

Malaysia Equity Explorer

TRC Synergy

Bloomberg: TRC MK | Reuters: TRCG.KL
Refer to important disclosures at the end of this report



Malaysia Equity Research

9 Apr 2019

NOT RATED RM0.67 KLCI : 1,644.35

Closing price as of 8 Apr 2019

Return *: 1

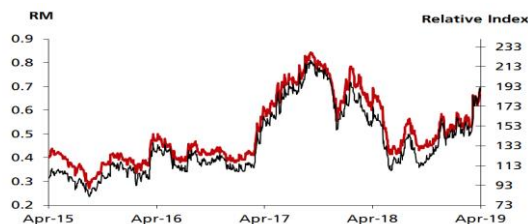
Risk: Moderate

Potential Target 12-mth*: 12-Month RM 1.00 (49% upside)

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	747	895	1,183	1,320
EBITDA	43.8	80.4	109	122
Pre-tax Profit	32.3	60.1	83.3	93.2
Net Profit	20.8	38.7	54.0	60.5
Net Pft (Pre Ex.)	20.8	38.7	54.0	60.5
EPS (sen)	4.34	8.05	11.2	12.6
EPS Pre Ex. (sen)	4.34	8.05	11.2	12.6
EPS Gth (%)	(31)	86	39	12
EPS Gth Pre Ex (%)	(31)	86	39	12
Diluted EPS (sen)	4.34	8.05	11.2	12.6
Net DPS (sen)	1.52	2.82	3.93	4.40
BV Per Share (sen)	85.1	90.3	97.6	106
PE (X)	15.5	8.3	6.0	5.3
PE Pre Ex. (X)	15.5	8.3	6.0	5.3
P/Cash Flow (X)	nm	9.5	12.9	6.1
EV/EBITDA (X)	7.8	4.0	2.9	2.4
Net Div Yield (%)	2.3	4.2	5.9	6.6
P/Book Value (X)	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	5.1	9.2	12.0	12.4

Consensus EPS (sen): 6.90 7.90 9.60
Other Broker Recs: B: 1 S: 0 H: 1

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: TRC Synergy Berhad (TRC) is an established organization with its core business is in construction and property development. It has so far completed more than RM8bn worth of projects across Malaysia including big infrastructures projects such as MRT a

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Look east

- Reputable Bumiputera contractor with strong track record in mega infrastructure projects
- RM3bn orderbook, revival in Australian property sales and TOD project locally to drive 3-year CAGR of 43%
- Unique UPK licence enables it to capitalise on Sarawak project flows
- Trading at FY20F PE of 6x and P/BV of 0.7x. Fair value set at RM1.00, based on SOP

The Business

Strong Bumiputera construction player. TRC Synergy Berhad (TRC) has completed more than RM8bn worth of projects across Malaysia. With the recent successful completion of major infrastructure works around the Klang Valley such as the MRT and LRT projects, the group has positioned itself as one of the preferred Bumiputera contractors. The group currently has an outstanding orderbook of RM3bn which could last for the next 3-4 years.

Well-positioned for infrastructure boom in East Malaysia. While the strong orderbook points to sufficient earnings visibility, its construction outfit could benefit from potential projects under Sarawak state's strong development budget of RM9bn. We think its solid track record in Sarawak where it is constructing the Pan Borneo Highway project will put it in good stead to clinch more projects. Furthermore, TRC possesses the unique Unit Pendaftaran Kontraktor (UPK) licence issued by the Sarawak state since 1990 which enables it to bid for projects in the state.

Reaping the fruits of its Australian property ventures. TRC's first venture into the Australian property market started years ago but this has only recently started to bear fruit and will be a strong earnings anchor over the next few years. Out of the 1,100 parcels in Springridge, 388 units have been sold. Also its transit-oriented development (TOD) in Ara Damansara is set to be launched this year.

The Stock

Fair value of RM1.00 with potential sector re-rating in play. Our SOP-based fair value (FV) for the stock stands at RM1.00. Our FV implies 9x FY20F PE and 1.0x P/BV – close to its 5-year mean. The stock also offers an attractive dividend yield of 5.9% for FY20F.

