

TRC Synergy (BUY ↔, EPS FY11-13 ↓)

INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION

30 November 2011
Price Target: RM0.60
Share price: RM0.69 (↓)

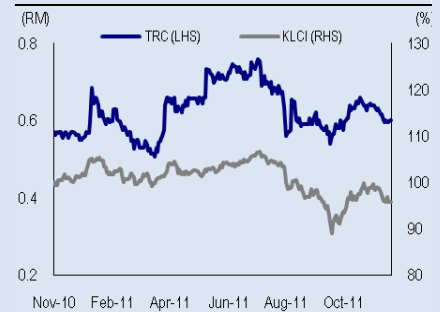
3Q still being weighed down by LRT delays

- | | |
|------------|---|
| Results | <ul style="list-style-type: none"> 9MFY11 PATAMI dipped by -14% to RM11m (2.36 sen/share), making up only 55% and 47% of HLIB and consensus expectations respectively. |
| Deviations | <ul style="list-style-type: none"> Missed expectations due to slower than an expected progress for the LRT project while existing construction orders are either at the tail end or still at the initial stages to have meaningful contribution. |
| Dividends | <ul style="list-style-type: none"> None. |
| Comments | <ul style="list-style-type: none"> Results review... Although 3Q earnings of RM2.6m (0.55 sen/share) grew by 2% and 15% on a QoQ and YoY basis, the bulk of the profit during the quarter was derived largely from the Australia property division. We understand that the construction division's contribution was minimal. LRT status... Recall that the previous quarter's earnings was impacted by the delays in securing the DO to execute the LRT project (contract size of RM950m). Although, the DO has been secured, it is only for certain stretches, and meaningful contribution from the project has yet to fully kick-in. The LRT's progress as of 3Q is estimated at 5%, a far cry from the targeted 20% for FY11. A timing issue... Besides the LRT project, earnings from the newly secured contracts amounting to RM483m YTD are still at the early stages to contribute meaningfully. Meanwhile, the older orders which were secured during 1H10 have already reached its tail end. We believe that it is a timing issue in profit recognition as earnings will pick up once the new orders fully takeoff. Huge order book... Overall, total outstanding order book remains sizable at ~RM1.43bn, translating to ~3.8x FY10's revenue and ~5.1x order book-to-market cap ratio. |
| Risks | <ul style="list-style-type: none"> Single project concentration and execution risk in the LRT project; Regulatory and political risk; Rising raw material prices; and Unexpected downturn in the construction sector. |
| Forecasts | <ul style="list-style-type: none"> FY11-13 earnings trimmed by between -5% to -10% to reflect delays in construction activities. |
| Rating | <ul style="list-style-type: none"> Maintain BUY in view of its huge order book which provides clear earnings visibility over the next few years and strong balance sheet with net cash of ~26 sen/share. |
| Valuation | <ul style="list-style-type: none"> TP reduced by 4% to RM0.69 from RM0.72 based on 12x FY12 earnings. |

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KLCI	1,444.7
Expected share price return	15.0%
Expected dividend return	1.9%
Expected total return	16.9%

Share price



Information

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	468
Market cap (RM m)	281
3-mth avg. volume ('000)	888

Price Performance	1M	3M	12M
Absolute	-7.0	1.7	2.9
Relative	-3.9	1.9	5.7

Major shareholders

TRC Capital	12.7%
Kolektif Aman	12.5%
Dato' Sri Suffri	9.7%
Free Float	35.8%

Summary Earnings Table

FYE Dec (RM m)	2010A	2011E	2012E	2013E
Revenue	376.6	391.0	689.0	722.5
EBITDA	23.9	23.8	39.3	46.7
EBIT	23.9	19.5	31.8	36.7
Profit Before Tax	23.5	23.2	34.9	39.3
Core PATAMI	16.5	17.4	26.2	29.5
Core EPS (sen)	3.6	3.8	5.7	6.4
FD EPS (sen)	3.0	2.7	4.1	4.6
Net DPS (sen)	1.6	1.1	1.4	1.7
Net DY (%)	2.6	1.9	2.4	2.9
P/E (x)	16.6	15.8	10.5	9.3
FD P/E (x)	19.9	22.0	14.6	13.0
P/B (x)	0.9	0.9	0.8	0.8
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	5.7	5.7	8.2	8.6
ROA (%)	3.8	4.2	5.8	5.7

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q10	2Q11	3Q11	QoQ (%)	YoY (%)	Comments
Revenue	84.3	101.1	95.0	-6	13	QoQ: As of 3Q, LRT progress estimated at only 5% compared to the full year target of 20%. Additionally, existing orders are at the tail end whereas new orders have yet to contribute meaningfully.
EBIT	2.1	1.3	4.8	>100	>100	YoY/QoQ: Improved earnings due to contribution from Australia property development. Construction division did not contribute much.
Net Interest	0.6	1.4	1.3	-5	108	Net cash position climbed slightly to RM121m (RM0.26/share) from RM119m in the previous quarter.
Associates	(0.1)	0.2	(1.9)	n.m	>100	YoY/QoQ: Losses from recognition in expenses incurred by PetroBru.
PBT	2.6	2.9	4.2	48	65	
PATAMI	2.2	2.5	2.6	2	15	YoY/QoQ: Lower growth compared to PBT due to higher tax expense.
EPS (sen)	0.48	0.55	0.55	1	15	
EBIT Margin (%)	2.5%	1.3%	5.1%	>100	>100	
PBT Margin Ex-Assoc (%)	3.2%	2.6%	6.4%	>100	>100	

