13 July 2017

TRC Synergy

Buy

Price
RM0.71

Target price
RM1.06

Market data

Bloomberg code	TRC MK
No. of shares (m)	480.5
Market cap (RMm)	341.2
52-week high/low (RM)	0.76 / 0.37
Avg daily turnover (RMm)	0.7
KLCI (pts)	1,752.13

Source: Bloomberg

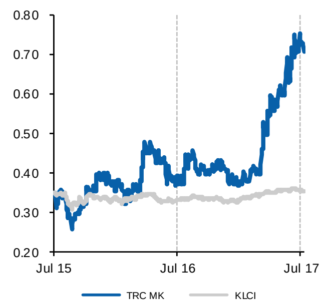
Valuation

Target price (RM)	1.06
Methodology	NAV
Key assumptions	
WACC for property	9-11%
Construction PE	13x
Discount to NAV	30%

Source: KAF

Performance

	1M	3M	12M
Absolute (%)	1	24	90
Rel market (%)	3	23	79



Source: Bloomberg

Back on the radar

We initiate coverage on TRC Synergy with a BUY call (TP: RM1.06). TRC is a solid, small cap proxy to rising domestic contract flows, and is on track to scale new orderbook levels by year-end from RM1.8b currently. The upcoming RM1b-GDV Ara Damansara TOD project (target launch: 2Q18), strong balance sheet and 4%-5% yields (minimum payout of 20%) provide additional valuation support.

Financial Highlights

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	768.0	753.8	663.5	747.3	844.8
Core net profit	12.5	22.9	26.8	31.4	34.8
Core EPS (sen)	2.3	4.3	5.6	6.5	7.3
EPS growth (%)	161.2	81.9	30.7	17.2	11.1
DPS (sen)	0.7	1.9	3.0	3.0	3.5
Net gearing (%)	Net Cash	Net Cash	Net Cash	7.3	14.7
Core PE (x)	15.6	9.5	12.8	10.9	9.8
ROE (%)	8.9	7.6	6.7	7.2	7.3
Yield (%)	1.8	4.7	4.2	4.2	4.9
PBV (x)	0.5	0.5	0.8	0.7	0.7

Source: Company, KAF * Price as at 12 July 2017

On the up again. We project TRC Synergy's core profits to be higher at RM23m for FY17F vs RM23m in FY16, accelerating further to RM31m-RM35m in FY18F-19F (EPS CAGR; 19%). Key assumptions include: (i) new contract orders of RM1.3b, RM650m and RM700m for the next three FY's (ytd - RM858m; FY16 - RM1b); (ii) maiden contributions from the RM1b-GDV Ara Damansara project; and payout projections of 23%-27% (net yields of 4%-5%). Our TP of RM1.12 is pegged at a 25% discount to NAV. While its share price has done well in recent months, renewed optimism on TRC's orderbook prospects could drive a stronger PE-rerating towards its 2-year historical peak of 16x, which is near our implied PE.

Record orderbook in sight. As one of only two main civil contractors that have been involved in all three major domestic railway projects to-date (LRT extension, MRT 1 & 2), TRC is well-positioned to secure more rail-related contracts, which forms part of its RM4b tenderbook. Having already bagged its maiden viaduct contract (RM858m) back in March, TRC is eyeing more station and depot works from MRT 2, with an eye on LRT 3 as well. Other prospective jobs flows could come from specialised contracts (e.g. SSGT road/infra works), Pan Borneo Sabah and selective building tenders. Underpinning TRC's new growth cycle is its outstanding job backlog of RM1.8b (orderbook cover: ~2.6x FY16 its construction revenue), which assures construction earnings over the next four years. With some of the larger bids averaging RM800m-RM1b each, there is a fairly good chance that TRC can surpass its previous orderbook high of ~RM2b in FY12 by year-end, in our view.

New property kickers. Poised to debut in 2Q18, we expect favourable take-up rates for its Ara Damansara TOD project, which is strategically located at a major LRT station. We have assumed average project margins of ~20%, with tangible contributions from FY19F. Down south, TRC is set to develop Australia's first Element Hotel in Richmond, Melbourne (targeted opening: Dec-2019), which we value at RM42m (net of construction cost).

Solid, small cap construction franchise. We expect TRC's improved job flow prospects to rekindle investor interest in the stock. Notably, new job wins secured ytd (RM858m) is not far off from the previous high of RM1.1b in FY10 (FY16: RM1b), and has already surpassed management's annual base target of RM500m. On top of this, balance sheet remains healthy with FY18F-19F net gearing of 7%-15% even after factoring-in capex for the new LRT/MRT projects, Element Hotel (A$40m) and landbanking needs for the PPA1M development. At current prices, the stock offers net yields of 4%-5% on our payout assumptions of 23%-27% vs its minimum policy of 20% (FY16: 40%).

