



TRC Synergy Berhad

Distorted By Defect Liability Works

TP: RM0.80(+11.4%)

Last traded: RM0.715

BUY

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Review

- TRC Synergy's (TRC) FY11 performance trailed analysts' estimates due to an additional cost incurred on two completed building works during the defect liability period. It has contributed to the decline in earnings by 18% YoY to RM13.5mn despite a growth in revenue of 3%.
- QoQ, 4Q11 earnings dipped marginally 0.5% to RM2.6mn due to the additional cost, which was partly offset by the write back of overprovision of tax in prior years.

Impact

- No change to our FY12-14 earnings projections. We maintain our new jobs assumptions of RM700mn for FY12-14.

Outlook

- We believe the extra costs incurred on ratifying defect works would not be spilled over to FY12 earnings. Meanwhile, the construction progress on LRT extension project is expected to gather pace after getting development orders from two municipalities of Shah Alam and Petaling Jaya. According to management, the company is expected to obtain the final development order from the municipality of USJ latest by 1QFY12.
- As far as new jobs are concerned, we are confident that TRC Synergy will secure at least one of the above-ground KVMRT works after prequalifying for 3 major packages of KVMRT – SBK line project, ie: elevated civil works, stations and depots (see Table 1). Our basis is premised upon TRC's ability to secure the LRT extension – Kelana Jaya Phase 1 jobs worth RM950mn in late-10 despite stiff competition. Accordingly, we have assumed TRC to secure RM700mn new jobs in FY12. Currently, TRC has an order book of RM1.3bn (see Table 2)

Share Information

Bloomberg Code	TRC MK
Bursa	TRC
Stock Code	5054
Listing	Main Market
Share Cap (mn)	474.4
Market Cap (RMmn)	339.2
Par Value	1.00
52-wk Hi/Lo (RM)	0.815/0.496
12-mth Avg Daily Vol ('000 shrs)	1122.0
Estimated Free Float (%)	39.52
Beta (x)	1.33

Major Shareholders (%)

TRC Capital Sdn Bhd	12.55
Kolektif Aman Sdn Bhd	12.33
Mohd Zin Sufri bin Haji	9.77
Leong Kam Heng	9.56
Lembaga Tabung Haji	9.45
Khoo Tew Choon	6.82

Forecast Revision

	FY12	FY13
Forecast Revision (%)	-	-
Net profit (RMm)	26.6	36.9
Consensus (RM'mn)	33.8	44.9
TA's / Consensus (%)	78.8	82.2
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY12	FY13
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	5.0	7.2
Price / CFPS (x)	14.4	9.86
ROA (%)	6.0	7.2
NTA/Share (RM)	0.7	0.7
Price/NTA (x)	1.1	1.0

SCORECARD (%)

vs TA	93.0	Below
vs Consensus	87.0	Below

Share Performance (%)

Price Change	TRC	FBM KLCI
1 mth	(5.9)	3.2
3 mth	19.2	5.7
6 mth	21.2	8.5
12 mth	27.0	4.5

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Table 1: TRC has prequalified for 18 packages of MRT works

Elevated civil works (8 packages)	Open Category (5 packages)
	Bumiputera Category (3 packages)
Stations (8 packages)	Open Category (5 packages)
	Bumiputera Category (3 packages)
Depots (2 packages)	Open Category (1 package)
	Bumiputera Category (1 package)

Source: KVMRT & TA Research

Valuation

- Maintain our fair value at RM0.80 for TRC, based on an unchanged 14x CY12 earnings. Given the potential total return of 15.9%, we reiterate our **Buy** recommendation on TRC.

Table 1: Order book

Project	Value RM'mn	Unbilled portion RM'mn	Expected completion date
1 LRT extension - Kelana Jaya Phase 1	950.0	870	Jun-13
2 Public housing at Precinct 8, Putrajaya	43.8	30	Dec-12
3 Maintenance of submarine base facilities	45.0	40	Jun-13
4 Brunei airport	318.9	318.9	Nov-14
5 Lumut jetty	51.3	45	Jun-13
6 Public housing at Precinct 14, Putrajaya	38.08	0	Mar/Jun-13
Total	1447.1	1303.9	

Earnings Summary

FYE December (RMmn)	2010	2011	2012F	2013F	2014F	
Revenue	376.6	391.3	553.1	771.3	904.4	
Gross Profit	44.7	27.8	74.9	95.9	112.5	
EBITDA	28.9	9.5	38.0	51.9	60.2	
EBITDA margin (%)	64.7	34.1	50.8	54.1	53.5	
EBIT	23.9	9.5	31.8	44.8	52.4	
PBT	23.5	14.8	35.5	49.2	57.2	
PAT	16.5	13.5	26.6	36.9	42.9	
EPS *	(sen)	3.6	2.9	5.7	7.9	9.2
PER	(x)	19.7	24.6	12.6	9.1	7.8
Gross dividend *	(sen)	2.1	0.0	3.3	4.0	4.0
Dividend yield	(%)	2.9	0.0	4.5	5.6	5.6

* Adjusted for share split and bonus issue

4QFY11 Results Analysis

FYE Dec (RMmn)	4Q10	3Q11	4Q11	QoQ (%)	YoY (%)	FY10	FY11	YoY (%)
Revenue	86.6	95.0	94.7	(0.3)	9.3	376.7	391.3	3.9
COGS	(79.4)	(88.7)	(92.9)	4.8	17.0	(332.0)	(363.5)	9.5
GP	7.3	6.3	1.8	(71.5)	(75.2)	44.7	27.8	(37.8)
Other Op Income	0.9	5.1	1.5	(70.4)	71.1	4.3	9.5	121.2
Admin Expenses	(4.2)	(6.6)	(6.6)	(0.2)	58.2	(26.3)	(27.9)	6.0
Finance Costs	0.9	1.3	1.9	45.7	98.8	0.9	5.6	503.4
Associate	(0.4)	0.0	1.2	nm	>100	(0.3)	(0.4)	25.0
PBT	4.6	4.2	(0.2)	(105.0)	(104.6)	23.0	14.8	(35.7)
Tax	(1.2)	(1.7)	2.8	(265.5)	(336.8)	(6.8)	(1.3)	(81.2)
PAT	3.4	2.6	2.6	(0.5)	(24.7)	16.2	13.5	(16.4)
EPS (sen)*	0.7	0.6	0.6	0.0	(24.7)	3.5	2.9	(17.1)
Dividend (sen)*	2.1	0.0	0.0	nm	nm	2.1	0.0	nm
Margin (%):								
- PBT	5.3	4.5	(0.2)	(4.7)	(5.5)	6.1	3.8	(2.3)
- PAT	3.9	2.7	2.7	(0.0)	(1.2)	4.3	3.5	(0.8)
- Effective tax rate	25.6	39.4	1313.3	nm	nm	29.7	8.7	(21.0)

* Adjusted for share split and bonus issue

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