

# Malaysia Company Focus

## TRC Synergy

Bloomberg: TRC MK | Reuters: TRCG.KL

DBS Group Research . Equity

20 Jul 2009

**BUY RM1.22** KLCI : 1,120.90

Price Target : 12-Month RM2.05 (Prev RM 1.35)

Reason for Report : Company visit

Potential Catalyst: Government pump priming

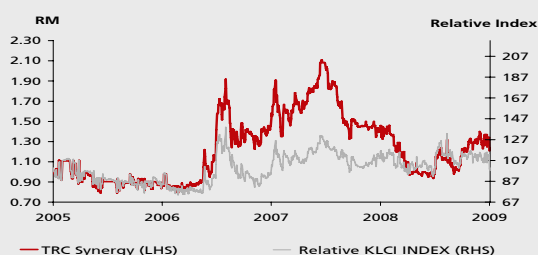
### Analyst

Chong Tjen-San, CFA +603 2711 2295

tjensan@hwangdbsvickers.com.my

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### Price Relative



### Forecasts and Valuation

FY Dec (RM m)	2008A	2009F	2010F	2011F
Turnover	740	549	561	568
EBITDA	72	69	74	78
Pre-tax Profit	62	58	62	65
Net Profit	45	44	47	49
Net Pft (Pre Ex.)	45	44	47	49
EPS (sen)	24.0	23.1	24.6	25.8
EPS Pre Ex. (sen)	23.9	23.1	24.6	25.8
EPS Gth Pre Ex (%)	(2)	(3)	7	5
Diluted EPS (sen)	20.0	19.2	20.5	21.5
Net DPS (sen)	3.1	5.8	6.1	6.4
BV Per Share (sen)	149.6	166.9	185.3	204.6
PE (X)	5.1	5.3	5.0	4.7
PE Pre Ex. (X)	5.1	5.3	5.0	4.7
P/Cash Flow (X)	4.5	4.7	4.3	4.1
EV/EBITDA (X)	0.9	0.7	0.3	0.0
Net Div Yield (%)	2.5	4.7	5.0	5.3
P/Book Value (X)	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.9	14.6	14.0	13.2
<b>Earnings Rev (%)</b>		0.0	0.0	0.0
<b>Consensus EPS (sen)</b>		23.2	21.6	19.3

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Construction and property development

Source of all data: Company, DBS Vickers, Bloomberg

## Key catalyst coming to fruition

- Brunei refinery project gaining ground
- More contract flows from East Malaysia
- Upgrade to Buy, PT RM2.05

**Key catalyst.** We expect the market to rerate TRC as more clarity emerges on the PetroBru-led Brunei refinery project, estimated to cost US\$4bn. TRC is a 26% shareholder of PetroBru with the balance held by Bruneians. The likelihood of this project taking off is increasingly positive with the consultant giving the thumbs up and current stable oil prices. A significant milestone will be an approval by the Brunei government. The proposal will be submitted within the next few months. TRC hopes to leverage on its shareholding in PetroBru to clinch a sizeable portion of infrastructure works of up to US\$500m, and in the longer term to capitalise on stable refinery earnings.

**East Malaysia flavour.** TRC is bidding for some RM1bn worth of new jobs with 60% potentially in Sarawak. It hopes to leverage on its UPK license, which allows it to compete in the closed Sarawak construction market dominated by a handful of players. Contract flows in the State are expected to be strong, given the anticipated rollout of more projects under the Sarawak Corridor of Renewable Energy of RM334bn over a 22-year period or RM15bn per year and looming State elections expected by August 2011. Current orderbook of RM645m is resilient and is 100%-backed by the government where average margins for 2008 were 9% and 1Q09 8%.

**Upgrade to Buy.** The stock has been a laggard compared to its peers, down 12% YTD. We upgrade our rating on TRC to BUY with a price target of RM2.05, based on 10x CY10 FD EPS. This represents a 40% discount to the average CY10 PE of its larger cap peers of 16.7x. We think the steep discount reflects liquidity concerns, smaller market capitalisation and a less diversified business model. Dividend yields are quite decent at 5%, with a policy of paying 25% of net profit, providing some downside support.

### At A Glance

Issued Capital (m shrs)	190
Mkt. Cap (RMm/US\$m)	231 / 64.7
Major Shareholders	
Kolektif Aman Sdn Bhd (%)	19.7
TRC Capital Sdn Bhd (%)	19.7
Dato Haji Sufri (%)	13.7
Free Float (%)	46.9
Avg. Daily Vol.('000)	66

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ed: CYM / sa: WMT

DBS VICKERS SECURITIES

**Upgrade to BUY, PT raised to RM2.05**

We had a company visit to TRC Synergy (TRC). We upgrade our rating to BUY with a higher price target of RM2.05, based on 10x CY10 FD EPS. This represents a 40% discount to the average CY10 PE of its larger cap peers of 16.7x. We think the steep discount reflects liquidity concerns, smaller market capitalisation and its less diversified business model. The stock is also trading below its 2008 NTA of RM1.50 per share, which implies the market is discounting the future profit from its current orderbook of RM645m.

