

**INDEPTH UPDATE REPORT**

2 March 2011

<b>Name of PLC:</b> TRC Synergy Berhad	<b>Target Price:</b>	RM1.90
<b>Business Summary :</b> Construction and property development		
<b>Major Shareholders :</b>	Dato' Sri Sufri Bin Hj Mohd Zin	28.06%
	Lembaga Tabung Haji	9.86%
<b>PLC Website :</b> <a href="http://www.trc.com.my">www.trc.com.my</a>	<b>Recommendation:</b>	Buy
<b>IR Contact :</b> Yeoh Sook Keng, CFO	<b>Market Capitalisation:</b>	RM256.0m
<b>Constituent of:-</b> - FBM Small Cap - FBM Emas	<b>Current Price :</b>	RM1.35
	<b>Market / Sector:</b>	Construction
	<b>Stock Code:</b>	5054
<b>Analyst :</b> Corinna Cheah / Lim Boon Ngee Tel : +603 2163 3200; Email : <a href="mailto:corinnacheah@nra.com.my">corinnacheah@nra.com.my</a> / <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a>		

Key Stock Statistics	FY10	FY11F	FY12F
EPS (sen)	8.7	21.9	29.5
P/E on EPS (x)	15.6	6.2	4.6
Dividend/Share (sen)	0.0	5.0	7.0
NTA/Share (RM)	1.57	1.75	1.99
Book Value/Share (RM)	1.57	1.75	1.99
Issued Capital (m shares)	190.2	190.2	190.2
52-weeks Share Price Range (RM)			1.00-1.69

Per Share Data	FY09	FY10	FY11F	FY12F
<b>Year-end 31 Dec</b>				
Book Value (RM)	1.51	1.57	1.75	1.99
Cash Flow (sen)	52.5	23.9	39.5	49.2
Earnings (sen)	14.3	8.7	21.9	29.5
Dividend (sen)	4.0	0.0	5.0	7.0
Payout Ratio (%)	20.9	0.0	17.1	17.8
PER (x)	9.4	15.6	6.2	4.6
P/Cash Flow (x)	1.4	3.0	1.8	1.4
P/Book Value (x)	0.9	0.9	0.8	0.7
Dividend Yield (%)	3.0	0.0	3.7	5.2
ROE (%)	9.5	5.5	12.5	14.8
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

P&L Analysis (RMm)	FY09	FY10	FY11F	FY12F
<b>Year-end 31 Dec</b>				
Revenue	533.8	376.6	669.8	786.1
Operating Profit	43.1	20.4	52.1	70.7
Depreciation	(4.7)	(5.1)	(5.0)	(5.0)
Net Interest	1.7	3.4	3.8	4.4
Pre-tax profit	38.8	23.5	55.7	74.7
Effective Tax Rate (%)	29.6	29.8	25.0	25.0
Net Profit	27.3	16.5	41.7	56.1
Operating Margin (%)	8.1	5.4	7.8	9.0
Pre-tax margin (%)	7.3	6.2	8.3	9.5
Net margin (%)	5.1	4.4	6.2	7.1

**1. Investment Highlights/Summary**

- We like TRC Synergy (TRC) for the following reasons:
  - Strong earnings recovery in 2011 with a projected 78% YoY increase in group revenue and a more than two-fold YoY increase in group net profit, driven by a flurry of new construction contracts.
  - The recent winning of the RM950m "Package A" for the Kelana Jaya LRT extension in Nov 2010 has boosted TRC's outstanding orderbook to over RM1.2bn as at Dec 2010. More new contract wins are expected this year, including road projects in East Malaysia and also potential involvement in the RM36bn MRT project.
  - TRC has a sound balance sheet with estimated net cash of RM200m as at the end of Dec 2010, which positions the group for further growth.
- The stock is trading below its book value and prospective PE ratings are low, at between 5-6x to Dec 2011-12F, which we believe is underserved given TRC's strong prospective earnings growth rates over the next two years and solid balance sheet position. Our RNAV-derived price target of RM1.90 per share implies a Dec 2011 PER of 9x, which is more in line with the stock's historical average PER. **BUY.**

## 2. Key Investment Risks

Key investment risks for TRC include:

- a) Higher input costs for its main construction operations given the rising inflationary pressures;
- b) Volatile or unfavourable foreign exchange movements which would affect the translation of foreign currency denominated revenue and profit from the group's overseas projects in Australia and Cambodia; and
- c) Sustainability of new project wins.

