

# Corporate Highlights

## New Coverage

# TRC Synergy

*Among The Cream Of The Crop Of Builders*

30 March 2011

Share Price : RM1.41  
 Fair Value : RM1.80  
 Recom : **Outperform**  
 (New Coverage)

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)	16.2	-	-	18.4	0.9	8.3	Cash	2.8
2011f	427.5	30.9	16.2	85.8	8.7	13.9	15.0	17.1	0.8	9.5	Cash	2.8
2012f	497.5	36.2	18.9	16.6	7.5	16.1	19.0	13.2	0.8	10.2	Cash	2.8
2013f	560.0	40.8	21.1	12.0	6.7	18.1	29.0	11.1	0.7	10.5	Cash	2.8

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

◆ **Great oaks from little acorns grow.** TRC Synergy Bhd (TRC) hogged the limelight in Nov 2010 when it clinched the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project from under the noses of big names in the industry. A small-cap builder at present, we believe it is poised to leap into the league of "must-have" mid-sized construction companies in Malaysia backed by a growing orderbook that stands at RM1.2bn at present.

◆ **The investment case.** The bases of our investment case for TRC are:

1. TRC is a safe bet as it has already got a "ticket to ride" on the current public infrastructure spending boom, i.e. via the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project. Also, its lean setup means that it can profitably execute certain smaller public jobs and subcontracts of key large-scale projects;
2. TRC is also a good proxy to the infrastructure spending boom in East Malaysia, given its status as a Unit Pendaftaran Kontraktor Negeri Sarawak (UPK) registered contractor and already strong presence in the market;
3. We are satisfied that TRC is no "commissioned agent" but actually executes the contracts it secures; and
4. An added bonus could potentially come from a multi-billion ringgit crude oil storage and refinery project in Brunei, via 26%-owned associate Petro Bru (B) Sdn Bhd.

◆ **Net cash of RM1.05 per share.** TRC's balance sheet is extremely strong with a net cash of RM200.3m or RM1.05 per share at as 31 Dec 2010.

◆ **Risks.** The risks include: (1) New contracts secured in FY12/10-12 coming in below our target of RM300m per annum; and (2) Resurgence in input costs.

◆ **Fair value of RM1.80.** We project TRC's net profit to leap +86% in FY12/11, driven largely by maiden contribution from the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project. Subsequently, FY12/12-13 net profits are projected to grow by +17% and +12% respectively assuming TRC is able to secure RM300m worth of new contracts per annum in FY12/11-13. We value TRC at RM1.80 based on 13x fully-diluted EPS of 13.9sen, in line with our benchmark 1-year forward target PER of 12-16x for the construction sector. We are initiating coverage on TRC with an **Outperform** recommendation.

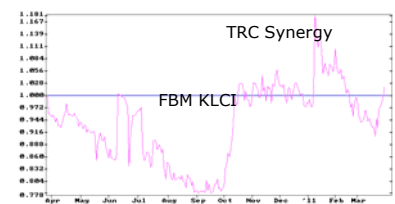
Issued Capital (m shares)	190.6
Market Cap (RMm)	268.7
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.97-1.68
<b>Major Shareholders:</b>	<b>(%)</b>
DS Sufri Bin Mohd Zin	37.8
Dato' Leong Kam Heng	9.9
Lembaga Tabung Haji	9.8

FYE Dec	FY11	FY12	FY13
EPS Revision (%)	-	-	-
Var to Cons (%)	+8	-1	-27

### PE Band Chart



### Relative Performance To FBM KLCI



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

## Background

- ◆ **Great oaks from little acorns grow.** TRC Synergy Bhd (TRC) hogged the limelight in Nov 2010 when it clinched the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project from under the noses of big names in the industry such as Gamuda, IJM, WCT, Sunway and MRCB. With a current market capitalisation of about RM260m, it is considered a small-cap builder. However, we believe it is poised to leap into the league of “must-have” mid-sized construction companies in Malaysia backed by a growing orderbook. At present, its outstanding orderbook stands at RM1.2bn (see Table 3) that is already comparable to HSL’s RM1.2bn and MRCB’s RM1.6bn.
- ◆ TRC’s strength lies in airport, seaport/marine base and rail related works, and specialised building jobs. Among the completed projects under its belt worth a total of RM3.5bn were the runway extension of Kuala Terengganu Airport (RM402m), various facilities of Labuan Airport (RM138m), upgrading of Sibu Airport (RM64m), submarine base in Sepangar Bay, Sabah (RM404m), railway of West Port (RM383m) and a prison complex in Bentong (RM268m) (see Table 2). Its key on-going jobs with an outstanding value of RM1.2bn include the main contract of the Package A of the Kelana Jaya LRT Line extension project as mentioned (RM950m), Kuantan Maritime College (RM218m), upgrading of Kota Bharu Airport (RM46m) and upgrading of Container Terminal 1 of Northport (RM46m) (see Table 3 again).

