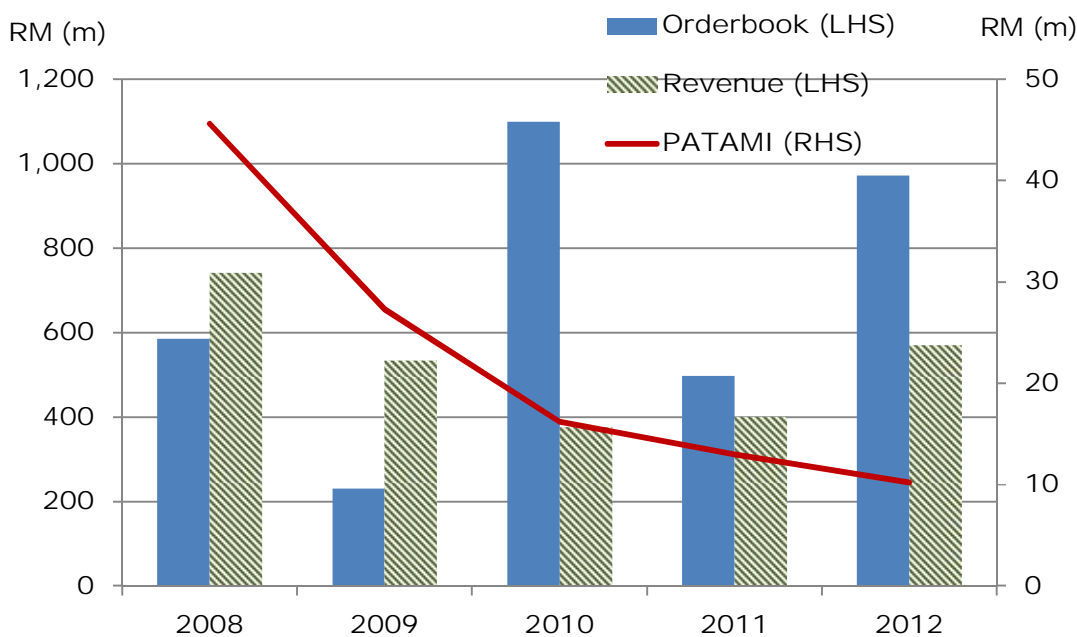
**Laggard so far...** YTD, the construction sector as represented by the KLCON Index has risen 22.5%, while TRC Synergy's (TRC) share price has lagged behind, rising by only 7.0% (see Figure #1). We believe that this is due to disappointing earnings growth over the last four years despite having successfully replenished its order book during the same period (see Figure #2). Following, 1Q's encouraging results, we believe that TRC is reaching its inflection point for an upwards rerating in its share price on the back of earnings recovery and potential contract wins.

Figure #1 KLCON Index and TRC Synergy YTD Price Performance



TRC, HLIB

Figure #2 TRC order book win and key financial highlights



TRC, HLIB

**LRT progresses forward...** To recap, TRC secured Package A of the Kelana Jaya LRT Line Extension Project in Dec-10 for RM950m. The project was a key driver to support earnings growth for FY11 given the poor jobs win in FY09. As it turned out, the LRT project could not take off as expected due to delays in utility relocation works and development order (DO) permits from the respective town councils.

As a result of higher idling costs, GP margin for FY11 compressed, resulting in earnings to contract by a further 19.8% to RM13m (see Figure #3). However, with all work permits obtained, works for the LRT are progressing smoothly ahead. Moreover, the stop work order has been lifted following the LRT mishap which occurred back in Apr-13 (please refer to our report "*LRT mishap*" dated 1 Apr-13). The LRT extension project is now expected to be completed by 2015.

Figure #3 TRC FY10 and FY11 key quarterly financial highlights

FYE Dec (RM m)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Revenue	108.8	97.0	84.3	86.6	100.6	101.1	95.0	104.2
GP	16.8	14.1	6.5	7.3	14.0	5.7	6.3	3.7
PBT	6.1	9.8	2.6	4.6	7.9	2.9	4.2	0.9
PATAMI	3.1	7.5	2.2	3.4	5.9	2.5	2.6	1.3
GP Margin (%)	15.5%	14.5%	7.7%	8.4%	13.9%	5.6%	6.7%	3.5%

TRC, HLIB

\*Quarterly numbers varies slightly from full year audited numbers.

**Taxman bites...** The following year in FY12, another unfortunate event hit TRC's earnings, this time implicated by tax charges. As seen in Figure #4, despite revenue and profit before tax growing by 42.3% and 45.4% respectively, earnings fell by a further 21.5% to RM10.2m. Based on our estimates, normalising tax rate to 25%, TRC would have posted stronger earnings of RM18.1m, translating to earnings growth of 39% instead.