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New Buy; TP at RM1.06

NAV calculations

We initiate coverage on TRC Synergy with a TP of RM1.06. This pegs the stock at a 30% discount to the NAV. We present below, the key valuation parameters supporting our NAV estimate of RM1.50 *(Table 1).*

- **Construction division:** The largest contributor within the group, TRC's construction business accounts for RM0.94 or c.62% of NAV. To arrive at this value, we have ascribed a target PE of 13x on FY17F construction earnings. Our new orderbook assumptions for FY16F-18F are RM1.3b, RM650m and RM700m, respectively vs the group's annual base year target of RM500m (ytd: RM858m). This implies another RM442m in net contract additions for the rest of FY17F.
- **Property division:** We value the individual property development projects based on the NPV method; with discount rates of 9% for local projects, and 11% for Australian projects. On the other hand, we have attached a market value of RM20psf for its Bandar Seri Alam landbank in Johor, where there are no immediate development plans.
- **Property investment division:** For its upcoming property investment in Australia, i.e. Element Melbourne Richmond Hotel, we value it on a market value of A$270k per room. This is net of the estimated investment cost of A$40m to build the hotel (targeted opening: December 2019). Our Malaysian Ringgit to Australian Dollar (RM/A$) exchange rate assumptions are 3.30, 3.17 and 3.01 over the next three years.
- **Others:** These assets are pegged at a net book value of RM20m as of 31 December 2016.
- **Net cash:** We anticipate TRC to turn from a net cash position of RM62m in FY16 to a net debt position of RM33m-RM73m (FY17F net cash: RM20m), after taking into account the A$40m investment for the Element Melbourne Richmond, future landbanking requirements for the PPA1M housing project in Putrajaya and capex needs for the upcoming LRT/MRT projects. Despite this, we are still comfortable with its projected net gearing position of 8%-15%, for FY18F-19F, which also does not take into account future cash flow contributions from Element Melbourne Richmond and the PPA1M project.
- **Dividend yields:** TRC offers net yields of 4%-5% on our payout assumptions of 23%-27% for the next three FY's (minimum payout policy: 20%). In FY16, the group declared a DPS of 1.9 sen on a payout of 40%.

Our TP implies a capital gain of 50% and PE of 16x its FY18F EPS, at the upper-end of its historical PE band. Nevertheless, there is still ample scope for earnings/ NAV expansion, in our view, if TRC's contract flows come in stronger than expected. To be sure, TRC's new orderbook wins of RM858m ytd has already surpassed the annual base target of RM500, and is within touching distance of the record RM1.1b it garnered in FY10 (FY16: RM1b). For every RM100m increase in new orderbook top-ups, the group's earnings will rise by 1%-9%. At current market prices, the stock is also trading at a steep 53% to its NAV, which is supported by a solid FY17F-19F FD EPS CAGR of 19% and net yields of 4%-5%.

New orderbook high within reach

Rail priorities

Underpinning TRC's new growth cycle is its outstanding orderbook of RM1.8b, which is roughly 2.6x its FY16 construction revenue. More importantly, the imminent roll-out of mega 11MP infrastructure projects lends momentum for TRC to surpass its record orderbook of ~RM2b achieved in FY12, as the current backlog of jobs is only ~10% shy of this total *(Table 2).*

TRC procured some RM1b of new contracts last year, which is about 3.3x its base annual replenishment target of RM500m. We expect the same trend to pay out in FY17F, if not more.

Table 1 : NAV calculations

Division	Value (RM) m	Value (RM) per share	Method	Effective stake (%)	% of NAV
Construction	449.3	0.94	13x FY17F net profit	various	62.2
Property					
Development projects					
Impian Senibong Phase 2, Permas Jaya, Johor	8.5	0.02	NPV @ 9%	100.0	
Ara Damansara TOD project, Selangor	86.7	0.18	NPV @ 9%	80.0	
Botanicca Corporate Park, Richmond, Melbourne (office block)	18.6	0.04	NPV @ 11%	100.0	
Springridge Development, Wallan, Melbourne	12.0	0.02	NPV @ 11%	33.3	
Bandar Seri Alam, Masai (27 acres)	22.3	0.05	MV at RM20 psf	100.0	
Sub-total	148.2	0.31			20.5
Property Investment					
Element Melbourne Richmond Hotel (168 rooms), net of A$40 investment cost	42.3	0.09	MV at A$270k per room	100.0	5.9
Others	20.2	0.04	FY16 net book value		2.8
Gross NAV	**660.1**	**1.37**			**91.4**
Net cash	62.3	0.13	As at 31 Dec 2016		8.6
Total NAV	**722.4**	**1.50**			**100.0**
FD no of shares (m)	480.5				
NAV/share	**1.50**				
TP (less 30% discount to NAV)	**1.06**				
Upside (%)	**49.7**				
Discount to NAV (%)	**(53.1)**				

