HwangDBS raises TRC to buy with higher target price

HwangDBS Vickers Research is upgrading TRC Synergy Bhd to a buy at RM1.22 with a higher price target of RM2.05 (previously RM1.35) due to its solid order book, potential jobs in East Malaysia and Brunei, as well as its strong cash position.

TRC, involved in construction and property development, is bidding for some RM1 billion worth of new jobs, with 60% potentially in Sarawak alone. It hopes to leverage on its UPK licence, which allows it to compete in the closed Sarawak construction market dominated by a handful of players.

Contract flows in the East Malaysian state are also expected to be strong, given the anticipated rollout of more projects under the Sarawak Corridor of Renewable Energy (Score) of RM334 billion or about RM15 billion per year over a 22-year period.

TRC Synergy

FY Dec (RM m)	2008A	2009F	2010F	2011F
Turnover	740	549	561	568
EBITDA	72	69	74	78
Net profit	45	44	47	49
EPS (sen)	24.0	23.1	24.6	25.8
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
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

Source of all data: Company, DBS Vickers, Bloomberg

HwangDBS said TRC's current order book of RM645 million remained resilient and is 100%-backed by the government, where average margins for 2008 were 9% and expected to be at 8% for 1Q09. It is also bidding for a massive refinery project in Brunei, led by PetroBru in which TRC has a 26% stake.

"We expect the market to rerate TRC as more clarity emerges on the PetroBru-led Brunei refinery project, estimated to cost US$4 billion (RM14.28 billion). 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," it added.

"The stock has been a laggard compared to its peers, down 12% year to date. We upgrade our rating on TRC to buy with a price target of RM2.05, based on 10 times CY10 FD EPS (fully diluted earnings per share). This represents a 40% discount to the average CY10 PE (price earnings) of its larger cap peers of 16.7 times" said the research house.

According to HwangDBS, the steep discount reflected liquidity concerns, smaller market capitalisation and a less diversified business model. However, TRC's dividend yields were decent at 5%, with a policy of paying 25% of net profit. Balance sheet was also strong with a net cash position of RM89 million or 46 sen per share.

"The stock is trading below its 2008 net tangible assets (NTA) of RM1.50 per share, which implies the market is discounting the future profit from its current order book of RM645 million," it noted.

Yesterday, TRC surged 16 sen to close at RM1.38.