At A Glance

Issued Capital (m shrs)	480
Mkt. Cap (RMm/US\$m)	322 / 78.5
Major Shareholders (%)	
TRC Capital	12.4
Kolektif Aman Sdn Bhd	12.1
Tan Sri Dato' Sri Sufri	9.9
Free Float (%)	58.0
3m Avg. Daily Val (US\$m)	0.78



REVENUE DRIVERS

One of few strong Bumiputera contractors with track record in federal government-related mega projects. The group's construction division, Trans Resources Corporation Sdn Bhd (TRC) remains the main contributor to group earnings. It has so far completed more than RM8bn worth of construction projects across Malaysia and Brunei. In 2016, the group secured three sizeable contracts from Mass Rapid Transit Corporation (MRT Corp) and Syarikat Prasarana Negara Berhad (Prasarana) for a total value of RM1.97bn. These contracts are for the construction of both MRT and LRT depots in Serdang and Johan Setia, respectively, and the construction of a 4.3-km MRT Guideway traversing the Sungai Besi area. Other major ongoing projects include the Pan Borneo Highway in Sarawak amounting to RM1.3bn. The construction segment contributed c.95% to FY18 revenue and PBT.

Property segment. For the property segment, TRC has exposure in domestic and overseas markets via its 33%-owned associate, Pretty Sally Holdings Pty Ltd in Australia. For domestic property development, its two main subsidiaries TRC Land Sdn Bhd (TRC Land) and ADS Projek Sdn Bhd (ADS) are spearheading the activities.

ADS is currently involved in the mixed development at Ara Damansara LRT Station (RM1.1bn) known as Ara Residence, a joint-venture development with Prasarana Malaysia. This is a fully integrated TOD development which is priced attractively. For FY18, property development business contributed c.13% of its revenue with minimal PBT contribution.

In Australia, it is involved in the sale of land plots in Wallan and Melton areas (nearby Melbourne City). The plots will be developed into bungalow units either by TRC's 33%-owned home builder (Hermitage Building Pty Ltd) or other home builders, depending on buyers' preference. The total effective GDV of these two projects to TRC is c.RM700m.

Springridge Estate in Wallan – 45km from Melbourne (GDV of RM525m) – is set to be fully completed in 2023 with c.1,100 units estimated to be built. At the moment, c.388 units have been sold. Meanwhile, approximately 195 units of the Bridge Road Land development in Melton (GDV of RM148m) is scheduled to be launched in 2HFY19.

TRC also has a 100%-stake in Element by Westin Hotel in Richmond, Melbourne, Australia. This 168-room hotel is valued at RM195m and has a 12-year lease agreement with Marriott International.

Chart 1 : Revenue Breakdown

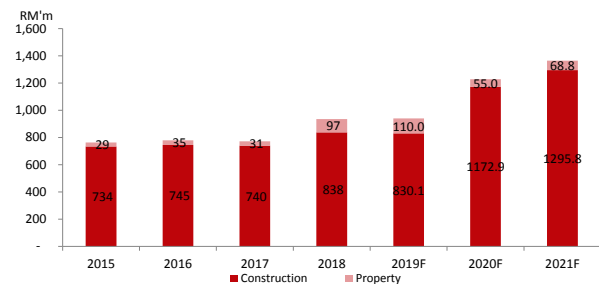
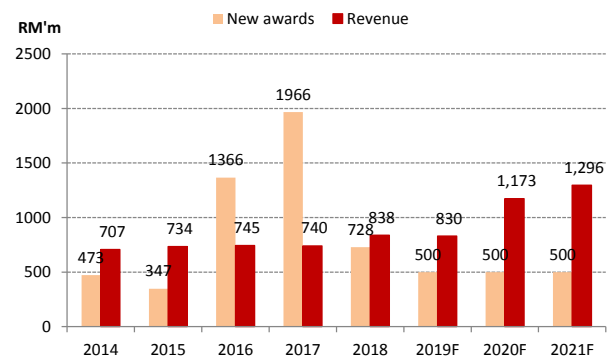


Table 1: Key ongoing construction projects

On-going major projects	Clients	Effective contract value (RM'm)	Effective unbilled orderbook (RM'm)
Pan Borneo Highway, Sarawak	Lebuhraya Borneo Utara Sdn Bhd	716	561
LRT 3	Prasarana Malaysia Berhad	718	563
Package TD2 - Construction of Johan Setia Depot (Phase 2) & External Works	MRT Corporation Sdn Bhd	858	718
Package V205 - Construction of Viaduct Guideway from Kg. Muhibbah to Serdang Jaya & Other associated works - MRT2	MRT Corporation Sdn Bhd	348	314
Package DPT201 - Construction of Serdang Maintenance Depot & external works	Putrajaya Holdings Sdn Bhd	499	499
Others		300	300
Total		3439	2955

Table 2: Construction orderbook replenishment and revenue



Source: Company, AllianceDBS

GROWTH PROSPECTS

Still robust construction orderbook. TRC's construction business was not spared post the 14th General Election (GE14) aftershocks but the impact has not been detrimental. The only project where we expect some reduction in value is its LRT 3 Package TD2 – Johan Setia Depot (Phase 2) where the total project value is RM718m. However, we think margins will remain intact. The other projects such as MRT 2 (V205 and DPT201) are progressing well with prompt payments. Its RM3bn orderbook will still ensure solid earnings over the next few years.

