

TRC Synergy (TRC MK)

Industrial - Engineering & Construction

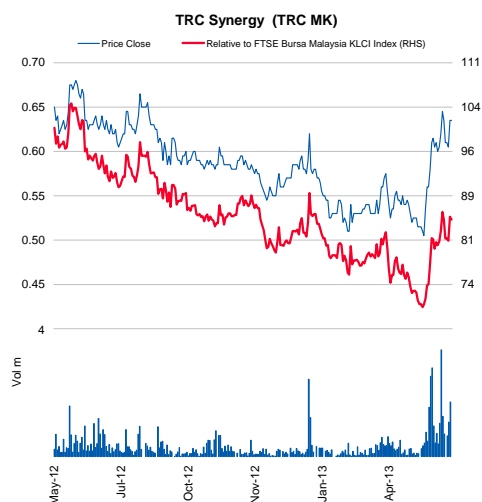
Market Cap: USD98.3m

Buy (Maintained)

 Target Price: **MYR0.71**

 Price: **MYR0.64**

Core 1QFY13 Net Profit Grows 15% YoY

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

| | |
|----------------------------|-------------|
| Avg Turnover (MYR/USD) | 0.25m/0.08m |
| Cons. Upside (%) | -10.9 |
| Upside (%) | 11.8 |
| 52-wk Price low/high (MYR) | 0.51 - 0.68 |
| Free float (%) | 45 |
| Shareholders (%) | |
| DS Sufri Bin Mohd Zin | 34.7 |
| Dato' Leong Kam Heng | 9.6 |
| Lembaga Tabung Haji | 9.5 |

Shariah compliant

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We maintain our Buy call, forecasts and fair value of MYR0.71 following the release of 1QFY13 results that came in within expectations. On improved sentiment post the 13th general election, we believe the buying spree will eventually spill over to small-cap construction stocks from big-cap ones. We like TRC for the advantages it enjoys as Bumiputera/Sarawak-state-registered contractor.

- ◆ **Weak 1Q, but stronger quarters ahead.** 1QFY13 net profit came in at only 11-12% of our full-year forecast and the full-market consensus net profit. However, we consider the results within expectations as 1Q is typically a seasonally weak quarter as it embraces the impact of the long Chinese New Year break. In addition, during the early part of 1Q13, a long wet spell also hampered concreting works. We expect stronger quarters ahead.
- ◆ **Maiden launch from Ara Damansara project in 4QFY13.** Meanwhile, TRC is in the midst of submitting the development plan to the authority for an integrated development on a 12.3-acre site in Ara Damansara with a GDV of MYR700-800m. Apart from the highly sought-after Ara Damansara address, the other key selling point of the project is LRT connectivity under the same roof as the development will house the Ara Damansara station of the Kelana Jaya LRT line extension project. With the maiden launch of the first residential tower scheduled in 4QFY13, we expect the project to substantially drive TRC's property profits from FY14. In our earnings forecasts, we project TRC's property turnover and EBIT to jump to MYR50m and MYR12.5m in FY14 (from MYR30m and MYR2.5m in FY13).
- ◆ **Risks to our view.** The risks include: (1) New contract wins in FY13-14 falling short of our target of MYR400m p.a.; and (2) Rising in input costs.
- ◆ **Maintain Buy.** Post the 13th general election, we believe investors should refocus on sector fundamentals that are reasonably attractive underpinned by a construction upcycle. We like TRC for the advantages it enjoys as Bumiputera/Sarawak-state-registered contractor. Fair value is MYR0.71 based on 10x FD FY14 EPS of 7.1sen, in line with our benchmark 1-year forward target PER of 10-16x for the construction sector.