**Table 2: Key Completed Contracts**

No	Project	Location		Completion	Award Basis	Value (RMm)
		W. M'sia	E. M'sia			
1	Submarine base, Sepangar Bay, Sabah		√	Jul 2009	Tender by invitation	404.0
2	Runway extension, Kuala Terengganu Airport	√		Apr 2010	Direct negotiation	401.9
3	Railway, West Port, Pulau Indah	√		Oct 1999	Tender by invitation	383.0
4	Prison complex, Bentong	√		Jul 2008	Direct negotiation	268.0
5	Various facilities, Labuan Airport		√	Feb 1999	Open tender	138.2
6	Police complex, Dang Wangi, KL	√		Oct 2006	Direct negotiation	125.0
7	Pos Blau – Kg Kuala Betis road	√		Jan 2003	Open tender	97.2
8	Access road, Bakun Dam		√	May 2000	Open tender	97.0
9	Pantai Baru – Tanjung Kidurong road, Sarawak		√	Nov 2005	Open tender	90.4
10	Roads in Precincts 5 & 6, Putrajaya	√		May 2004	Open tender	81.7
11	Medical complex & external works, Keningau Hospital		√	Mar 2002	Open tender	78.8
12	Hockey stadiums, National Sports Complex, Bukit Jalil	√		Jan 1997	Tender by invitation	75.7
13	Teachers training college, Kota Samarahan		√	May 1999	Open tender	68.4
14	Resettlement for Beris Dam project	√		Dec 2003	Open tender	67.5
15	Upgrading of Sibu Airport		√	Dec 2003	Open tender	64.3
16	Roads in Precinct 4, Putrajaya	√		Apr 2002	Open tender	54.7
17	Palm oil bulking facilities, Bintulu Port		√	Nov 2009	Open tender	51.2
18	Upgrading of Bentong – Kayu Malam road		√	Jun 2004	Open tender	45.5

Source: Company, RHBRI

**Table 3: Key On-Going Contracts**

No	Project	Location		Expected Completion	Award Basis	Value (RMm)	
		W. M'sia	E. M'sia			Total	Outstdg.
1	Main contract, Package A, Kelana Jaya LRT Line extension	√		Jun 2013	Open tender	950.0	950.0
2	Sibu - Bawang – Assam – Seredang road		√	Completing	Open tender	222.0	10.0
3	Maritime college, Kuantan	√		Jun 2011	Tender by invitation	218.0	110.0
4	University Kuala Lumpur	√		Completing	Direct negotiation	199.6	40.0
5	Warehouses, Bintulu Port	√		Jul 2011	Tender by invitation	88.9	30.0
6	Upgrading of Container Terminal 1, Northport	√		Mar 2012	Open tender	45.9	35.0
7	Upgrading of Kota Bharu Airport	√		Nov 2011	Open tender	45.5	35.0
<b>Total</b>						<b>1,769.9</b>	<b>1,210.0</b>

Source: Company, RHBRI

- ◆ **Veteran in the driver’s seat.** At the helm of the company is founder and executive chairman Dato’ Sri Sufri bin Hj Mohd Zin. Dato’ Sri Sufri holds a master degree in Business Administration in Construction Management from Harvey International University, USA, and a bachelor degree in Jurisprudence (External) from Universiti Malaya.

He has been in the construction business for more than 25 years. Prior to venturing into the construction business, he was a banker with Bank Bumiputera Malaysia Bhd.