Source: Company, KAF

Table 2 : Outstanding orderbook as of 31 March 2017

Projects	Orderbook (RM m) Value	Orderbook (RM m) Balance	Client
Sepangar Bay projects	48.5	15.0	BHIC Submarine & DCNS
Building works at KL Eco City - Contract A, Kg. Haji Abdullah Hukum, Jln. Bangsar, KL	222.3	20.0	KL Eco City Sdn Bhd
Building works at KL Eco City - Contract B, Kg. Haji Abdullah Hukum, Jln. Bangsar, KL	192.3	120.0	KL Eco City Sdn Bhd
Repair & maintenance of access roads & slope stabilization works for Sabah Sarawak Gas Pipeline	75.5	35.0	PETRONAS Carigali Sdn Bhd
MRT 1: Pasar Seni Link & other ass works - existing Pasar Seni LRT Station & KL KTM Station	103.8	83.0	MRT Corp
Pan Borneo Highway Sarawak Phase 1: WPC-05 (Btg. Skrang to Sg. Awik Bridge)	1,300.0	700.0	Lebuhraya Borneo Utara Sdn Bhd
MRT 2: Package V205 - viaduct gateway (Kg. Muhibbah to Serdang Raya)	858.1	858.1	MRT Corp
Total	**2,800.5**	**1,831.1**	

Source: Company, KAF

During our recent visit to TRC, management appears confident of kicking on from a trailblazing contract under the MRT 2 project in March this year. The contract (V205: Kg. Muhibbah to Serdang), which is worth RM858m, represents TRC's maiden viaduct works win under the ongoing Klang Valley MRT program.

Prior to this, TRC constructed the Sg.Buloh Depot, and was a sub-contractor to Syarikat Muhibbah Perniagaan & Pembinaan (SMPP) for elevated station works within the vicinity under MRT 1. Last March, it won another mandate under MRT 1. The latter involves the construction of the Pasar Seni Link, i.e. from the existing Pasar Seni LRT station to the KL KTM station in downtown KL *(Chart 1-3).*

Likewise, TRC was one of the main contractors for the Klang Valley LRT extension program, playing a turnkey role on a 9.2km-route that runs from the Kelana Jaya Station to the Summit Shopping Centre Station. Despite various setbacks and time over-runs, we feel assured that TRC still managed to close the project's books in positive territory (via the conversion of some potential variation orders or VO's), and was among fifteen contractors that were pre-qualified for ten of MRT 2's viaduct packages.

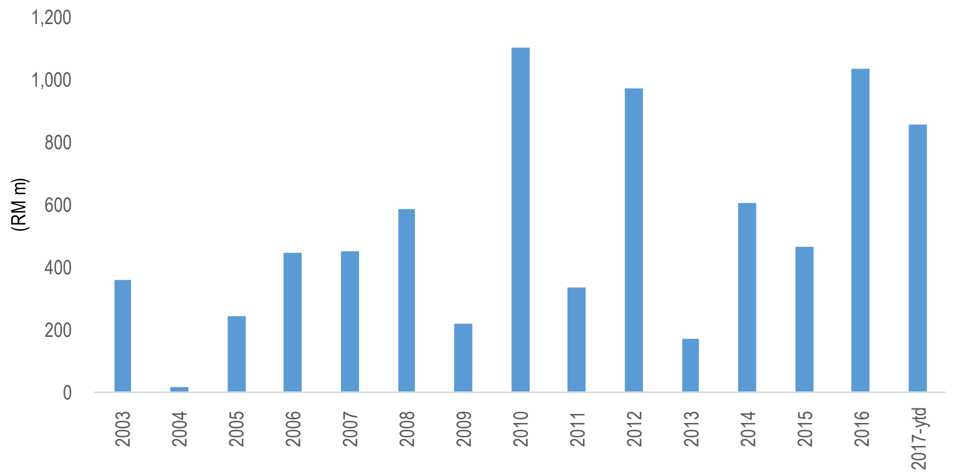
More importantly, the big break-through with the MRT 2 viaduct works provides a big lever for TRC to emerge as a top-level contractor for railway infrastructure, and solidifies its competitive positioning ahead of a slew of big-ticket railway jobs. Other vital factors supporting TRC's bids, in our view, are:

- The group's coveted status as one of only two listed-contractors that has won main civil works contracts for all three of the major railway projects in Malaysia to-date (i.e. LRT extension, MRT 1 & MRT 2); Sunway Construction (SCGB MK, RM2.01, Unrated) being the other one.

