

## TRC Synergy (HOLD ↓, EPS FY12-13 ↓)

**INDUSTRY: OVERWEIGHT**  
**EARNINGS EVALUATION**

1 March 2012

Price Target: RM0.67 (↓)

Share price: RM0.715

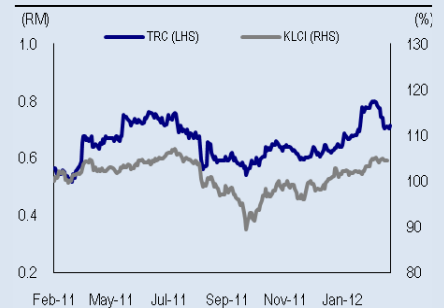
### A poor finish but looking forward

<b>Results</b>	<ul style="list-style-type: none"> <li>FY11 PATAMI contracted by 16% to RM13.5m (2.91 sen/share), making up only 84% and 85% of HLIB and consensus expectations respectively.</li> </ul>
<b>Deviations</b>	<ul style="list-style-type: none"> <li>Missed expectations due to slower progress in executing the LRT project coupled with defect liability provisions in the last quarter which brought down overall earnings.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>Although no dividends announced, we believe that a final dividend will be proposed (TRC do not usually declare dividends during results announcement) which would most likely be the same payout as FY10's 1.56 sen/share (adjusted for 1-into-2 split, followed by 1-for-5 bonus issue which occurred in July'11).</li> </ul>
<b>Comments</b>	<ul style="list-style-type: none"> <li><b>Ending on a limp...</b> Unlike other construction companies which saw a quarterly rebound in earnings, TRC suffered an operational loss which was dragged down by defect liability works for completed projects i.e. Sibu Bawang-Assam-Seredang road and Uni KL. Although, TRC has a sizable order book, billings from these projects have yet to contribute meaningfully, as they are still in the infant stages.</li> <li><b>LRT status...</b> Delays in executing the LRT project remains the main culprit for the lacklustre performance. The management was targeting to complete 20-25% of the LRT works but only managed to accomplish ~10% by year end. The obstacles were due to obtaining development orders (DO) from the respective town councils to start works. So far, DOs have been obtained for works within MBSA and MBPJ purview. However, ~60% of the LRT works are under the purview of MBSJ and it has been a major obstacle. On a brighter note, news reports have indicated that works will be able to resume soon with Prasarana having negotiations with the authority to resolve the matter.</li> <li><b>Looking forward...</b> Overall, total outstanding order book remains sizable at ~RM1.34bn (see Figure #3), translating to ~3.4x FY11's revenue and ~4.0x order book-to-market cap ratio.</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>Single project concentration and execution risk in the LRT project; Regulatory and political risk; Rising raw material prices; and Unexpected downturn in the construction sector.</li> </ul>
<b>Forecasts</b>	<ul style="list-style-type: none"> <li>FY12-13 earnings slashed by -18% to -11% respectively to better reflect the timing in profit recognition while introducing FY14 forecast.</li> </ul>
<b>Rating</b>	<p><b>HOLD (↓)</b></p> <p>Although TRC has a sizable order book which will help provide earnings visibility, the recent surge in share price has already overshoot our TP and is reflective of the company's fundamentals.</p> <ul style="list-style-type: none"> <li>Positives: Sizable new contract wins. Negatives: Continued delays in executing the LRT project.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>TP reduced by 2.8% to RM0.67 based on SOP valuation (see Figure #4). We changed our valuation methodology from P/E multiple as a substantial portion of TRC's valuation is made up of its net cash position.</li> </ul>

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KLCI	1,569.7
Expected share price return	-6.3%
Expected dividend return	2.2%
Expected total return	-4.1%

#### Share price



#### Information

Bloomberg Ticker	TRC MK
Bursa Code	5054
Issued Shares (m)	474
Market cap (RM m)	339
3-mth avg. volume ('000)	1,529

Price Performance	1M	3M	12M
Absolute	-5.9	19.2	27.0
Relative	-8.8	11.8	20.8

#### Major shareholders

TRC Capital	12.6%
Kolektif Aman	12.3%
Dato' Sri Sufri	9.8%
Free Float	36.4%

#### Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E	2014E
Revenue	391.3	523.0	624.9	613.2
EBITDA	14.8	30.3	37.6	38.1
EBIT	9.5	24.5	30.8	30.5
Profit Before Tax	14.8	28.7	34.9	35.0
Core PATAMI	13.5	21.5	26.2	26.2
Core EPS (sen)	2.9	4.6	5.6	5.6
FD EPS (sen)	2.1	3.3	4.0	3.5
Net DPS (sen)	1.6	1.6	1.6	1.6
Net DY (%)	2.2	2.2	2.2	2.2
P/E (x)	24.7	15.6	12.8	12.8
FD P/E (x)	34.4	21.6	17.8	20.3
P/B (x)	1.1	1.0	1.0	0.9
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	4.5	6.8	7.8	7.4
ROA (%)	3.2	5.1	5.6	5.3

