

TRC Synergy (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

13 May 2011

Price Target: RM2.00 (↔)

Share price: RM1.62

Share split, bonus issue and warrants

News

- TRC has proposed a corporate exercise for:
 - 1-into-2 share split;
 - followed by 1-for-5 bonus issue; and
 - free warrants on a 1-for-5 basis
- The entitlement dates will be determined later and the proposals are estimated to be completed by 2H11.

Comments

- The proposed 1-into-2 share split, followed by 1-for-5 bonus issue, represents an adjustment factor of 0.417x to its share price and our Target Price (TP) upon ex-date.
- Likewise, the conversion ratio and exercise price for its existing ICULS and warrants (Warrants A) will be adjusted accordingly (see Figure #1).
- Of note, Warrants A's adjusted exercise price is unable to adjust for the bonus issue because the exercise price cannot fall below its par value of RM0.50 for the time being.
- New 5-year warrants (Warrants B), exercisable for 1 new share, will be issued after share split and bonus issue.
- Warrants B's exercise price has been fixed at RM0.61, representing a 10% discount from its theoretical price of RM0.68 post-split-and-bonus.
- Under the maximum scenario, the corporate exercise will expand TRC's issued share base from 571.8m shares (adjusted for share split and bonus issue) to 686.2m shares.
- Given the additional Warrants B, it will dilute our FY11-12 earnings estimate by 20% respectively. Nonetheless, we believe that the dilution will be gradual over the lifespan of both Warrants A and B.

Risks

- Execution risk;
- Regulatory and political risks (both domestic and overseas);
- Rising raw material prices; and
- Single project concentration risk in the LRT project.

Forecasts

- Factored in final net dividend of 3.75 sen which was recently announced.
- Earnings remained unchanged as dilutive impact from warrants will be gradual.

Rating

- Maintain BUY as current order book provides clear earnings visibility over the next two years. We believe that earnings have hit its through and should show growth going forward.

Valuation

- TP of RM2.00 based on 13x average FY11 and FY12 earnings maintained. Ex-All TP of RM0.83.

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| | |
|-----------------------------|---------|
| KLCI | 1,532.3 |
| Expected share price return | 23.5% |
| Expected dividend return | 1.7% |
| Expected total return | 25.1% |

Share price



Information

| | |
|--------------------------|--------|
| Bloomberg Ticker | TRC MK |
| Bursa Code | 5054 |
| Issued Shares (m) | 191 |
| Market cap (RM m) | 309 |
| 3-mth avg. volume ('000) | 271 |

| | | | |
|-------------------|-----|------|------|
| Price Performance | 1M | 3M | 12M |
| Absolute | 3.8 | 14.9 | 44.6 |
| Relative | 4.1 | 12.1 | 27.1 |

Major shareholders

| | |
|-----------------|-------|
| TRC Capital | 13.0% |
| Kolektif Aman | 12.8% |
| Dato' Sri Sufri | 9.9% |
| Free Float | 34.5% |

Summary Earnings Table

| FYE Dec (RM m) | 2009A | 2010A | 2011E | 2012E |
|-------------------|-------|-------|-------|-------|
| Revenue | 533.8 | 376.6 | 513.1 | 764.5 |
| EBITDA | 42.6 | 23.9 | 35.6 | 47.3 |
| EBIT | 37.9 | 23.9 | 31.3 | 39.8 |
| Profit Before Tax | 38.8 | 23.5 | 34.6 | 42.8 |
| PATMI | 27.3 | 16.5 | 26.0 | 32.1 |
| EPS (sen) | 14.4 | 8.7 | 13.6 | 16.9 |
| DPS (sen) | 3.0 | 3.7 | 2.7 | 3.4 |
| DY (%) | 1.9 | 2.3 | 1.7 | 2.1 |
| P/E (x) | 11.3 | 18.6 | 11.9 | 9.6 |
| FD P/E (x) | 13.5 | 22.3 | 14.2 | 11.5 |
| P/B (x) | 1.1 | 1.0 | 1.0 | 0.9 |
| Net Gearing (%) | Cash | Cash | Cash | Cash |
| ROE (%) | 9.9 | 5.7 | 8.4 | 9.7 |
| ROA (%) | 6.0 | 3.8 | 6.0 | 6.6 |