| Forecasts and Valuations | Dec-10 | Dec-11 | Dec-12 | Dec-13F | Dec-14F |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (MYRm) | 377 | 401 | 570 | 683 | 832 |
| Reported net profit (MYRm) | 16.2 | 13.0 | 10.2 | 31.5 | 43.8 |
| Recurring net profit (MYRm) | 16.2 | 13.0 | 10.2 | 31.5 | 43.8 |
| Recurring net profit growth (%) | na | (19.8) | (21.5) | 209.2 | 39.1 |
| Core EPS (MYR) | 0.04 | 0.03 | 0.02 | 0.07 | 0.09 |
| DPS (MYR) | 0.01 | 0.02 | 0.02 | 0.01 | 0.01 |
| Dividend Yield (%) | 2.0 | 2.5 | 2.4 | 2.3 | 2.3 |
| Core P/E (x) | 17.9 | 22.6 | 29.2 | 9.5 | 6.9 |
| Return on average equity (%) | 10.9 | 4.3 | 3.3 | 9.6 | 12.2 |
| P/B (x) | 0.97 | 0.96 | 0.95 | 0.88 | 0.80 |
| P/CF (x) | 8.18 | na | na | 8.14 | 6.19 |
| EV/EBITDA (x) | 0.79 | 5.85 | 7.98 | 4.20 | 2.89 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |
| Our vs consensus EPS (%) | | | | 0.0 | 0.0 |

Source: Company data, RHB Estimates

Figure 1: Earnings Review (YoY Cumulative)

| FYE Dec (MYRm) | 2012 3M | 2013 3M | YoY Chg | Observations/Comments |
|----------------------|---------|---------|-------------|--|
| Turnover | 94.7 | 189.5 | 100% | |
| Construction | 83.9 | 176.7 | >100% | As works on key projects gathered momentum, particularly, the LRT line extension contract. |
| Others & Elimination | 10.8 | 12.8 | 18% | |
| EBIT | 5.0 | 3.6 | (27%) | Hurt by weakened margins. |
| Associates | (0.2) | 0.0 | nm | |
| EI | (2.2) | 2.1 | nm | Forex gains/losses. |
| Net inc/(exp) | 0.8 | 0.7 | (13%) | |
| Pretax profit | 3.5 | 6.5 | 86% | Cushioned by a reversal to forex gains from losses previously. |
| Taxation | (2.6) | (0.8) | (69%) | |
| Net profit | 0.9 | 5.7 | >100% | Also helped by a lower tax. |
| EPS (sen) | 0.3 | 1.2 | >100% | |
| Net profit (ex-EI) | 3.1 | 3.6 | 15% | Driven largely by a lower tax. |
| EBIT margin | 5.3% | 1.9% | (3.4% pts) | We believe due to provisions for pending variation order (VO) claims. |
| Pretax margin | 3.7% | 3.4% | (0.3% pt) | |
| Effective tax rate | 74.6% | 12.4% | (62.2% pts) | |

Source: Company data, RHB Estimates

Figure 2: Earnings Review (QoQ)

| FYE Dec (MYRm) | 2012 4Q | 2013 1Q | QoQ Chg | Observations/Comments |
|----------------------|---------|---------|-------------|--|
| Turnover | 198.6 | 189.5 | (5%) | |
| Construction | 197.2 | 176.7 | (10%) | Seasonally weak quarter on the back of the Chinese New Year holiday, as well as unfavourable weather conditions. |
| Others & Elimination | 1.5 | 12.8 | >100% | |
| EBIT | 6.5 | 3.6 | (44%) | Hurt further by weakened margins. |
| Associates | (0.3) | 0.0 | nm | |
| EI | 0.6 | 2.1 | >100% | Forex gains/losses. |
| Net inc/(exp) | 1.1 | 0.7 | (37%) | |
| Pretax profit | 7.9 | 6.5 | (18%) | Cushioned by higher forex gains. |
| Taxation | (3.7) | (0.8) | (78%) | |
| Net profit | 4.2 | 5.7 | 35% | Also helped by a lower tax. |
| EPS (sen) | 0.9 | 1.2 | 34% | |
| Net profit (ex-EI) | 3.6 | 3.6 | (2%) | |
| EBIT margin | 3.3% | 1.9% | (1.3% pts) | We believe due to provisions for pending variation order (VO) claims. |
| Pretax margin | 4.0% | 3.4% | (0.6% pt) | |
| Effective tax rate | 46.8% | 12.4% | (34.3% pts) | |

