



TRC Synergy Berhad

Hidden Gem

TP: RM2.08_(+33.3%)

Last traded: RM1.56

Buy

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

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We initiate coverage on TRC Synergy Berhad (TRCS) with a target price of RM2.08/share. We value this stock at 14x FY11 EPS of 14.8sen. This is a discount of three multiples to our sector PER of 17x. Although TRCS is a comparatively small construction outfit compared with the other big boys in Malaysia, their projects are by no means small. As a testament of its capability in securing big ticket and high profile projects, the group managed to clinch the coveted RM950mn LRT extension for the Kelana Jaya Line last year. We recommend investors to Buy TRCS based on the following investment theses:

▪ Healthy Financials

TRCS has an impressive set of financial statements. The group has strong earnings growth potential and is in a net cash position but trading below its NTA/share currently. Net cash per share was RM1.05 as at FY10 and moving forward, we are expecting this level to remain strong at RM0.99 and RM1.12 for FY11 and FY12 respectively.

▪ Excellent Track Record

The company has completed projects worth around RM2.6bn to date both in Peninsula and East Malaysia. A plus point to note also is that the company has always delivered the projects either on time or earlier than scheduled. In addition to that, from the profile of past projects, we deduce that TRCS is capable of a variety of construction jobs from infrastructures, to complex superstructures and even a submarine bay.

▪ Rosy Industry Outlook

The government of Malaysia is in an aggressive mode to drive the economy towards a high income nation via the Economic Transformation Programme. As such, we are positive on the sector outlook and expecting many more projects to be tendered out and announced soon. So far, only two big ticket projects, the two LRT Extension lines and also the Blue Line of the Klang Valley MRT have been dished out officially. The West Coast Expressway was also given a preliminary green light by the government early this month. We believe that almost all the construction players would either benefit directly or indirectly (via sub-contracting jobs). Over RM90bn worth of jobs are expected to be rolled out this year under the ETP.

Financial Summary

FYE December (RMmn)	2009	2010	2011E	2012F	2013F
Revenue	533.8	376.6	645.3	763.1	1046.7
Gross Profit	58.6	44.7	80.4	103.4	130.2
Operating Profit	41.1	23.9	54.6	65.4	95.2
EBITDA	45.9	28.9	52.8	59.5	82.0
EBIT	41.1	23.9	47.8	53.3	74.9
PBT	38.8	23.5	47.7	53.3	74.8
PAT	27.3	16.5	33.9	39.9	56.1
EPS (sen)	14.4	8.7	14.8	17.5	24.6
Gross Dividend (sen)	4.0	2.5	5.0	6.5	8.0
Dividend Yield (%)	1.9	1.2	2.4	3.1	3.8
PER (x)	10.8	18.0	10.5	8.9	6.3

Share Information

Bloomberg Code	TRC MK
Bursa	TRC
Stock Code	5054
Listing	Main Market
Share Cap (mn)	190.6
Market Cap (RMmn)	297.3
Par Value	1.00
52-wk Hi/Lo (RM)	1.69/1.00
12-mth Avg Daily Vol ('000 shrs)	215.5
Estimated Free Float (%)	37.5
Beta	1.1

Major Shareholders (%)

TRC Capital Sdn Bhd	- 13.02
Kolektif Aman Sdn Bhd	- 12.79
Mohd Sufri bin Haji Zin	- 9.92
Leong Kam Heng	- 9.91
Lembaga Tabung Haji	- 9.80
Khoo Tew Choon	- 7.08

Forecast Revision

	FY11	FY12
Forecast Revision (%)	-	-
Net profit (RMmn)	33.9	39.9
Consensus	30.7	38.8
TA's / Consensus (%)	110.6	102.8
Previous Rating	-	-