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Figure #1 ICULS and Warrants A adjustment

| ICULS (Expires on 20th Jan 2012) | |
|--|-----------|
| *Remaining ICULS (RM1 nominal value, 5%) | RM967,667 |
| Existing Conversion Ratio | 1.20x |
| Ex-Split & Bonus Conversion Ratio | 2.88x |

| Warrants A (Expires on 20th Jan 2017) | |
|---|--------|
| *Existing Outstanding Warrants | 36.6m |
| Existing Exercise Price | RM1.00 |
| Ex-Split & Bonus Outstanding Warrants | 87.9m |
| Ex-Split & Bonus Exercise Price | RM0.50 |

*As of 29 April 2011
Company, HLIB

Financial Projections for TRC Synergy (BUY, TP: RM2.00)

Income Statement

| FYE 31 Dec (RM m) | 2008A | 2009A | 2010A | 2011E | 2012E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 740.7 | 533.8 | 376.6 | 513.1 | 764.5 |
| EBITDA | 67.1 | 42.6 | 23.9 | 35.6 | 47.3 |
| D&A | (5.4) | (4.8) | - | (4.3) | (7.5) |
| EBIT | 61.7 | 37.9 | 23.9 | 31.3 | 39.8 |
| Interest Income | 4.7 | 3.2 | - | 3.6 | 3.2 |
| Finance Costs | (4.7) | (1.8) | (0.3) | (0.1) | (0.1) |
| Associates | (0.4) | (0.5) | (0.0) | - | - |
| Exceptionals | - | - | - | - | - |
| Profit Before Tax | 61.4 | 38.8 | 23.5 | 34.8 | 43.0 |
| Tax | (15.7) | (11.5) | (7.0) | (8.7) | (10.7) |
| Net Profit | 45.6 | 27.3 | 16.5 | 26.1 | 32.2 |
| Minority Interests | - | - | - | - | - |
| PATMI | 45.6 | 27.3 | 16.5 | 26.1 | 32.2 |
| Core Earnings | 45.6 | 27.3 | 16.5 | 26.1 | 32.2 |
| Basic Shares (m) | 189.6 | 189.6 | 190.2 | 190.2 | 190.2 |
| Basic EPS (sen) | 24.1 | 14.4 | 8.7 | 13.7 | 17.0 |
| FD EPS (sen) | 20.1 | 12.0 | 7.2 | 11.5 | 14.1 |

Quarterly Financial Summary

| FYE 31 Dec (RM m) | 2009Q4 | 2010Q1 | 2010Q2 | 2010Q3 | 2010Q4 |
|--------------------|--------|--------|--------|--------|--------|
| Revenue | 72.7 | 108.8 | 97.0 | 84.3 | 86.5 |
| COGS | (69.8) | (91.9) | (82.9) | (77.8) | (79.2) |
| Gross Profit | 2.8 | 16.8 | 14.1 | 6.5 | 7.3 |
| EBIT | (0.8) | 6.4 | 9.6 | 2.8 | 5.1 |
| Finance Costs | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| Associates | 0.1 | (0.1) | 0.2 | (0.1) | (0.0) |
| Exceptionals | - | - | - | - | - |
| Profit Before Tax | (0.8) | 6.1 | 9.8 | 2.6 | 5.0 |
| Net Profit | (2.4) | 3.1 | 7.5 | 2.2 | 3.7 |
| Minority Interests | - | - | - | - | - |
| PATMI | (2.4) | 3.1 | 7.5 | 2.2 | 3.7 |
| Basic EPS (sen) | (1.29) | 1.61 | 3.96 | 1.18 | 1.97 |
| FD EPS (sen) | (1.21) | 1.56 | 3.85 | 1.16 | 1.85 |