Source: Company data, RHB Estimates

Figure 3: TRC's Outstanding Construction Orderbook

| Project | Value (MYRm) |
|--|--------------|
| Main contract, Package A, Kelana Jaya LRT Line extension | 700 |
| Sg Buloh Depot, MRT | 440 |
| Brunei Airport | 270 |
| Package S1 (three elevated stations), MRT | 284 |
| SCORE access road (Sangan - Sungai Anap) | 170 |
| Samalaju Port, Bintulu | 150 |
| Upgrading of Lumut Jetty | 35 |
| Housing project, Precinct 14, Putrajaya | 20 |
| Kompleks Dayabumi (Phase 2) | 20 |
| Submarine facilities for Royal Malaysian Navy | 20 |
| Housing project, Precinct 8, Putrajaya | 10 |
| Total | 2,119 |

Source: Company data, RHB Estimates

Financial Exhibits

| Profit & Loss (MYRm) | Dec-10 | Dec-11 | Dec-12 | Dec-13F | Dec-14F |
|--|-----------|-----------|-----------|-----------|-----------|
| Total turnover | 377 | 401 | 570 | 683 | 832 |
| Cost of sales | (332) | (371) | (523) | (614) | (747) |
| Gross profit | 45 | 30 | 47 | 69 | 85 |
| Gen & admin expenses | (29) | (28) | (31) | (32) | (32) |
| Other operating costs | 5 | 9 | 4 | 5 | 5 |
| Operating profit | 20 | 10 | 20 | 42 | 58 |
| Operating EBITDA | 25 | 16 | 26 | 47 | 63 |
| Depreciation of fixed assets | (5) | (5) | (6) | (6) | (6) |
| Operating EBIT | 20 | 10 | 20 | 42 | 58 |
| Net income from investments | (0) | (0) | 0 | - | - |
| Interest income | 3 | 7 | 4 | 0 | 1 |
| Pre-tax profit | 23 | 17 | 24 | 42 | 58 |
| Taxation | (7) | (4) | (14) | (11) | (15) |
| Profit after tax & minorities | 16 | 13 | 10 | 32 | 44 |
| Reported net profit | 16 | 13 | 10 | 32 | 44 |
| Recurring net profit | 16 | 13 | 10 | 32 | 44 |

Source: Company data, RHB Estimates

| Cash flow (MYRm) | Dec-10 | Dec-11 | Dec-12 | Dec-13F | Dec-14F |
|--|-------------|-------------|--------------|-------------|-------------|
| Operating profit | 20 | 10 | 20 | 42 | 58 |
| Depreciation & amortisation | 5 | 5 | 6 | 6 | 6 |
| Change in working capital | 19 | (66) | (114) | - | - |
| Other operating cash flow | (1) | (8) | (4) | (0) | (1) |
| Operating cash flow | 44 | (58) | (93) | 47 | 62 |
| Interest received | 3 | 6 | 5 | 0 | 1 |
| Interest paid | (0) | (0) | (2) | - | - |
| Tax paid | (12) | (9) | (8) | (11) | (15) |
| Cash flow from operations | 35 | (61) | (97) | 37 | 49 |
| Capex | (9) | (8) | (21) | (18) | (18) |
| Other investing cash flow | (15) | (11) | 0 | - | - |
| Cash flow from investing activities | (23) | (19) | (21) | (18) | (18) |
| Dividends paid | (6) | (7) | (7) | (7) | (7) |
| Proceeds from issue of shares | 0 | 5 | 3 | 1 | 1 |
| Increase in debt | (2) | (14) | 102 | - | - |
| Other financing cash flow | - | - | - | (0) | 0 |
| Cash flow from financing activities | (7) | (16) | 98 | (6) | (6) |
| Cash at beginning of period | - | 201 | 129 | 124 | 137 |
| Total cash generated | 5 | (96) | (21) | 13 | 25 |
| Forex effects | (1) | 0 | 1 | - | - |
| Implied cash at end of period | 4 | 105 | 109 | 137 | 162 |