## 3. Company Background/Overview

### - Key areas of operation

- a) Construction – the construction division is currently the major revenue contributor to TRC's group revenue and profit. The construction activities are undertaken by wholly-owned subsidiary, Trans Resources Corporation Sdn Bhd, which was incorporated in May 1984 to fulfil the growing need for Bumiputera contractors to serve the country's rapid economic expansion.

TRC has over 20 years of experience in the construction industry, capable of undertaking major construction projects like roads, bridges, railway, airport facilities, hospital, prison, submarine base and other infrastructure works.

The division's key achievements include the successful completion of fast track design and build projects such as the National Hockey Stadium at Bukit Jalil, the Labuan Airport, Westport Rail Link projects, Decompression Chamber and Bentong Prison.

Recently completed construction projects include

- i. Sepanggar Bay Submarine Base project (RM410m); and
- ii. Kuala Terengganu Runway Extension P4 project (RM202m).

TRC is registered with Pusat Khidmat Kontraktor (PKK) under Class A and the Construction Industry Development Board Malaysia (CIDB) under grade G7, Category B, CE and ME.

- b) Property development – TRC's property development activities are undertaken by two subsidiaries namely TRC Development Sdn Bhd (TRCD) and TRC Land Sdn Bhd (TRCL).

TRCD was established in 1995 to synergise with the group's construction operations. The first project was the development of residential and commercial shop houses on a piece of land measuring 12.5 ha, with a gross development value of more than RM30m, in Kuala Pilah, Negeri Sembilan. In early 2005, TRCD completed 120 units of residential houses at Andaman Ukay, Ulu Klang, Selangor with a gross development value of approximately RM59m.

TRCL was incorporated in 1997. In 1999, TRCL ventured into property development in Johor and its first project was a joint venture with Tebrau Bay Sdn Bhd to develop an integrated township in Permas Jaya, Johor Bahru.

Recently completed property development projects include:

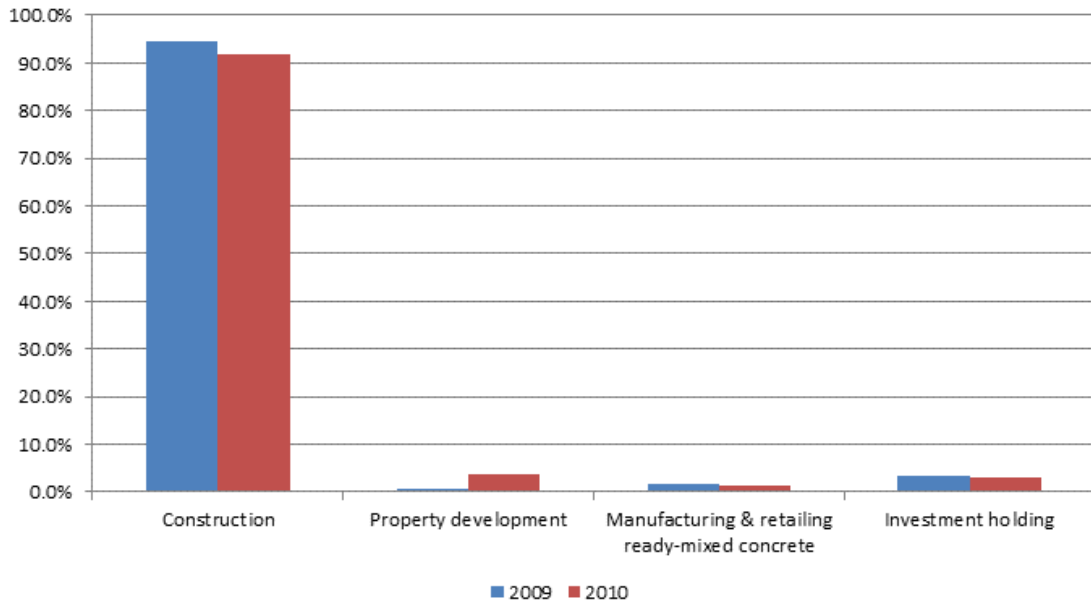
- i. TRC Business Centre to house the group's corporate offices and its subsidiaries; and
- ii. Impian Senibong apartments in Johor Bahru .