Proxy to Sarawak projects – West Malaysian contractor that is able to fully bid for projects on its own. TRC has 30 years of business presence in Sarawak, being involved in various constructions activities such as road works, port and airport development. It possesses the Unit Pendaftaran Kontraktor (UPK) licence – issued by the Sarawak state that enables the group to bid for state projects. Major construction projects such as the Pan Borneo Highway is a strong testament to the group's ability to secure state-related projects in Sarawak.

There could be more project awards in the run-up to the Sarawak state elections, in our view. The state government has set aside RM9bn for its development budget. Some of the major infrastructure projects include the Coastal Road, Second Trunk Road, hospital jobs and Water Grid project. The CMS-CCCC JV has clinched a package of the Coastal Road project – more awards on this project could follow. With an estimated state reserve of RM31bn and potential additional revenue coming from the 5% sales tax on petroleum products, we think funding will be less of an issue for the Sarawak state government.

Property development contribution to rise. Two of the main projects – Ara Damansara and Springridge Estate – will anchor earnings delivery in FY19F. Split into four phases, Phase 1 of Ara Damansara Residence is on track to be launched this year. Phase 1 will offer 648 units of serviced apartments, out of which c.180 units are under the affordable segment which is under the purview of the Selangor State Government. The remaining units are open for public at an indicative price of c.RM600-700psf with built-up sizes of 700-1,100sf. The total GDV of the project is RM1.1bn while Phase 1 is estimated at RM300m. Located in a strategic area with access to public amenities and priced at a discount to other completed developments, this project looks attractive. Given progress of works is substantial, it will be able to recognise more earnings once the sale and purchase agreement is signed.

Meanwhile, the 329-acre Springridge Estate has successfully raked in sales of AUD35m (141 units), and these units are scheduled to be delivered this year. By year-end, this should bring total bungalow units sold to 529 units – out of 1,100 units available (actual numbers may vary, depending on the resizing of plots). With the rising popularity of residential subdivided lots outside Melbourne City, coupled with low land cost (c.10% of value of the projects), the company should be able to enjoy healthy margins. We understand that the existing buyers are mainly Australians. Foreign buyers need to pay higher stamp duties now under a new regulation introduced by the Australian government. In our view, the company is on track to sell the remaining units within the next 3-4 years.

Chart 2: TRC's construction revenue (RM m)

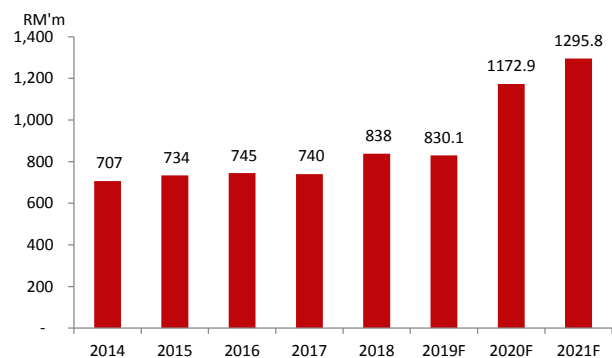
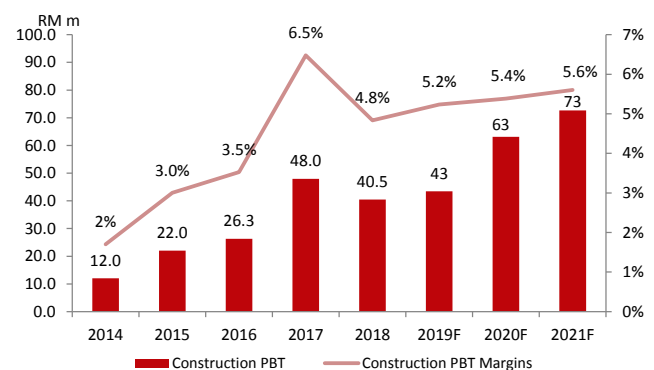


Chart 3: TRC' construction PBT margin



Source: Company, AllianceDBS

MANAGEMENT & STRATEGY

Extensive experience in the construction industry. Led by its founder, Tan Sri Dato' Sri Sufri who has 30 years of experience in construction industry, TRC has grown to become one of the reliable Bumiputera contractors in Malaysia. Under his stewardship, TRC has so far been involved in various construction activities in Malaysia, including some mega projects such as construction of MRT, LRT and the refurbishment and upgrading works for the Parliament House of Malaysia and many other projects – amounting to RM8bn.