Source: Company data, RHB Estimates

Financial Exhibits

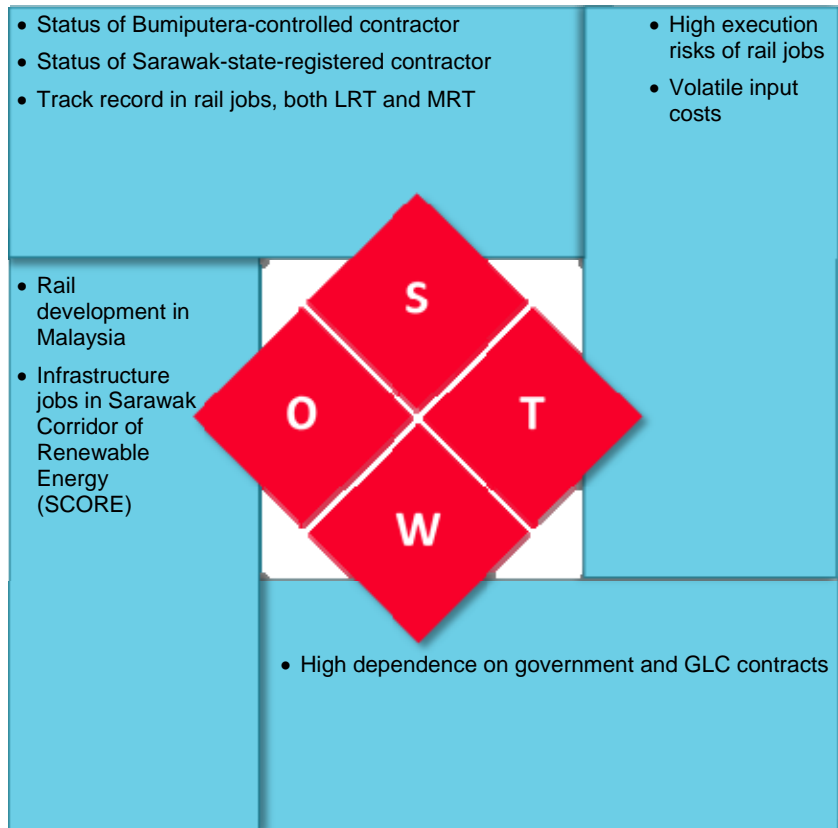
| Balance Sheet (MYRm) | Dec-10 | Dec-11 | Dec-12 | Dec-13F | Dec-14F |
|---------------------------------------|------------|------------|------------|------------|------------|
| Total cash and equivalents | 201 | 129 | 124 | 137 | 162 |
| Inventories | 1 | 2 | 2 | 2 | 2 |
| Accounts receivable | 113 | 122 | 247 | 247 | 247 |
| Other current assets | 30 | 64 | 117 | 114 | 114 |
| Total current assets | 345 | 317 | 490 | 500 | 525 |
| Total investments | 71 | 83 | 92 | 92 | 92 |
| Tangible fixed assets | 42 | 43 | 51 | 63 | 76 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Total other assets | 1 | 1 | 1 | 1 | 1 |
| Total non-current assets | 113 | 128 | 143 | 156 | 168 |
| Total assets | 458 | 445 | 634 | 656 | 694 |
| Short-term debt | 0 | 5 | 113 | 117 | 117 |
| Accounts payable | 75 | 92 | 138 | 138 | 138 |
| Other current liabilities | 83 | 38 | 63 | 59 | 59 |
| Total current liabilities | 159 | 134 | 314 | 314 | 313 |
| Total long-term debt | - | - | 4 | - | - |
| Other liabilities | 1 | 1 | 2 | 2 | 2 |
| Total non-current liabilities | 1 | 1 | 5 | 2 | 2 |
| Total liabilities | 160 | 135 | 319 | 316 | 315 |
| Share capital | 191 | 235 | 238 | 239 | 241 |
| Retained earnings reserve | 106 | 73 | 76 | 100 | 137 |
| Other reserves | 2 | 2 | 1 | 1 | 1 |
| Shareholders' equity | 298 | 310 | 314 | 340 | 379 |
| Total equity | 298 | 310 | 314 | 340 | 379 |
| Total liabilities & equity | 458 | 445 | 634 | 656 | 694 |

