TRC Synergy: From little acorns grow mighty oaks

TRC Synergy
(March 30, RM1.57)

Recommend buy at RM1.41 with target price raised to RM2.25: TRC is the cheapest stock in our construction universe at ex-cash price-earnings ratio of one time, 0.8 times price-to-net-tangible-assets, and only 0.2 times market cap/order book, despite a strong balance sheet with RM1.05 net cash per share.

After a rocky 2010, earnings seem to be improving with three-year earnings per share (EPS) compound annual growth rate of 49% anchored by the RM950 million LRT extensions project for which TRC has secured vacant possession. TRC has a 25% dividend payout policy, but we understand FY10 gross dividend per share will be five sen (versus 2.2 sen if based on policy).

This would translate into decent 4% yields. And given its high retained earnings (56% of share capital), TRC can make a one-for-two bonus issue, but we think it may conserve some cash for future purposes. We raise our target price to RM2.25 based on 10.5 times FD FY12 EPS, which is at a 40% discount to the sector average due to its smaller market cap.

TRC is one of few West Malaysian-based contractors licensed to bid for state-funded projects in Sarawak. This is timely, with the state elections on April 16. It is in the final stages of clinching four packages in the Sarawak Corridor of Renewable Energy (Score) worth about RM500 million out of RM1.5 billion outstanding bids.

This will effectively see it almost meeting our FY11 order win assumption of RM600 million. We understand TRC has also bid for Phase 2 of the LRT extensions worth about RM2.2 billion, where it hopes to leverage on its lower mobilisation fees and machinery costs with the first phase already in hand. The tender has closed mid-March with possible award in June.

TRC's 26% stake in PetroBru (B) Sdn Bhd may bear fruit soon. We understand project approval is pending a revised blueprint for Pulau Muara Besar, Brunei, where the refinery will be built. Investor interest in the refinery is also rising, which should lend weight to an official approval by the Brunei government.

This will pave the way for about RM2 billion worth of infrastructure and reclamation works on the island and US$4.3 billion (RM13 billion) to construct the refinery. — *HwangDBS Vickers Research, March 30*