

TRC Synergy (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION

30 May 2011
Price Target: RM2.00
Share price: RM1.74

Seasonality But Strong Sequential Growth

Results	<ul style="list-style-type: none"> 1Q PATMI came in at RM5.9m (3.1 sen/share). This made up only 23% of our FY11 forecast. YoY and QoQ PATMI grew by 93% and 58% respectively. Given the sequential strong growth despite seasonality, we consider the results to be in line as we expect the sequential growth momentum to pick up.
Deviations	<ul style="list-style-type: none"> In line.
Dividends	<ul style="list-style-type: none"> None.
Highlights	<ul style="list-style-type: none"> The strong sequential 1Q earnings came in within our expectations that FY10 was the bottom for TRC. During the quarter, we believe that most of the construction activities were from the Maritime College Kuantan, UniKL Pasir Gudang campus and a mixture of other projects which are scheduled for completion this year. Earnings were also lifted by stronger margins, which expanded to 6.6% from the previous quarter's 4.2%. We attribute this to the acceleration in construction activities. At the associate level, TRC's overseas property development venture in Australia and Cambodia has begun to yield positive result. Overall, we estimate TRC's outstanding active order book to be around RM1.1bn, translating to 2.9x FY10's revenue.
Risks	<ul style="list-style-type: none"> Single project concentration risk in the LRT project; Regulatory and political risks (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction sector.
Forecasts	<ul style="list-style-type: none"> FY11-12 unchanged and introducing FY13 forecast.
Rating	<ul style="list-style-type: none"> Maintain BUY as current order book provides clear earnings visibility over the next two years. We believe that earnings have hit its trough and should show strong growth going forward.
Valuation	<ul style="list-style-type: none"> TP of RM2.00 based on 13x average FY11 and FY12 earnings maintained.

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KLCI	1,548.7
Expected share price return	14.9%
Expected dividend return	1.6%
Expected total return	16.5%

Share price



Information

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	191
Market cap (RM m)	332
3-mth avg. volume ('000)	438

Price Performance	1M	3M	12M
Absolute	8.1	28.9	70.6
Relative	7.1	24.1	39.8

Major shareholders

TRC Capital	13.0%
Kolektif Aman	12.8%
Dato' Sri Sufri	9.9%
Free Float	34.7%

Summary Earnings Table

FYE Dec (RM m)	2010A	2011E	2012E	2013E
Revenue	376.6	513.1	764.5	795.0
EBITDA	23.9	35.6	47.3	60.8
EBIT	23.9	31.3	39.8	50.8
Profit Before Tax	23.5	34.6	42.8	53.6
PATMI	16.5	26.0	32.1	40.2
EPS (sen)	8.7	13.6	16.9	21.0
Net DPS (sen)	3.7	2.7	3.4	4.2
Net DY (%)	2.3	1.7	2.1	2.6
P/E (x)	18.6	11.9	9.6	7.7
FD P/E (x)	22.3	14.2	11.5	9.2
P/B (x)	1.0	1.0	0.9	0.8
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	5.7	8.4	9.7	11.1
ROA (%)	3.8	6.0	6.6	7.3

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q10	4Q10	1Q11	QoQ (%)	YoY (%)	Comments
Revenue	108.8	86.5	100.6	16%	-8%	QoQ: This marks the 3rd strong sequential growth in construction activities.
EBIT	5.5	3.6	6.6	81%	21%	YoY/QoQ: Higher EBIT achieved due to recovery in profit margins.
Net Interest	0.8	1.4	1.1	-21%	38%	Net cash position of RM161m (RM0.84/share).
Associates	(0.1)	(0.0)	0.2	>100%	>100%	YoY/QoQ: Contribution from overseas property development i.e. Cambodia and Australia beginning to show results.
PBT	6.1	5.0	7.9	57%	29%	
PATMI	3.1	3.7	5.9	58%	93%	
EPS (sen)	1.61	1.97	3.10	57%	93%	
EBIT Margin (%)	5.0%	4.2%	6.6%	56%	31%	YoY/QoQ: Operating margins expanded due to higher value added works done.
PBT Margin (%)	5.6%	5.8%	7.9%	35%	40%	