- Ability to put in more well-informed bids (e.g. costing, provisions for safety and contingency costs), drawing experience from its track record of handling the LRT Extension and MRT mandates.
- Apart from its lean structure and selective adoption of project-based hiring, TRC could reap further cost savings by either modifying its existing equipment (e.g. girder launchers and gantries) for the MRT 2 viaduct contract, or re-deploying it for potential new LRT 3 jobs. For this, management has budgeted between RM25m and RM35m.

As with its burgeoning job backlog, TRC is on track to break the previous record of RM1.1b in new wins achieved in FY10, when it won a package of the Kelana Jaya LRT extension works (more in the paragraphs below). Newsflow momentum is set to accelerate moving into 2H17 *(Chart 1-4).*

Chart 1 : On track to surpass FY10 record of RM1.1b new contract wins



Source: Company, KAF

Notably, out of its RM4b tenderbook, TRC has submitted bids for depot and stations under the MRT 2, as well as civil-related jobs for the upcoming LRT 3. We understand that some of these bids are sizeable, i.e. up to RM800m each.

The race for these jobs is certainly heating up, where a fresh clutch of contracts will likely be awarded within the next one to two quarters. Through our cursory checks with the MRT Corp website, five ongoing MRT 2 tenders are currently in progress, where four of these have already been submitted.

Out of these five tenders, one pertains to the Serdang Depot. There are also two station packages, a building management system contract as well as lift and escalator systems for the Serdang Depot.

Another four tenders are currently under evaluation; comprising three station packages and lift/escalator systems for the MRT viaduct packages 1-3. Seven more tenders should be open for bidding by the end of this quarter, including the final station package.

For LRT 3, Prasarana recently issued a tender notice involving four-bridge bearing supply, delivery and installation contracts, which will close on 9 August. Despite some delays in securing approval for sections of the project’s land corridor, the increased tender activity could be a precursor to bidding for the major work packages soon. Altogether, LRT 3 has 12 infrastructure packages (including ten civil contracts), and eight systems packages.

Thus far, apart from the advanced work packages, Prasarana Malaysia has awarded two contracts under the LRT 3. In April, Mudajaya (MDJ MK, RM1.37, Unrated) won a RM58m job to manufacture, supply and deliver precast pier caps under Package PC2.

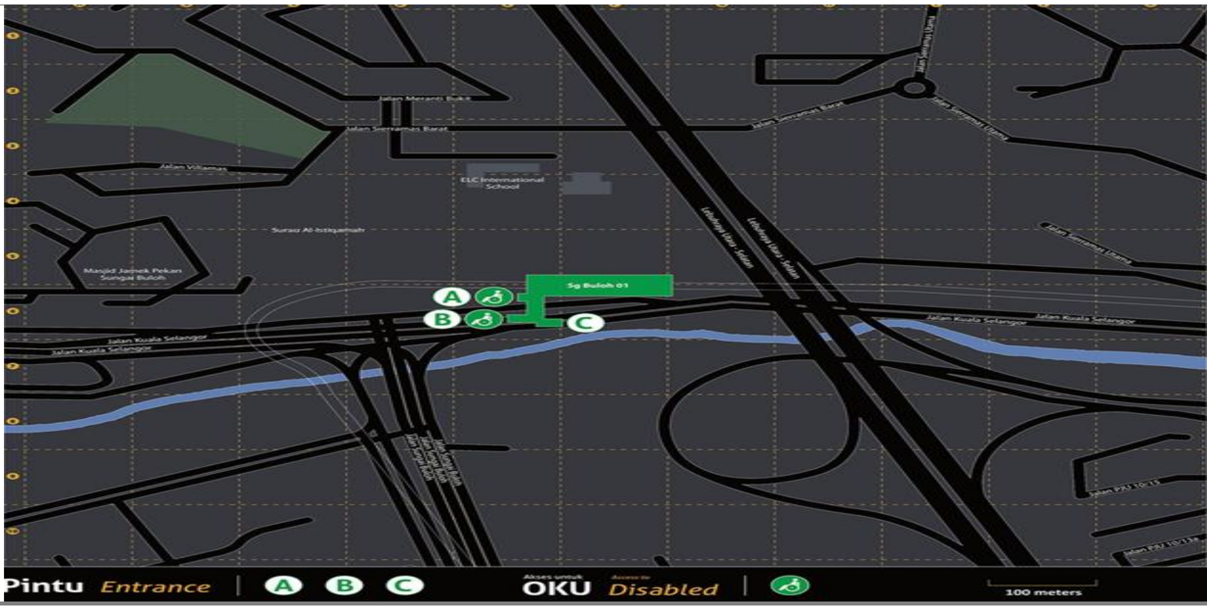
Not long after, WCT Holdings (WCTHG MK, RM1.98, Hold) bagged an RM186m contract for the construction and completion for the Johan Setia Depot in Klang. Assuming a 55:45 split between the civil and systems portions, we estimate the civil contracts to be worth ~RM5b. This will translate into roughly RM400m-RM500m per viaduct package, on our estimates.

