

TRC Synergy (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

15 August 2012

Price Target: RM0.80 (↔)

Share price: RM0.63

Another RM283.7m MRT contract

News

- MRT Corp has awarded TRC Synergy with Package S1 for the construction of elevated stations at Sungai Buloh, Kampung Baru Sungai Buloh and Kota Damansara (see Figure #1). The contract is worth **RM283.7m**.

Comments

- **Another MRT win...** The latest contract is the second MRT-related project won by TRC Synergy following the award of the RM459m Sungai Buloh depot project (awarded in 9-May-2011). The construction of the three stations is within the vicinity of the Sungai Buloh depot, hence allowing the company to achieve better resources utilisation rate.
- **Under V1...** The construction of the stations lies under the elevated MRT track package V1 whereby TRC Synergy will be the nominated subcontractor under Syarikat Muhibbah Perniagaan & Pembinaan S/B.
- **1.9 sen/share...** Assuming a conservative net margin of 5%, this job translates to ~3.0 sen/share (FD: ~2.2 sen/share) for the company.
- **Strong visibility...** Total outstanding order book is ~RM2.3bn (see Figure #2), translating to ~5.9x FY11's revenue and ~7.7x order book-to-market cap ratio.
- **2Q results...** On a separate note, 2QFY12 results is scheduled to be released on 30-Aug-2012 (Thursday). We are expecting slightly stronger sequential quarterly earnings growth.

Risks

- Single project concentration and execution risk in the LRT project (albeit reduced with the LRT project now making up ~37% of the current order book vs ~42% previously);
- Regulatory and political risk;
- Rising raw material prices; and
- Unexpected downturn in the construction sector.

Forecasts

- Unchanged.

Rating

BUY (↔)

- With a huge order book (which is gradually diversifying away concentration risk on the LRT project) to support earnings visibility coupled with expected strong earnings recovery in the subsequent quarters, we are maintaining our BUY call on the stock.

Valuation

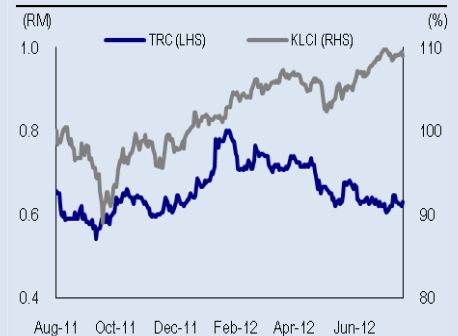
- TP maintained at RM0.80 based on SOP valuation (see Figure #3).

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KLCI	1,646.3
Expected share price return	29.0%
Expected dividend return	2.4%
Expected total return	31.5%

Share price



Information

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	476
Market cap (RM m)	300
3-mth avg. volume ('000)	364

Price Performance

	1M	3M	12M
Absolute	-1.6	-10.1	-5.3
Relative	-1.6	-13.8	-12.7

Major shareholders

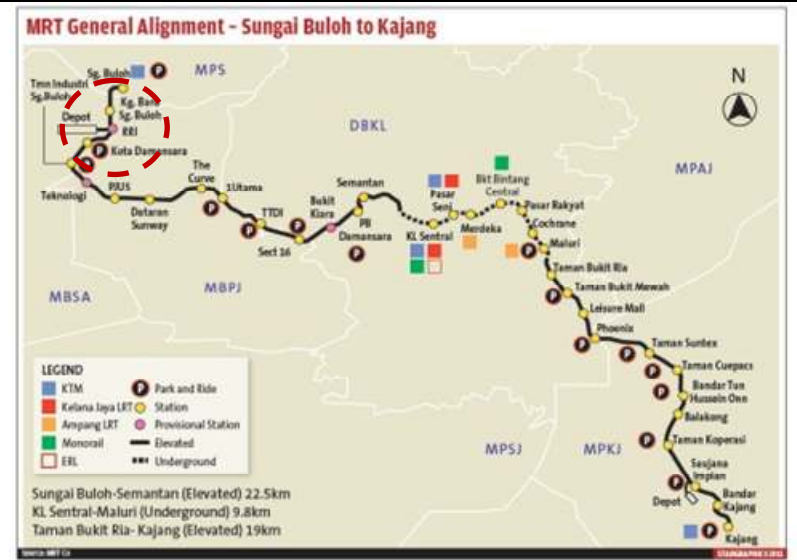
TRC Capital	12.5%
Kolektif Aman	12.3%
Dato' Sri Sufri	9.7%
Free Float	36.6%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E	2014E
Revenue	391.3	642.6	825.4	734.1
EBITDA	14.8	37.3	49.1	44.4
EBIT	9.5	31.5	42.3	36.7
Profit Before Tax	14.8	35.5	46.1	41.2
Core PATAMI	13.5	26.7	34.6	30.9
Core EPS (sen)	2.9	5.7	7.4	6.6
FD EPS (sen)	2.1	4.1	5.3	4.1
Net DPS (sen)	1.5	1.5	1.5	1.5
Net DY (%)	2.4	2.4	2.4	2.4
P/E (x)	21.8	11.1	8.5	9.6
FD P/E (x)	30.3	15.4	11.8	15.2
P/B (x)	1.0	0.9	0.8	0.8
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	4.5	8.3	10.1	8.4
ROA (%)	3.2	6.1	6.8	5.6

