

Malaysia Company Focus

TRC Synergy

Bloomberg: TRC MK | Reuters: TRCG.KL

DBS Group Research . Equity

19 Oct 2010

BUY RM1.38 KLCI : 1,480.70

(Upgrade from Fully Valued)

Price Target : 12-Month RM 1.85 (Prev RM 0.94)

Reason for Report : Upgraded rating and earnings

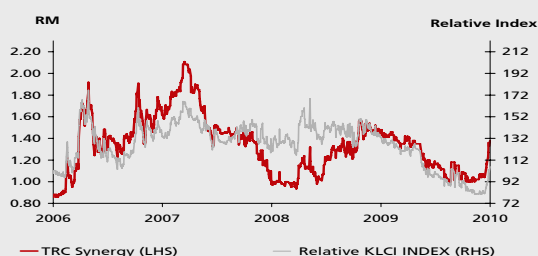
Potential Catalyst: New contracts

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2009A	2010F	2011F	2012F
Turnover	533	340	486	682
EBITDA	45	34	53	72
Pre-tax Profit	38	29	47	65
Net Profit	27	22	35	49
Net Pft (Pre Ex.)	27	22	35	49
EPS (sen)*	14.3	11.6	18.5	25.7
EPS Pre Ex. (sen)	14.3	11.6	18.5	25.7
EPS Gth Pre Ex (%)	(40)	(19)	59	39
Diluted EPS (sen)	12.0	9.7	15.4	21.4
Net DPS (sen)	4.5	2.9	4.6	6.4
BV Per Share (sen)	150.8	159.5	173.3	192.6
PE (X)	9.6	11.9	7.5	5.4
PE Pre Ex. (X)	9.6	11.9	7.5	5.4
P/Cash Flow (X)	8.0	10.0	6.5	4.8
EV/EBITDA (X)	1.6	1.8	0.8	0.2
Net Div Yield (%)	3.3	2.1	3.3	4.6
P/Book Value (X)	0.9	0.9	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.5	7.5	11.1	14.0

Earnings Rev (%): 8.1 63.9 111.5
Consensus EPS (sen): 11.0 11.0 12.0

* EPS is not fully diluted. FD EPS for FY10, FY11, FY12 are 9.7 sen, 15.4 sen and 21.4 sen

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Construction and property development

Source of all data: Company, DBS Vickers, Bloomberg

New lease of life

- **Substantial orderbook replenishment on the cards**
- **Front runner for LRT extensions**
- **Raised TP to RM1.85, upgrade to BUY**

Upgrade to BUY from Fully Valued, after raising target price to RM1.85 based on a higher 12x PE multiple and higher earnings. This is at 35% discount to the sector's 18x average to reflect its smaller market cap and less diversified business portfolio. We also raised FY10-FY12 EPS by 8%-112% to account for higher new order assumptions of RM250m-RM800m for those years, coupled with higher margins of 7%-8% (vs RM158-RM300m and 6% margins). The stock is the cheapest in our universe, trading at 1-year forward 9x PE and 0.8x P/NTA, while its balance sheet is strong with RM0.79 net cash per share.

Strong orderbook replenishment. TRC will see substantial orderbook replenishment over the next 3 to 6 months after a period of muted contract wins. We understand it is the front runner to clinch the main contractor role for the 9.2km Kelana Jaya line (Kelana Jaya station to Summit). This is part of the 17.7km stretch which closed for tender in late-August and is awaiting award. Total contract value could be at least RM1-1.5bn, half of the RM2.5-3bn for Package A that includes 7.2km of the Ampang line. The closest competitor is UEM Builders but apparently TRC has been recommended to the MOF by SPNB. We understand the Kelana Jaya line is more complex with a higher contract value. This could see its orderbook balloon 4-fold to RM1.9bn from RM0.4bn currently, implying 4-5 years earnings visibility.

Total RM3.3bn tenderbook. This includes the LRT extensions and infrastructure works in SCORE (c.RM1bn) and ECER (RM200m). We understand there are 15 packages in SCORE that are opened to UPK license holders. TRC's UPK license 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 in SCORE and the upcoming state elections.