Financial Indicators

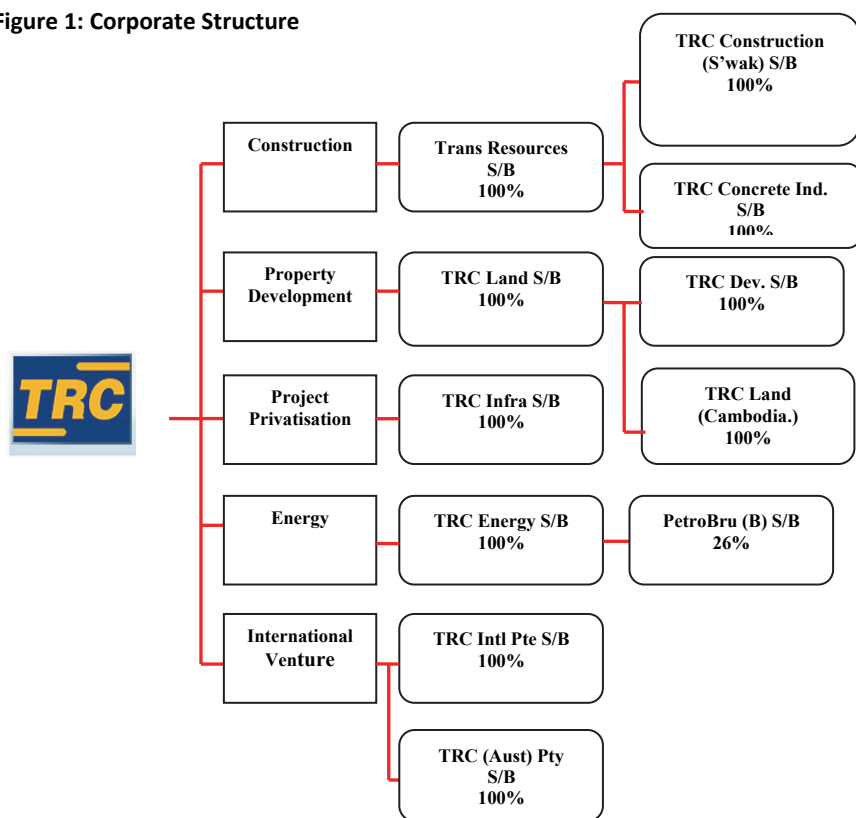
	FY11	FY12
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	-0.8	16.2
Price / CFPS (x)	-202.46	9.63
ROA (%)	7.1	7.5
NTA/Share (RM)	1.7	1.8
Price/NTA (x)	0.9	0.8

Share Performance (%)

Price Change	TRC	FBM KLCI
1 mth	20.0	1.5
3 mth	4.7	(1.1)
6 mth	13.0	2.7
12 mth	34.5	14.8

Background and Company Profile

Figure 1: Corporate Structure



Source: Company. TA Securities

TRC Synergy Berhad (TRCS) was initially incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 11 December 1996 under the name TRC Synergy Sdn Bhd. On 8th January 1997, the company changed its status from a private limited company to a public company and assumed the name TRC Synergy Berhad.

TRCS was listed on the Main Board of Bursa Malaysia on 6th August 2002, where it offered Public Issue and Offer For Sale of 16mn and 3.5mn ordinary shares respectively. TRCS is principally involved in construction, manufacturing of construction materials and property development.

Shareholding is tight with around six major shareholders including Lembaga Tabung Haji, which is holding 9.8%. Free float is permissible at 37.5%.

Business Description

TRCS is principally involved in two major business activities: 1) Construction and 2) Property Development. For the year ended FY2010, TRCS's construction segment contributed 91.9% to the group's total revenue vs. 89.5% in FY2009. It's property development arm only contributed 3.7% and 0.2% to the total revenue for FYE2010 and FYE2009 respectively. The balance was contributed by the sales of construction materials.