Dividend yields are quite decent at 5%, with a policy of paying 25% of net profit providing some downside support. Balance sheet is also strong with a net cash position of RM89m or RM0.46 per share.

**Key catalyst – PetroBru refinery project**

We expect the market to rerate TRC as more clarity emerges on the PetroBru led export oriented Brunei refinery project, estimated to cost US\$4bn. Petro is 74%-owned by Brunei individuals and 26% by TRC.

We think there is increasing likelihood that this project will take off, judging by the positive report from the consultant and rather stable oil prices at US\$60 per barrel. The second feasibility study was completed recently with the consultant, Wood Mackenzie concluding that the project is favourable from an economic viability perspective. We understand the study included characterizing the regional refining environment, selection of target markets and economic analysis.

A significant milestone will be an approval by the Brunei government where the proposal will be submitted within the next few months. Given the massive size of the project, a SPV will be set up to encourage participation from potential investors as shareholders and JV partners of the refinery. TRC hopes to leverage on its shareholding in PetroBru to clinch a sizeable portion of infrastructure works of up to US\$500m. In the longer term via its indirect shareholding in the SPV, TRC will also be able to reap some recurring earnings from the refinery.

The refinery will be able to cater for 200,000 barrels of oil per day. PetroBru plans to source half of the requirements from Brunei and the balance from Middle East with plans to export to Malaysia, Indonesia, Philippines and China.

**Government backed orderbook**

TRC's current outstanding orderbook stands at RM645m, which should last the company till 3Q2010. The larger projects in hand are a University and Maritime project, which contributes more than half of its outstanding orderbook. All of its projects are backed by the government. EBIT margins have also been very impressive, ranging from 7-9% over the last 4 quarters,

We understand there could be some potential VOs for its Sepangar Submarine Base and University KL project but the quantum is not expected to be very significant. We also had the pleasure to visit its impressive Sepangar Bay Submarine project in Sabah, the first of such a project in Malaysia. The project was supposed to be handed over by end May 2009 but we understand the project has been deliberately delayed, as there is a delay in the arrival of the submarines.

**East Malaysia flavour**

The company is bidding for some RM1bn worth of new jobs, with 60% potentially in Sarawak. This could be conservative, given the anticipated rollout of more projects under the Sarawak Corridor of Renewable Energy (Score) of RM334bn over a 22-year period or translating into RM15bn per year. Score will use the development window by the 9MP where the allocation to the state has increased 5% y-o-y to RM13.4bn to attract more investments. Score will encompass an area of 71,000 sq km, covering Bintulu, Sibul, Mukah, Kapit and Sarikei. High impact multiplier projects will be Aluminum Smelter Plant and projects in Tanjung Manis.

Take note that TRC is one of the few West Malaysia contractors with a UPK License. This enables it to bid for contracts in Sarawak, which are predominantly dominated by a handful of Sarawak-based contractors such as Naim Cendera, Cahya Mata Sarawak, Hock Seng Lee and Zecon. TRC presence in Sarawak dates back to the 1990s and it currently has 50% of its staff force in the state.

## TRC Synergy's outstanding orderbook as at 31 May 2009

Project	Outstanding value RMm	Completion Date	Awarder
Sibu Bawang/Assam/Seredang Road	45	Oct 09	JKR
IPD Dang Wangi	35	Oct 09	KDN
Sepangar Bar Submarine V.O.	50 30	May 09 (extended) May 09 (extended)	JKR
Refurbishment of Quarter P11	20	Dec 08 (extended)	Putrajaya
University KL	135	April 10	MARA
Runway Extension to sea Kuala Terengganu Airport	65	April 2010	JKR
Construction of warehouses	65	July 2010	Bintulu Port
Maritime College	200	Jan 11	JKR
Total	645		

