



## TRC Synergy Bhd

## Spotlight on LRT Project

**Buy**  
**Fair Value**  
**RM 1.90 (+15.2%)**

Stock Data	
Price (RM)	1.65
Stock code	5054
Bloomberg Ticker	TRC MK
Listing	Main
Share Cap (RM mn)	190.25
Market Cap (RM mn)	306.83
Par value (RM)	1.00
52-wk high (RM)	1.69
52-wk low (RM)	1.00
Major shareholders:-	
TRC Capital Sdn Bhd	13.02%
Kolektif Aman Sdn Bhd	12.79%
Haji Mohd Zin	9.92%

Financial Data	
12 month trailing PER (x)	18.46
BV per share (RM)	1.57
P/BV (x)	1.03
ROE (%)	5.65
Beta (x)	1.09
Altman Z Score	3.19
Dividend yield (%)	2.48

Relative Performance (%)	
1-month	15.67
3-month	16.09
6-month	43.79
12-month	20.20
YTD	16.09

### Highlights

**Overview.** The company has completed projects in both West and East Malaysia up to approximately RM3.5billion. Notable clients are the Jabatan Kerja-Raya, Ministry of Transport, Prasarana, Northport Malaysia and State Government.

**Quarter Review.** For its 4<sup>th</sup> quarter for the financial year 2010, the group managed to grow its profit before tax and net profit by 92% and 68% respectively. This translates into a 67% growth in its earnings per share from 1.2sen to 1.9sen. Y-o-Y, they brought the company back into black as they incurred a loss of -1.3sen the preceding year 4<sup>th</sup> quarter.

**LRT Progress.** The Kelana Jaya Line which was awarded last year has been progressing well with work started in 20<sup>th</sup> January 2011. Land acquisitions have been done and the acquisition delays solely lie on Prasarana. They will also be compensated if there is any time-cost delay.

**On-going Tenders.** The company is tendering projects worth RM1.6billion in Sarawak. Conservatively the group targets to achieve RM500~600million worth of projects for SCORE with political situation solved.

**Hedging Policy.** The management practices a 3-month forward hedging policy for its raw materials with bulk on steel bars. As for concrete, they are a price controlled item. The management does not over stock its steel bars as they are perishable goods and it would take up a lot of storage area. Additionally, prices have been rising but are within the expectations of the group.

**Boustead Relationship.** Having completed small rig jobs for Boustead's submarine base, they have a collaborative agreement to provide additional facilities. Although the jobs are relatively small, they continue to build a healthy business relationship with Boustead. This would open up more opportunities in the future for specialized projects that would bring better margins.

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**Prospects.** The company is currently tendering for several jobs worth approximately RM2billion. (1) Remaining estimated of RM7billion to be awarded out. (2) MRT Project which is worth RM40billion which is expected to be awarded to contractors in the 1<sup>st</sup> quarter of 2012. (3) The Sarawak Corridor Renewable Energy or better known as SCORE. (4) The Sungai Besi Airport Development project. (5) KL International Financial District. (6) Railway and Maritime infrastructure projects. (6) Pulau Muara Besar, Brunei and Oil Refinery Constructions for energy related projects.

**2011 Launches.** Domestically, projects with gross development value worth up to RM75million to be launched are High-end 3 storey units in Ulu Klang, Ampang in the 1<sup>st</sup> quarter 2011. Apart from that, Phase 2 in Johor Bahru for Impian Senibong Apartment and Plentong Johor Bahru where the size of the development is 6 acres and 27 acres respectively.

**International.** The company has 2 foreign property launches. One is its Wallan, Melbourne with acreage of 10 acres and 52 units which are selling for an average AUD 130,000. There is a remaining 281 acre left to be developed. The other is in Phnom Penh, Cambodia which is about 2 acres, 25units going for USD 320,000.

**Energy Division.** TRC have a 26% stake in Petro Bru (B) S/B which operates and builds crude oil storage and refinery in Pulau Muara Besar in Brunei. The company is awaiting the final approval from the Brunei Government for the project. Other than that, TRC will participate in projects which are financed by the Brunei government.

**Payout Ratio.** The company has maintained if not improve its dividend payout ratio with a minimum of 25% payout of its earnings. Moving forward we expect the company to continue to pay a minimum of 25% of its earnings bearing unforeseen circumstances.