- c) Energy – TRC entered the energy sector in 2007 through the acquisition of a 26% stake in PetroBru (B) Sdn. Bhd., a company incorporated in Brunei Darussalam, to venture into oil refinery and storage facility in Brunei. With the consent of the Brunei government, PetroBru appointed consultant, Wood MacKenzie to conduct a detailed feasibility study of the proposed project and the study was completed in Jun 2009. The result of the feasibility study was positive and TRC is currently awaiting official approval of the project from the Brunei Government.

d) Manufacturing – TRC’s ready-mixed concrete manufacturing and retailing division was incorporated to complement the group’s construction division and is not expected to have a material impact on the group’s revenue and profits.

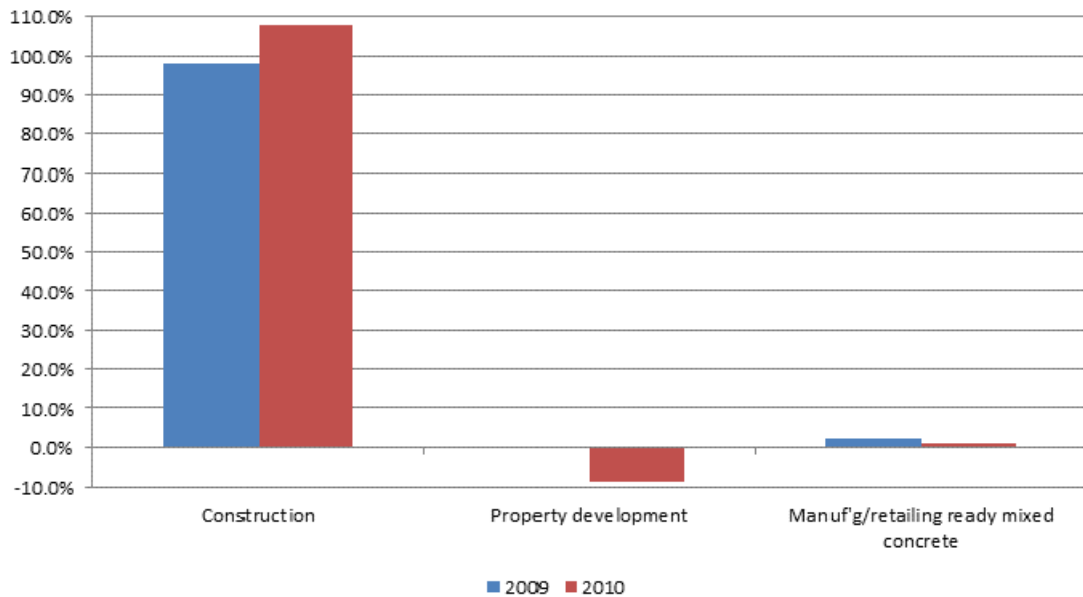
**Revenue and operating profit breakdown**

**Revenue breakdown**



Source: TRC

**PBT breakdown**



Source: TRC

#### 4. Recent Developments

On 8 Mar 2010, TRC's wholly-owned subsidiary, Trans Resources Corporation Sdn Bhd (TRCSB) received a letter of award from Northport (Malaysia) Bhd in relation to TRCSB's tender for the project known as "The Proposed Development of RTG G-Block and Associated Works at Container Terminal One (CT1)" for Northport at Port Klang, for a contract sum of RM45.98m. TRCSB accepted the award on 9 March 2010.