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Moving forward, we expect TRCS to be well grounded in its core business; construction of residential properties, infrastructures and industrial superstructures. Since TRCS has embarked on only three property development venture, one in Andaman Ukay, Ulu Klang (120 units of houses) with a gross development value (GDV) of RM59mn, another in Negeri Sembilan with a GDV of RM30mn and a third in Permas Jaya, Johor Bahru with a GDV of RM130mn, we do not see this business segment to be a significant contributor to the group's revenue in the near to medium term. Hence, where the group's core business is concerned, our main attention is on its construction arm.

To date, TRCS has completed projects worth more than RM2.6bn both in Peninsula and East Malaysia. The contract values were distributed almost evenly between Peninsula and East Malaysia. This shows that TRCS has a strong foothold not only in Peninsula but also Sabah and Sarawak. Management indicated that about half of its staff are based in Sarawak.

TRCS's construction competency can be proven by certain past turnkey projects such as the RM404mn submarine base in Sepangar Bay, which houses the nation's first submarine; the KD Abdul Razak and the railway project for West Port at Pulau Indah worth RM383mn. The submarine base was designed and built by TRCS and was now accorded as the benchmark construction design and standard for all future Malaysian submarine bases.

Other Investment Merits

We opine that TRCS is a hidden gem in terms of construction-play based on these four investment merits:

- 10MP Beneficiary
- Opportunities in East Malaysia
- Good Military rapport
- Strong Cash and NTA position

1) 10MP Beneficiary

As the nation progresses, continuity in development of infrastructures and buildings is a must. The main reason why continuity in rolling out of projects is the multiplier effect it creates.

The government, in our broad view will ensure that construction projects will continue to be rolled out to spur economic activities in the surrounding areas. As we know, road works will encourage accessibility and development to new areas and in turn encourage new settlement areas and urbanization of rural areas.

These projects can also be viewed as a proxy for a stimulus plan. The best example is the RM36bn (or RM50bn based on newer estimates) Klang Valley MRT project. Although RM36bn is focused only on one project, the size and scale of the project will definitely keep everybody's hands busy for the next five to ten years. In a way, this can be seen as a stimulus plan to provide opportunities, jobs and avenue for growth in the economy. Due to the massive scale of this project, we are confident that the group is poised to get a chunk of the civil construction works.

Moving forward, for a company like TRCS, we can expect the group to be the frontrunners for government based projects such as road works, stadiums, government quarters, government complexes and government residential buildings mainly in Putrajaya. We can easily deduce this from the group's past completed projects. In addition, we can also expect TRCS to be the frontrunners for construction works related to the Malaysian Arm Forces (elaborated below).

2) Opportunities in East Malaysia

By geographical definition, TRCS is a Peninsula-based company. However this company is unique because it has certain rights to participate in projects in East Malaysia namely Sarawak and about half of its staff are based in Sarawak. Management indicated that TRCS is the only Peninsula-based company by far to have been awarded the Unit Pendaftaran Kontraktor (UPK) license which allows the license holders to undertake projects in Sarawak. This license is unique because only Sarawak based companies are eligible for the license. The major players or license holders in Sarawak now are Naim Holdings Bhd, Hock Seng Lee Bhd and TRCS.

Sarawak is a key state to penetrate in terms of construction because of one major opportunity – road building. Road buildings in Sarawak could easily be worth more than RM100mn per contract. In the 10MP announced in 1H2010, the government proposed to roll out road projects in both Peninsula and East Malaysia. We could expect highway works to take off in Peninsula Malaysia (West Coast Expressway) but for East Malaysia, we can expect more access road to be built, especially inter-district roads and dam access roads. As a testament of the government's initiative for road building developments, one of the first road projects under the 10MP was the RM60mn upgrade works for Jalan Mengkibol in Kluang which include the expansion of the present two-lane into four lanes.