HLIB

**Figure #1 Quarterly results comparison**

FYE Dec (RM m)	4Q10	3Q11	4Q11	QoQ (%)	YoY (%)	Comments
Revenue	86.6	95.0	94.7	-0	9	YoY/QoQ: Still hampered by delays in executing the LRT project. Nonetheless, higher construction activities achieved compared to FY10.
EBIT	4.0	4.8	(3.3)	n.m	n.m	YoY/QoQ: Swung to losses due to higher expenses incurred for defect liability works for completed projects i.e. Sibulawang-Assam-Seredang road and Uni KL.
Net Interest	0.9	1.3	1.9	46	99	Net cash position climbed slightly to RM124m (RM0.27/share) from RM121m in the previous quarter.
Associates	(0.4)	(1.9)	1.2	n.m	n.m	YoY/QoQ: Positive contribution from Australia property projects.
PBT	4.6	4.2	(0.2)	n.m	n.m	YoY/QoQ: Filtered down from EBIT losses.
PATAMI	3.4	2.6	2.6	-0	-25	YoY/QoQ: Although PBT was in the red, reversal of tax provision in the earlier quarters lifted earnings back to the positive zone.
EPS (sen)	0.73	0.55	0.55	0	-25	
EBIT Margin (%)	4.6%	5.1%	n.m	n.m	n.m	
PBT Margin Ex-Assoc (%)	5.7%	6.4%	n.m	n.m	n.m	

TRC, HLIB

**Figure #2 Cumulative results comparison**

FYE Dec (RM m)	FY10	FY11	YoY (%)	Comments
Revenue	376.7	391.3	4	Higher construction activities achieved despite delays in executing the LRT project.
EBIT	20.4	9.5	-53	Dragged down by defect liability works while the LRT project and newly secured orders have yet to fully kick-off.
Net Interest	3.0	5.6	86	Net cash position of RM124m (RM0.27/share).
Associates	(0.4)	(0.3)	-20	Improved contribution from Australia property projects.
PBT	23.0	14.8	-36	Higher interest income and smaller associate losses helped mitigate the dip in EBIT.
PATAMI	16.2	13.5	-16	Reversal in tax provision helped mitigate the dip in EBIT.
EPS (sen)	3.50	2.91	-17	
EBIT Margin (%)	5.4%	2.4%	-55	Lower margins as most of the construction works are either at the tail end or at the initial stages to have meaningful contribution. Provisions for defect liability works also pulled down overall margins.
PBT Margin Ex-Assoc (%)	6.2%	3.9%	-38	

TRC, HLIB

**Figure #3 Outstanding order book as of FY11**

Projects secured YTD	Contract Sum (RM m)
Putrajaya Precinct 14 housing	38
Lumut jetty	48
Brunei Airport	319
Sepangar Bay submarine facilities	30
Putrajaya Precinct 8 housing	30
KJ LRT extension Package A	870
Others	8
<b>Total</b>	<b>1,343</b>

TRC, HLIB

**Figure #4 TRC Synergy SOP valuation**

Division	Methodology	Stake	Value (RM m)	RM per Share	%
Construction	12X Average of FY11-12 Earnings	100%	249	0.38	57
Net Cash	30% Discount on Net Cash of RM124m	100%	87	0.13	20
		SOP (RM m)	336	0.52	77
		No. of Shares (m)	470		
		<b>RM per Share (RM)</b>	<b>0.71</b>		
		Proceeds from Warrant A & B (RM m)	100	0.15	23
		SOP (RM m)	436	0.67	100
		Fully Diluted No. of Shares (m)	651		
		<b>Target Price (RM)</b>	<b>0.67</b>		

HLIB

**Figure #5 HLIB vs Consensus**

FYE Dec (RM m)	FY12E			FY13E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	523.0	630.0	-17%	624.9	791.7	-21%
PATAMI	21.5	35.2	-39%	26.2	46.5	-44%

Bloomberg, HLIB

## Financial Projections for TRC Synergy (BUY, TP: RM0.67)

### Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Revenue	376.7	391.3	523.0	624.9	613.2
EBITDA	25.5	14.8	30.3	37.6	38.1
D&A	(5.1)	(5.4)	(5.8)	(6.8)	(7.6)
<b>EBIT</b>	<b>20.4</b>	<b>9.5</b>	<b>24.5</b>	<b>30.8</b>	<b>30.5</b>
Interest Income	3.3	6.1	4.4	4.4	4.7
Finance Costs	(0.3)	(0.4)	(0.2)	(0.2)	(0.2)
Associates	(0.4)	(0.3)	-	-	-
Exceptionals	-	-	-	-	-
<b>Profit Before Tax</b>	<b>23.0</b>	<b>14.8</b>	<b>28.7</b>	<b>34.9</b>	<b>35.0</b>
Tax	(6.8)	(1.3)	(7.2)	(8.7)	(8.7)
<b>Net Profit</b>	<b>16.2</b>	<b>13.5</b>	<b>21.5</b>	<b>26.2</b>	<b>26.2</b>
Minority Interests	-	-	-	-	-
<b>PATAMI</b>	<b>16.2</b>	<b>13.5</b>	<b>21.5</b>	<b>26.2</b>	<b>26.2</b>
<b>Core Earnings</b>	<b>16.2</b>	<b>13.5</b>	<b>21.5</b>	<b>26.2</b>	<b>26.2</b>
Basic Shares (m)	456.6	467.7	469.2	469.2	469.2
Basic EPS (sen)	3.5	2.9	4.6	5.6	5.6
FD EPS (sen)	3.0	2.1	3.3	4.0	3.5

