

Malaysia Result Snapshot

TRC Synergy

Bloomberg: TRC MK | Reuters: TRCG.KL

DBS Group Research . Equity

29 Nov 2010

Bags LRT extensions

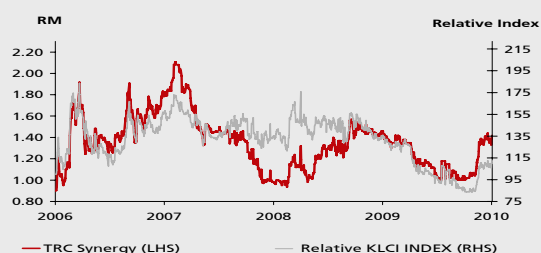
BUY RM1.42
Price Target : RM 1.85

Reporting Period	Performance	Mkt Cap	FY	EPS (sen)	EPS Gth Pre-Ex (%)	EPS Revision	PE (x)	PBV (x)	Net Dividend Yield (%)
3Q10	Below expectation	RM270m US\$85.5m	2009A 2010F 2011F	14.3 10.4 18.5	(40) (27) 77	- (10)	9.9 13.6 7.7	0.9 0.9 0.8	3.2 1.8 3.3

Result Summary

FY Dec (RM m)	3Q2009	3Q2010	% Chg y-o-y
P&L Items			
Sales	117.9	84.3	(28.5)
Gross Profit	15.8	6.5	(58.7)
EBIT	11.6	2.8	(76.1)
Exceptional Gain/(Loss)	0.0	0.0	N/A
Pretax Profit	11.1	2.6	(76.8)
Net Profit	8.1	2.2	(72.5)
EPS (sen)	4.3	1.2	(72.5)
Gross Margin (%)	13.4	7.7	
BS & CF Items			
Net cash (debt)	152.6	146.9	
Net gearing (x)	n/a	n/a	

Price Relative



Source: Company, DBS Vickers

At a Glance

- **Weak 3Q10 result due to timing of billings**
- **Expect a surge in contract flows – LRT and East Malaysia jobs**
- **Maintain BUY and SOP-derived RM1.85 TP**

Comment on Result

3Q10 net profit of RM2.2m brings 9M10 net profit to RM12.8m. Annualized, this is below our RM20.4m forecast for the full year. Despite expectations of stronger 4Q10 earnings due the timing of billings, the results still disappointed because of lower margins YTD. 3Q10 construction profits were largely attributed to projects such as University KL, Maritime College in Kuantan, and newer contracts such as the upgrade of Kota Bharu airport worth RM45m, Northport project worth RM46m, and Putrajaya rectification work worth RM20m. 3Q10 EBIT margin slipped to 3.3% vs 9.8% in 2Q10 due to timing of recognition of construction billings, while its property division was in the red. We cut FY10F EPS by 10% after imputing lower margins.

TRC will see substantial orderbook replenishment over the next 3 to 6 months. It has clinched the main contractor role for the 9.2km Kelana Jaya line (Kelana Jaya station to Summit) worth RM950m. This is part of a 17.7km stretch which tender closed in late August. With this, its orderbook has jumped 4-fold to RM1.3bn giving it another 4-5 years earnings visibility. We also understand there may be substantial new jobs in East Malaysia in early 2011. We are retaining our FY11-FY12F EPS for now given the win forms 90% of our FY10-FY11F combined orderwin forecast of RM1.058bn.

Recommendation

We are retaining our BUY rating, and RM1.85 target price based on 12x FY11 EPS. The stock is the cheapest in our universe, trading at 1-year forward 8x PE and 0.8x P/NTA, while its balance sheet is strong with RM0.77 net cash per share.

ANALYST: CHONG Tjen San, CFA +603 2711 2295
tjensan@hwangdbsvickers.com.my

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3Q10 Result Summary and Comments

P&L (RMm)	3Q10	3Q09	% chg y-o-y	2Q10	% chg q-o-q	Comments
Revenue	84.3	117.9	(28.5)	97.0	(13.1)	Fell y-o-y as the Sepangar Bay Submarine Base project is completed. Fell q-o-q due to timing of recognition of projects billings.
Cost of sales	(77.8)	(102.1)	(23.8)	(82.9)	(6.3)	
Gross profit	6.5	15.8	(58.7)	14.1	(53.7)	
Other Op. income	0.7	1.3	(46.1)	1.6	(54.5)	
Administrative expenses	(4.5)	(5.6)	(19.4)	(6.1)	(26.4)	
Op. profit	2.8	11.6	(76.1)	9.6	(71.2)	
Finance costs	(0.1)	(0.1)	(46.5)	(0.1)	0.5	
Associates	(0.1)	(0.4)		0.2		
PBT	2.6	11.1	(76.8)	9.8	(73.7)	Fell q-o-q due to timing of recognition of profits, due to Hari Raya festive holidays.
Tax	(0.3)	(2.9)	(88.6)	(2.3)	(85.1)	
Net profit	2.2	8.1	(72.5)	7.5	(70.3)	
<i>EBIT margins (%)</i>	3.3	9.8		9.9	3.3	

Source: Company, DBS Vickers

DBSV recommendations are based on 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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DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
Tel. 65-6533 9688
Company Regn. No. 198600295W