At A Glance

Issued Capital (m shrs)	190
Mkt. Cap (RMm/US\$m)	262 / 84.6
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)	113

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TRC: Outstanding orderbook as at 30 Jun 2010

Project	Outstanding value RMm	Completion Date	Awarder
Sibu Bawang/Assam/Seredang Road	20	Aug 10	JKR
IPD Dang Wangi	10	Oct 10	KDN
University KL	70	Oct 10	MARA
Construction of warehouses	40	July 2010	Bintulu Port
Maritime College	130	June 11	JKR
Northport Container Terminal 1	40	March 12	Northport
Refurbishment of Quarter P11	20	Sept 10	Putrajaya
Upgrade of Kota Bharu airport	40	Nov 11	MOT
Total	370		

Source: DBS Vickers, Company

Construction: Peer comparison

Company	Price (RM)	Target (RM)	Rating	Diluted P/E (x)		Mkt cap (RMb)	Est. Order Bk (RMb)	Mkt cap/ ord bk (x)	1-year fwd NTA (RM)	P/NTA (x)
				CY10	CY11					
Gamuda	3.82	4.40	Buy	25.0	20.1	7.7	4.2	1.8	1.57	2.4
IJM	5.43	6.20	Buy	19.9	18.2	7.2	3.6	2.0	4.32	1.3
WCT	3.18	3.60	Buy	19.3	16.6	1.6	2.1	0.8	1.87	1.7
MRCB	2.02	2.25	Buy	54.6	38.8	2.8	2.0	1.4	0.89	2.3
Sunway	1.93	2.10	Buy	10.3	10.2	1.2	2.4	0.5	1.56	1.2
MMC	3.05	3.20	Buy	23.1	14.7	7.7	3.4	2.3	(0.37)	n/a
TRC Synergy	1.38	1.85	Buy				0.4		1.67	0.8
Average				14.2	9.0	0.2		0.5		1.6
				23.8	18.2			1.3		

Source: DBS Vickers, Company

Income Statement (RM m)

FY Dec	2009A	2010F	2011F	2012F
Turnover	533	340	486	682
Cost of Goods Sold	(473)	(296)	(417)	(585)
Gross Profit	60	44	69	97
Other Opg (Exp)/Inc	(20)	(14)	(21)	(31)
Operating Profit	41	30	47	66
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(1)	0	0	0
Net Interest (Exp)/Inc	(2)	(1)	(1)	(1)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	38	29	47	65
Tax	(11)	(7)	(12)	(16)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	27	22	35	49
Net Profit before Except.	27	22	35	49
EBITDA	45	34	53	72
Sales Gth (%)	(27.9)	(36.3)	42.9	40.3
EBITDA Gth (%)	(37.4)	(23.4)	53.2	36.2
Opg Profit Gth (%)	(38.8)	(25.9)	57.3	38.3
Net Profit Gth (%)	(40.2)	(18.8)	58.7	38.9
Effective Tax Rate (%)	28.8	25.0	25.0	25.0

Cash Flow Statement (RM m)

FY Dec	2009A	2010F	2011F	2012F
Pre-Tax Profit	38	29	47	65
Dep. & Amort.	5	4	5	6
Tax Paid	(18)	(7)	(12)	(16)
Assoc. & JV Inc/(loss)	1	0	0	0
Chg in Wkg.Cap.	41	(2)	(2)	(2)
Other Operating CF	2	0	0	0
Net Operating CF	69	24	38	53
Capital Exp.(net)	(9)	(11)	(11)	(11)
Other Invt.(net)	0	0	0	0
Invt in Assoc. & JV	(6)	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(16)	(11)	(11)	(11)
Div Paid	(9)	(6)	(9)	(12)
Chg in Gross Debt	(51)	0	0	0
Capital Issues	0	0	0	0
Other Financing CF	(23)	0	0	0
Net Financing CF	(82)	(6)	(9)	(12)
Net Cashflow	(29)	8	18	29

Quarterly / Interim Income Statement (RM m)