On 27 Apr 2010, TRC announced that TRCSB had on 23 Apr 2010 received a letter of award from Putrajaya Holdings Sdn Bhd, in relation to TRCSB's tender for the project known as "The Proposed Construction and Completion of Remaining and Rectification Works for 622 Unit Government Apartments at Parcel 5R6 in Precinct 5, Putrajaya" for a contract sum of RM 20.39m. TRCSB accepted the award on 27 Apr 2010.

On 19 May 2010, TRC announced that TRCSB had on 17 May 2010 received a letter of acceptance from Wira Akil Holdings Sdn Bhd (WAHSB), in relation to TRCSB's proposal for the project known as "Projek Menaiktaraf Lapangan Terbang Sultan Ismail Petra, Kota Bharu, Kelantan" for a contract sum of RM45.5m. The letter of acceptance from WAHSB is subsequent to an award being given by the Ministry of Transport to WAHSB where TRCSB was named as the sub-contractor for the project.

On 26 May 2010, TRC announced that TRC Land (Cambodia) Limited, a wholly owned subsidiary had on 25 May 2010 entered into a construction contract with Delta Garden Limited for the construction of balance of works to 49 units of bungalows and associated infrastructure works for Phase I of Delta Garden Development Project in Village Commune Svay Rorlom, District Saang, Kandal Province, Cambodia for a contract sum of USD9.36m.

On 6 Sep 2010, TRC's wholly owned subsidiary, TRC (Aust) Pty Ltd received the letter of acceptance from Pretty Sally Holdings Pty Ltd in relation to the construction of road and drainage, sewer and water works for Springridge Estate Development Project, 625 Northern Highway, Wallen, Melbourne, Australia for a contract sum of AUD3.7m.

#### 5. Financial Review

##### 2010 results review:

Year-end 31 Dec	2010 RMm	2009 RMm	Chg %
Revenue	376.6	533.8	(29.5)
Operating Profit	23.8	41.1	(42.0)
Finance costs	(0.3)	(1.8)	(81.7)
Associate	(0.0)	(0.5)	(95.9)
Pre-tax Profit	23.5	38.8	(39.4)
Net Profit	16.5	27.3	(39.5)
Operating Margin (%)	6.3	7.7	
Pre-tax Margin (%)	6.2	7.3	
Net-Margin (%)	4.4	5.1	

Source: TRC

In 2010, TRC reported 29% and 39% YoY declines in revenue and profit respectively, due largely to lower construction contributions as the bulk of projects on hand at that time were at completion stages.

##### Quarterly results review:

##### Revenue breakdown

Year-end 31 Dec	1Q09 RMm	2Q09 RMm	3Q09 RMm	4Q09 RMm	1Q10 RMm	2Q10 RMm	3Q10 RMm	4Q10 RMm
Construction	184.3	169.6	121.1	73.4	108.3	94.4	84.7	84.5
Property development	0.3	0.6	(0.0)	2.8	5.5	4.3	1.2	4.1
Manuf'g & retailing ready-mixed concrete	1.3	3.0	2.2	2.1	2.3	1.8	0.8	0.5
Investment holding	1.6	0.9	1.5	15.0	1.9	1.1	1.3	7.9
Intra-group items	(7.2)	(11.0)	(7.0)	(21.1)	(9.2)	(4.7)	(3.7)	(10.5)
Total revenue	180.2	163.1	117.9	72.3	108.7	97.0	84.2	86.5