HLIB

Figure #1 Sungai Buloh-Kajang MRT



theStar

Figure #2 Outstanding order book

Projects secured YTD	Contract Sum (RM m)
Putrajaya Precinct 8 & 14 housing	69
Lumut jetty	50
Brunei Airport	310
Sepangar Bay submarine facilities	35
KJ LRT extension Package A	850
Dayabumi Phase 2	36
MRT Sungai Buloh depot	459
Samalaju interim port facility	194
MRT stations Package S1	284
Others	7
Total	2,294

TRC, HLIB

Figure #3 TRC Synergy SOP valuation

Division	Methodology	Stake	Value (RM m)	RM per Share	%
Construction	12X Average of FY12-13 Earnings	100%	332	0.51	64
Net Cash	30% Discount on Net Cash of RM124m as of FY11	100%	87	0.13	17
	SOP (RM m)		419	0.64	81
	No. of Shares (m)		470		
	RM per Share (RM)		0.89		
	Proceeds from Warrant A & B (RM m)		100	0.15	19
	SOP (RM m)		520	0.80	100
	Fully Diluted No. of Shares (m)		651		
	Target Price (RM)		0.80		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY12E			FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	642.6	544.7	18%	825.4	817.6	1%	734.1	920.2	-20%
PATAMI	26.7	23.2	15%	34.6	39.4	-12%	30.9	45.2	-32%

Bloomberg, HLIB

Figure #5 Peer comparison

Company	Mkt Cap (RM m)	Price (RM)	Target (RM)	+/- (%)	Rating	EPS (sen)		P/E (X)		ROE (%)		DY (%)
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	
Gamuda	7,278	3.50	4.41	26.0	BUY	24.4	28.4	14.3	12.3	13.2	14.2	3.2
IJM	7,129	5.16	5.74	11.2	HOLD	37.3	42.1	13.8	12.3	9.1	9.7	2.3
Sunway	2,856	2.21	2.93	32.6	BUY	26.1	27.9	8.5	7.9	10.7	10.4	2.4
MRCB	2,426	1.75	2.50	42.9	BUY	5.0	11.7	35.0	15.0	5.0	11.0	0.9
WCT	2,085	2.54	3.36	32.3	BUY	22.7	25.4	11.2	10.0	12.0	12.3	3.0
Mudajaya	1,500	2.73	4.27	56.4	BUY	36.4	50.3	7.5	5.4	19.3	22.4	2.7
Eversendai	1,169	1.51	2.00	32.5	BUY	16.4	17.0	9.2	8.9	16.3	14.8	2.2
Benalec	939	1.17	-	-	NR	12.7	19.5	9.2	6.0	20.1	20.5	2.9
HSL	932	1.60	2.21	38.1	BUY	17.7	19.1	9.0	8.4	22.0	19.8	1.9
Naim	465	1.86	-	-	NR	30.8	36.8	6.0	5.1	7.4	8.2	5.7
Muhibbah	388	0.95	-	-	NR	17.7	20.3	5.4	4.7	5.4	6.0	6.1
Kimlun	332	1.38	2.04	47.8	BUY	18.8	22.0	7.3	6.3	18.6	18.2	3.7
TRC Synergy	300	0.63	0.80	27.0	BUY	5.7	7.4	11.1	8.5	8.3	10.1	2.4
Ahmad Zaki	201	0.73	-	-	NR	8.4	9.0	8.6	8.1	11.3	11.2	3.4
Bina Puri	106	0.85	-	-	NR	12.0	20.0	7.1	4.3	4.8	9.2	2.4
								Average	10.9	8.2		

HLIB, Bloomberg

Financial Projections for TRC Synergy (BUY, TP: RM0.80)

Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Revenue	376.7	391.3	642.6	825.4	734.1
EBITDA	25.5	14.8	37.3	49.1	44.4
D&A	(5.1)	(5.4)	(5.8)	(6.8)	(7.6)
EBIT	20.4	9.5	31.5	42.3	36.7
Interest Income	3.3	6.1	4.3	4.1	4.7
Finance Costs	(0.3)	(0.4)	(0.2)	(0.2)	(0.2)
Associates	(0.4)	(0.3)	-	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	23.0	14.8	35.5	46.1	41.2
Tax	(6.8)	(1.3)	(8.9)	(11.5)	(10.3)
Net Profit	16.2	13.5	26.7	34.6	30.9
Minority Interests	-	-	-	-	-
PATAMI	16.2	13.5	26.7	34.6	30.9
Core Earnings	16.2	13.5	26.7	34.6	30.9
Basic Shares (m)	456.6	467.7	469.2	469.2	469.2
Basic EPS (sen)	3.5	2.9	5.7	7.4	6.6
FD EPS (sen)	3.0	2.1	4.1	5.3	4.1

