

27 Feb 2018

Buy

Price
RM0.74

Target Price
RM1.16

Bloomberg code
TRCS MK

Equity | Malaysia | Construction
Flashnote

Analyst

Mak Hoy Ken
(603) 2171 0508
mak.hoyken@kaf.com.my

TRC Synergy

FY17: ahead of expectations

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	753.8	727.3	854.0	1,047.7	1,126.5
Core net profit (RMm)	22.9	37.4	43.6	50.4	56.3
Core EPS (Sen)	4.3	7.8	9.1	10.5	11.7
EPS growth (%)	81.9	82.7	16.5	15.7	11.7
DPS (Sen)	1.9	2.5	3.0	3.5	4.0
Core PE (x)	9.5	8.2	8.2	7.1	6.3
Div yield (%)	4.7	3.9	4.1	4.7	5.4
ROE (%)	7.6	7.4	10.4	11.0	11.2
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.5	0.8	0.8	0.7	0.7

Source: Company, KAF

- We maintain our BUY recommendation on TRC Synergy with an unchanged TP of RM1.16 (35% discount to NAV) or an implied PE of 13x. TRC delivered a 4Q17 core net profit of RM14m (+67% QoQ), taking FY17 core earnings to RM37m (+64% YoY).
- While the group has not declared any dividends to-date for FY17, we have assumed a DPS of 2.5sen on a payout of 21% (yield: ~4%). Net cash per share was ~RM118m as at 31 December 2017.
- 4Q17 revenue rose 13% QoQ, thanks to higher construction billings during the quarter.
- For FY18F, we have projected TRC to achieve a higher core net profit of RM44m, implying YoY growth of 17%, despite a higher earnings base. This is backed by a healthy outstanding orderbook of RM2.7b, which will underpin its construction earnings for the next three to four years.
- At the same time, TRC will be starting off the current FY on a cleaner slate after it wrote off its investments in Petrobru (~RM6m) in 1Q17.
- We estimate that TRC added c.RM1.6b worth of new contracts in FY17 - the highest ever achieved by the group. Moving into FY18F, we have conservatively assumed new contract wins of RM700m.
- Following its earlier wins for viaduct/depot works under the MRT 2 and LRT 3 projects, we expect TRC to be in the mix for more rail-related infrastructure projects. Not least, we understand that there is still one more sizeable tunnel/guideway package that has yet to be awarded under the LRT 3.
- The group has also been pre-qualified for the upcoming Pan Borneo Sabah project, for which indicative contract values could range between RM300m and RM500m.
- Interestingly, TRC recently entered into a 55:45 JV with Handan China Railway (HCR) Bridge Machinery Co. Ltd. The JV is set up to undertake the construction of elevated guideway and bridge works. It will have expertise in heavy lifting and launching works.
- On the property front, TRC is looking to launch its Ara Damansara development by the third quarter of this year. In Australia, it is enjoying increasing returns via its 33% stake in Springridge development in Melbourne. The project contributed a bulk of the group's share of associates in FY17 (~RM5m).
- We also expect the group to kick off construction works for its Element Hotel in Melbourne sometime this year. The hotel is expected to open its doors by February 2020.

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY16	FY17	% YoY	3Q17	4Q17	% QoQ
Turnover	753.8	727.3	(3.5)	156.8	178.9	14.1
EBIT	24.5	47.5	93.8	7.9	20.6	159.7
Interest Expense	(5.3)	(4.9)		(1.2)	(1.3)	
Interest Income	6.3	6.5		1.4	1.6	
Pre-Exceptionals Profit	25.5	49.1		8.2	20.9	
Exceptionals	5.0	(8.6)		2.0	(11.9)	
Pre-Associates/JV Profit	30.5	40.5		10.2	9.1	
Associates/JVs	2.2	5.0		3.0	0.1	
Pretax Profit	32.7	45.5	38.9	13.1	9.1	(30.4)
Taxation	(4.9)	(17.1)		(3.4)	(7.0)	
Minority Interest	(0.0)	0.5		0.8	0.2	
Net Profit	27.9	28.8	3.4	10.5	2.3	(77.8)
Core Net Profit	22.9	37.4	63.6	8.5	14.2	66.8
Core EPS (sen)	4.8	7.8		1.8	3.0	
Gross DPS (sen)	1.9	0.0		0.0	0.0	
BV/share (RM)	0.80	0.84		0.84	0.84	
EBIT Margin (%)	3.3	6.5		5.1	11.5	
Pretax Margin (%)	4.3	6.3		8.4	5.1	
Effective Tax (%)	14.8	37.6		26.0	77.0	
Segmental Breakdown (RM m)						
Turnover						
Construction	744.7	759.7	2.0	177.4	200.6	13.1
Property development	35.2	40.4	14.8	7.6	15.8	107.4
Others	37.8	12.9	(66.0)	1.9	5.9	213.2
Eliminations	(64.0)	(85.7)	n/m	(30.1)	(43.4)	n/m
Total	753.8	727.3	(3.5)	156.8	178.9	14.1
Pre-tax profit						
Construction	26.3	48.8	85.7	10.7	9.3	(12.8)
Property development	2.0	9.2	n/m	3.9	4.0	n/m
Others	0.8	(10.7)	n/m	2.2	(5.7)	n/m
Eliminations	3.7	(1.8)	n/m	(3.7)	1.5	n/m
Total	32.7	45.5	38.9	13.1	9.1	(30.4)
Pre-tax margin (%)						
Construction	3.5	6.4		6.0	4.6	
Property development	5.6	22.8		50.9	25.1	
Others	2.0	(82.9)		118.8	(96.6)	
Total	4.3	6.3		8.4	5.1	

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF-Seagroatt & Campbell Securities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)