Source: Company data, RHB Estimates

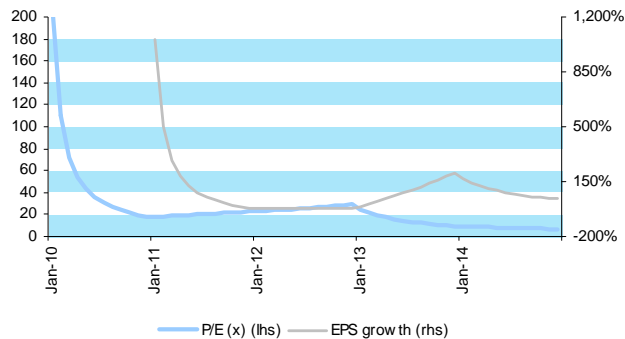
| Key Ratios (MYR) | Dec-10 | Dec-11 | Dec-12 | Dec-13F | Dec-14F |
|-------------------------------|--------|--------|--------|---------|---------|
| Revenue growth (%) | 0.0 | 6.4 | 42.3 | 19.8 | 21.8 |
| Operating profit growth (%) | 0.0 | (49.6) | 94.3 | 109.0 | 38.2 |
| Net profit growth (%) | 0.0 | (19.8) | (21.5) | 209.2 | 39.1 |
| EPS growth (%) | 0.0 | (20.9) | (22.8) | 207.7 | 38.3 |
| Bv per share growth (%) | 0.0 | 1.0 | 1.1 | 7.7 | 10.7 |
| Operating margin (%) | 5.4 | 2.6 | 3.5 | 6.1 | 6.9 |
| Net profit margin (%) | 4.3 | 3.2 | 1.8 | 4.6 | 5.3 |
| Return on average assets (%) | 7.1 | 2.9 | 1.9 | 4.9 | 6.5 |
| Return on average equity (%) | 10.9 | 4.3 | 3.3 | 9.6 | 12.2 |
| Net debt to equity (%) | (67.2) | (40.3) | (2.3) | (5.8) | (12.1) |
| DPS | 0.01 | 0.02 | 0.02 | 0.01 | 0.01 |
| Recurrent cash flow per share | 0.08 | (0.13) | (0.21) | 0.08 | 0.10 |

Source: Company data, RHB Estimates

SWOT Analysis

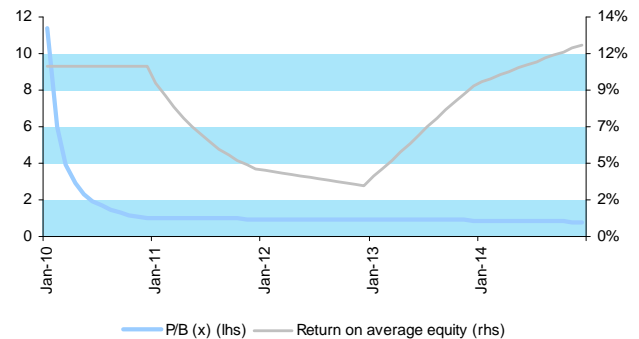


P/E (x) vs EPS growth



Source: Company data, RHB Estimates

P/BV (x) vs ROAE

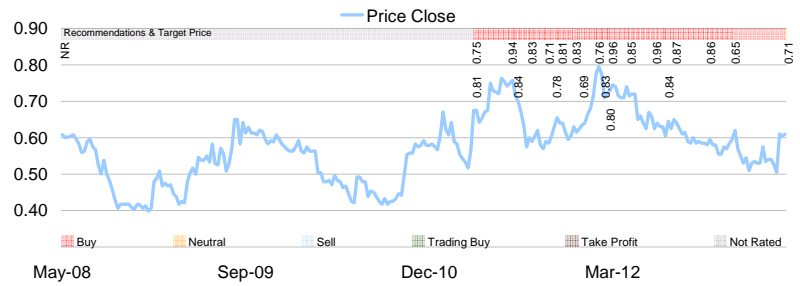


Source: Company data, RHB Estimates

Company Profile

TRC Synergy is a construction company with active projects in Malaysia and Brunei. It is also engaged in property development in Malaysia and Australia.

Recommendation Chart



Source: RHB Estimates, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2013-05-20 | Neutral | 0.71 | 0.62 |
| 2013-03-01 | Buy | 0.65 | 0.53 |
| 2013-01-08 | Buy | 0.65 | 0.59 |
| 2012-11-07 | Buy | 0.86 | 0.59 |
| 2012-08-14 | Buy | 0.87 | 0.63 |
| 2012-07-25 | Buy | 0.84 | 0.63 |
| 2012-06-25 | Buy | 0.96 | 0.67 |
| 2012-04-23 | Buy | 0.85 | 0.74 |
| 2012-03-07 | Buy | 0.96 | 0.71 |
| 2012-03-01 | Buy | 0.80 | 0.71 |

Source : RHB Estimates, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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