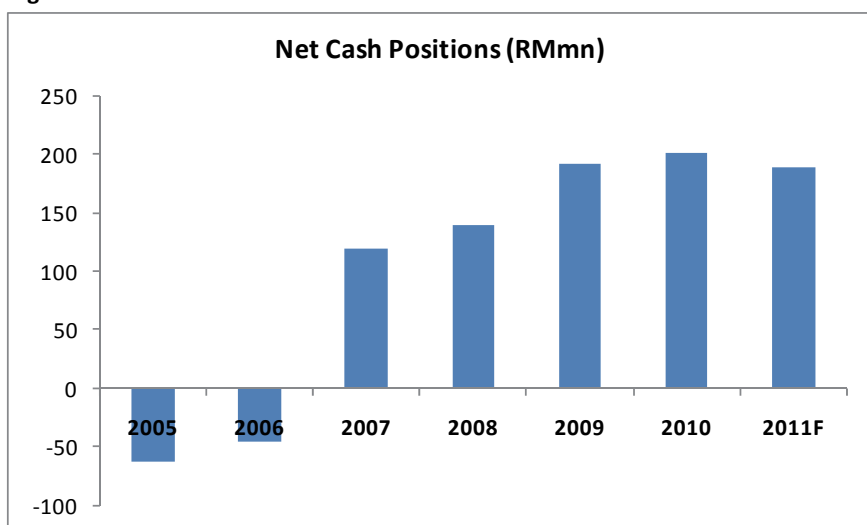
More building opportunities will also be springing out from the Sarawak Corridor of Renewable Energy (SCORE). SCORE poses a host of infrastructure works opportunities and building opportunities for Sarawakian contractors. With the many dams currently being built and future plans of more dams in the pipeline, SCORE will definitely be a region of opportunities of more roadworks and infrastructure works.

3) Good Military Rapport

TRCS has proven rapport with the Malaysian Armed Forces thanks to key personnel in the company's management. Naturally, the armed forces would prefer dealing with one of their own when it comes to military-based construction projects. This rapport has been proven with construction projects secured such as the design, construction and commissioning of the Bentong Prison worth RM268mn and the design and commissioning of the Sepanggar Bay submarine facility worth RM404mn. TRCS currently has another military-based project which is the design and construction of the new training centre for the Maritime Enforcement Agency In Kuantan, Pahang worth RM218mn. In total, these projects are worth close to RM900mn.

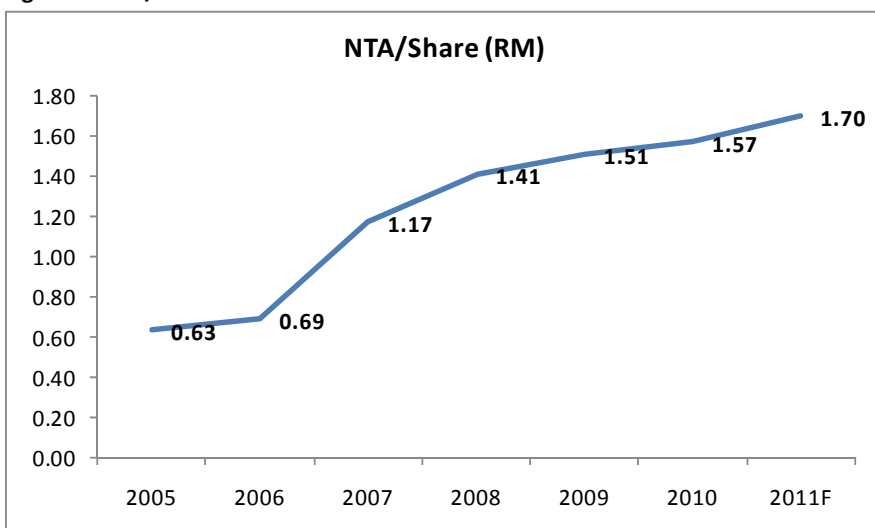
4) Strong Cash and NTA/share Positions

Figure 2: Net Cash Positions



Source: Company, TA Securities

Figure 3: NTA/Share



Source: Company, TA Securities

The key highlight of the TRCS is its cash position. For the past four years, from FYE2007 to FYE2010, TRCS has been in the increasing net cash position. In terms of net cash per share, FYE2010 registered a net cash per share of RM1.05. TRCS also stands out in terms of NTA/share. As of FYE2010, TRCS's NTA/share is RM1.57. It has been increasing YoY since FYE2005.