Quarterly Financial Summary

FYE 31 Dec (RM m)	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1
Revenue	100.6	101.1	95.0	94.7	94.7
COGS	(86.5)	(95.4)	(88.7)	(92.9)	(84.5)
Gross Profit	14.0	5.7	6.3	1.8	10.2
Other Income	1.2	1.7	5.1	1.5	4.1
Expenses	(8.6)	(6.1)	(6.6)	(6.6)	(11.5)
EBIT	6.6	1.3	4.8	(3.3)	2.8
Net Interest	1.1	1.4	1.3	1.9	0.8
Associates	0.2	0.2	(1.9)	1.2	0.3
Profit Before Tax	7.9	2.9	4.2	(0.2)	3.9
Tax	(2.0)	(0.4)	(1.7)	2.8	(2.6)
Net Profit	5.9	2.5	2.6	2.6	1.3
Minority Interests	-	-	-	-	-
PATAMI	5.9	2.5	2.6	2.6	1.3
Basic EPS (sen)	1.27	0.55	0.55	0.55	0.28
FD EPS (sen)	1.24	0.50	0.53	0.52	0.26

Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Cash	200.7	129.4	114.7	118.6	150.3
Receivables	113.1	116.9	211.3	271.4	241.4
Inventories	1.2	1.9	1.8	2.3	2.0
Development Costs	10.2	10.4	10.4	10.4	10.4
Associates	11.7	12.0	12.0	12.0	12.0
PPE	21.6	23.0	27.3	30.5	32.8
Others	99.5	100.6	100.6	100.6	100.6
Total Assets	458.1	394.2	478.0	545.7	549.5
Payables	75.1	76.7	140.8	180.9	160.9
Total Debt	0.4	4.9	4.9	4.9	4.9
Others	84.4	2.5	2.5	2.5	2.5
Total Liabilities	159.8	84.1	148.2	188.3	168.3
Shareholders' Funds	298.2	310.1	329.8	357.4	381.2
Minority Interests	-	-	-	-	-
Total Capital	298.2	310.1	329.8	357.4	381.2

Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
PER (x)	17.9	21.9	12.2	9.9	9.7
FD PER (x)	21.4	30.5	16.9	13.7	15.4
DPS (sen)	1.6	1.5	1.5	1.5	1.5
DY (%)	2.5	2.4	2.4	2.4	2.4
BVPS (RM)	0.7	0.7	0.7	0.7	0.8
P/B (x)	1.0	1.0	0.9	0.8	0.8
NTA/Share (RM)	0.7	0.7	0.7	0.7	0.8
EBITDA Margin (%)	6.8	3.8	5.8	5.9	6.0
EBIT Margin (%)	5.4	2.4	4.8	5.0	5.0
PBT Margin (%)	6.1	3.8	5.5	5.5	5.6
Net Margin (%)	4.3	3.5	4.1	4.1	4.2
ROE (%)	5.5	4.5	7.7	8.9	8.5
ROA (%)	3.5	3.2	5.7	6.1	5.8
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
EBITDA	25.5	14.8	37.3	49.1	44.4
Working Capital	4.9	(3.1)	(30.0)	(20.5)	10.3
Net Interest	3.0	5.6	4.0	3.9	4.4
Others	4.6	(72.2)	(8.9)	(11.5)	(10.3)
CFO	38.0	(54.9)	2.4	20.9	48.7
Capex	(25.1)	(20.5)	(10.0)	(10.0)	(10.0)
Purchase/Disposal	1.0	1.0	-	-	-
Associate	0.6	(0.6)	-	-	-
Others	0.0	0.9	-	-	-
CFI	(23.5)	(19.1)	(10.0)	(10.0)	(10.0)
Financing	(2.0)	3.5	-	-	-
Shares Issued	0.5	5.1	-	-	-
Dividends	(5.7)	(7.3)	(7.0)	(7.0)	(7.0)
Others	-	-	-	-	-
CFF	(7.2)	1.3	(7.0)	(7.0)	(7.0)
Net Cashflow	7.3	(72.6)	(14.7)	3.9	31.7

Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Revenue			642.6	825.4	734.1
EBIT Margin (%)			4.9	5.1	5.0
Order Book Wins			689.0	500.0	600.0

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Published & Printed by
Hong Leong Investment Bank Berhad (43526-P)
 Level 8, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
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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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