Figure #4 TRC FY11 and FY12 key quarterly financial highlights

FYE Dec (RM m)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12
Revenue	100.6	101.1	95.0	104.2	94.7	118.1	158.8	198.6
GP	14.0	5.7	6.3	3.7	10.2	8.4	15.6	13.1
PBT	7.9	2.9	4.2	0.9	3.9	1.4	10.9	7.9
PATAMI	5.9	2.5	2.6	1.3	1.3	(0.4)	5.0	4.2
GP Margin (%)	13.9%	5.6%	6.7%	3.5%	10.8%	7.2%	9.8%	6.6%

TRC, HLIB

\*Quarterly numbers varies slightly from full year audited numbers.

**Good start...** TRC was off to a good start in 1QFY13 whereby revenue and earnings made up 24.1% and 21.8% of our estimates respectively. 1QFY13's earnings were also the highest since 2QFY11. With two unfortunate events out of the way, we believe that TRC is back on track for earnings growth after four consecutive years of earnings decline, barring any unseen circumstances. More importantly, we believe that the concentration risk of relying on the LRT project for construction profits has been diversified substantially from as high as 85% (in Mar-11) to 35% as of Apr-13 (see Figure #5).

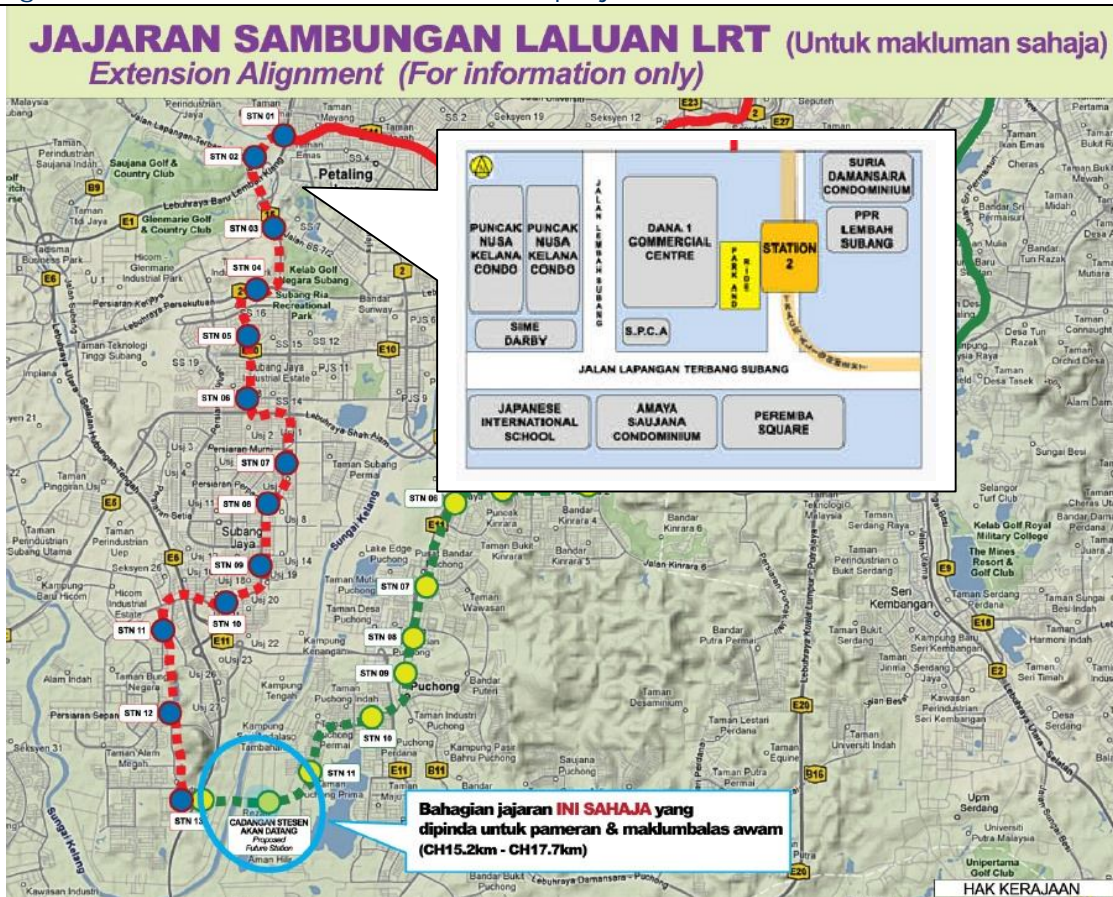
Figure #5 Unbilled order book as of Apr-13

Projects secured YTD	Contract Sum (RM m)
Putrajaya Precinct 14 housing	10
Lumut jetty	20
Brunei Airport	200
Sepangar Bay submarine facilities	10
KJ LRT extension Package A	630
Dayabumi Phase 2	15
MRT Sungai Buloh depot	410
Samalaju interim port facility	110
MRT stations Package S1	260
Sangan-Kapit access road	160
<b>Unbilled Order Book</b>	<b>1,825</b>

TRC, HLIB

**Value in Ara D'sara...** Perhaps the prized asset for TRC would be the JV with Prasarana to develop a 12.3 acres land located in Jalan Lapangan Terbang Subang, Petaling Jaya, surrounding Ara Damansara station (please refer to our report "Rail property lift" dated 26 Mar-13). The expected GDV of this development has increased by ~24% to RM850m from RM687.6m. Based on a 5-year development period, 18% PAT margin and 10% discount rate, this venture translates to **22.5 sen/share** (FD: 16.4 sen/share) for TRC. The target launch is by FY14, and we have yet to factor this potential upside into TRC's share price. We believe that earnings contribution from this project will only be material from FY15 onwards.