Strong presence in Sarawak. Thanks to its early entry in Sarawak, TRC also managed to cement its position as one of the reputable West Malaysia contractors in the state. It is now well-positioned for an infrastructure boom in East Malaysia, in our view.

Timely diversification venture. Management's timely diversification into property development in Australia is starting to bear fruit. Property development earnings and recurring income from the hospitality business in Melbourne are set to complement the group's core construction business

Table 4: Key Management

Name	Background
Tun Jeanne Binti Abdullah <i>Independent Non-Executive Director and Chairman</i>	- Appointed Director in 2017. Re-designated as Chairman in 2018 - Chancellor of Open University Malaysia, Chairman of Landscape Malaysia and Tropical Rainforest Conservation and Research Centre - Received an honorary degree from University Malaysia Kelantan for Sustainability Science
Tan Sri Dato' Sri Sufri Bin Hj Mohd Zin <i>Managing Director</i>	- Founder of TRC Group. Managing Director of TRC Synergy Berhad and its subsidiaries - Graduated from MARA Institute of Technology in 1982 with Diploma in Business Studies; Bachelor Degree in Jurisprudence at Universiti Malaya; Master Degree in Business Law at Universiti Kebangsaan Malaysia - Honoured as the CEO of the Year by the Construction Industry Development Board (CIDB) in 2009
Dato' Abdul Aziz Bin Mohammad <i>Executive Director</i>	- Appointed Executive Director in 2002 - Graduated from Trent Polytechnic in Nottingham, England - Quantity Surveyor by profession and a member of Royal Institution of Surveyors, Malaysia
General Tan Sri Dato Seri Mohd Shahrom Bin Dato' Hj Nordin <i>Senior Independent Non-Executive Director</i>	- Appointed Director in 2004. Re-designated as Chairman in 2015-2017 - Chief of the Malaysia Army in 2003 - He is also the Executive Director of the National Aerospace & Defence Industries Sdn Bhd (NADI)
Siti Sarlina Binti Abdul Rahman <i>Alternate Director to Dato' Abdul Aziz Bin Mohamad</i>	- Appointed Deputy Chief Executive Office in 2015 and appointed an Alternate Director to Dato' Abdul Aziz Bin Mohamad in 2016 - Joined the group as a Quality Assurance Manager in 2002. Since 2005, she was directly involved in various projects undertaken by the group and assumed key positions such as Project Head and General Manager - Graduate of State University of New York at Buffalo with a degree in Aerospace Engineering in 1993, and also holds a Masters Degree in Human Resource Management from Open University Malaysia (OUM)
Dato' Richard Khoo Teng San <i>Chief Operating Officer</i>	- Appointed Chief Operating Officer on 1 January 2009. - Joined the group as a Project Coordinator in 1991 - Graduated with a Bachelor of Engineering (Civil Engineering) from University of Strathclyde (UK) in 1989

FINANCIAL HIGHLIGHTS

Construction works to pick up. TRC recorded a net profit of RM21m in FY18, a decrease from RM30m in FY17. This is due to slowdown in construction projects as well as the impairment of investment in associate of RM2m.

Going into FY19, we expect ongoing construction projects such as Pan Borneo, MRT2 and LRT3 to drive earnings growth. Contribution from the property segment (mainly at the associate level) should be also strong as the company has locked in firm sales from Australia.

Steady margins. We expect group net margins to hover around 3-5% (FY19-21F) as we assume slightly lower construction margin for some of its exposure to the mega infrastructure projects such as MRT2 and LRT3.

Net cash and healthy operation cashflow. TRC has been in net cash position since 2014. Its operating cashflow is also strong with the exception being FY18 – due to delays in payment. Nonetheless, we think this will not be a recurring issue as cost rationalisation and structure for key projects such as LRT 3 and MRT 2 have been finalised.

