

TRC Synergy

Contender for the sector run-up

BUY
Price: RM1.54
Target Price: RM2.16

Bloomberg Ticker	TRC MK	YTD price chg	14.7%
Market Cap	297.3	YTD KLCI chg	0.8%
Issued shares	190.6	Beta	1.1
52-week range (H)	1.69	Major Shareholders	
52-week range (L)	1.00	TRC CAPITAL SDN	13.0%
3-mth avg daily volume	217,500	KOLEKTIF AMAN SDN	12.8%
Free Float	64.3%	BIN HAJI MOHD ZIN	9.9%
Consensus			
FYE	2011	2012	
Net Profit	30.7	38.8	
EPS (sen)	15.3	19.7	

FINANCIAL HIGHLIGHTS

FYE 31 Dec	2008	2009	2010	2011E	2012E
Turnover	739.6	533.5	376.6	578.1	651.4
EBITDA	70.7	50.2	34.4	39.7	46.6
Pretax profit	67.7	45.9	36.6	39.2	46.1
Net Profit	51.6	40.6	27.1	29.0	34.1
EBITDA margin	9.6%	9.4%	9.1%	6.9%	7.2%
Pretax margin	9.2%	8.6%	9.7%	6.8%	7.1%
Effective tax rate	25.6%	32.1%	29.7%	26.0%	26.0%
Growth ratios					
Turnover	75.2%	-27.9%	-29.4%	53.5%	12.7%
EBITDA	25.2%	-29.0%	-31.4%	15.4%	17.2%
Pretax profit	62.2%	-32.2%	-20.3%	7.2%	17.5%
Net profit	75.0%	-21.3%	-33.3%	7.2%	17.5%
ROE	39.4%	-32.2%	-37.6%	7.4%	11.1%
ROA	63.2%	-22.9%	-28.2%	-2.8%	7.6%
Per share data					
EPS (sen)	27.2	21.4	14.3	15.3	18.0
EPS growth (%)		-21.3%	-33.3%	7.2%	17.5%
PER (x)	5.7	7.3	10.9	10.2	8.7
Gross DPS (sen)	-	-	-	-	-
Div. Yield (%)	n.m	n.m	n.m	n.m	n.m
NTA/share (RM)	1.33	1.55	1.65	1.66	1.75
Historical price ratio					
(X)	2006	2007	2008	2009	2010
Price /Earnings	10.0	9.8	5.7	7.3	10.9
Price /Book	1.5	1.3	1.2	1.0	0.9

SHARE PRICE CHART



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We maintain BUY on TRC with higher target price of RM2.16 (RM2.04 previously). We flushed some of FY11E earnings into the next year, resulting in upward revision to FY12E net profit by 26% to RM34m due to timing of LRT contracts recognition. As at 4Q10, its order book stood at c. RM1.1b which provides visibility until early FY13. We think TRC will benefit from the ongoing EPPs and SCORE projects roll-out, especially infrastructure contracts.

Order book at RM1.1b, where a big chunk of its order book is made of the LRT contract (87% of order book). We see TRC will continuously bid for additional projects in FY11 to increase its earnings visibility beyond FY12. Most of the non LRT contracts are at the tail end and mostly expiring by mid FY11.

Precinct 8 project. TRC announced it had secured a RM44m housing project from Putrajaya Holdings, which is part of our estimated annual new contracts of RM150m. Management expects contract margins of around 8%, similar to our assumptions. Going forward, we expect TRC to secure at least another RM100m worth of contract in FY11.

What's next? Following the 27 road infrastructure projects SCORE announcement and potential project size c.RM100m per contract, TRC is well positioned to win some of the contracts. We think so given its mid size market capitalisation and good track record with Sarawak's government. We understand total project value is worth c.RM2b, mainly comprising of access road construction to Sarawak's 12 potential hydro dam projects. Currently, its energy venture via Petro Bru Sdn Bhd is still waiting for Brunei government's approval and there is no timeline given.

Competitive edge. Despite being a non-Sarawak based company; TRC stands a good chance of securing SCORE projects because of its infrastructure works experience, as well as, solid reputation in Sarawak. In the past, TRC has completed a few notable projects in Sarawak; access road to Bakun Dam, Sibul Airport upgrading works and government's related civil works.

Re-rating catalyst lies with higher than expected new contracts value secured in FY11 (>RM100m). After the RM950m LRT contract secured in late 2010, we do not expect similar new contract size winnings.

Upward revision in target price to RM2.16 from RM2.04 pegged at 12x PER on FY12E EPS. We are flushing part of FY11E earnings to FY12E as execution of LRT contracts contribution was slightly slower than expected. Hence, we lowered FY11E net profit to RM27m but increase FY11E net profit by 26% to RM34.1m.

Earnings Estimates

FYE 31 Dec (RMm)	2008	2009	2010	2011E	2012E
Revenue	739.6	533.5	376.6	578.1	651.4
Pretax profit	67.7	45.9	36.6	39.2	46.1
Net profit	51.6	40.6	27.1	29.0	34.1
Core Net profit	51.6	40.6	27.1	29.0	34.1
EPS (sen)	27.2	21.4	14.3	15.3	18.0
EPS growth (%)	75.0%	-21.3%	-33.3%	7.2%	17.5%
Net DPS (sen)	-	-	-	-	-
NTA/ share (RM)	1.33	1.55	1.65	1.66	1.75
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
PER (x)	5.7	7.3	10.9	10.2	8.7
P/NTA (x)	1.2	1.0	0.9	0.9	0.9
Net div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/ EBITDA (x)	2.2	2.1	2.8	2.6	1.7
ROE (%)	20.3%	13.8%	8.6%	9.3%	10.3%

Balance Sheet

FYE 31 Dec (RMm)	2008	2009	2010	2011E	2012E
Non Current Assets	84.4	93.7	112.9	124.1	136.6
Current Assets	362.9	362.7	311.6	344.3	374.9
Total Assets	447.3	456.4	424.5	468.4	511.5
Current Liabilities	153.7	181.5	125.5	153.6	178.5
Non Current Liabilities	7.2	8.0	0.5	1.0	1.0
Shareholders' Fund	286.3	266.9	298.5	313.8	331.8
Minority Interests	-	-	-	-	-
Equity & Liabilities	447.3	456.4	424.5	468.4	511.5

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