Figure #6 Ara Damansara Station 2 project



Prasarana, HLIB

## Forecasts

We prefer to remain conservative; hence, we maintain our forecasts unchanged.

Figure #7 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	714.4	724.3	-1%	836.5	947.8	-12%
PATAMI	26.0	28.8	-10%	28.2	39.1	-28%

Bloomberg, HLIB

## Rating/Valuation

We are encouraged with the prospects for earnings recovery in the subsequent quarters and the potential profits from the Ara Damansara development venture. We believe that the outlook for order book replenishment remains bright for TRC and its earnings are backed by order book visibility which translates to 3.2x FY12's revenue. In view of slightly >10% upside, we upgrade our call on TRC to a **BUY** with an unchanged Target Price of **RM0.68** based on P/E of 12x average FY13-14 earnings.

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

### Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
<b>Revenue</b>	<b>376.7</b>	<b>400.8</b>	<b>570.2</b>	<b>714.4</b>	<b>836.5</b>
EBITDA	25.5	15.6	25.5	41.3	44.2
D&A	(5.1)	(5.4)	(5.6)	(5.8)	(6.4)
<b>EBIT</b>	<b>20.4</b>	<b>10.3</b>	<b>19.9</b>	<b>35.4</b>	<b>37.7</b>
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	-	-	-	-	-
<b>Profit Before Tax</b>	<b>23.0</b>	<b>16.6</b>	<b>24.1</b>	<b>34.6</b>	<b>37.7</b>
Tax	(6.8)	(3.6)	(13.9)	(8.7)	(9.4)
<b>Net Profit</b>	<b>16.2</b>	<b>13.0</b>	<b>10.2</b>	<b>26.0</b>	<b>28.2</b>
Minority Interests	-	-	-	-	-
<b>PATAMI</b>	<b>16.2</b>	<b>13.0</b>	<b>10.2</b>	<b>26.0</b>	<b>28.2</b>
<b>Core Earnings</b>	<b>16.2</b>	<b>13.0</b>	<b>10.2</b>	<b>26.0</b>	<b>28.2</b>
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	-	-	-	-	-
<b>PATAMI</b>	<b>1.3</b>	<b>(0.4)</b>	<b>5.0</b>	<b>4.2</b>	<b>5.7</b>
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
<b>Total Assets</b>	<b>458.1</b>	<b>444.9</b>	<b>633.7</b>	<b>671.5</b>	<b>719.3</b>
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
<b>Total Liabilities</b>	<b>159.8</b>	<b>135.4</b>	<b>319.3</b>	<b>338.2</b>	<b>364.9</b>
Shareholders' Funds	298.2	309.6	314.5	333.3	354.4
Minority Interests	-	-	-	-	-
<b>Total Capital</b>	<b>298.2</b>	<b>309.6</b>	<b>314.5</b>	<b>333.3</b>	<b>354.4</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
PER (x)	17.2	22.0	28.5	11.2	10.3
FD PER (x)	20.6	30.6	39.3	15.4	14.2
DPS (sen)	1.6	1.5	1.5	1.5	1.5
DY (%)	2.6	2.5	2.5	2.5	2.5
BVPS (RM)	0.7	0.7	0.7	0.7	0.7
P/B (x)	0.9	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)
<b>CFO</b>	<b>38.0</b>	<b>(54.3)</b>	<b>(92.9)</b>	<b>62.7</b>	<b>21.0</b>
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)	-	-
<b>CFI</b>	<b>(23.5)</b>	<b>(19.4)</b>	<b>(21.1)</b>	<b>(10.0)</b>	<b>(10.0)</b>
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	-	-	-	-	-
<b>CFF</b>	<b>(7.2)</b>	<b>(16.4)</b>	<b>97.6</b>	<b>(7.1)</b>	<b>(7.1)</b>
<b>Net Cashflow</b>	<b>7.3</b>	<b>(90.1)</b>	<b>(16.4)</b>	<b>45.5</b>	<b>3.8</b>

### 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

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 30 July 2013, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 30 July 2013, the analyst, Jarod Soon Sien Ming, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 (Formerly known as MIMB Investment Bank Berhad)  
 Level 8, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.