Source: TRC

## PBT breakdown

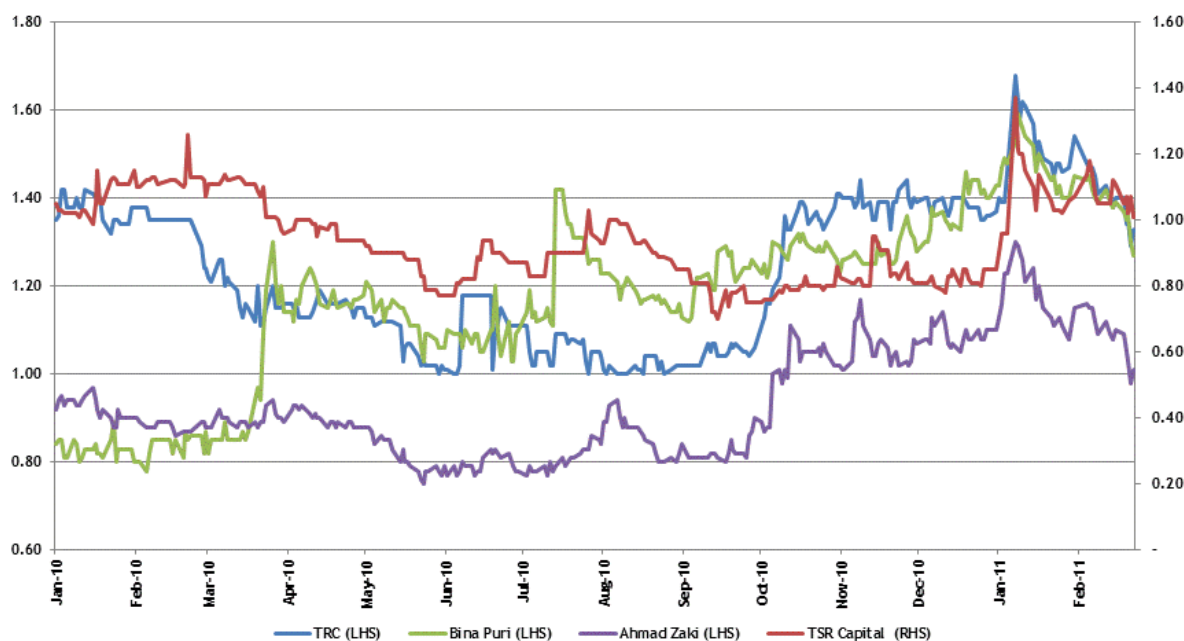
	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
	RMm	RMm	RMm	RMm	RMm	RMm	RMm	RMm
Construction	14.3	12.7	11.9	3.3	9.0	6.3	1.6	5.1
Property development	(0.0)	(0.0)	(0.2)	0.1	0.4	(0.0)	(1.3)	(0.7)
Manuf'g & retailing ready-mixed concrete	0.0	0.4	0.3	0.2	0.3	0.2	(0.1)	(0.2)
Investment holding	(0.6)	(1.8)	(1.1)	13.4	(1.8)	0.1	2.6	8.4
Associate	-	(0.3)	(0.4)	(0.1)	(0.1)	0.2	(0.1)	(0.0)
Intra-group items	(0.2)	4.1	0.5	(18.4)	(1.6)	3.0	(0.0)	(7.6)
<b>Total PBT</b>	<b>13.4</b>	<b>15.0</b>	<b>11.1</b>	<b>(1.4)</b>	<b>6.1</b>	<b>9.8</b>	<b>2.5</b>	<b>5.0</b>

Source: TRC

## 6. Competitive Analysis

Comparative Valuation	TRC Synergy	Bina Puri	Ahmad Zaki	TSR Capital
Share Price (RM) @ 25-Feb-11	1.32	1.29	1.01	1.07
Mkt. Cap (RM mil)	247.7	139.1	276.8	121.2
Ave. Daily Vol. (mil)	0.3	0.3	1.1	0.1
P/E FY09 (x)	9.4	12.3	11.8	25.0
P/E FY10 (x)	15.2	na	na	na
P/NTA (x)	0.8	0.9	1.1	0.8
Yield (%)	-	3.4	3.0	1.4

