



TRC SYNERGY BERHAD

Outperform

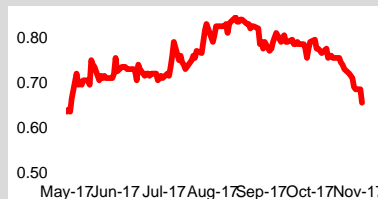
DESCRIPTION

A small cap builder with jobs mostly in infrastructure and building construction.

| | |
|-----------------------|--------|
| 12-Month Target Price | RM0.82 |
| Current Price | RM0.66 |
| Expected Return | 24% |

| | |
|-------------------|--------------|
| Market | Main |
| Sector | Construction |
| Bursa Code | 5054 |
| Bloomberg Ticker | TRC MK |
| Shariah-compliant | Yes |

SHARE PRICE CHART



| | |
|----------------------------|-----------|
| 52 Week Range (RM) | 0.38-0.86 |
| 3-Month Average Vol ('000) | 1,767.9 |

SHARE PRICE PERFORMANCE

| | 1M | 3M | 6M |
|------------------|-------|-------|------|
| Absolute Returns | -17.1 | -17.1 | -0.8 |
| Relative Returns | -15.6 | -16.4 | 7.0 |

KEY STOCK DATA

| | |
|-----------------------------|-------|
| Market Capitalisation (RMm) | 314.7 |
| No. of Shares (m) | 480.5 |

MAJOR SHAREHOLDERS

| | |
|----------------------|------|
| | % |
| Sufri Bin Mohd Zain | 34.7 |
| Dato' Leong Kam Heng | 9.5 |
| Lembaga Tabung Haji | 9.4 |

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Lifted by Asset Disposal Gain

TRC Synergy (TRC) registered 3QFY17 net profit of RM10.5m (-30.6 YoY, >+100% QoQ), which was within our and consensus estimates. YTD, the Group netted RM26.5m (+27.9% YoY) which made up c.81% of our and consensus full year estimates. The strong performance was primarily due to the recognition of gain on disposal of a landed property in Australia (RM4.4m disposal gain). We deem the results in line as we expect earnings to normalize in the final quarter in absence of one-off items. Given current price weakness, we upgrade TRC from Neutral to **Outperform** with unchanged TP of RM0.82, pegged at c.11x of FY18 EPS. Earnings visibility is good with outstanding orderbook in excess of RM2.5bn.

§ **Healthy outstanding order book.** We estimate the Group's outstanding orderbook in excess of RM2.5bn, from RM1.7bn a quarter ago, ensuring earnings visibility for the next 2-3 years. Recent job wins include LRT3 package (RM760.6m) and MRT2 package (RM348.3m, awarded to the KKM-TRC consortium).

§ **Ara Damansara property development project.** The long awaited Ara Damansara property project is now believed to be at the last stages of finalization, which consists of service apartments, hotel, office block and retail mall. The first launch is now slated for 1H2018, from the 2H2017 planned earlier. The total estimated GDV for the project is c.RM1bn and we understand that the first phase is estimated to be c.RM300m.

KEY FORECAST TABLE

| FYE Dec (RM m) | 2015A | 2016A | 2017F | 2018F | 2019F | CAGR (%) |
|--------------------|-------|-------|-------|-------|-------|----------|
| Revenue | 770.4 | 742.1 | 823.9 | 852.8 | 922.0 | 4.6 |
| Operating Profit | 37.8 | 31.2 | 56.3 | 62.5 | 61.6 | 13.0 |
| Pre-tax Profit | 38.4 | 34.8 | 44.3 | 48.5 | 54.0 | 8.9 |
| Net Profit | 30.7 | 29.9 | 32.7 | 36.9 | 41.0 | 7.5 |
| EPS (Sen) | 6.4 | 6.2 | 6.8 | 7.7 | 8.5 | 7.5 |
| P/E (x) | 10.3 | 10.6 | 9.7 | 8.6 | 7.8 | |
| DPS (Sen) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | |
| Dividend Yield (%) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | |

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

| <u>FYE Dec (RMm)</u> | <u>3Q17</u> | <u>3Q16</u> | <u>2Q17</u> | <u>YoY chg (%)</u> | <u>QoQ chg (%)</u> | <u>YTD FY17</u> | <u>YTD FY16</u> | <u>YoY chg (%)</u> |
|----------------------|-------------|-------------|-------------|----------------------------|----------------------------|---------------------|---------------------|----------------------------|
| Revenue | 156.8 | 165.1 | 258.6 | -5.0 | -39.4 | 548.4 | 547.5 | 0.2 |
| Gross profit | 13.9 | 16.1 | 17.5 | -13.7 | -20.6 | 54.2 | 47.4 | 14.2 |
| EBIT | 10.0 | 15.0 | 6.2 | -33.4 | 60.6 | 30.2 | 24.5 | 23.3 |
| Pretax profit | 13.1 | 15.1 | 8.3 | -13.2 | 57.8 | 36.4 | 26.6 | 36.5 |
| Net profit | 10.5 | 15.1 | 3.9 | -30.6 | 173.1 | 26.5 | 20.7 | 27.9 |
| Margins(%): | | | | | | | | |
| Gross Profit | 8.9 | 9.8 | 6.8 | -0.9 | 2.1 | 9.9 | 8.7 | 1.2 |
| EBIT | 6.4 | 9.1 | 2.4 | -2.7 | 4.0 | 5.5 | 4.5 | 1.0 |
| Net Profit | 6.7 | 9.2 | 1.5 | -2.5 | 5.2 | 4.8 | 3.8 | 1.0 |