TRC, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	9M10	9M11	YoY (%)	Comments
Revenue	290.1	296.6	2	
EBIT	16.4	12.8	-22	Earnings from construction activities yet to contribute meaningfully.
Net Interest	2.1	3.8	80	
Associates	(0.0)	(1.5)	>100	Losses from PetroBru.
PBT	18.5	15.0	-19	
PATAMI	12.8	11.0	-14	
EPS (sen)	2.76	2.36	-14	
EBIT Margin (%)	5.7%	4.3%	-24	
PBT Margin Ex-Assoc (%)	6.4%	5.6%	-13	Lower margins as most of the construction works are either at the tail end or at the initial stages to have meaningful contribution.

TRC, HLIB

Figure #3 HLIB vs Consensus

FYE Dec (RM m)	FY11E			FY12E			FY13E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	391.0	422.0	-7%	689.0	653.8	5%	722.5	834.5	-13%
PATAMI	17.4	22.8	-24%	26.2	35.2	-26%	29.5	43.9	-33%

Bloomberg, HLIB

Financial Projections for TRC Synergy (BUY, TP: RM0.69)

Income Statement

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue	533.8	376.6	391.0	689.0	722.5
EBITDA	42.6	23.9	23.8	39.3	46.7
D&A	(4.8)	-	(4.3)	(7.5)	(10.0)
EBIT	37.9	23.9	19.5	31.8	36.7
Interest Income	3.2	-	3.8	3.1	2.6
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	23.2	34.9	39.3
Tax	(11.5)	(7.0)	(5.8)	(8.7)	(9.8)
Net Profit	27.3	16.5	17.4	26.2	29.5
Minority Interests	-	-	-	-	-
PATAMI	27.3	16.5	17.4	26.2	29.5
Core Earnings	27.3	16.5	17.4	26.2	29.5
Basic Shares (m)	455.1	456.6	456.6	456.6	458.3
Basic EPS (sen)	6.0	3.6	3.8	5.7	6.4
FD EPS (sen)	5.0	3.0	2.7	4.1	4.6

Quarterly Financial Summary

FYE 31 Dec (RM m)	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2
Revenue	97.0	84.3	86.5	100.6	101.1
COGS	(82.9)	(77.8)	(79.2)	(86.5)	(95.4)
Gross Profit	14.1	6.5	7.3	14.0	5.7
EBIT	9.6	2.8	3.6	6.6	1.3
Net Interest	(0.1)	(0.1)	1.4	1.1	1.4
Associates	0.2	(0.1)	(0.0)	0.2	0.2
Profit Before Tax	9.8	2.6	5.0	7.9	2.9
Net Profit	7.5	2.2	3.7	5.9	2.5
Minority Interests	-	-	-	-	-
PATAMI	7.5	2.2	3.7	5.9	2.5
Basic EPS (sen)	3.96	1.18	1.97	3.10	1.31
FD EPS (sen)	3.85	1.16	1.85	2.88	1.20

Balance Sheet

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Cash	200.9	200.7	104.5	63.9	71.4
Receivables	130.1	99.5	128.6	226.5	237.5
Inventories	2.6	1.2	32.1	56.6	59.4
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	403.9	498.3	529.6
Payables	148.9	127.3	96.4	169.9	178.2
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	95.1	168.6	176.8
Shareholders' Funds	286.3	298.5	308.8	329.8	352.8
Minority Interests	-	-	-	-	-
Total Capital	286.3	298.5	308.8	329.8	352.8

Rates and Ratios

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
PER (x)	10.0	16.6	15.8	10.5	9.3
FD PER (x)	12.0	19.9	22.0	14.6	13.0
DPS (sen)	1.3	1.6	1.1	1.4	1.7
DY (%)	2.1	2.6	1.9	2.4	2.9
BVPS (RM)	0.6	0.7	0.7	0.7	0.8
P/B (x)	1.0	0.9	0.9	0.8	0.8
NTA/Share (RM)	0.6	0.7	0.7	0.7	0.8
EBITDA Margin (%)	8.0	6.3	6.1	5.7	6.5
EBIT Margin (%)	7.1	6.3	5.0	4.6	5.1
PBT Margin (%)	7.3	6.2	5.9	5.1	5.4
Net Margin (%)	5.1	4.4	4.4	3.8	4.1
ROE (%)	9.9	5.7	5.7	8.2	8.6
ROA (%)	6.0	3.8	4.2	5.8	5.7
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

Cashflow Analysis

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
EBITDA	42.6	23.9	23.8	39.3	46.7
Working Capital	53.1	5.2	(90.8)	(49.0)	(5.5)
Net Interest	1.4	(0.3)	3.7	3.1	2.6
Others	(13.3)	8.5	(5.8)	(8.7)	(9.8)
CFO	83.8	37.3	(69.1)	(15.4)	34.0
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	(96.3)	(40.6)	7.5

Assumption Metrics

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue			391.0	689.0	722.5
EBIT Margin (%)			5.0	4.6	5.1
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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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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