Generous dividend payout. The group has a minimum dividend policy of 25% and has been consistently paying above that range since 2016. In FY17, the group declared a dividend payment of 2.8 sen per share, representing a payout of 37%.

BUSINESS RISKS

Delays in construction. Any delays due to the design and engineering issues and soil conditions may incur higher project cost overruns. Timely completion is critical to avoid paying liquidated ascertained damages to clients.

Fluctuations in prices of raw materials. The construction business typically requires a wide range of raw materials, including steel bars, ready-mix concrete, diesel, electrical cables and fittings, which are all subject to price fluctuations.

Chart 4: Historical financial highlights

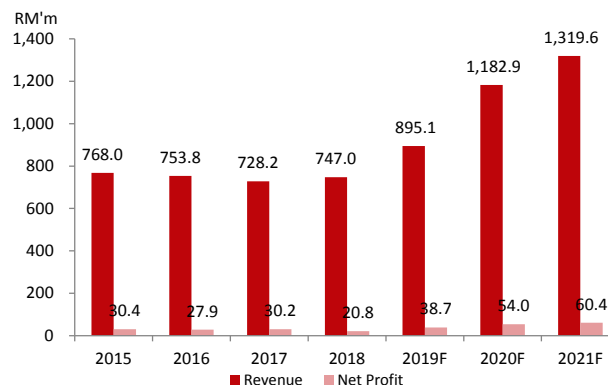


Chart 5: Historical margins

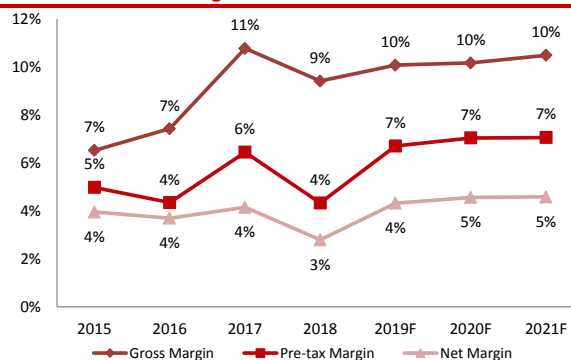


Chart 6: Strong cashflow

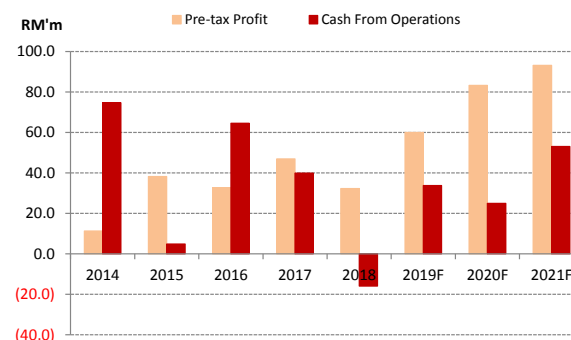
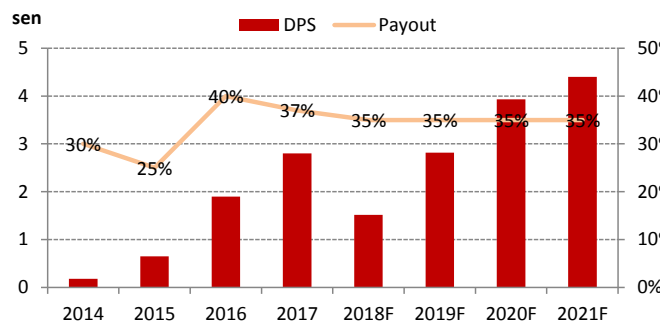


Chart 7: Historical dividend payment



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Orderbook replenishment	1,366	1,966	716	500	500	500
Construction Margins	3.53	6.48	4.83	5.23	5.38	5.61
Property Margins (%)	5.64	13.8	(0.1)	10.0	15.0	15.0

Sensitivity Analysis

	2020
Construction margin +/- 1%	Net Profit +/- 8%
Orderbook +/- RM100m	Net Profit +/- 3%

Income Statement (RMm)

