



TRC Synergy Berhad

Corporate Exercise to Reward Shareholders

TP: RM2.08_(+28.4%)
Theoretical Ex-TP: RM0.76

Last traded: RM1.62

HOLD

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TRC Synergy Bhd announced that it has proposed a corporate exercise consisting of a 1-to-2 share split, 1-for-5 bonus issue and a free warrants issue on a 1-for-5 basis, which will be completed in the said sequence.

The group is undertaking a 1-to-2 share split, splitting its par value from RM1.00/share to RM0.50. After the share split, the group will subsequently reward shareholders with one bonus share for every five shares held. Finally, eligible shareholders are entitled to one free warrant for every five share owned.

The warrants would have a tenure of five years and the strike priced has been fixed at RM0.61; a 10% discount on the theoretical closing price of the shares of RM0.68 on 11 May 2011.

Our view

In our results preview report dated 29 April 2011, we have speculated that the company would undertake some sort of capital management exercise to reward its shareholders on the basis that it has a huge reserves. Hence, this has been done via a 5sen dividend declaration and also these corporate exercises. In our opinion, perhaps the more important side effect of these exercises would be the positive vibes and signals it sends out to shareholders and also to the market as the company is financially able to undertake such an exercise.

In addition to that, this exercise would definitely enhance its liquidity and would make the stock more attractive and more easily traded on the stock exchange. This would inadvertently attract more institutional funds as the issue with liquidity would be greatly reduced and also participation from the retail market as these exercises would increase the affordability of owning the stock.

Impact

Assuming a maximum case whereby the ESOS, ICULS, and the existing warrants are completely exercised before the proposed share split, the group's shareholders fund would increase from RM298mn to RM347mn. Gearing remains unchanged at close to zero times. The enlarged share capital would then be 686.2mn from 190.8mn currently.

Given the proposed issuance of new warrants, FY11 EPS will be diluted by 26%. We arrive at a theoretical ex-TP of RM0.76/share after adjusting for the 1-to-2 share split, the 1-for-5 bonus issue first and the dilution effects.

Valuation

Based on the theoretical ex-TP of RM0.76/share, we downgrade our recommendation to Hold from buy previously. The group's current orderbook stands at RM1.2bn with a tenderbook of around RM2bn.

Share Information

Bloomberg Code	TRC MK
Bursa	TRC
Stock Code	5054
Listing	Main Market
Share Cap (mn)	190.8
Market Cap (RMmn)	309.1
Par Value	1.00
52-wk Hi/Lo (RM)	1.69/1.00
12-mth Avg Daily Vol ('000 shrs)	237.3
Estimated Free Float (%)	37.5
Beta	1.04

Major Shareholders (%)

TRC Capital Sdn Bhd	- 13.01
Kolektif Aman Sdn Bhd	- 12.78
Mohd Zin Sufri bin Haji	- 9.91
Leong Kam Heng	- 9.91
Lembaga Tabung Haji	- 9.80
Khoo Tew Choon	- 7.07

Forecast Revision

	FY11	FY12
Forecast Revision (%)	-	-
Net profit (RMm)	33.9	39.9
Consensus	31.0	38.1
TA's / Consensus (%)	109.4	104.7
Previous Rating	Buy (Downgraded)	

Financial Indicators

	FY11	FY12
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	-0.8	16.2
Price / CFPS (x)	-210.25	10.00
ROA (%)	7.1	7.5
NTA/Share (RM)	1.4	1.5
Price/NTA (x)	1.1	1.1

Share Performance (%)

Price Change	TRC	FBM KLCI
1 mth	3.8	(0.2)
3 mth	14.9	2.5
6 mth	17.4	2.2
12 mth	44.6	13.8

(12-Mth) Share Pricerelative to the FBM KLCI



Source: Bloomberg

Earnings Summary (RMmn)

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
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	5.0	5.0	6.5	8.0
Dividend Yield (%)	1.9	2.3	2.3	3.0	3.7
PER (x)	11.3	18.6	10.9	9.3	6.6

Figure 1: Current 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
RMN Submarine Facilities	45	45	Boustead Penang	August 2013
Total	1437.1	1248.8		

Source: Company, TA Securities

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