Preliminary works have begun with segments of the tracks, especially near the depot area. This is to meet LRT 3’s targeted operational date of August 2020 *(Chart 5 & 6).*

Chart 2 : Facilities works (Package A) for Kelana Jaya Line Extension, Selangor

Source: Company, KAF

Chart 3 : Location map for Sg.Buloh station along MRT 1

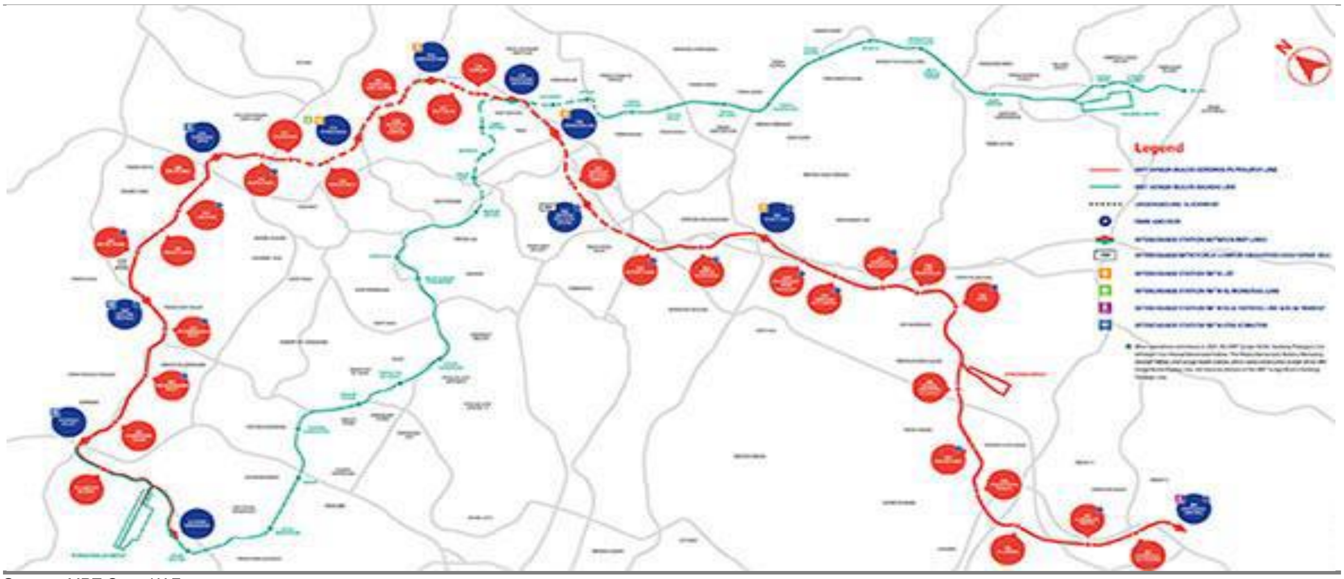


Source: MRT Corp, KAF

Chart 4 : Construction works for the MRT 1 Pasar Seni (Central Market) Underground Station