Company, HLIB

Figure #2 HLIB vs Consensus

FYE Dec (RM m)	FY11E			FY12E			FY13E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	513.1	590.5	-13%	764.5	755.0	1%	795.0	948.5	-16%
PATMI	26.0	31.0	-16%	32.1	38.1	-16%	40.2	55.6	-28%

Bloomberg, HLIB

Figure #3 Peer comparison

Company	Mkt Cap (RM m)	Price (RM)	Target (RM)	+/- (%)	Rating	EPS (sen)		P/E (X)		ROE (%)		DY (%)
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	
IJM	8,377	6.20	6.61	6.6	HOLD	35.6	37.9	17.4	16.4	9.2	9.2	1.8
Gamuda	7,910	3.84	3.63	-5.5	HOLD	16.9	20.0	22.7	19.2	10.1	11.0	2.3
MRCB	2,991	2.16	-	-	NR	6.3	7.6	34.3	28.4	6.7	7.6	0.7
WCT	2,428	3.04	3.85	26.6	BUY	23.8	27.5	12.8	11.1	13.6	14.9	2.5
Mudajaya	1,867	4.54	6.75	48.7	BUY	57.0	49.3	8.0	9.2	28.3	19.8	1.2
Sunway	1,544	2.53	2.60	2.8	BUY	36.1	37.4	7.0	6.8	19.9	17.3	1.4
Benalec	1,080	1.48	-	-	NR	11.0	13.8	13.5	10.7	29.5	29.6	1.6
HSL	1,014	1.74	2.44	40.2	BUY	16.2	18.7	10.7	9.3	23.5	22.3	1.4
Naim	605	2.42	-	-	NR	37.8	44.6	6.4	5.4	11.7	12.5	5.5
Kimlun	410	1.79	-	-	NR	18.8	22.3	9.5	8.0	21.7	22.1	3.1
TRC Synergy	332	1.74	2.00	14.9	BUY	13.7	17.0	12.7	10.2	8.4	9.5	1.6
AZRB	230	0.83	-	-	NR	13.0	15.0	6.4	5.5	15.5	13.8	4.7
Bina Puri	132	1.22	-	-	NR	14.0	15.0	8.7	8.1	15.3	14.7	3.3
							Average	13.1	11.4			

HLIB, Bloomberg

Financial Projections for TRC Synergy (BUY, TP: RM2.00)

Income Statement

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue	533.8	376.6	513.1	764.5	795.0
EBITDA	42.6	23.9	35.6	47.3	60.8
D&A	(4.8)	-	(4.3)	(7.5)	(10.0)
EBIT	37.9	23.9	31.3	39.8	50.8
Interest Income	3.2	-	3.4	3.0	2.9
Finance Costs	(1.8)	(0.3)	(0.1)	(0.1)	(0.0)
Associates	(0.5)	(0.0)	-	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	38.8	23.5	34.6	42.8	53.6
Tax	(11.5)	(7.0)	(8.7)	(10.7)	(13.4)
Net Profit	27.3	16.5	26.0	32.1	40.2
Minority Interests	-	-	-	-	-
PATMI	27.3	16.5	26.0	32.1	40.2
Core Earnings	27.3	16.5	26.0	32.1	40.2
Basic Shares (m)	189.6	190.2	190.2	190.2	191.1
Basic EPS (sen)	14.4	8.7	13.6	16.9	21.0
FD EPS (sen)	12.0	7.2	11.4	14.1	17.6