Balance Sheet

| FYE 31 Dec (RM m) | 2008A | 2009A | 2010A | 2011E | 2012E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 212.8 | 200.9 | 200.7 | 100.3 | 73.4 |
| Receivables | 143.4 | 130.1 | 99.5 | 168.7 | 251.3 |
| Inventories | 0.9 | 2.6 | 1.2 | 42.2 | 62.8 |
| Development Costs | 14.8 | 9.2 | 10.2 | 10.2 | 10.2 |
| Associates | 6.5 | 12.7 | 12.1 | 12.1 | 12.1 |
| PPE | 26.5 | 18.6 | 21.7 | 37.4 | 49.9 |
| Others | 51.4 | 73.2 | 79.1 | 79.1 | 79.1 |
| Total Assets | 456.4 | 447.3 | 424.5 | 449.9 | 538.9 |
| Payables | 106.6 | 148.9 | 127.3 | 126.5 | 188.5 |
| Total Debt | 73.4 | 9.1 | 0.4 | 0.4 | 0.4 |
| Others | 9.5 | 3.0 | (1.7) | (1.7) | (1.7) |
| Total Liabilities | 189.5 | 160.9 | 126.0 | 125.2 | 187.2 |
| Shareholders' Funds | 266.9 | 286.3 | 298.5 | 324.7 | 351.7 |
| Minority Interests | - | - | - | - | - |
| Total Capital | 266.9 | 286.3 | 298.5 | 324.7 | 351.7 |

Rates and Ratios

| FYE 31 Dec (RM m) | 2008A | 2009A | 2010A | 2011E | 2012E |
|-------------------|-------|-------|-------|-------|-------|
| PER (x) | 6.7 | 11.3 | 18.6 | 11.9 | 9.6 |
| FD PER (x) | 8.1 | 13.5 | 22.3 | 14.2 | 11.5 |
| DPS (sen) | 4.5 | 3.0 | 3.7 | 2.7 | 3.4 |
| DY (%) | 2.8 | 1.9 | 2.3 | 1.7 | 2.1 |
| BVPS (RM) | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 |
| P/B (x) | 1.2 | 1.1 | 1.0 | 1.0 | 0.9 |
| NTA/Share (RM) | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 |
| EBITDA Margin (%) | 9.1 | 8.0 | 6.3 | 6.9 | 6.2 |
| EBIT Margin (%) | 8.3 | 7.1 | 6.3 | 6.1 | 5.2 |
| PBT Margin (%) | 8.3 | 7.3 | 6.2 | 6.7 | 5.6 |
| Net Margin (%) | 6.2 | 5.1 | 4.4 | 5.1 | 4.2 |
| ROE (%) | 18.6 | 9.9 | 5.7 | 8.4 | 9.7 |
| ROA (%) | 10.9 | 6.0 | 3.8 | 6.0 | 6.6 |
| Net Gearing (%) | Cash | Cash | Cash | Cash | Cash |

Cashflow Analysis

| FYE 31 Dec (RM m) | 2008A | 2009A | 2010A | 2011E | 2012E |
|---------------------|---------------|---------------|---------------|----------------|---------------|
| EBITDA | 67.1 | 42.6 | 23.9 | 35.6 | 47.3 |
| Working Capital | (28.0) | 53.1 | 5.2 | (110.9) | (41.3) |
| Net Interest | (0.0) | 1.4 | (0.3) | 3.3 | 2.9 |
| Others | 15.2 | (13.3) | 8.5 | (8.7) | (10.7) |
| CFO | 54.4 | 83.8 | 37.3 | (80.6) | (1.8) |
| Capex | (31.9) | (18.6) | (7.9) | (20.0) | (20.0) |
| Purchase/Disposal | 0.9 | 2.2 | 1.0 | - | - |
| Associate | 0.0 | (6.7) | (15.8) | - | - |
| Others | - | 0.0 | 0.0 | - | - |
| CFI | (31.0) | (23.1) | (22.7) | (20.0) | (20.0) |
| Financing | (23.9) | (46.5) | (8.7) | - | - |
| Shares Issued | 2.1 | 0.1 | 0.5 | - | - |
| Dividends | (5.8) | (8.5) | (5.7) | (7.1) | (5.2) |
| Others | 0.2 | - | 8.3 | - | - |
| CFF | (27.5) | (55.0) | (5.6) | (7.1) | (5.2) |
| Net Cashflow | (4.1) | 5.7 | 9.0 | (107.7) | (27.0) |

Assumption Metrics

| FYE 31 Dec (RM m) | 2008A | 2009A | 2010A | 2011E | 2012E |
|-------------------|-------|-------|-------|-------|-------|
| Revenue | | | | 513.1 | 764.5 |
| EBIT Margin (%) | | | | 6.1 | 5.2 |
| Order Book Wins | | | | 300.0 | 300.0 |