

31 May 2013

TRC Synergy

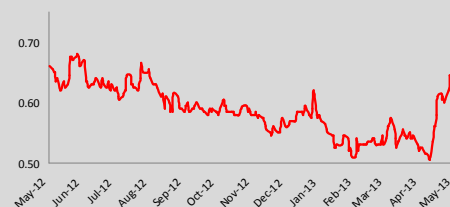
On full steam ahead

OUTPERFORM ↔

Price: RM0.63
Target Price: RM0.75 ↑

- | | |
|--------------------------------|---|
| Period | <ul style="list-style-type: none"> 1QFY13 / 3MFY13 |
| Actual vs. Expectations | <ul style="list-style-type: none"> TRC's 1QFY13 earnings of RM5.7m came below ours and below streets expectations, making up 16% and 18% of ours and streets estimates, respectively. This is due to our higher assumption on its construction margins. |
| Dividends | <ul style="list-style-type: none"> No dividend was declared, as expected. |
| Key Result Highlights | <ul style="list-style-type: none"> YoY, TRC's earnings grew tremendously by 320% from RM1.3m to RM5.7m underpinned by a strong revenue growth (+82%). The higher revenue was mainly attributable to better progress on its LRT and Samalaju dredging works coupled with a lower effective tax rate of 12.4% (-53.4ppt) due to the recognition of deferred tax in 1QFY13. To recap, the stop-work order from SPNB due to the accident was lifted up and this is not material to the bottom-line. QoQ, although its revenue was down by 13% to RM172.4m due to slower progress billing as February has a shorter work-day, its net earnings improved by 34% to RM5.7m. The improvement in earnings is mainly attributable to the improvement in LRT margins as LRT works finally picked up paced in the beginning of the year and going full swing ahead. |
| Outlook | <ul style="list-style-type: none"> TRC's outstanding order book comfortably stands at c.RM2.0b providing earnings visibility for the next three years. Moving forward, we would expect better earnings contributions from its property segment by FY15 underpinned by the joint development with Prasarana. |
| Change to Forecasts | <ul style="list-style-type: none"> Reduced our FY13-14 estimates by 20% and 8% respectively as we adjusted our margin assumptions lower for its construction division accordingly. |
| Rating | <p>Maintain OUTPERFORM</p> <ul style="list-style-type: none"> We continue to OUTPERFORM on TRC as we expect TRC to remain as a strong contender in Sarawak and also on the expansion of its property development business. |
| Valuation | <ul style="list-style-type: none"> Raised our TP from RM0.72 to RM0.75 with a higher multiple of 9x on its FY14 PER (previously, 8x FY14 PER) given that its presence in Sarawak (still a discount compared to Sarawak players which is trading at an average of 9.7x FY14 PER). |
| Risks | <ul style="list-style-type: none"> Further delays in the LRT/MRT projects. |

Share Price Performance



| | |
|---------------------|---------|
| KLCI | 1774.92 |
| YTD KLCI chg | 5.1% |
| YTD stock price chg | 9.6% |

Stock Information

| | |
|----------------------|---------------|
| Bloomberg Ticker | TRC MK Equity |
| Market Cap (RM m) | 298.1 |
| Issued shares | 476.9 |
| 52-week range (H) | 0.69 |
| 52-week range (L) | 0.50 |
| 3-mth avg daily vol: | 436,778 |
| Free Float | 66% |
| Beta | 1.4 |

Major Shareholders

| | |
|----------------------|-------|
| TRC CAPITAL SDN BHD | 12.5% |
| KOLEKTIF AMAN SDN BH | 12.3% |
| BIN HAJI MOHD ZIN SU | 9.7% |

Summary Earnings Table

| FYE Dec (RM m) | 2012A | 2013E | 2014E |
|------------------------|-------------|-------------|-------------|
| Revenue | 570.2 | 793.1 | 919.8 |
| Pretax profit | 24.1 | 38.8 | 51.2 |
| Net profit | 10.2 | 28.7 | 37.9 |
| Core Net profit | 10.2 | 28.7 | 37.9 |
| Consensus (NP) | - | 31.9 | 39.3 |
| Earnings revision | - | -20% | -8% |
| EPS (sen) | 2.2 | 6.3 | 8.3 |
| EPS growth (%) | (21.8) | 182.6 | 32.0 |
| Net DPS (sen) | 0.6 | 1.6 | 2.1 |
| NTA/ share (RM) | 0.7 | 0.7 | 0.8 |
| Net gearing (x) | N.Cash | N.Cash | N.Cash |
| PER (x) | 28.2 | 10.0 | 7.6 |
| P/NTA (x) | 0.9 | 0.9 | 0.8 |
| Net div. yield (%) | 0.9 | 2.5 | 3.3 |

