

Corporate Highlights

Results Preview

12 May 2011

TRC Synergy

1QFY12/11 Results To Come In Weak, But No Worries

Share Price : RM1.62
 Fair Value : RM1.94
 Recom : **Outperform**
 (Maintained)

Table 1 : Investment Statistics (TRC; Code: 5054)

Bloomberg: TRC MK

FYE	Net					FD			Net				
	Turnov	Profit#	EPS#	Growth	PER	EPS#	C.EPS*	P/CF	P/NTA	ROE	Gearing	GDY	
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(sen)	(x)	(x)	(%)	(%)	(%)	
2010	376.6	16.5	8.7	(39.5)	18.6	-	-	21.1	1.0	8.3	Cash	3.1	
2011f	427.5	30.9	16.2	85.7	10.0	13.9	14.0	19.6	1.0	9.6	Cash	3.1	
2012f	497.5	36.2	18.8	16.5	8.6	16.1	18.0	15.1	0.9	10.3	Cash	3.1	
2013f	560.0	40.7	21.1	12.0	7.7	18.0	24.0	12.7	0.8	10.6	Cash	3.1	

Main Market Listing /Non-Trustee Stock /Syariah-Approved Stock By The SC #Excluding EI * Consensus Based On IBES

◆ **Weak 1Q, but stronger quarters ahead.** We expect TRC's 1QFY12/11 results, due out by the end of the month, to come in on the low side at only RM3-5m at the net level, not yet showing tremendous yoy and qoq growth vis-à-vis RM3.1m and RM3.7m achieved in 1QFY12/10 and 4QFY12/10. With a net profit of RM3-5m in 1QFY12/11, TRC will have only met 10-16% of our full-year forecast and the full-year market consensus. However, we will consider the number within expectations as: (1) 1Q will have been seasonally weak on the back of the long Chinese New Year break; and (2) We expect stronger quarters ahead with maiden contributions from new contracts, namely, the main contract of the Package A of the Kelana Jaya LRT Line extension project (RM950m) secured in Nov 2010, a public housing job in Putrajaya (RM43.8m) secured in Apr 2011 and submarine facilities for the Royal Malaysian Navy (RM45m) secured in May 2011.

◆ **Targeting RM300m new contracts this year.** TRC has set a new orderbook target of RM300m this year. YTD, it has already secured RM88.8m. It guided that the remaining contract wins will largely be underpinned by access road packages to be rolled out under Sarawak Corridor of Renewable Energy (SCORE). TRC has submitted bids for 12 out of a total of 15 SCORE access road packages currently under bidding worth RM80-250m each.

◆ **Forecasts.** Maintained.

◆ **Risks.** The risks include: (1) New contracts secured in FY12/11-13 coming in below our target of RM300m p.a.; and (2) Resurgence in input costs.

◆ **Maintain Outperform.** Over the immediate term, we expect construction stocks in general to only perform in line with the broader market due to "news flow fatigue". However, we see a bright spot in TRC as: (1) TRC has already got a "ticket to ride" on the current public infrastructure spending boom via the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project; (2) Its lean setup means that it can secure and profitably execute certain smaller public jobs and subcontracts of key large-scale projects; (3) TRC is also a good proxy to the infrastructure spending boom in East Malaysia; (4) We are satisfied that TRC is no "commissioned agent" but actually executes the contracts it secures; and (5) An added bonus could potentially come from a multi-billion ringgit crude oil storage and refinery project in Brunei. We value TRC at RM1.94 based on 14x fully-diluted EPS of 13.9sen, in line with our benchmark 1-year forward target PER of 12-16x for the construction sector. Downside protection to TRC's share price will come from a strong balance sheet with a net cash of RM200.3m or RM1.05 per share as at 31 Dec 2010.

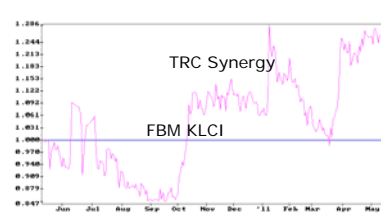
Issued Capital (m shares)	190.8
Market Cap (RMm)	309.1
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.97-1.68
Major Shareholders:	(%)
DS Sufri Bin Mohd Zin	37.8
Dato' Leong Kam Heng	9.9
Lembaga Tabung Haji	9.8

FYE Dec	FY11	FY12	FY13
EPS Revision (%)	-	-	-
Var to Cons (%)	+16	+5	-12

PE Band Chart



Relative Performance To FBM KLCI



Joshua CY Ng
 (603) 92802151
 joshuang@rhb.com.my

Please read important disclosures at the end of this report.

Table 2: Outstanding Construction Orderbook

Project	Value (RMm)
Main contract, Package A, Kelana Jaya LRT Line extension	950.0
Maritime college, Kuantan	110.0
Submarine facilities for Royal Malaysian Navy*	45.0
Public housing, Pricinct 8, Putrajaya*	43.8
University Kuala Lumpur	40.0
Upgrading of Container Terminal 1, Northport	35.0
Upgrading of Kota Bharu Airport	35.0
Warehouses, Bintulu Port	30.0
Sibu - Bawang – Assam – Seredang road	10.0
Total	1,298.8

*Secured during FY12/11

Source: Company, RHBRI

Table 3: Earnings Forecasts

FYE Dec (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	376.6	427.5	497.5	560.0
Turnover growth (%)	-29.5	13.5	16.4	12.6
EBITDA	25.2	44.1	50.7	56.2
EBITDA margin (%)	6.7	10.3	10.2	10.0
Depreciation	-5.1	-8.1	-8.1	-8.1
Net Interest	3.4	5.2	5.6	6.2
Associates	0.0	0.0	0.0	0.0
EI	0.0	0.0	0.0	0.0
Pretax Profit	23.5	41.2	48.2	54.3
Tax	-7.0	-10.3	-12.1	-13.6
PAT	16.5	30.9	36.2	40.7
Minorities	0.0	0.0	0.0	0.0
Net Profit	16.5	30.9	36.2	40.7

Source: Company data, RHBRI estimates

Table 4: Forecast Assumptions

FYE Dec	FY11F	FY12F	FY13F
Construction EBIT margin (%)	8.4	8.5	8.6
New orderbook secured (RMm)	300	300	300

Source: RHBRI estimates

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

Outperform = The stock return is expected to exceed the FBM FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.

This report may not be reproduced or redistributed, in whole or in part, without the written permission of RHBRI and RHBRI accepts no liability whatsoever for the actions of third parties in this respect.