Source: DBS Vickers, Company

## Cash flow summary

	1Q09	4Q08	3Q08	2Q08	1Q08	FY08A	FY09F	FY10F
Profit before tax	13.4	12.7	18.5	13.4	16.9	61.5	58.3	62.1
Depreciation & amortization	1.2	3.2	1.2	1.5	1.0	5.4	5.6	6.7
Associates & JV	0.2	-	-	(0.1)	0.1	-	-	-
Tax paid	(3.4)	(0.9)	(8.3)	(2.2)	(3.1)	(18.7)	(14.6)	(15.5)
Provisions for inventories, doubtful debts & others	-	-	-	-	-	-	-	-
Forex loss	0.0	(9.1)	(5.2)	14.3	-	-	-	-
Other non-cash adjustment	3.0	3.8	5.3	(14.8)	(0.1)	37.8	(0.0)	(0.0)
Changes in non-cash working cap	(67.6)	40.3	12.7	(14.7)	(43.7)	(23.9)	(4.0)	(4.1)
Cashflow from operations	(53.1)	50.0	24.1	(2.5)	(28.9)	62.1	45.3	49.2
Net capex	(1.5)	(9.3)	5.0	(6.0)	(4.9)	(13.6)	(13.6)	(13.6)
Cashflow from investing ^	(1.5)	8.0	5.0	(23.4)	(4.9)	(31.0)	(13.6)	(13.6)
Cashflow from financing ^	(2.1)	(25.7)	(3.9)	15.5	4.3	7.5	(10.9)	(11.6)
Net change in cash	(56.7)	32.4	25.3	(10.4)	(29.5)	38.6	20.8	23.9
Cash & bank balances	158.8	212.7	170.4	136.4	155.3	229.6	250.4	274.4
Net cash/(debt)	88.8	147.0	85.6	62.0	87.8	163.9	184.7	208.6
Equity	277.0	266.6	257.9	243.6	236.3	283.6	316.4	351.3

Source: DBS Vickers, Company

## Sector Comparison

Company	Price	Target	Rating	Diluted P/E (x)		Mkt cap	Est. Order Bk	Mkt cap/ord bk	Net tangible asset	P/NTA
	(RM)	(RM)		CY09	CY10	(RMb)	(RMb)	(x)	(RM)	(x)
Gamuda	3.06	3.50	Buy	24.1	15.9	6.1	6.3	1.0	1.34	2.3
IJM	6.00	7.00	Buy	17.2	13.8	5.7	5.1	1.1	5.29	1.1
WCT	2.47	1.80	Fully Valued	15.9	16.5	1.9	3.7	0.5	1.55	1.6
MRCB	1.32	1.50	Buy	55.0	21.0	1.2	2.0	0.6	0.79	1.7
Sunway Holdings	1.36	1.70	Buy	13.7	9.0	0.7	3.0	0.2	1.10	1.2
TRC Synergy	1.22	2.05	Buy	6.4	6.0	0.2	0.6	0.3	1.50	0.8
<b>Average</b>				22.1	13.7			0.6		1.5

Source: DBS Vickers, Company

## TRC Synergy

## Income Statement (RM m)

FY Dec	2008A	2009F	2010F	2011F
Turnover	740	549	561	568
Cost of Goods Sold	(662)	(465)	(473)	(476)
<b>Gross Profit</b>	<b>78</b>	<b>84</b>	<b>88</b>	<b>91</b>
Other Opng (Exp)/Inc	(11)	(20)	(21)	(21)
<b>Operating Profit</b>	<b>66</b>	<b>64</b>	<b>67</b>	<b>70</b>
Other Non Opng (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(5)	(5)	(5)	(5)
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>62</b>	<b>58</b>	<b>62</b>	<b>65</b>
Tax	(16)	(15)	(16)	(16)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>45</b>	<b>44</b>	<b>47</b>	<b>49</b>
Net Profit before Except.	45	44	47	49
EBITDA	72	69	74	78
Sales Gth (%)	75.2	(25.8)	2.2	1.3
EBITDA Gth (%)	38.8	(3.5)	7.2	5.5
Opq Profit Gth (%)	42.8	(4.3)	6.0	4.6
Net Profit Gth (%)	51.1	(3.8)	6.6	5.0
Effective Tax Rate (%)	26.2	25.0	25.0	25.0

## Cash Flow Statement (RM m)

FY Dec	2008A	2009F	2010F	2011F
Pre-Tax Profit	62	58	62	65
Dep. & Amort.	6	6	7	8
Tax Paid	(19)	(15)	(16)	(16)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	13	(4)	(4)	(4)
Other Operating CF	0	0	0	0
<b>Net Operating CF</b>	<b>62</b>	<b>45</b>	<b>49</b>	<b>52</b>
Capital Exp.(net)	(13)	(14)	(14)	(14)
Other Invts.(net)	(18)	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
<b>Net Investing CF</b>	<b>(31)</b>	<b>(14)</b>	<b>(14)</b>	<b>(14)</b>
Div Paid	(6)	(11)	(12)	(12)
Chg in Gross Debt	(11)	0	0	0
Capital Issues	0	0	0	0
Other Financing CF	24	0	0	0
<b>Net Financing CF</b>	<b>8</b>	<b>(11)</b>	<b>(12)</b>	<b>(12)</b>
Net Cashflow	39	21	24	27