Quarterly Financial Summary

FYE 31 Dec (RM m)	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
Revenue	108.8	97.0	84.3	86.5	100.6
COGS	(91.9)	(82.9)	(77.8)	(79.2)	(86.5)
Gross Profit	16.8	14.1	6.5	7.3	14.0
Operating Profit	5.5	9.6	2.8	3.6	6.6
Net Interest	0.8	(0.1)	(0.1)	1.4	1.1
Associates	(0.1)	0.2	(0.1)	(0.0)	0.2
Profit Before Tax	6.1	9.8	2.6	5.0	7.9
Net Profit	3.1	7.5	2.2	3.7	5.9
Minority Interests	-	-	-	-	-
PATMI	3.1	7.5	2.2	3.7	5.9
Basic EPS (sen)	1.61	3.96	1.18	1.97	3.10
FD EPS (sen)	1.56	3.85	1.16	1.85	2.88

Balance Sheet

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Cash	200.9	200.7	93.0	66.0	84.7
Receivables	130.1	99.5	168.7	251.3	261.4
Inventories	2.6	1.2	42.2	62.8	65.3
Development Costs	9.2	10.2	10.2	10.2	10.2
Associates	12.7	12.1	12.1	12.1	12.1
PPE	18.6	21.7	37.4	49.9	59.9
Others	73.2	79.1	79.1	79.1	79.1
Total Assets	447.3	424.5	442.6	531.5	572.7
Payables	148.9	127.3	126.5	188.5	196.0
Total Debt	9.1	0.4	0.4	0.4	0.4
Others	3.0	(1.7)	(1.7)	(1.7)	(1.7)
Total Liabilities	160.9	126.0	125.2	187.2	194.7
Shareholders' Funds	286.3	298.5	317.4	344.3	378.0
Minority Interests	-	-	-	-	-
Total Capital	286.3	298.5	317.4	344.3	378.0

Rates and Ratios

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
PER (x)	12.1	20.0	12.8	10.3	8.3
FD PER (x)	14.5	24.0	15.3	12.4	9.9
DPS (sen)	3.0	3.7	2.7	3.4	4.2
DY (%)	1.7	2.2	1.6	2.0	2.4
BVPS (RM)	1.5	1.6	1.7	1.8	2.0
P/B (x)	1.2	1.1	1.0	1.0	0.9
NTA/Share (RM)	1.5	1.6	1.7	1.8	2.0
EBITDA Margin (%)	8.0	6.3	6.9	6.2	7.6
EBIT Margin (%)	7.1	6.3	6.1	5.2	6.4
PBT Margin (%)	7.3	6.2	6.7	5.6	6.7
Net Margin (%)	5.1	4.4	5.1	4.2	5.1
ROE (%)	9.9	5.7	8.4	9.7	11.1
ROA (%)	6.0	3.8	6.0	6.6	7.3
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

Cashflow Analysis

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
EBITDA	42.6	23.9	35.6	47.3	60.8
Working Capital	53.1	5.2	(110.9)	(41.3)	(5.0)
Net Interest	1.4	(0.3)	3.3	2.9	2.9
Others	(13.3)	8.5	(8.7)	(10.7)	(13.4)
CFO	83.8	37.3	(80.6)	(1.8)	45.2
Capex	(18.6)	(7.9)	(20.0)	(20.0)	(20.0)
Purchase/Disposal	2.2	1.0	-	-	-
Associate	(6.7)	(15.8)	-	-	-
Others	0.0	0.0	-	-	-
CFI	(23.1)	(22.7)	(20.0)	(20.0)	(20.0)
Financing	(46.5)	(8.7)	-	-	-
Shares Issued	0.1	0.5	-	-	-
Dividends	(8.5)	(5.7)	(7.1)	(5.2)	(6.5)
Others	-	8.3	-	-	-
CFF	(55.0)	(5.6)	(7.1)	(5.2)	(6.5)
Net Cashflow	5.7	9.0	(107.7)	(27.0)	18.7

Assumption Metrics

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue			513.1	764.5	795.0
EBIT Margin (%)			6.1	5.2	6.4
Order Book Wins			300.0	300.0	300.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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