Risk Factors

Liquidity Risk

TRCS has a small share base of only 190mn shares with a free float of around 37.5%. The stock trades at an average of 363,000 shares a day YTD. This might cause investors to face a certain amount of liquidity problems whilst trading this share and due to its small market cap, its attractiveness to funds are somewhat limited and also restricted.

Orderbook Replenishment

Undoubtedly, TRCS is a comparatively small construction outfit compared with the other construction players in Malaysia. Thus, orderbook replenishment might be a problem for the group if it is not able to sustain healthy new orders replenishments. This is evident in its 2010 results when it posted a drop of 30% in its topline and a 40% in its bottomline.

In addition to that, from its past completed projects, we note that TRCS do not have any overseas pure-construction projects (apart from its property venture in Australia and Cambodia). We believe that this could be caused by its comparatively small balance sheet to handle large scale overseas ventures.

Order Book

TRCS currently has six ongoing projects which makes the current order book stand at RM1.2bn (as of April 2011). In terms of earnings visibility, we have to admit that this is perhaps on the low side but clear none the less. However, moving forward we firmly believe that TRCS will indeed be able to secure more jobs especially from the government front. With the current government's firm initiative in developing the nation and key projects springing out from various designated economic regions, we believe TRCS will be a key beneficiary given its specific set of expertise. Having said that, the company has just secured a new contract from Putrajaya Holdings Sdn Bhd yesterday worth RM43.8mn for the proposed construction of 46 units of semi detached houses in Putrajaya.

As far as its order book is concerned, management guided that the company has tendered contracts worth around RM2bn; of which a big chunk of around RM1.5bn are projects in SCORE.

Oil & Gas Venture in Brunei

TRCS has signed an MoU with the Bruneian Government in January 2008 to build an oil refinery on Pulau Muara Besar. Pulau Muara Besar in Brunei was chosen for its strategic location and functionality as a deep water port. A feasibility study was conducted for the need of an oil refinery back in 2008. The results were positive and in favour of PetroBru (an SPV in which PetroBru has a 26% equity stake). The entire project is estimated to cost about USD4bn excluding USD1bn worth of infrastructures to be built on that island. Hence the project will be split into two phases. The first phase would be the infrastructure works on the island worth approximately USD1bn and the second phase would be the refinery worth about roughly USD4.3bn.

If and when the project gets the green light, TRCS will definitely be the front runner in bidding for the USD1bn earthwork and infrastructure jobs. PetroBru will also be in the running in tendering for the construction of the refinery in the second phase.

Valuation

We arrive at a target price of **RM2.08** using FY11 EPS of 14.8sen and FY11 PER of 14x. We believe that the PER valuation method best reflects this company because its earnings visibility are clear for the next couple of years supported by its current orderbook and also potential orderbook replenishment.

- **PER 14x**

Our in-house big cap Construction FY11 PER is currently 17x. Given TRCS's relatively small market cap, we believe that a PER of 14x is warranted and justifiable. In addition, 14x PER should reflect its niche markets which are the construction of defense base projects and Sarawakian infrastructure projects. At RM2.08, the FY11 P/BV is 1.22x which is below its peer average.

- **New Contracts Secured**

Going forward, we estimate the construction climate to pick up with more projects being rolled out. Hence, we project TRCS to secure an order book of RM700mn for FY11 which could last roughly four years. This figure is conservative at best to avoid overestimation. In addition, the group channel checks indicated that the group has probably secured around RM80mn worth of jobs YTD.

- **LRT Extension Secured**

With the RM950mn LRT extension job, we expect an PBT contribution of around RM18.75mn and RM27mn for FY11 and FY12 respectively.