## Quarterly / Interim Income Statement (RM m)

FY Dec	2Q2008	3Q2008	4Q2008	1Q2009
Turnover	199	224	179	180
Cost of Goods Sold	(183)	(202)	(162)	(160)
<b>Gross Profit</b>	<b>16</b>	<b>22</b>	<b>17</b>	<b>20</b>
Other Oper. (Exp)/Inc	(2)	(3)	(2)	(6)
<b>Operating Profit</b>	<b>14</b>	<b>20</b>	<b>15</b>	<b>15</b>
Other Non Opng (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(1)	(1)	(2)	(1)
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>13</b>	<b>18</b>	<b>13</b>	<b>13</b>
Tax	(3)	(4)	(4)	(3)
Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>11</b>	<b>14</b>	<b>9</b>	<b>10</b>
Net profit bef Except.	11	14	9	10
Sales Gth (%)	44.8	12.7	(20.0)	0.5
Opq Profit Gth (%)	(21.5)	37.2	(25.7)	1.2
Net Profit Gth (%)	(11.4)	32.7	(37.8)	15.5
Gross Margins (%)	8.1	10.0	9.4	11.2
Opq Profit Margins (%)	7.2	8.7	8.1	8.1
Net Profit Margins (%)	5.3	6.3	4.9	5.6

## Balance Sheet (RM m)

FY Dec	2008A	2009F	2010F	2011F
Net Fixed Assets	27	34	41	47
Invts in Associates & JVs	7	7	7	7
Other LT Assets	51	51	51	51
Cash & ST Invts	230	250	274	301
Inventory	1	1	1	1
Debtors	133	137	141	145
Other Current Assets	15	15	15	15
<b>Total Assets</b>	<b>462</b>	<b>495</b>	<b>530</b>	<b>567</b>
ST Debt	58	58	58	58
Other Current Liab	112	112	112	112
LT Debt	8	8	8	8
Other LT Liabilities	1	1	1	1
Shareholder's Equity	284	316	351	388
Minority Interests	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>462</b>	<b>495</b>	<b>530</b>	<b>567</b>
Non-Cash Wkg. Capital	36	40	44	48
Net Cash/(Debt)	164	185	208	235

## Rates &amp; Ratio

FY Dec	2008A	2009F	2010F	2011F
Gross Margins (%)	10.5	15.3	15.7	16.1
Opq Profit Margin (%)	9.0	11.6	12.0	12.4
Net Profit Margin (%)	6.1	8.0	8.3	8.6
ROAE (%)	17.9	14.6	14.0	13.2
ROA (%)	10.7	9.1	9.1	8.9
ROCE (%)	15.1	13.0	12.6	12.1
Div Payout Ratio (%)	12.8	25.0	25.0	25.0
Net Interest Cover (x)	14.2	12.1	12.8	13.4
Asset Turnover (x)	1.7	1.1	1.1	1.0
Debtors Turn (avg days)	59.8	89.8	90.5	92.0
Creditors Turn (avg days)	51.2	84.1	82.9	82.4
Inventory Turn (avg days)	0.5	0.8	0.8	0.8
Current Ratio (x)	2.2	2.4	2.5	2.7
Quick Ratio (x)	2.1	2.3	2.4	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.6)	(0.6)	(0.6)	(0.6)
Capex to Debt (%)	19.3	20.6	20.6	20.6
Z-Score (X)	3.8	3.8	3.3	3.3
N. Cash/(Debt)PS (sen)	86.4	97.3	110.0	124.0
Opq CFPS (sen)	25.9	26.0	28.1	29.9
Free CFPS (sen)	26.0	16.7	18.8	20.4

## Segmental Breakdown / Key Assumptions

FY Dec	2008A	2009F	2010F	2011F
<b>Revenues (RM m)</b>				
Construction	757	517	527	533
Property development	7	18	18	19
Others	(23)	15	15	16
<b>Total</b>	<b>740</b>	<b>549</b>	<b>561</b>	<b>568</b>
<b>PBT (RM m)</b>				
Construction	79	51	54	57
Property development	(6)	3	3	4
Others	(12)	4	4	5
<b>Total</b>	<b>62</b>	<b>58</b>	<b>62</b>	<b>65</b>
<b>PBT Margins (%)</b>				
Construction	10.5	9.8	10.3	10.7
Property development	(95.3)	19.0	19.0	19.0
<b>Total</b>	<b>8.3</b>	<b>10.6</b>	<b>11.1</b>	<b>11.5</b>

## Key Assumptions

Orderbook replenishment	313.0	500.0	500.0
Construction margins	9.8	10.3	10.7

Source: Company, DBS Vickers

DBSV recommendations are based on Absolute Total Return\* Rating system, defined as follows:

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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**DBS Vickers Research (Singapore) Pte Ltd** – 8 Cross Street, #02-01 PWC Building, Singapore 048424  
Tel. 65-6533 9688, Fax: 65-6226 8048  
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