Quarter Comparisons						
FYE December	Units	4Q2009	3Q2010	4Q2010	Q-o-Q %	Y-o-Y %
<b>Revenue</b>	<b>RM Mn</b>	<b>72.7</b>	<b>84.3</b>	<b>86.5</b>	<b>2.6</b>	<b>19.0</b>
Cost of Sales	RM Mn	(70.0)	(77.8)	(79.2)	1.8	13.1
<b>Gross Profit</b>	<b>RM Mn</b>	<b>2.8</b>	<b>6.5</b>	<b>7.3</b>	<b>12.3</b>	<b>160.7</b>
Other Income	RM Mn	4.1	0.7	3.4	385.7	(17.1)
Admin Expenses	RM Mn	(7.7)	(4.5)	(5.5)	22.2	(28.6)
Finance Costs	RM Mn	(0.1)	(0.1)	(0.1)	(12.5)	(30.0)
Associates	RM Mn	0.1	(0.1)	(0.0)	(90.0)	(110.0)
<b>Profit Before Tax</b>	<b>RM Mn</b>	<b>(0.8)</b>	<b>2.6</b>	<b>5.0</b>	<b>92.3</b>	<b>(725.0)</b>
Tax Expense	RM Mn	(1.6)	(0.3)	(1.3)	333.3	(18.8)
<b>Net Profit</b>	<b>RM Mn</b>	<b>(2.4)</b>	<b>2.2</b>	<b>3.7</b>	<b>68.2</b>	<b>(254.2)</b>
<b>Basic Earnings Per Share</b>	<b>Sen</b>	<b>(1.3)</b>	<b>1.2</b>	<b>2.0</b>	<b>66.9</b>	<b>(252.7)</b>
Diluted Earnings Per Share	Sen	(1.2)	1.2	1.9	59.5	(252.9)
<b>Margins</b>						
Gross Profit Margin	%	3.9	7.7	8.4	9.5	119.1
PBT Margin	%	(1.1)	3.1	5.8	87.4	(625.3)
Net Margin	%	(3.3)	2.6	4.3	63.9	(229.6)

Source: Quarter Reports



Annual Results						
FYE December	Units	2007	2008	2009	2010	2011F
Revenue	RM Mn	422.2	740.6	533.8	376.6	508.5
Gross Profit	RM Mn	56.6	77.5	58.6	44.7	61
Operating Profit	RM Mn	46.5	66.3	41.1	23.8	32
Profit Before Tax	RM Mn	41.7	61.3	38.8	23.5	31.5
Profit After Tax	RM Mn	30	45.6	27.3	16.5	22.9
Earnings Per Share	Sen	17.90	24.00	14.40	8.71	12.11
Gross Dividend	Sen	5.0	6.0	4.0	4.0	3.4
Payout Ratio	%	28	25	28	46	28
Gross Margin	%	13	10	11	11.9	12.0
Operating Profit Margin	%	11	9	8	6.3	6.3
PBT Margin	%	10	8	7	6.2	6.2
Net Margin	%	7	6	5	4.4	4.5

Source: TRC Synergy, Estimates



**TRC Synergy Bhd Corporate Structure**

- 100% TRC (Aust) Pty Ltd
  - **33%** Pretty Sally Holdings Pty Ltd
- 100% Trans Resources Corporation Sdn Bhd
  - 100% TRC (Sarawak) Sdn Bhd
  - 100% TRC Concrete Industries Sdn Bhd
  - 100% Liputan Sutera Sdn Bhd
  - **60%** Petrobru Build Sdn Bhd
- 100% TRC Infra Sdn Bhd
- 100% TRC Land Sdn Bhd
  - 100% TRC Development Sdn Bhd
  - 100% TRC Land (Cambodia) Limited
  - **26%** Delta Garden Limited
- 100% TRC Energy Sdn Bhd
  - **26%** PetroBru (B) Sdn Bhd
- 100% TRC International Pte Ltd

**Corporate Profile.** TRC Synergy Berhad, an investment holding company, engages in construction business in Malaysia. It undertakes various projects, including airport, railway track work, stadium, hospital, and property development ventures, as well as roads and building construction. The company also engages in oil and gas production; construction and property development; project management; and the manufacture of ready mixed concrete. It also operates as a general contractor, and engages in trading and project development. TRC Synergy Berhad was incorporated in 1996 and is headquartered in Ampang, Malaysia.