Figure 4: Ongoing Projects

Projects	Value (RMmn)	Unbilled Portion (RMmn)	Awarder	Expected Completion Date
LRT Extension - Kelana Jaya Line	950.0	950.0	Prasarana	June 2013
Construction of Warehouses	88.9	30.0	Bintulu Port	July 2011
Maritime College (Kuantan)	218.0	110.0	JKR	June 2011
Northport Container Terminal 1	45.9	35.0	Northport	March 2012
Upgrade of Kota Bahru Airport	45.5	35.0	MOT	November 2011
Housing Projects in Putrajaya	43.8	43.8	Putrajaya Hldgs	December 2012
Total	1392.1	1203.8		

Source: Company, TA Securities

Figure 5: Past Completed Projects

Projects	Type of Work	Year of Completion	Value (RMmn)
Hockey Stadiums at Bukit Jalil, National Sports Complex, Kuala Lumpur	Stadium	January 1997	75.7
Railway Turnkey Project West Port at Pulau Indah	Railway	October 1999	383
Access Road, Simpang Pulai-Loging- Gua Musang- Kuala Berang, Package 4 : Pos Blau To Kg Kuala Betis	Road	January 2003	97.2
Resettlement at Sg Pau, Kedah (Beris Dam Project)	Resettlement	December 2003	67.5
R11 in Precinct 5 & 6 and for Putrajaya Administration Centre, Package R11	Road	May 2004	81.7
Roadworks, Utilities and Landscape for road package P4 at Precinct 4, Putrajaya	Road	April 2002	54.7
The New District Police Complex In Dang Wangi, Kuala Lumpur	Police Complex	October 2006	125
Bentong Prison	Prison	July 2008	268
Runway Extension of Kuala Terengganu Airport (P3) & (P4)	Airport	April 2010	401.9
Facilities at Labuan Airport	Airport	February 1999	138.2
Teachers Training College at Kota Samarahan, Sarawak	College	May 1999	68.4
Access Road to Bakun Dam	Road	May 2000	97
Medical Complex and External Works, Keningau Hospital	Hospital	March 2002	78.8
Upgrade Jalan Bentong – Kayu Malam, Sarawak	Road	June 2004	45.5
Construction of Palm Oil Bulking Facilities for 2nd Inner Harbour, Bintulu Port	Tank	November 2009	51.2
Upgrading of Sibu Airport, Sarawak	Airport	December 2003	64.3
Jalan Pantai Baru from Tanjung Kidurong	Road	November 2005	90.4
Submarine Base in Sepangar Bay, Sabah	Submarine Base	July 2009	404
TOTAL			2592.5

Source: Company, TA Securities

Figure 6: Peer Comparison Table

Company	Last Price (RM)	Market Cap (RMmn)	Sales (RMmn)		PER (x)	P/B (x)		EPS (sen)	
			FY10	FY11	FY11	FY10	FY11	FY10	FY11
TRC Synergy	1.56	297.3	376.6	645.3	10.5	1.15	1.06	9	15
Ahmad Zaki Resources Berhad	0.91	250.5	431.3	743.0	7.0	1.38	na	na	13
Kimlun Corp Berhad	1.84	421.4	514.3	603.0	9.7	2.39	1.92	16	19
Fajarbaru Group Builder Berhad	1.16	200.3	165.9	249.0	7.7	1.09	1.30	16	15
Bina Puri Holdings Berhad	1.27	137.2	1232.2	1316.0	7.9	1.37	1.24	11	16
Ekovest Berhad	3.33	595.4	217.7	na	na	0.64	1.73	7	na
Naim Holdings Berhad	2.92	730.0	615.4	811.4	6.3	1.10	1.02	41	46
Hock Seng Lee Berhad	1.74	1013.9	488.3	647.7	10.9	2.81	2.31	13	16

Source: Bloomberg, TA Securities

Earnings Summary (RMmn)

