



## TRC Synergy Berhad

Potential Beneficiary of Sarawak Construction Boom

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY\*

**TP: RM0.75 (+20.0%)**

Last traded: RM0.625

**BUY**

TA Research Team Coverage	+603-2072-1277 ext:1635	benghooi@ta.com.my	www.taonline.com.my
---------------------------	-------------------------	--------------------	---------------------

### Review

- TRC Synergy's 1Q13 net profit of RM5.7mn was in line with our estimate but below consensus forecast, accounted for 22.5% and 17.7% of our and consensus' forecasts respectively.
- YoY, 1Q13 revenue grew 82% while net profit surged 320.4% mainly due to lower administrative expenses.
- QoQ, the quarterly net profit increased 34.1%, attributed to lower administrative and lower effective tax rate. Revenue was 13.2% lower at RM172.4mn which was likely due to shorter working days as the construction sites were off for Chinese New Year break in February 2013.
- No dividend was declared for this quarter, as expected.

### Impact

- Subsequent to our previous company update on TRC dated 26 April 2012, the stop work order that was issued to TRC due to a site accident at its LRT extension - Kelana Jaya line had been lifted about a month ago. As a result of the incident, we expect weak 2Q13 results due to the suspension of works, which had impacted the construction progress at the LRT extension project site.
- Nevertheless, with the works have since then resumed in full swing, we revise upward our PBT margin assumption for the LRT extension for FY14 onwards to 3.5%. Thus, raise our earnings forecast for FY14-15 by 24.7% and 11.8% respectively.

### Outlook

- With the conclusion of the 13<sup>th</sup> general election and the overhang arising from the political risk has been removed, we believe TRC which holds the license of Sarawak-registered contractor (UPK) could potentially benefit greatly from the construction boom in the Sarawak state.
- This would be particularly from the infrastructures and industrial projects in Sarawak Corridor of Renewable Energy (SCORE) and the 2,300km Pan Borneo Highway, which is one of the pledges made under Barisan Nasional's 13<sup>th</sup> general election manifesto.
- The margin for Sarawak construction projects is expected to be higher given the limited pool of Sarawak-state-registered contractors. In Sarawak, TRC is currently involved in the construction of interim facilities for Samalaju port as well as an access road construction between Sangan and Kapit.
- The outstanding order book stood at about RM1.9bn, which translate into 3.5x of outstanding order book to construction revenue (FY2012). This will keep the group busy for the next 3 years.

### Share Information

Bloomberg Code	TRC MK
Bursa	TRC
Stock Code	5054
Listing	Main Market
Share Cap (mn)	476.9
Market Cap (RMmn)	298.1
Par Value	0.50
52-wk Hi/Low (RM)	0.685/0.50
12-mth Avg Daily Vol ('000 shrs)	292.7
Estimated Free Float (%)	36.7
Beta (x)	1.45

### Major Shareholders (%)

TRC Capital Sdn Bhd	12.49
Kolektif Aman Sdn Bhd	12.27
Mohd Zin Sufri bin Haji	9.72
Leong Kam Heng	9.52
Lembaga Tabung Haji	9.40
Khoo Tew Choon	6.79

### Forecast Revision

	FY13	FY14
Forecast Revision (%)	0.0	24.7
Net profit (RMmn)	25.1	35.8
Consensus (RM' mn)	31.9	39.3
TA's / Consensus (%)	78.5	91.1
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY13	FY14
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	26.3	5.3
Price / CFPS (x)	2.0	10.0
ROA (%)	3.5	3.7
NTA/Share (RM)	0.7	0.7
Price/NTA (x)	0.8	0.7

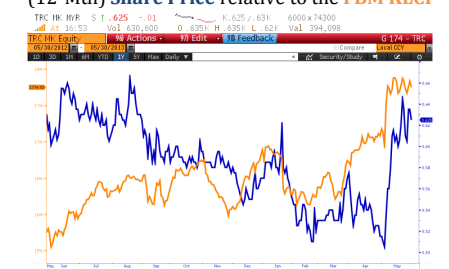
### SCORECARD (%)

vs TA	22.5	Within
vs Consensus	17.7	Below

### Share Performance (%)

Price Change	TRC	FBM KLCI
1 mth	21.4	3.3
3 mth	17.9	8.4
6 mth	7.8	10.2
12 mth	(3.8)	12.7

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



Source: Bloomberg

## Valuation

- Subsequent to the earnings revision, we raise our fair value to **RM0.75/share** from RM0.605/share, based on 10x CY14 earnings. Maintain **Buy** call given the potential upside of 20.0%.

## Earnings Summary

FYE December (RMmn)	2011	2012	2013F	2014F	2015F
Revenue	400.8	570.2	835.7	1000.2	995.6
Gross Profit	29.7	47.3	103.9	124.4	123.8
EBITDA	22.3	31.0	43.2	57.7	76.2
EBITDA margin (%)	5.6	5.4	5.2	5.8	7.7
EBIT	17.0	25.6	37.6	51.5	69.4
PBT	16.6	24.1	33.4	47.8	66.5
PAT	13.0	10.2	25.1	35.8	49.9
EPS * (sen)	2.8	2.1	5.3	7.5	10.5
PER (x)	18.8	25.0	10.0	7.0	5.0
Gross dividend * (sen)	2.0	0.5	2.0	2.0	2.0
Dividend yield (%)	3.8	0.9	3.8	3.8	3.8
ROE (%)	4.2	3.2	7.6	10.1	12.6

\*adjusted for share split and bonus issue

## 1QFY13 Results Analysis

FYE Dec (RMmn)	1Q12	4Q12	1Q13	QoQ (%)	YoY (%)	3MFY12	3MFY13	YoY (%)
Revenue	94.7	198.6	172.4	(13.2)	82.0	94.7	172.4	82.0
COGS	(84.5)	(185.5)	(162.9)	(12.2)	92.8	(84.5)	(162.9)	92.8
GP	10.2	13.1	9.4	(28.2)	(7.7)	10.2	9.4	(7.7)
Other Op Income	4.1	1.7	2.4	41.7	(41.8)	4.1	2.4	(41.8)
Admin Expenses	(11.5)	(7.8)	(6.1)	(21.9)	(47.1)	(11.5)	(6.1)	(47.1)
Finance Costs	(0.4)	(0.7)	(0.7)	11.2	89.9	(0.4)	(0.7)	89.9
Associate	0.3	-0.3	0.0	(102.1)	(99.7)	0.3	0.0	(97.9)
PBT	3.9	7.9	6.5	(17.9)	64.1	3.9	6.5	64.1
Tax	(2.6)	(3.6)	(0.8)	(78.0)	(69.0)	(2.6)	(0.8)	(69.0)
PAT	1.3	4.2	5.7	34.1	320.4	1.3	5.7	320.4
EPS (sen)*	0.3	0.9	1.2	33.7	325.0	0.3	1.2	325.0
Dividend (sen)*	0.0	0.5	0.0	(100.0)	nm	0.0	0.0	nm
Margin (%):								
- PBT	4.2	4.0	3.7	(0.2)	(0.4)	4.2	3.7	(0.4)
- PAT	1.4	2.1	3.3	1.2	1.9	1.4	3.3	1.9
- Effective tax rate	65.8	46.4	12.4	(34.0)	(53.4)	65.8	12.4	(53.4)

\*adjusted for share split and bonus issue

## Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD<sup>(14948-M)</sup>  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research