

TRC Synergy (BUY ↔, EPS FY11 ↓)

INDUSTRY: OVERWEIGHT
NEWSBREAK

6 December 2011
Price Target: RM0.69
Share price: RM0.605

2nd Putrajaya housing project

News

- TRC has clinched a RM38.1m Putrajaya housing project from Putrajaya Holdings for the construction of:
 - 14 units 2-storey terrace house and 14 units 2-storey semi-D house at Precinct 14-3; and
 - 72 units 2-storey terrace house at Precinct 14-6A.

Comments

- 6th order YTD...** TRC continues with their impressive run in jobs won by securing their 6th order YTD. The order is TRC's second housing project from Putrajaya Holdings in FY11 after bagging a similar job for semi-D homes in Precinct 8 during April. Although the duration of the project is not stated, we believe that the project is to be completed within 20 months, a timeline which is within industry norm for the construction of landed properties.

- >RM500m secured YTD...**

Projects secured YTD	Contract Sum (RM m)
Precinct 8 public housing	43.8
Sepangar Bay submarine hangar	45.0
Parliament building renovation	24.0
Brunei International Airport	318.9
Lumut jetty upgrade	51.4
Precinct 14 public housing	38.1
Total	521.2

Company, HLIB

- Huge order book...** Overall, total outstanding order book is estimated at ~RM1.47bn, translating to ~3.9x FY10's revenue and ~5.2x order book-to-market cap ratio.

Risks

- Single project concentration and execution risk in the LRT project (albeit reduced with YTD new orders of >RM500m); Regulatory and political risk; Rising raw material prices; and Unexpected downturn in the construction sector.

Forecasts

- After further discussions with the management, we have decided to trim FY11 earnings by another -7% to RM16.1m from RM17.4m previously while maintaining FY12-FY13 earnings.

Rating

- The execution of the LRT project has been a steep learning curve for TRC and the delays have been slowly resolved. We maintain our BUY call in view of its growing order book which is diversifying away from the LRT project and strong balance sheet with net cash of ~26 sen/share.

Valuation

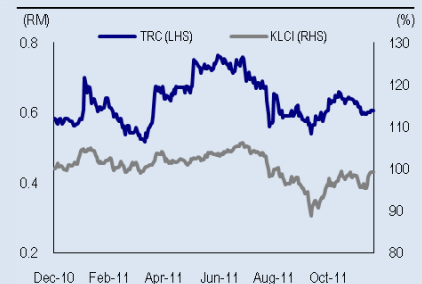
- Maintain TP of RM0.69 based on 12x FY12 earnings.

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KLCI	1,490.0
Expected share price return	14.0%
Expected dividend return	1.9%
Expected total return	15.9%

Share price



Information

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	468
Market cap (RM m)	283
3-mth avg. volume ('000)	878

Price Performance	1M	3M	12M
Absolute	-5.5	2.5	3.8
Relative	-6.3	0.1	4.5

Major shareholders

TRC Capital	12.7%
Kolektif Aman	12.5%
Dato' Sri Suffri	9.7%
Free Float	35.8%

Summary Earnings Table

FYE Dec (RM m)	2010A	2011E	2012E	2013E
Revenue	376.6	343.5	689.0	722.5
EBITDA	23.9	21.9	39.3	46.7
EBIT	23.9	17.6	31.8	36.7
Profit Before Tax	23.5	21.5	35.0	39.3
Core PATAMI	16.5	16.1	26.2	29.5
Core EPS (sen)	3.6	3.5	5.7	6.4
FD EPS (sen)	3.0	2.5	4.1	4.6
Net DPS (sen)	1.6	1.1	1.4	1.7
Net DY (%)	2.6	1.9	2.4	2.9
P/E (x)	16.7	17.2	10.5	9.4
FD P/E (x)	20.0	24.0	14.7	13.1
P/B (x)	0.9	0.9	0.8	0.8
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	5.7	5.3	8.2	8.7
ROA (%)	3.8	3.9	5.9	5.7

HLIB

Financial Projections for TRC Synergy (BUY, TP: RM0.69)

Income Statement

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue	533.8	376.6	343.5	689.0	722.5
EBITDA	42.6	23.9	21.9	39.3	46.7
D&A	(4.8)	-	(4.3)	(7.5)	(10.0)
EBIT	37.9	23.9	17.6	31.8	36.7
Interest Income	3.2	-	3.9	3.2	2.6
Finance Costs	(1.8)	(0.3)	(0.1)	(0.1)	(0.0)
Associates	(0.5)	(0.0)	-	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	38.8	23.5	21.5	35.0	39.3
Tax	(11.5)	(7.0)	(5.4)	(8.7)	(9.8)
Net Profit	27.3	16.5	16.1	26.2	29.5
Minority Interests	-	-	-	-	-
PATAMI	27.3	16.5	16.1	26.2	29.5
Core Earnings	27.3	16.5	16.1	26.2	29.5
Basic Shares (m)	455.1	456.6	456.6	456.6	458.3
Basic EPS (sen)	6.0	3.6	3.5	5.7	6.4
FD EPS (sen)	5.0	3.0	2.5	4.1	4.6