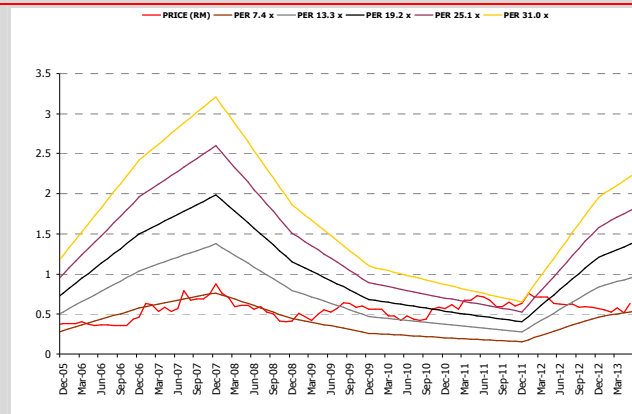
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Result Highlights

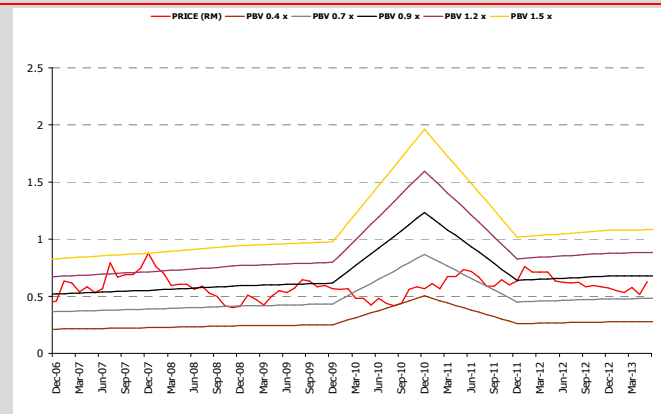
| | 1Q | | | 4Q | | 1Q | | | 3M | | 3M | |
|----------------------|------------|------------|-------------|------------|-------------|------------|------------|-------------|------------|------------|-------------|--|
| FY 31 Dec (RMm) | FY13 | FY12 | QoQ | FY12 | YoY | FY13 | FY12 | YoY | FY13 | FY12 | YoY | |
| Revenue | 172.4 | 198.6 | -13% | 94.7 | 82% | 172.4 | 94.7 | 82% | 172.4 | 94.7 | 82% | |
| EBITDA | 7.9 | 6.9 | 14% | 6.6 | 20% | 7.9 | 6.6 | 20% | 7.9 | 6.6 | 20% | |
| Pretax profit | 6.5 | 7.9 | -18% | 3.9 | 64% | 6.5 | 3.9 | 64% | 6.5 | 3.9 | 64% | |
| Taxation | (0.8) | (3.6) | -78% | (2.6) | -69% | (0.8) | (2.6) | -69% | (0.8) | (2.6) | -69% | |
| Minority Interest | - | - | - | - | - | - | - | - | - | - | - | |
| Net Profit | 5.7 | 4.2 | 34% | 1.3 | 320% | 5.7 | 1.3 | 320% | 5.7 | 1.3 | 320% | |
| EPS (sen) | 1.2 | 0.9 | 34% | 0.3 | 320% | 1.2 | 0.3 | 320% | 1.2 | 0.3 | 320% | |
| EBITDA margin | 4.6% | 3.5% | | 7.0% | | 4.6% | 7.0% | | 4.6% | 7.0% | | |
| PBT margin | 3.7% | 4.0% | | 4.2% | | 3.7% | 4.2% | | 3.7% | 4.2% | | |
| Net profit margin | 3.3% | 2.1% | | 1.4% | | 3.3% | 1.4% | | 3.3% | 1.4% | | |
| Effective tax rate | 12.4% | 46.4% | | 65.8% | | 12.4% | 65.8% | | 12.4% | 65.8% | | |

Source: Company, Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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