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Revenue	754	728	747	895	1,183	1,320
Cost of Goods Sold	(698)	(650)	(677)	(805)	(1,061)	(1,180)
Gross Profit	56.0	78.5	70.3	90.2	122	140
Other Opng (Exp)/Inc	(26.5)	(37.9)	(40.4)	(41.0)	(55.7)	(62.8)
Operating Profit	29.5	40.6	30.0	49.3	65.8	77.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	2.20	4.74	2.10	12.3	18.6	16.9
Net Interest (Exp)/Inc	1.00	1.59	0.24	(1.5)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	32.7	46.9	32.3	60.1	83.3	93.2
Tax	(4.9)	(17.2)	(11.2)	(20.7)	(28.8)	(32.2)
Minority Interest	0.0	0.45	(0.3)	(0.6)	(0.6)	(0.6)
Preference Dividend	0.0	0.0	0.01	0.01	0.01	0.01
Net Profit	27.9	30.2	20.8	38.7	54.0	60.5
Net Profit before Except.	27.9	30.2	20.8	38.7	54.0	60.5
EBITDA	44.8	56.6	43.8	80.4	109	122
Growth						
Revenue Gth (%)	(1.8)	(3.4)	2.6	19.8	32.2	11.6
EBITDA Gth (%)	(13.9)	26.1	(22.5)	83.4	36.0	11.6
Opg Profit Gth (%)	(21.6)	37.5	(26.2)	64.3	33.6	17.4
Net Profit Gth (Pre-ex) (%)	(8.2)	8.4	(31.0)	85.7	39.5	12.0

Margins & Ratio

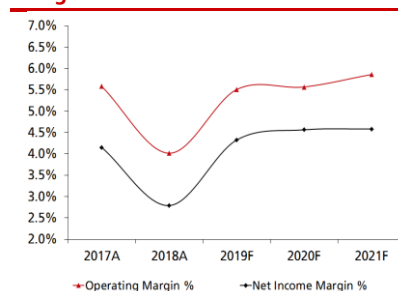
Gross Margins (%)	7.4	10.8	9.4	10.1	10.3	10.6
Opg Profit Margin (%)	3.9	5.6	4.0	5.5	5.6	5.9
Net Profit Margin (%)	3.7	4.1	2.8	4.3	4.6	4.6
ROAE (%)	7.6	7.7	5.1	9.2	12.0	12.4
ROA (%)	3.5	3.7	2.3	3.7	4.6	4.7
ROCE (%)	5.2	5.9	3.6	5.5	7.5	8.0
Div Payout Ratio (%)	32.8	44.5	35.0	35.0	35.0	35.0
Net Interest Cover (x)	NM	NM	NM	32.4	57.9	73.6

Source: Company, AllianceDBS

Assume RM500m replenishment orderbook

Incremental contribution from Springridge

Margins Trend



Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	157	179	181	229	117	220
Cost of Goods Sold	(143)	(156)	(160)	(216)	(99.7)	(201)
Gross Profit	13.9	23.2	20.8	13.1	17.7	18.8
Other Oper. (Exp)/Inc	(4.0)	(14.4)	(16.2)	(5.4)	(5.4)	(13.4)
Operating Profit	9.96	8.74	4.64	7.67	12.3	5.39
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	2.96	0.08	0.78	(0.2)	0.57	0.98
Net Interest (Exp)/Inc	0.21	0.32	0.04	0.24	(0.2)	0.15
Exceptional Gain/(Loss)	4.40	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	17.5	9.14	5.47	7.68	12.7	6.51
Tax	(3.4)	(7.0)	(4.2)	(2.6)	(2.7)	(1.7)
Minority Interest	0.82	0.25	0.23	(0.4)	(0.2)	0.06
Net Profit	14.9	2.34	1.49	4.71	9.78	4.87
Net profit bef Except.	10.5	2.34	1.49	4.71	9.78	4.87
EBITDA	14.9	11.5	8.15	10.4	15.8	9.45

Growth

Revenue Gth (%)	(39.4)	14.1	1.1	26.9	(48.8)	87.1
EBITDA Gth (%)	39.1	(22.5)	(29.3)	27.8	51.9	(40.3)
Opg Profit Gth (%)	61.3	(12.2)	(46.9)	65.3	60.4	(56.2)
Net Profit Gth (%)	288.0	(84.3)	(36.4)	216.1	107.6	(50.2)

Margins

Gross Margins (%)	8.9	13.0	11.5	5.7	15.1	8.6
Opg Profit Margins (%)	6.4	4.9	2.6	3.3	10.5	2.5
Net Profit Margins (%)	9.5	1.3	0.8	2.1	8.3	2.2

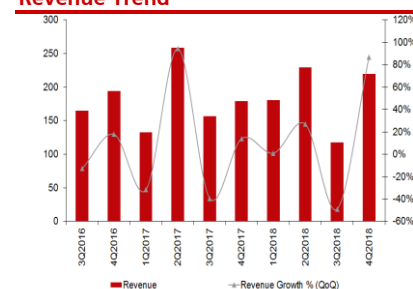
Source: Company, AllianceDBS

Balance Sheet (RMm)

