

TRC Synergy

Recommendation: **BUY**

Stock Code: 5054

Bloomberg: TRC MK

Price: MYR1.45

12-Month Target Price: MYR1.70

Date: August 28, 2009

Board: Main

Sector: Construction

GICS: Industrials/Construction & Engineering

Market Value - Total: MYR274.9 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



Results Review & Earnings Outlook

- TRC reported a net profit of MYR11.5 mln for 2Q09 (+8.4% YoY). Cumulative 1H09 results were broadly within our expectations, making up about 46% of our original full-year forecast. Better-than-expected revenue due to higher progressive billings from on-going key construction projects and lower interest expense was offset by weaker EBIT margin of 8.8% (vs. 2009E: 9.7%). Meanwhile, the group reported a slightly lower-than-expected effective tax rate of 24.2% (vs. 2009E:26%). No interim dividend was declared, as expected.
- 1H09 group revenue was up 2.1% YoY to MYR343.3 mln due to stronger pick-up in construction activities (+0.2% YoY to MYR353.9 mln) offset by lower property sales (-93% YoY to MYR0.8 mln) due to the absence of new launches. Although construction turnover was higher, this was offset by its lower margins (-5.8%-pts YoY to 7.6%) due to completion of the higher margin Kuala Terengganu airport extension works. This resulted in an overall decline in group pre-tax margin (-0.7% pts YoY to 8.3%). Meanwhile, the group reported lower effective tax rate (-1.3%-pts YoY to 24.2%). The net effect was a decrease in 1H09 net profit by 4.3% YoY to MYR21.6 mln.
- After some fine-tuning, we have reduced our 2009 and 2010 net profit forecasts by 3% and 6% respectively to incorporate weaker construction margins offset by a slightly lower effective tax rate of 25% (from 26%). Our 2010 forecast includes potential new construction contracts worth MYR500 mln. We understand that the group is bidding for up to MYR1 bln worth of mainly local government jobs. We should expect some property income in 2010 as the group is targeting to launch the Ulu Klang (GDV = MYR50 mln) development in mid-2010.

Recommendation & Investment Risks

- We maintain our Buy recommendation on TRC with a higher 12-month target price of MYR1.70 (previously MYR1.60). At current levels, TRC is trading on projected PERs of 6x and 7.1x on our revised 2009 and 2010 forecast, which in our view is undemanding.
- We have increased our PER target to 8x (from 7x) and our P/B target to 0.9x (from 0.8x) (assuming full dilution of ICULS) on our 2009 estimates. As at end-March 2009, only about MYR1.2 mln 5% ICULS were left unconverted. Our target price also includes a projected net DPS of 4.5 sen.
- We believe TRC's fundamentals remain intact given i) its growing order book at MYR1.6 bln of which about MYR650 mln is outstanding; ii) strong presence in East Malaysia where it stands to benefit from increased spending there; iii) strong financials (net cash flow of about MYR170 mln in end-June 2009, 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. Further earnings upside will depend on TRC's ability to secure infrastructure works for the Brunei refinery which include roads, bridges and reclamation works worth about USD500 mln, expected to start in 2010.
- 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 order book and property sales, and higher-than-expected volatility in material prices.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	24.1	24.3
PER (x)	6.0	6.0
Dividend/Share (sen)	6.0	6.0
NTA/Share (MYR)	1.41	1.60
Book Value/Share (MYR)	1.41	1.61
No. of Outstanding Shares (mln)	189.6	
52-week Share Price Range (MYR)	0.94 - 1.57	
Major Shareholders:	%	
TRC Capital Sdn. Bhd.	14.1	
Kolektif Aman Sdn. Bhd.	13.9	

*Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.08	1.33	1.41	1.61
Cash Flow (sen)	12.2	25.0	26.9	26.6
Reported Earnings (sen)	8.6	17.9	24.1	24.3
Dividend (sen)	1.9	4.2	6.0	6.0
Payout Ratio (%)	25.4	17.0	18.5	18.5
PER (x)	16.9	8.1	6.0	6.0
P/Cash Flow (x)	11.9	5.8	5.4	5.4
P/Book Value (x)	1.3	1.1	1.0	0.9
Dividend Yield (%)	1.3	2.9	4.1	4.1
ROE (%)	6.3	17.0	18.6	16.1
Net Gearing (%)	33.9	0.0	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	163.1	198.8	-18.0
Reported Operating Profit	15.6	14.2	9.3
Depreciation & Amortization	-1.2	-1.5	-23.4
Net Interest Income / (Expense)	-0.5	-0.8	-37.2
Reported Pre-tax Profit	15.1	13.4	12.2
Reported Net Profit	11.5	10.6	8.4
Reported Operating Margin (%)	9.5	7.2	-
Reported Pre-tax Margin (%)	9.2	6.8	-
Reported Net Margin (%)	7.1	5.3	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	422.2	740.7	701.3	612.9
Reported Operating Profit	43.9	66.2	65.3	54.9
Depreciation & Amortization	-4.9	-5.6	-4.5	-4.5
Net Interest Income / (Expense)	-1.7	-4.7	-3.5	-3.5
Reported Pre-tax Profit	41.7	61.4	61.3	51.4
Effective Tax Rate (%)	28.0	25.6	25.0	25.0
Reported Net Profit	30.0	45.6	46.0	38.5
Reported Operating Margin (%)	10.4	8.9	9.3	9.0
Reported Pre-tax Margin (%)	9.9	8.3	8.7	8.4
Reported Net Margin (%)	7.1	6.2	6.6	6.3

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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.70
28-May-09	Buy	1.60
25-Feb-09	Strong Buy	1.60
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