**Business Divisions.** The group's core business divisions are property and construction. TRC Development Sdn Bhd develops and constructs residential houses. It works in synergy with the group's construction arm. TRC Land Bhd was initially and associate under the name of Andaman Budi Sdn Bhd and became a wholly owned subsidiary of TRC in 2005. The group is eyeing developmental land area in Ulu Klang and Klang Valley.

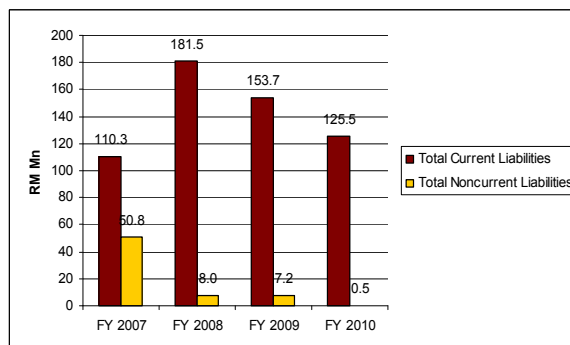
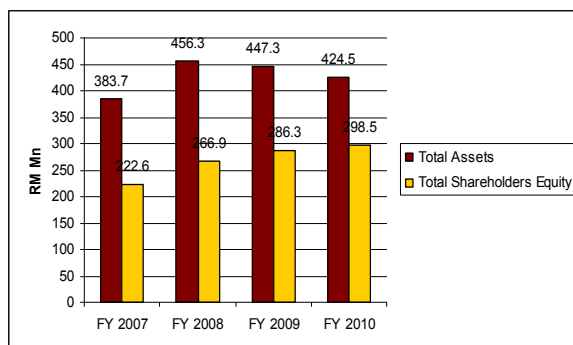
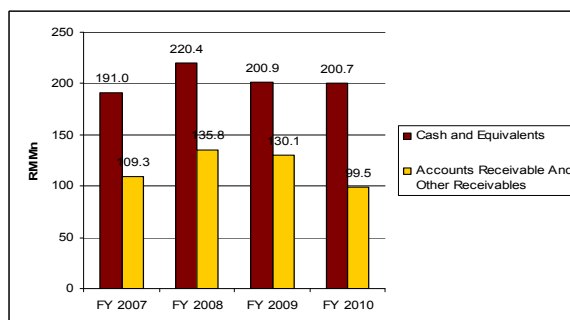
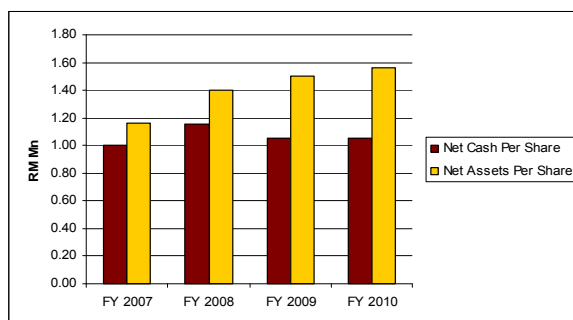
Major Projects Completed					
Year	Project	Value	Year	Project	Value
<b>West Malaysia</b>			<b>East Malaysia</b>		
Jan-97	Hockey Stadium, Bukit Jalil	75.7	Feb-99	Facilities, Labuan Airport	138.2
Oct-99	Railway Turnkey, Pulau Indah	383	May-99	Teachers College, Sarawak	68.4
Jan-03	Access Road, Simpang Pulai	97.2	May-00	Road to Bakun Dam	97
Dec-03	Resettlement, Kedah	67.5	Mar-02	Medical Complex, Keningau Hospital	78.8
May-04	R11 Precinct 5 & 6, Putrajaya	81.7	Jun-04	Jalan Bentong, Sarawak	45.5
Apr-02	Infrastructure, Putrajaya	54.7	Nov-09	Palm Oil Bulking, Bintulu Port	51.2
Jul-08	Bentong Prison	268	Dec-03	Sibu Airport, Sarawak	64.3
Apr-10	Runway, Kuala Terengganu Airport	401.9	Nov-05	Pantai Baru, Tanjung Kidurong	90.4
			Jul-09	Submarine Base, Sabah	404