Source: Bloomberg, NRA estimates



Source: The Star

## 7. Earnings Outlook

With a slew of new construction project wins over the last 12 months, TRC is poised for strong earnings recovery this year. New construction projects that are expected to contribute in FY2011-12F include:

- i. Warehouses for Bintulu Port – contract value of RM88m, targeted completion in 2011;
- ii. Warehouses for Maritime College – contract value of RM218m, targeted completion in 2011;
- iii. RTG G-Block & Associated Works for Northport – contract value of RM46m, targeted completion by Mar 2012;
- iv. Rectification works for 622 government apartments (Parcel 5R6) in Precinct 5, Putrajaya – contract value of RM20m, targeted completion by 1Q2011;
- v. “Package A” for Kelana Jaya LRT line extension – contract value of RM950m, to be completed in 33 months from 1Q2011;
- vi. Projek Menaiktaraf Lapangan Terbang Sultan Ismail Petra, Kota Bahru – contract value of RM46m, targeted completion by Nov 2011;
- vii. Road, drainage, sewer, water works for a housing project in Wallan, Melbourne Australia – contract value of RM10m, targeted completion by Sep 2011;
- viii. Balance of works for 49 bungalows in Phase 1, Delta Garden, Cambodia – contract value of RM32m, targeted completion by 2012.

The recent winning of the RM950m “Package A” for the Kelana Jaya LRT extension in Nov 2010 has boosted TRC’s outstanding construction orderbook to over RM1.2bn as at Dec 2010. More new contract wins are expected this year, including road projects in East Malaysia and potential involvement in the RM36bn MRT project.

Property development contributions are expected to remain relatively small in FY2011-12F, with billings from Lot 196, Ukay Tropika in Ulu Klang comprising 86 units of high-end, gated and guarded superlink terraced houses (total GDV of RM75m, targeted completion by 2013).

Other land banks to be developed under the property development arm over the medium term include Impian Senibong Apartment (Phase 2) in Johor Bahru and a 27 acre piece of land in Plentong, Johor Bahru. The division also has a 26%-stake in Cambodian company, Delta Gardens, which is developing 123 units of double-storey villas in Phnom Penh, and a 33.3% stake in a 118 hectare piece of land in Australia.

## 8. Balance Sheet

<b>Balance Sheet and Other Financial Data (RMm)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11F</b>	<b>FY12F</b>
Total Assets	95.5	98.2	89.3	91.1
Fixed Assets	49.7	60.3	60.2	60.2
Current Assets	141.8	111.1	141.8	141.8
LT Assets	93.7	112.8	122.7	142.6
Current Liabilities	140.0	125.6	175.2	193.4
LT Liabilities	9.1	0.4	0.4	0.4
Share Capital	189.6	190.2	190.2	190.2
Shareholders’ Funds	286.3	298.5	333.1	379.2

Source: TRC, NRA estimates

TRC has a sound balance sheet with estimated net cash of RM200m as at the end of Dec 2010, which positions the group for further growth.

## 9. Valuation and recommendation

TRC is trading below its book value and on low prospective PE ratings of between 5-6x to Dec 2011-12F, which we believe is underserved given TRC's strong prospective earnings growth rates over the next two years and solid balance sheet position.

Our RNAV-derived price target of RM1.90 per share implies a Dec 2011 PER of 9x, which is more in line with the stock's historical average PER. **BUY.**

## Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

This report has been prepared by Netresearch-Asia Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) III, administered by Bursa Malaysia Berhad (“Administrator”) and has been compensated to undertake the scheme. Netresearch-Asia Sdn Bhd has produced this report independent of any influence from the Administrator or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at:

[http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/eResearch.jsp](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/eResearch.jsp)

The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.