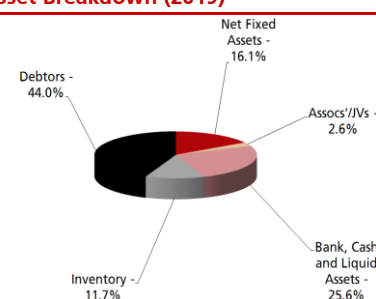
FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	47.1	82.6	174	157	135	109
Invts in Associates & JVs	10.8	13.8	13.2	25.5	44.1	61.1
Other LT Assets	107	68.9	71.2	71.2	71.2	71.2
Cash & ST Invts	234	220	232	250	254	284
Inventory	105	87.9	112	114	121	123
Debtors	267	301	358	429	567	633
Other Current Assets	55.7	42.6	44.3	44.3	44.3	44.3
Total Assets	827	817	1,004	1,092	1,236	1,326
ST Debt	168	96.4	239	239	239	239
Creditor	206	241	264	315	416	462
Other Current Liab	62.1	65.2	77.7	88.7	96.7	100
LT Debt	3.16	6.19	7.36	7.36	7.36	7.36
Other LT Liabilities	2.35	1.64	1.48	1.48	1.48	1.48
Shareholder's Equity	381	401	409	434	469	508
Minority Interests	4.98	4.53	5.17	5.80	6.41	6.98
Total Cap. & Liab.	827	817	1,004	1,092	1,236	1,326
Non-Cash Wkg. Capital	160	125	172	184	220	238
Net Cash/(Debt)	62.3	118	(14.9)	3.35	7.43	37.3
Debtors Turn (avg days)	139.7	142.3	160.9	160.5	153.7	165.9
Creditors Turn (avg days)	100.9	127.9	138.8	134.6	128.7	139.1
Inventory Turn (avg days)	44.8	55.3	54.8	52.4	41.3	38.7
Asset Turnover (x)	0.9	0.9	0.8	0.9	1.0	1.0
Current Ratio (x)	1.5	1.6	1.3	1.3	1.3	1.4
Quick Ratio (x)	1.1	1.3	1.0	1.1	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	0.0	CASH	CASH	CASH
Capex to Debt (%)	0.4	0.7	42.5	0.8	0.8	0.8

Source: Company, AllianceDBS

Revenue Trend



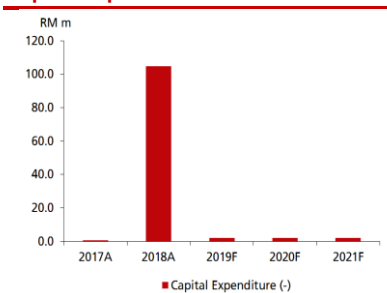
Asset Breakdown (2019)



Cash Flow Statement (RMm)

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	32.7	46.9	32.3	60.1	83.3	93.2
Dep. & Amort.	13.1	11.2	11.8	18.8	24.8	27.7
Tax Paid	(8.0)	(8.8)	(9.3)	(9.8)	(20.7)	(28.8)
Assoc. & JV Inc/(loss)	(2.2)	(4.7)	(2.1)	(12.3)	(18.6)	(16.9)
Chg in Wkg.Cap.	39.8	(6.2)	(57.8)	(23.0)	(43.8)	(22.1)
Other Operating CF	(10.8)	1.53	9.27	0.0	0.0	0.0
Net Operating CF	64.6	40.0	(15.9)	33.8	25.0	53.1
Capital Exp.(net)	(0.8)	(0.7)	(105)	(2.0)	(2.0)	(2.0)
Other Invs.(net)	0.97	0.0	0.13	0.0	0.0	0.0
Invs in Assoc. & JV	(1.0)	0.97	0.82	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	32.4	0.21	0.0	0.0	0.0
Net Investing CF	(0.8)	32.6	(104)	(2.0)	(2.0)	(2.0)
Div Paid	(3.1)	(9.1)	(13.5)	(13.5)	(18.9)	(21.2)
Chg in Gross Debt	(13.0)	(81.7)	139	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(21.0)	(5.9)	(26.0)	0.0	0.0	0.0
Net Financing CF	(37.1)	(96.7)	99.8	(13.5)	(18.9)	(21.2)
Currency Adjustments	0.09	0.0	0.0	0.0	0.0	0.0
Chg in Cash	26.8	(24.2)	(19.8)	18.2	4.08	29.9
Opg CFPS (sen)	5.15	9.61	8.73	11.8	14.3	15.7
Free CFPS (sen)	13.3	8.16	(25.1)	6.61	4.78	10.6