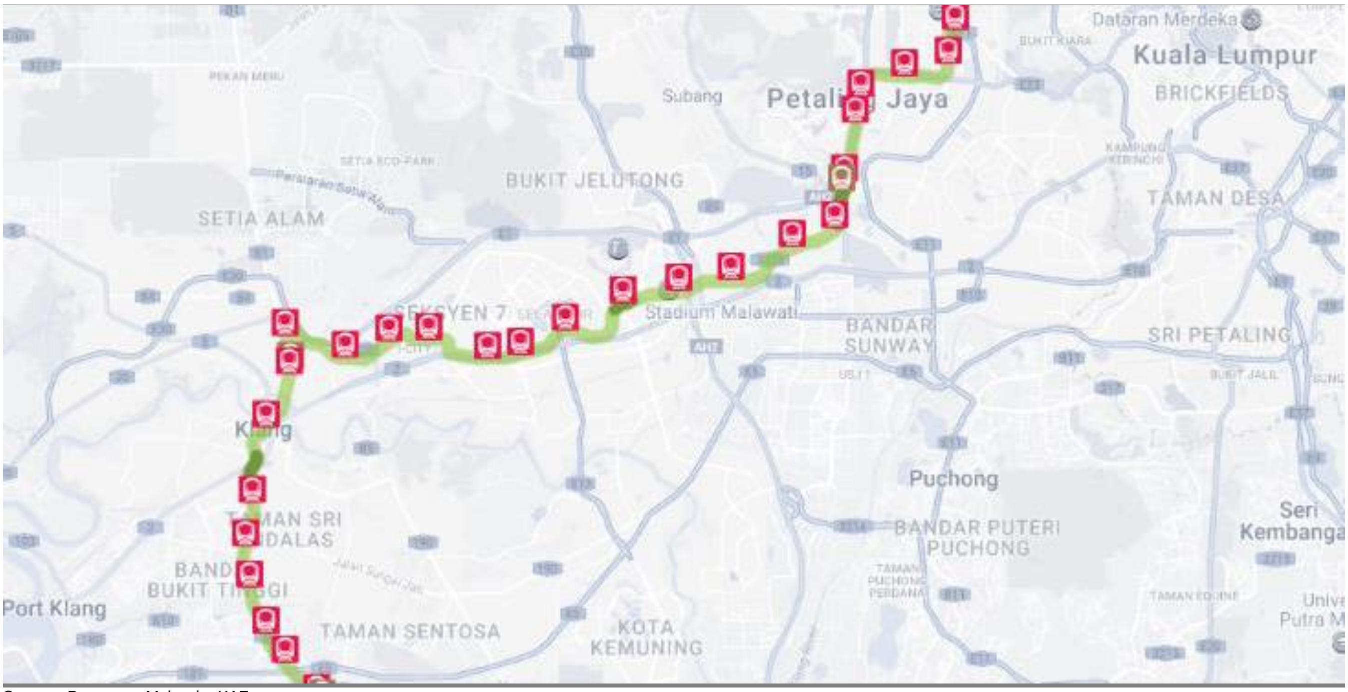
Source: The Star, KAF

Chart 5 : MRT Line 2 (Sg.Buloh-Serdang-Putrajaya)



Source: MRT Corp, KAF

Chart 6 : LRT 3 (Bandar Utama to Johan Setia, Klang)



Source: Prasarana Malaysia, KAF

More is to come, as Phase 1 of the RM55b-East Coast Rail line and the RM9b-Gemas-JB double tracking project are also tipped to take-off soon. Other mega rail projects in the horizon include the (i) MRT 3 (Circle Line), which could be open for bidding by 2H18; and (ii) highly-anticipated KL-Singapore High Speed Rail (tenders for the systems package to be announced by year-end; followed by the civil and asset-operator contracts).

Other opportunities

For building works, TRC is far more selective, and has bid for a package of an integrated development within KL City Centre (value: between RM200m-RM300m). Building jobs account for RM120m or c.8% of its RM1.8b outstanding orderbook; being the balance of works for SP Setia's (SPSB MK, RM3.26, Buy) KL Eco City condominiums.

In East Malaysia, TRC was a package winner for the Pan Borneo Highway in Sarawak, where it won a RM1.3b-contract via a JV with local Sarawakian outfits, Endaya Construction and Pembinaan Kuantiti Sdn Bhd. The group's share of the contract is ~RM700m *(Charts 7-10)*.

Chart 7 : Pan Borneo Works Package 5: Cut-and-fill in progress (Betong Section)

Source: Lebuhraya Borneo Utara, KAF

Chart 8 : Pan Borneo Works Package 5: Laying of pipe culverts (Spaoh Section)

Source: Lebuhraya Borneo Utara, KAF

Chart 9 : Pan Borneo Works Package 5: Embankment fill in progress (Betong Section)

Source: Lebuhraya Borneo Utara, KAF

Chart 10 : Pan Borneo Works Package 5: Laying of interceptor drain (Spaoh Section)

Source: Lebuhraya Borneo Utara, KAF

The latest win is a continuation of the good run TRC has enjoyed in Sarawak. To be sure, the group possesses a license that allows it to bid for projects run by the state. It similarly positions TRC for more prospects in Sarawak, where a new wave of infrastructure spending and hydroelectric dam projects are set to take shape to fuel rising energy-intensive requirements of the Sarawak Corridor of Renewable Energy (SCORE).

In June, The Star reported that construction of the 1,285-MW Baleh Hydroelectric Dam is targeted to begin next November after state-owned Sarawak Energy Bhd awarded the main civil works contract to a JV between China Gezhouba Group Co Ltd and privately-held Untang Jaya Sdn Bhd (70:30). The JV's scope of works covers the design and building of the main dam, intake structures, spillway and penstocks.