## Investment case

- ◆ **The investment case.** The bases of our investment case for TRC are:
  1. TRC is a safe bet as it has already got a “ticket to ride” on the current public infrastructure spending boom, i.e. via the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project. Also, its lean setup means that it can profitably execute certain smaller public jobs and subcontracts of key large-scale projects;
  2. TRC has an additional appeal vis-à-vis its peers in West Malaysia as it is also a good proxy to the infrastructure spending boom in East Malaysia, given its status as a Unit Pendaftaran Kontraktor Negeri Sarawak (UPK) registered contractor and already strong presence in the market;
  3. We are satisfied that TRC is no “commissioned agent” but actually executes the contracts it secures. Bearing testimony to its ability to execute contracts is it being appointed subcontractor by key players to carry out their projects in East Malaysia; and
  4. An added bonus could potentially come from a multi-billion ringgit crude oil storage and refinery project in Brunei, via 26%-owned associate Petro Bru (B) Sdn Bhd.
- ◆ **A bird already in hand, good chances for smaller jobs and subcontracts.** TRC is a safe bet as it has already got a “ticket to ride” on the current public infrastructure spending boom, i.e. via the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project. We understand that the amount comprises “direct works” to TRC worth about RM500m of which TRC could earn double-digit margins and “nominated subcontractor works” worth the balance RM450m of which TRC could earn a management fee translating to low single-digit margins. Under the scheme of the LRT line extension project, Prasarana, the national transportation assets holding company that is entrusted to implement the project, retains the rights to award out nominated subcontractor works on behalf of main contractors to promote “equitable participation” of more players. For TRC’s RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project, for instance, Prasarana recently appointed Fajarbaru to build Stations 1, 2 & 3 valued at RM87.4m (see *Our News Update* on Fajarbaru dated 7 Mar 2011). Also, TRC’s lean setup is a strength as it allows it to profitably execute: (1) Certain smaller public jobs (worth RM50-100m) that large players such as Gamuda, IJM and WCT normally shy away from due to the lack of economies of scale to them; and (2) Sub-contracts of key large-scale projects. Given the massive scale of some of the proposed public infrastructure projects, particularly, the MRT, we expect the local construction market to be awash with small sub-contracts such as station buildings, park & ride facilities, M&E, drainage & sewerage, covered walkways, pedestrian bridges and landscaping.
- ◆ **2-in-1 infrastructure spending play.** TRC has an additional appeal vis-à-vis its peers in West Malaysia. It is also a good proxy to the infrastructure spending boom in East Malaysia, particularly, the spending under Sarawak Corridor of Renewable Energy (SCORE), led by various new access road projects (see Image 1). TRC is a UPK registered contractor, a status that allows it to take on Sarawak state government contracts. This is considered rare among West Malaysia-based contractors. More importantly, while a lot of West Malaysia-based players are just starting (or trying) to crack into the lucrative East Malaysian construction market (IJM, for instance, secured two work packages of the Murum access road project worth a total of RM247m in Apr 2010), TRC has already had a strong presence, foothold and track record in the market with completed projects ranging from airport and seaport/marine base related works, to road and building jobs in Sabah and Sarawak over the last 12 years (see Tables 2 & 3 again).
- ◆ **A “down-to-earth” contractor.** We are satisfied that TRC is no “commissioned agent” but actually executes the contracts it secures. Bearing testimony to its ability to execute contracts is it being appointed subcontractor by key players to carry out their projects in East Malaysia including: (1) By UEM for the RM78.8m Keningau Hospital project; (2) By Naim for the RM45.5m upgrading job of the Bentong – Kayu Malam road; and (3) By PPES Works, a 51%-owned unit of Cahya Mata Sarawak, for the RM90.4m Pantai Baru – Tanjung Kidurong road project. TRC’s construction operations are backed a fleet of construction equipment with a book value of about RM20m. The number will go up to about RM50m over the immediate term with RM30m capital expenditure budgeted for the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project.
- ◆ **Multi-billion ringgit refinery project in Brunei.** An added bonus could potentially come from a multi-billion ringgit crude oil refinery and storage project in Brunei, the brainchild of TRC’s 26%-owned associate Petro Bru (B)

Sdn Bhd. First initiated in Jan 2008, the detailed feasibility study of the project by international consultant Wood MacKenzie was subsequently completed in Jun 2009 with positive results. The project is now pending the final approval from Brunei government. The project, if it happens, will be “two bites on the same cherry” for TRC, i.e.: (1) A slice of action in the infrastructure works (including land reclamation) estimated at B\$2bn (RM4.8bn), and building jobs of the refinery and storage facility estimated at US\$4.3bn (RM12.9bn) on the proposed site, i.e. Pulau Muara Besar, Brunei; and (2) Return on investment on the project. We have not reflected the potential in our numbers.

#### Balance sheet

- ◆ **Net cash of RM200.3m or RM1.05 per share.** TRC’s balance sheet is extremely strong with a net cash of RM200.3m at as 31 Dec 2010, translating to a whopping RM1.05 per share (vis-à-vis sector average net gearing of 0.3x). We believe this is a result of the highly stringent criteria it adheres to when it comes to bidding for new contracts, particularly, the ability of the client to honour payment based on work progress, and highly prudent cash management.