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4
Revenue	86.6	100.6	101.1	95.0	94.7
COGS	(79.4)	(86.5)	(95.4)	(88.7)	(92.9)
Gross Profit	7.3	14.0	5.7	6.3	1.8
EBIT	4.0	6.6	1.3	4.8	(3.3)
Net Interest	0.9	1.1	1.4	1.3	1.9
Associates	(0.4)	0.2	0.2	(1.9)	1.2
Profit Before Tax	4.6	7.9	2.9	4.2	(0.2)
Net Profit	3.4	5.9	2.5	2.6	2.6
Minority Interests	-	-	-	-	-
PATAMI	3.4	5.9	2.5	2.6	2.6
Basic EPS (sen)	0.73	1.29	0.55	0.55	0.55
FD EPS (sen)	0.72	1.20	0.50	0.53	0.52

### Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Cash	200.7	129.4	122.7	127.0	144.8
Receivables	113.1	116.9	172.0	205.5	201.6
Inventories	1.2	1.9	1.4	1.7	1.7
Development Costs	10.2	10.4	10.4	10.4	10.4
Associates	11.7	12.0	12.0	12.0	12.0
PPE	21.6	23.0	27.3	30.5	32.8
Others	99.5	100.6	100.6	100.6	100.6
<b>Total Assets</b>	<b>458.1</b>	<b>394.2</b>	<b>446.4</b>	<b>487.6</b>	<b>503.9</b>
Payables	75.1	76.7	114.6	137.0	134.4
Total Debt	0.4	4.9	4.9	4.9	4.9
Others	84.4	2.5	2.5	2.5	2.5
<b>Total Liabilities</b>	<b>159.8</b>	<b>84.1</b>	<b>122.0</b>	<b>144.4</b>	<b>141.8</b>
Shareholders' Funds	298.2	310.1	324.4	343.2	362.1
Minority Interests	-	-	-	-	-
<b>Total Capital</b>	<b>298.2</b>	<b>310.1</b>	<b>324.4</b>	<b>343.2</b>	<b>362.1</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
PER (x)	20.2	24.7	15.6	12.8	12.8
FD PER (x)	24.1	34.4	21.6	17.8	20.3
DPS (sen)	1.6	1.6	1.6	1.6	1.6
DY (%)	2.2	2.2	2.2	2.2	2.2
BVPS (RM)	0.7	0.7	0.7	0.7	0.8
P/B (x)	1.1	1.1	1.0	1.0	0.9
NTA/Share (RM)	0.7	0.7	0.7	0.7	0.8
EBITDA Margin (%)	6.8	3.8	5.8	6.0	6.2
EBIT Margin (%)	5.4	2.4	4.7	4.9	5.0
PBT Margin (%)	6.1	3.8	5.5	5.6	5.7
Net Margin (%)	4.3	3.5	4.1	4.2	4.3
ROE (%)	5.5	4.5	6.8	7.8	7.4
ROA (%)	3.5	3.2	5.1	5.6	5.3
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

### Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
EBITDA	25.5	14.8	30.3	37.6	38.1
Working Capital	4.9	(3.1)	(16.6)	(11.4)	1.3
Net Interest	3.0	5.6	4.2	4.1	4.4
Others	4.6	(72.2)	(7.2)	(8.7)	(8.7)
<b>CFO</b>	<b>38.0</b>	<b>(54.9)</b>	<b>10.7</b>	<b>21.5</b>	<b>35.2</b>
Capex	(25.1)	(20.5)	(10.0)	(10.0)	(10.0)
Purchase/Disposal	1.0	1.0	-	-	-
Associate	0.6	(0.6)	-	-	-
Others	0.0	0.9	-	-	-
<b>CFI</b>	<b>(23.5)</b>	<b>(19.1)</b>	<b>(10.0)</b>	<b>(10.0)</b>	<b>(10.0)</b>
Financing	(2.0)	3.5	-	-	-
Shares Issued	0.5	5.1	-	-	-
Dividends	(5.7)	(7.3)	(7.3)	(7.3)	(7.3)
Others	-	-	-	-	-
<b>CFF</b>	<b>(7.2)</b>	<b>1.3</b>	<b>(7.3)</b>	<b>(7.3)</b>	<b>(7.3)</b>
<b>Net Cashflow</b>	<b>7.3</b>	<b>(72.6)</b>	<b>(6.6)</b>	<b>4.2</b>	<b>17.8</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Revenue			523.0	624.9	613.2
EBIT Margin (%)			4.7	4.9	5.0
Order Book Wins			400.0	500.0	600.0

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