Capital Expenditure



Strong cashflow

Source: Company, AllianceDBS

VALUATIONS

Currently trading at below average valuation with potential re-rating in play. The stock currently trades at 8x FY19 PE but will fall to 6x in FY20F – which is below its historical 5-year average forward PE of 9.5x. While the stock has rebounded from lower levels in 2018, the overall depressed valuations are due to the de-rating of construction players in general in the wake of GE14. We think this can potentially change swiftly once it delivers on stronger earnings (we are forecasting a 3-year EPS CAGR of 43%) and it clinches its fair share of the Sarawak infrastructure pie.

Given its more diversified earnings base, we have used sum-of-parts to value the company. Our SOP-derived TP works out to RM1.00 where 52% comes from its construction business with the remainder coming from its property segment, including assets in Australia. Our assumptions are as follows:

- For construction, we have assumed a sustainable orderbook of RM2.7bn, below its current outstanding amount of RM3bn (with replenishment assumption of RM500m per year) using DCF valuation.
- For the property segment (excluding the hotel), we have ascribed a 50% discount to its RNAV where we have used a DCF of its development profits. Meanwhile, we conservatively assume RM156m market value for the Westin Hotel (4.5 stars) – translating into c.AUD310k per room, a c.20% discount from the estimated market value of AUD387k per room. For comparison, Sheraton Melbourne (5 stars) was transacted at AUD776k per room.

Our fairly value of RM1.00, implies 9x FY20F PE and 1.0x P/BV – close to its 5-year mean. The stock also offers an attractive dividend yield of 5% for FY20F. A slew of announcements for infrastructure projects could serve as a key catalyst to re-rate the industry.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	2	20%	0.4
Shareholdings	2	40%	0.8
Overall			2.0

Chart 8: Historical forward PE ratio (x)



Source: AllianceDBS, Bloomberg Finance L.P

Table 5: SOP Table

Division	Valuation Method	Stake (%)	SOP RMm
Construction	Sustainable orderbook RM2.7bn	100	206.1
	Potential wins of RM500m	100	36.8
Property	RNAV (50% discount)	100	22.9
Ara Damansara	NPV	100	19.1
Springridge Estate	NPV	33	14.9
Bridge Road	NPV	33	11.9
Investment - Element by Westin Hotel	MV (20% discount)	100	156.0
Net cash (debt)			3.3
Total SOP Value			471.0
Number of shares (m)			480.5
SOP Value/Share (RM/share)			1.00
TP			1.00

Source: Company, AllianceDBS

Table 6: Construction Peer Comparison Table

CY2019/2020	Recommendation	Target Price	Current Price	Market Cap	P/E		EPS Growth (YoY)		Dividend Yield		Price/ BVPS		ROAE	
					CY2019	CY2020	CY2019	CY2020	CY2019	CY2020	CY2019	CY2020	CY2019	CY2020
Mid-Cap Contractors														
Kerjaya Prospek	NR	NR	1.29	1,592	10.1x	9.3x	14%	8%	2.8%	2.8%	1.5x	1.3x	16%	15%
Gabungan AQRS	NR	NR	1.40	686	9.5x	8.0x	11%	19%	4.0%	4.0%	1.6x	1.5x	17%	19%
George Kent	NR	NR	1.20	646	9.3x	8.6x	(25%)	8%	4.4%	4.5%	1.2x	1.1x	13%	13%
Gadang	NR	NR	0.73	480	11.6x	7.1x	(11%)	64%	3.4%	3.7%	0.6x	0.6x	6%	6%
Kimlun	BUY	2.16	1.18	392	5.0x	4.5x	15%	12%	4.3%	4.5%	0.5x	0.5x	10%	10%
Mitrajaya	NR	NR	0.42	374	10.2x	10.8x	(18%)	(5%)	3.3%	3.3%	0.4x	0.4x	10%	5%
TRC Synergy	NR	1.00	0.67	322	8.3x	6.0x	86%	39%	4.2%	5.9%	0.7x	0.7x	9%	12%
Total/ Weighted average				4,491	9.4x	8.2x	8%	17%	3.6%	3.8%	1.2x	1.1x	13%	13%

Source: Company, AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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