Source: TRC Synergy

Licenses	
TRC Synergy Bhd's Construction Arm	
<b>Trans Resources Corporation S/B</b>	
1	Pusat Khidmat Kontraktor as a Class A
2	Pusat Khidmat Kontraktor - Taraf Bumiputra Class A registered
3	Petroleum Nasional Berhad as Class SB2 (Building) and Class SC2
4	Construction Industry Development Board Malaysia grade G7, category B & CE
5	Malaysia Airports Berhad as Class 71720
6	Unit Pendaftaran Kontraktor Negeri Sarawak as UPK Taraf Bumiputra
7	Unit Pendaftaran Kontraktor Negeri Sarawak under category A
8	Development of Putrajaya under Class CTR-T008
9	Malaysia Shipyard and Engineering Sdn Bhd under class 510544

Source: TRC Synergy

**Track Record.** The group has completed a major number of infrastructure and construction projects in both West and East Malaysia since the late 90's from both the private and government sectors. The group has the ability to undertake specialized projects as well as able to take on East Malaysia projects as they are one of the few companies headquartered in West Malaysia to be registered with the Sarawak State Contractors (Class A). Apart from achieving ISO 9001: 2000 in May 2002. The group has a number of licenses which qualifies them to tender for the respective category jobs which includes airports, railworks, decompression chambers and etc.



**Balance Sheet Review.** The group has minimal long term debts and prefers to be in a net cash position. Net cash per share has been maintained at a stable position and its net assets per share has been growing healthily.

Name	Peers						
	P/E	P/B	Mkt Cap	PM	Beta	Dvd Yld	Debt/Asset
<b>TRC Synergy Bhd</b>	<b>18.58</b>	<b>1.03</b>	<b>307</b>	<b>4.39</b>	<b>1.47</b>	<b>2.47</b>	<b>0.1</b>
Ranhill Bhd	19.68	0.59	442	0.72	1.52	1.35	39.8
PJ Development Holdings	7.37	0.41	356	7.92	1.05	6.41	19.7
Protasco Bhd	6.28	0.91	321	6.14	1.00	9.26	5.0
Mitrajaya Holdings	5.39	0.92	301	15.24	1.97	4.41	17.8
Malton Bhd	8.46	0.52	240	6.36	2.11	2.17	18.2
Fajarbaru Builder Holdings	6.88	1.27	197	14.87	1.44	7.02	0.0
Brem Holdings	9.38	0.46	188	10.99	0.63	3.70	10.5
Pintaras Jaya Holdings	5.73	0.81	166	19.61	0.39	7.25	0.0
Bina Puri Holdings Bhd	12.32	1.27	140	0.90	1.34	3.08	31.4
TSR Capital Bhd	88.33	0.75	120	0.77	0.89	1.89	0.9
Melati Ehsan Holdings	23.98	0.85	119	3.86	0.69	1.51	12.6
<b>Average</b>	<b>17.70</b>	<b>0.82</b>	<b>241.52</b>	<b>7.65</b>	<b>1.21</b>	<b>4.21</b>	<b>13.00</b>

Source: Bloomberg

**Recommendation.** We have a buy recommendation on TRC Synergy with a target price of RM1.90 arrived at a Forward PER of 16x against FY2011F Earnings per Share of 12sen. TRC Synergy Bhd's proposition (1) A proxy to the Malaysia Economic Transformation Program thru its construction arm that is capable of completing complex tasks. (2) Order-book of RM1.2billion which will be reflected in its FY2011F earnings. (3) Qualified to for East Malaysia projects with its license. (4) A piece of the pie in SCORE projects. (5) Ability to secure jobs for Brunei from its Oil and Gas arm (6) healthy balance sheet and net cash position that allows expansion and (7) potential earnings surprise.



Source: Bloomberg

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**Stock rating definitions**

**Buy** – The stock is expected to perform positively. Expected return including both capital appreciation and dividends is expected to exceed 15% over 12 months.

**Hold** – The stock is expected to stay sidelined. Expected return including both capital appreciation and dividends is expected to range between negative 5% to positive 15% over 12 months.

**Sell** – The stock is expected to perform negatively. Expected return including both capital appreciation and dividends is expected to be negative 5% or lower over 12 months.

**Not Rated** – The stock is not under research coverage and the reports serves for purely informational purposes only.

**Trading Buy** – The stock is expected to be volatile while providing for near term positive trading opportunities. This is under the high risk category with near term catalysts.