FY Dec	2Q2009	3Q2009	4Q2009	1Q2010
Turnover	163	118	72	109
Cost of Goods Sold	(143)	(102)	(68)	(92)
Gross Profit	20	16	4	17
Other Oper. (Exp)/Inc	(4)	(4)	(6)	(10)
Operating Profit	16	12	(1)	6
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	(1)	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	15	11	(2)	6
Tax	(4)	(3)	(1)	(3)
Minority Interest	0	0	0	0
Net Profit	12	8	(3)	3
Net profit bef Except.	12	8	(3)	3
Sales Gth (%)	(9.5)	(27.7)	(38.6)	50.4
Opg Profit Gth (%)	6.4	(25.9)	(110.6)	(619.9)
Net Profit Gth (%)	13.7	(29.4)	(137.6)	(199.8)
Gross Margins (%)	12.1	13.4	6.2	15.5
Opg Profit Margins (%)	9.6	9.8	(1.7)	5.9
Net Profit Margins (%)	7.1	6.9	(4.2)	2.8

Balance Sheet (RM m)

FY Dec	2009A	2010F	2011F	2012F
Net Fixed Assets	19	26	32	37
Invt in Associates & JVs	12	12	12	12
Other LT Assets	51	51	51	51
Cash & ST Invt	201	208	227	256
Inventory	1	1	1	1
Debtors	59	60	62	64
Other Current Assets	32	32	32	32
Total Assets	374	391	417	453
ST Debt	3	3	3	3
Other Current Liab	79	79	79	79
LT Debt	6	6	6	6
Other LT Liabilities	0	0	0	0
Shareholder's Equity	286	302	329	365
Minority Interests	0	0	0	0
Total Cap. & Liab.	374	391	417	453
Non-Cash Wkg. Capital	13	15	16	18
Net Cash/(Debt)	192	199	217	247

Rates & Ratio

FY Dec	2009A	2010F	2011F	2012F
Gross Margins (%)	11.3	13.0	14.2	14.2
Opg Profit Margin (%)	7.6	8.9	9.8	9.6
Net Profit Margin (%)	5.1	6.5	7.2	7.1
ROAE (%)	9.5	7.5	11.1	14.0
ROA (%)	6.5	5.8	8.7	11.2
ROCE (%)	9.0	7.4	10.9	13.8
Div Payout Ratio (%)	31.4	25.0	25.0	25.0
Net Interest Cover (x)	22.6	41.5	65.3	90.4
Asset Turnover (x)	1.3	0.9	1.2	1.6
Debtors Turn (avg days)	65.5	63.8	46.0	33.8
Creditors Turn (avg days)	71.0	95.7	67.8	48.2
Inventory Turn (avg days)	0.6	0.9	0.6	0.5
Current Ratio (x)	3.6	3.7	3.9	4.3
Quick Ratio (x)	3.2	3.3	3.5	3.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.7)	(0.7)	(0.7)	(0.7)
Capex to Debt (%)	100.8	124.9	124.9	124.9
Z-Score (X)	3.8	4.6	3.8	3.7
N. Cash/(Debt)PS (sen)	101.1	105.1	114.7	130.1
Opg CFPS (sen)	14.8	13.8	21.2	28.9
Free CFPS (sen)	31.4	6.9	14.2	21.8

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010F	2011F	2012F
Revenues (RM m)				
Construction	548	345	494	691
Property development	4	15	12	13
Retailing of construction	0	0	0	0
Others	(19)	(20)	(21)	(22)
Total	534	340	486	682
PBT (RM m)				
Construction	42	28	35	53
Property development	0	3	2	2
Retailing of construction	0	0	0	0
Others	(4)	(1)	9	9
Total	38	29	47	65
PBT Margins (%)				
Construction	7.7	8.0	7.1	7.7
Property development	(4.6)	19.0	19.0	19.0
Others	20.7	5.7	(43.9)	(42.8)
Total	7.2	8.7	9.6	9.5
Key Assumptions				
Orderbook replenishment		258.2	800.0	800.0
Construction margins		8.0	7.1	7.7

Source: Company, DBS Vickers

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

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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