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

| FYE Dec (RM m) | 2015A | 2016A | 2017F | 2018F | 2019F |
|------------------------|-------|-------|-------|-------|-------|
| Revenue | 770.4 | 742.1 | 823.9 | 852.8 | 922.0 |
| Gross Profit | 50.7 | 55.2 | 73.4 | 77.0 | 81.3 |
| Operating expenses | -12.9 | -24.1 | -17.1 | -14.4 | -19.7 |
| Operating Profit | 37.8 | 31.2 | 56.3 | 62.5 | 61.6 |
| Other Gains / (Losses) | 0.6 | 9.0 | -4.8 | -6.9 | -0.6 |
| Finance Costs | 0.0 | -5.3 | -7.2 | -7.0 | -7.0 |
| Pre-tax Profit | 38.4 | 34.8 | 44.3 | 48.5 | 54.0 |
| Income Tax | -7.2 | -4.9 | -11.6 | -11.7 | -13.0 |
| Effective Tax Rate (%) | 18.8 | 14.0 | 26.1 | 24.0 | 24.0 |
| Minorities | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit | 30.7 | 29.9 | 32.7 | 36.9 | 41.0 |
| Growth | | | | | |
| Revenue (%) | -5.5 | -3.7 | 11.0 | 3.5 | 8.1 |
| Gross Profit (%) | 26.6 | 9.0 | 32.9 | 4.9 | 5.6 |
| Net Profit | 752.6 | -2.6 | 22.5 | 0.8 | 11.2 |

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

| FYE Dec (RM m) | 2015A | 2016A | 2017F | 2018F | 2019F |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Property, Plant & Equipment | 58.3 | 47.1 | 56.0 | 58.0 | 63.0 |
| Cash and Cash Equivalents | 120.6 | 120.6 | 121.6 | 122.6 | 123.6 |
| Receivables | 288.3 | 236.8 | 236.3 | 250.6 | 284.7 |
| Other Assets | 297.2 | 387.3 | 363.2 | 379.5 | 391.1 |
| Total Assets | 764.4 | 791.8 | 777.1 | 810.7 | 862.4 |
| Payables | 150.7 | 174.0 | 137.9 | 147.6 | 172.5 |
| Borrowings | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 |
| Retirement Benefits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Liabilities | 57.2 | 31.6 | 29.6 | 27.7 | 25.8 |
| Total Liabilities | 407.9 | 405.6 | 367.5 | 375.3 | 398.2 |
| Shareholders' Equity | 356.5 | 386.1 | 409.6 | 435.4 | 464.2 |
| Total Equity and Liabilities | 764.4 | 791.8 | 777.1 | 810.7 | 862.4 |

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

| FYE Dec | 2015A | 2016A | 2017F | 2018F | 2019F |
|----------------------|-------|-------|-------|-------|-------|
| Book Value Per Share | 0.7 | 0.8 | 0.9 | 0.9 | 1.0 |
| NTA Per Share | 0.7 | 0.8 | 0.9 | 0.9 | 1.0 |
| EPS (Sen) | 6.4 | 6.2 | 6.8 | 7.7 | 8.5 |
| DPS (Sen) | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 |
| Payout Ratio (%) | 15.7 | 16.1 | 14.7 | 13.0 | 23.4 |
| ROA (%) | 4.0 | 3.8 | 4.2 | 4.6 | 4.8 |
| ROE (%) | 8.6 | 7.7 | 8.0 | 8.5 | 8.8 |

Source: Company, PublicInvest Research estimates



RATING CLASSIFICATION

STOCKS

| | |
|---------------------|--|
| OUTPERFORM | The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months. |
| NEUTRAL | The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months. |
| UNDERPERFORM | The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months. |
| TRADING BUY | The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call. |
| TRADING SELL | The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months. |
| NOT RATED | The stock is not within regular research coverage. |

SECTOR

| | |
|--------------------|--|
| OVERWEIGHT | The sector is expected to outperform a relevant benchmark over the next 12 months. |
| NEUTRAL | The sector is expected to perform in line with a relevant benchmark over the next 12 months. |
| UNDERWEIGHT | The sector is expected to underperform a relevant benchmark over the next 12 months. |

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