#### Risks

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

#### Valuations and recommendation

- ◆ **Fair value of RM1.80.** We project TRC’s net profit to leap +86% in FY12/11, driven largely by maiden contribution from the RM950m main contract of the Package A of the Kelana Jaya LRT Line extension project. Subsequently, FY12/12-13 net profits are projected to grow by +17% and +12% respectively assuming TRC is able to secure RM300m worth of new contracts per annum in FY12/11-13. We value TRC at RM1.80 based on 13x fully-diluted EPS of 13.9sen, in line with our benchmark 1-year forward target PER of 12-16x for the construction sector. We are initiating coverage on TRC with an **Outperform** recommendation.

Table 4: 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	5.7	6.3
Associates	0.0	0.0	0.0	0.0
EI	0.0	0.0	0.0	0.0
Pretax Profit	23.5	41.2	48.3	54.4
Tax	-7.0	-10.3	-12.1	-13.6
PAT	16.5	30.9	36.2	40.8
Minorities	0.0	0.0	0.0	0.0
Net Profit	16.5	30.9	36.2	40.8

Source: Company data, RHBRI estimates

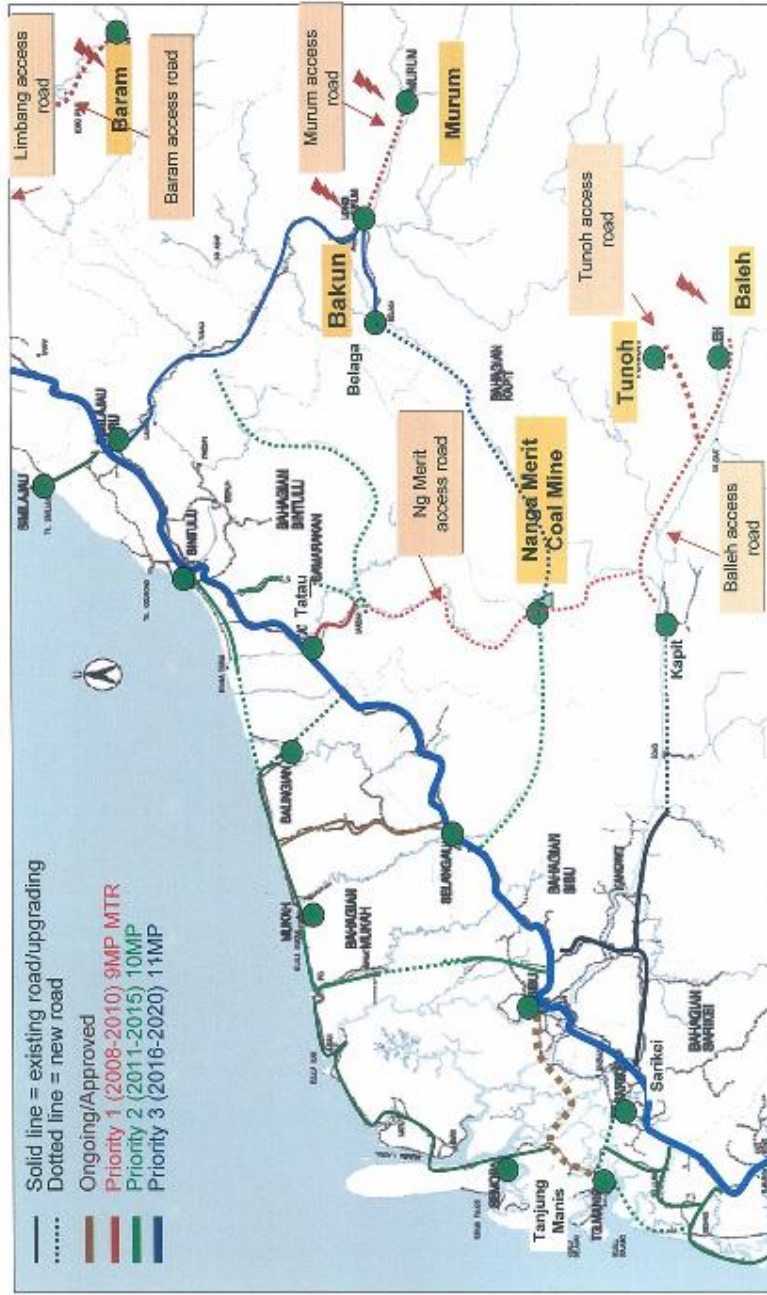
Table 5: Forecast Assumptions			
FYE Dec	FY11F	FY12F	FY13F
Construction EBIT margin (%)	8.4	8.5	8.6
New orderbook secured (RMm)	300	300	300

Source: RHBRI estimates

Image 1: SCORE Access Road Projects



# SCORE: Access Roads to Energy Sites



## 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 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 CMDP-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.