Quarterly Financial Summary

FYE 31 Dec (RM m)	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Revenue	84.3	86.5	100.6	101.1	95.0
COGS	(77.8)	(79.2)	(86.5)	(95.4)	(88.7)
Gross Profit	6.5	7.3	14.0	5.7	6.3
EBIT	2.1	3.6	6.6	1.3	4.8
Net Interest	0.6	1.4	1.1	1.4	1.3
Associates	(0.1)	(0.0)	0.2	0.2	(1.9)
Profit Before Tax	2.6	5.0	7.9	2.9	4.2
Net Profit	2.2	3.7	5.9	2.5	2.6
Minority Interests	-	-	-	-	-
PATAMI	2.2	3.7	5.9	2.5	2.6
Basic EPS (sen)	0.48	0.82	1.29	0.55	0.55
FD EPS (sen)	0.47	0.77	1.20	0.50	0.53

Balance Sheet

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Cash	200.9	200.7	111.0	62.7	70.1
Receivables	130.1	99.5	112.9	226.5	237.5
Inventories	2.6	1.2	28.2	56.6	59.4
Development Costs	9.2	10.2	10.2	10.2	10.2
Associates	12.7	12.1	12.1	12.1	12.1
PPE	18.6	21.7	37.4	49.9	59.9
Others	73.2	79.1	79.1	79.1	79.1
Total Assets	447.3	424.5	390.9	497.1	528.4
Payables	148.9	127.3	84.7	169.9	178.2
Total Debt	9.1	0.4	0.4	0.4	0.4
Others	3.0	(1.7)	(1.7)	(1.7)	(1.7)
Total Liabilities	160.9	126.0	83.4	168.6	176.8
Shareholders' Funds	286.3	298.5	307.5	328.5	351.5
Minority Interests	-	-	-	-	-
Total Capital	286.3	298.5	307.5	328.5	351.5

Rates and Ratios

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
PER (x)	10.1	16.7	17.2	10.5	9.4
FD PER (x)	12.1	20.0	24.0	14.7	13.1
DPS (sen)	1.3	1.6	1.1	1.4	1.7
DY (%)	2.1	2.6	1.9	2.4	2.9
BVPS (RM)	0.6	0.7	0.7	0.7	0.8
P/B (x)	1.0	0.9	0.9	0.8	0.8
NTA/Share (RM)	0.6	0.7	0.7	0.7	0.8
EBITDA Margin (%)	8.0	6.3	6.4	5.7	6.5
EBIT Margin (%)	7.1	6.3	5.1	4.6	5.1
PBT Margin (%)	7.3	6.2	6.2	5.1	5.4
Net Margin (%)	5.1	4.4	4.7	3.8	4.1
ROE (%)	9.9	5.7	5.3	8.2	8.7
ROA (%)	6.0	3.8	3.9	5.9	5.7
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

Cashflow Analysis

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
EBITDA	42.6	23.9	21.9	39.3	46.7
Working Capital	53.1	5.2	(83.0)	(56.8)	(5.5)
Net Interest	1.4	(0.3)	3.9	3.2	2.6
Others	(13.3)	8.5	(5.4)	(8.7)	(9.8)
CFO	83.8	37.3	(62.6)	(23.1)	33.9
Capex	(18.6)	(7.9)	(20.0)	(20.0)	(20.0)
Purchase/Disposal	2.2	1.0	-	-	-
Associate	(6.7)	(15.8)	-	-	-
Others	0.0	0.0	-	-	-
CFI	(23.1)	(22.7)	(20.0)	(20.0)	(20.0)
Financing	(46.5)	(8.7)	-	-	-
Shares Issued	0.1	0.5	-	-	-
Dividends	(8.5)	(5.7)	(7.1)	(5.2)	(6.5)
Others	-	8.3	-	-	-
CFF	(55.0)	(5.6)	(7.1)	(5.2)	(6.5)
Net Cashflow	5.7	9.0	(89.7)	(48.3)	7.4

Assumption Metrics

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue			343.5	689.0	722.5
EBIT Margin (%)			5.0	4.6	5.1
Order Book Wins			300.0	300.0	300.0

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.