

03 Jan 2018

**Buy**

Price  
RM0.63

Target Price  
RM1.16

Bloomberg code  
TRCS MK

Equity | Malaysia | Construction  
**Flashnote**

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# TRC Synergy

## Forges JV with Chinese entity

### Financial Highlights

FYE Jun	2016	2017	2018F	2019F	2020F	
Revenue (RMm)	768.0	753.8	675.5	811.2	949.8	
Core net profit (RMm)	12.5	22.9	26.0	32.3	36.7	
Core EPS (Sen)	2.3	4.3	5.4	6.7	7.6	
EPS growth (%)	161.2	81.9	27.3	24.0	13.7	
DPS (Sen)	0.7	1.9	2.5	3.0	3.5	
Core PE (x)	15.6	9.5	11.5	9.3	8.2	
Div yield (%)	1.8	4.7	4.0	4.8	5.6	
ROE (%)	8.9	7.6	7.6	7.4	7.6	
Net Gearing (%)		Net Cash	Net Cash	Net Cash	7.9	16.0
PBV(x)	0.5	0.5	0.7	0.7	0.6	

Source: Company, KAF

- We maintain our BUY recommendation on TRC Synergy with an unchanged TP of RM1.16. This pegs the stock at a 25% discount to its NAV.
- In an announcement made to Bursa Malaysia, TRC disclosed that it has incorporated a new joint venture called Trans Handan Bridge (THBSB).
- TRC will have a 55% stake in THBSB, with China's Handan China Railway (HCR) Bridge Machinery Co. Ltd holding the balance 45% stake.
- Per the announcement, the JV will undertake the construction of elevated guideway and bridge works. It will have expertise in heavy lifting and launching works.
- Based in Handan City (Hebei province), Handan specializes in the supply of equipment and temporary works for bridge building as well as railway construction. Since 1952, the group has supplied a full range of equipment that has served both the Chinese and overseas markets.
- This includes beam and segment erection equipment, full-span bridge construction equipment, launching gantries, travelling form work and movable scaffolding.
- Through its in-house team, HCR also provides erection services and site technicians if requested by clients.
- In Malaysia, HCR has worked on projects such as the MEX Highway, Sg. Siol (Sarawak) and Kelana Jaya LRT Extension. More importantly, for the latter, HCR supplied four units of launching gantry and two units of segment erector for TRC, which was one of the main facilities contractor for the Kelana Jaya section.
- While additional details were not made available, this is a pre-emptive move by TRC to solidify its competitive positioning for future railway-related infrastructure works, in our view.
- Notably, the group is still in the mix for the balance of works for the LRT 3 project, including the tunneling/guideway package. From our channel checks, this package could potentially be worth over RM1b, for which a decision could be known by the end of this quarter.
- A successful bid could re-ignite investor interest in TRC after successfully clinching a viaduct package for the MRT Line 2 as well as two depot contracts (MRT 2 and LRT 3) last year. At the same time, it will widen TRC's skill sets to include bridge/tunneling works for railway infrastructure, and accelerate its push for more upcoming big-ticket railway projects (e.g. MRT 3, KL-Singapore High Speed Rail, JB-Singapore MRT system). We estimate the group's outstanding orderbook to be over RM2b.

# 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.

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