Following the award, there could be spill-over benefits for Sarawak-registered Class A contractors like TRC, as the JV intends to carve-out up to 45% of works to local suppliers.

On the other hand, TRC is also tapping into the oil & gas supply chain after securing a RM62m contract to provide repair & maintenance services to access roads, and undertake slope stabilization services for the Sabah Sarawak Gas Pipeline (SSGP), which links the gas fields of Sabah to PETRONAS' MLNG complex in Bintulu, Sarawak. TRC's current involvement is on a stretch within the Sarawak portion. With good progress made thus far, TRC could be in the running to bag additional packages under this 512-km long onshore pipeline *(Chart 11).*

Plus, TRC's existing role for Pan Borneo Highway in Sarawak puts the group in good stead to bid for packages under the Sabah portion, which will reportedly cost RM13b. Much like its neighbouring state, the Sabah leg will likely involve a tie-up between local Sabahans and Peninsula-based contractors. We understand that TRC has already been sounded out to explore potential opportunities.

Making special progress

Over the years, the TRC group has taken-up a host of specialised roles for a wide spectrum of clients, both public and private. Some of these entail (i) maintenance, refit infrastructure works and construction of the Sepangar Bay submarine base in Sabah; (ii) airport upgrading works in Labuan, Kelantan and Terengganu); (iii) wharf, jetty and other related-infrastructure works at Northport, Bintulu Port and in Lumut, Perak); and (iv) a new training centre for the Maritime Enforcement Agency in Kuantan, Pahang *(Charts 12-21).*

Going forward, management shared with us, TRC's strategy of casting its net wider in search of specialised works in new areas, where margins can be better. As highlighted earlier, the group could use its role in SSGP as a springboard for more traction within the oil & gas space.

Chart 11 : Sabah Sarawak Gas Pipeline - repair & maintenance of access roads, slope stabilization works (Sarawak section)

Source: TRC, KAF

Chart 12 : New submarine base at Sepangar Bay, Sabah (design & build)

Source: TRC, KAF

Chart 13 : New training centre for the Maritime Enforcement Agency in Kuantan, Pahang (design & build)

Source: TRC, KAF

Chart 14 : New Dang Wangi District Police Complex, KL

Source: TRC, KAF

Chart 15 : Samalaju Port interim facilities, Sarawak

Source: TRC, KAF

Chart 16 : Kuala Terengganu Airport runway extension (Package 3)

Source: TRC, KAF

Chart 17 : Refurbishment & upgrading of Parliament House, KL (Phase 2B)

Source: TRC, KAF

Chart 18 : New UniKL campus, Johor

Source: TRC, KAF

Chart 19 : New Bentong Prison, Pahang

Source: TRC, KAF

Chart 20 : Palm Oil Bulking Facility, Bintulu, Sarawak

Source: TRC, KAF

Property coming into play

In its element down south

TRC first expanded into Australia some time in 2009. To-date, the group has forked out close to RM100m to spearhead two ongoing projects, both of which are situated in Melbourne.

TRC's first project down south is the Springridge Estate in Wallan, which is held via 33%-owned associate, Pretty Sally Holdings. Springridge Estate is fast-tracking construction works for 136 lots at the 123-ha estate (329 acres). In January, Australia's Weekly Times reported that construction for Phase 5A is being accelerated, followed by Phase 5B. At the moment, four phases are on sale; i.e. 4B, 4D, 4E and 5A *(Chart 22 & 23)*.

Situated on an idyllic part of Melbourne's northern corridor, the smaller lots were sold at A$99k with land size of approximately 260 sq m when it first started. Via information obtained from its website (www.springridge.com.au), we note that the land is now priced from ~A$130k per lot, with the larger lots selling for ~A$150k-A$160k for sizes between 500sq m and 550sq m.

We have forecast Springridge Estate to generate annual lot sales of 35-55 units for FY17F-19F, along with average selling prices of A$125k to A$130k. Through Pretty Sally, Springridge Estate accounts for a bulk of TRC's associate earnings at c.RM1.6m-RM2.4m p.a. during this period.

In May, TRC generated some interest after it entered into a service agreement with Starwood Hotels for the latter to manage the first Element Hotel in Australia. According to Starwood Hotel's website, the 168-room Element Melbourne Richmond Hotel, which forms part of TRC's East Edge Botanicca development along Swan Street on Melbourne city's fringes, is set to open its doors for business by December 2019.

Construction works are scheduled to start by year-end. Backed by an established hotel manager in Starwood Hotels, management is targeting an average occupancy rate of at least 70% within its first year of operations.

According to a report by Colliers International, the outlook for Melbourne's hotel market remains stable. Average occupancy rates are in the mid-80's, the second best performing market in Australia (in terms of rates and occupancy) after Sydney.