Income Statement (RMmn)	2009	2010	2011E	2012F	2013F
Revenue	533.8	376.6	645.3	763.1	1046.7
COGS	(475.2)	(331.8)	(564.9)	(659.8)	(916.5)
Gross Profit	58.6	44.7	80.4	103.4	130.2
Operating Profit	41.1	23.9	54.6	65.4	95.2
Finance Cost	(1.8)	(0.3)	(0.0)	(0.0)	(0.0)
Share of Profits from Associates	(0.5)	(0.0)	(0.0)	(0.0)	(0.1)
PBT	38.8	23.5	47.7	53.3	74.8
Tax	(11.5)	(7.0)	(13.8)	(13.4)	(18.7)
PAT	27.3	16.5	33.9	39.9	56.1

Cash Flow (RMmn)	2009	2010	2011E	2012F	2013F
PBT	38.8	23.5	47.7	53.3	74.8
Depreciation & Amortisation	4.7	5.1	5.1	6.2	7.1
Interest Expense & Others	1.5	(1.3)	0.1	0.1	0.1
OP/(L) before change in WC	45.1	27.3	52.8	59.5	82.0
Changes in WC:	55.1	18.2	(30.8)	0.9	(0.7)
Tax & Interest	(16.3)	(8.2)	(13.8)	(13.4)	(18.7)
CFO	83.8	37.3	8.2	47.0	62.5

Purchase of PPE	(3.5)	(7.9)	(10.0)	(10.0)	(10.0)
Others	(19.6)	(14.8)	0.0	0.0	0.0
CFI	(23.1)	(22.7)	(10.0)	(10.0)	(10.0)

ST Borrowings	(49.3)	(2.3)	(0.2)	(0.1)	(0.0)
Others	2.9	2.4	0.0	0.0	0.0
Dividends	(8.5)	(5.7)	(9.5)	(12.4)	(15.2)
CFF	(55.0)	(5.6)	(9.7)	(12.5)	(15.2)

Net Increase/(Decrease) in Cash	5.7	9.0	(11.5)	24.5	37.3
Beginning Cash:	139.5	145.4	200.7	189.2	213.8
Foreign Exchange	0.2	(0.9)	0.0	0.0	0.0
Ending Cash	145.4	153.5	189.2	213.8	251.1
+ Pledge Securities for borrowings	55.5	47.2	0.0	0.0	0.0
TOTAL CASH as per Balance Sheet	200.9	200.7	189.2	213.8	251.1

Balance Sheet (RMmn)	2009	2010	2011E	2012F	2013F
PPE	18.6	21.7	26.6	30.4	33.3
Others	75.1	91.2	91.1	91.1	91.0
Non-current Assets	93.7	112.9	117.8	121.5	124.4

Inventories	2.6	1.2	2.7	3.1	4.3
Trade & Other Receiv	130.1	99.5	159.1	188.2	258.1
Others	19.9	10.2	8.2	6.2	4.2
Cash & Bank Balances	200.9	200.7	189.2	213.8	251.1
Current Assets	353.5	311.6	359.2	411.3	517.7
Total Assets	447.3	424.5	477.0	532.8	642.1

Share Capital	189.6	190.2	190.2	190.2	190.2
Share Premium	0.0	0.1	0.1	0.1	0.1
Others	1.7	2.3	2.3	2.3	2.3
Retained Earnings	95.0	105.8	130.2	157.7	198.6
Total Equity	286.3	298.5	322.9	350.4	391.3

ICULS	0.1	0.0	0.0	0.0	0.0
Borrowings	6.4	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	0.7	0.4	0.4	0.4	0.4
Non-current Liabilities	7.2	0.5	0.5	0.5	0.5

Borrowings	2.7	0.4	0.2	0.1	0.1
Trade & Other Payables	148.9	127.3	155.6	184.0	252.3
Current Tax Payable	2.2	(2.1)	(2.1)	(2.1)	(2.1)
Current Liabilities	153.7	125.5	153.6	181.9	250.3
Total Liabilities	160.9	126.0	154.1	182.4	250.7

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