Notably, apart from a strong events calendar and tourism flow, the low vacancy levels for Melbourne's office market is indicative of strong corporate demand for hotels. In terms of future supply, Colliers estimates approximately 30 proposed hotel and served apartment developments to 2021, or a c.32% increase via an additional 6,955 rooms from the current 21,878 stock of available rooms. While the increased supply may create headwinds if not well-absorbed, it will likely be done in phases, in our view. Furthermore, some of these investments might not even follow through.

Chart 21 : Refit infrastructure works at the RMN Submarine Base, Sepangar Bay, Sabah

Source: TRC, KAF

Most importantly, investor appetite for Melbourne's hotel market remains relatively robust, judging by several transacted deals that were consummated between mid-2015 and October 2016. Altogether, there were five major hotel transactions in the state of Victoria within the 3.5 to 4-star band. The transacted prices per room ranged from ~A$226k for the Tune Hotel Melbourne (February 2016) in Carlton to Singapore Holding's acquisition of the 291-room Travelodge Docklands for A$368k (October 2016). The mean was A$302k *(Table 3).*

Based on a capital value of A$270k/room, which roughly represents a ~11% discount from the mean price of this sample, we value the Element Melbourne Richmond Hotel at RM42m (net of estimated construction cost of A$40m).

As for the office component of East Edge Botanicca, management has no immediate plans, although it is weighing up options to either pre-sell, end-bloc, or to divest the land that is attached to it. Either way, this will help TRC recoup part of the A$12m it paid to purchase the project site back in 2011. With development rights of close to 16k sq m, the strata office block reportedly has a GDV of A$80m. Our assumptions are, however, more conservative, at half the amount, i.e. A$40m.

In any case, we have yet to account for profits from East Edge Botanicca in our earnings model, as contributions will only kick in after FY19F, which is beyond our forecast range *(Chart 24)*.

Table 3 : Major hotel deals in Melbourne

Hotel	No of rooms	Rating	Date	Price (A$)	
				m	per room
Aurora Melbourne Central	252	5	Mid-2015	120.0	476,190
Pensione Hotel Melbourne	114	3.5	Sep-15	26.0	228,070
Grange Cleveland Winery, Lancefield	52	4	Oct-15	10.5	201,923
Grange Bellinzona, Hepburn Springs	43	4	Oct-15	6.5	151,163
The Olsen, South Yarra	229	5	Dec-15	97.8	427,074
The Cullen, Prahran	113	5	Dec-15	48.2	426,549
InterContinental Rialto	253	5	Dec-15	133.0	525,692
Crowne Plaza Melbourne	385	4	Dec-15	141.0	366,234
Tune Hotel Melbourne, Carlton	235	4	Feb-16	53.0	225,532
Quest New Quay Docklands	221	4	Jul-16	71.0	321,267
Novotel on Collins	380	5	Sep-16	237.0	623,684
Travelodge Docklands	291	3.5	Oct-16	107.0	367,698

Source: Colliers International, KAF

Great expectations for Ara Damansara TOD

After several years of planning, TRC is all fired-up to showcase its Transit-Oriented Development (TOD) project in Ara Damansara by the second quarter of 2018. The TOD project is a JV with landowner, Prasarana Malaysia Bhd, which will be entitled to a 20% share of the project's revenue. The development components include:

- Service apartments
- Hotels (two blocks)
- Offices (two blocks)
- Retail mail

Based on the latest updates we obtained from The Edge Property website, the average market-clearing price for properties in Ara Damansara is c.RM602 psf. Rental yields ranges between 2.2%-3.8% for units priced between ~RM600k and RM1.9m. The maintenance fees for mid to upper-medium end condo's is ~RM0.30 psf.

While the initial phases of several developments launched in 2015 are nearing completion (e.g. H2O, Maisson, Potpourri) and could push supply higher at Ara Damansara, TRC's project can still hold its own, in our view.

First of all, it is actually located at the Ara Damansara LRT station that forms part of the extended Kelana Jaya LRT line fronting the main Subang Airport road. The project is also conveniently located within a five to ten minutes' drive from the Subang Airport (distance: ~6km).

Chart 22 : Various amenities within Wallan

Source: Springridge, KAF

Chart 23 : Master Plan for Springridge, Wallan, Melbourne

Source: Springridge, KAF

Furthermore, the asking prices for larger units (i.e. above 1,000 psf) at some of the older condos are above the RM1m mark (e.g. Ara Greens). While its pricing has not been finalised, TRC is aiming to launch smaller-sized apartments, while keeping the absolute price within an affordable range. Its addressable market will likely be young professionals or couples, inter-generational buyers, as well as first-time homeowners that are keen to own homes with good transport links.

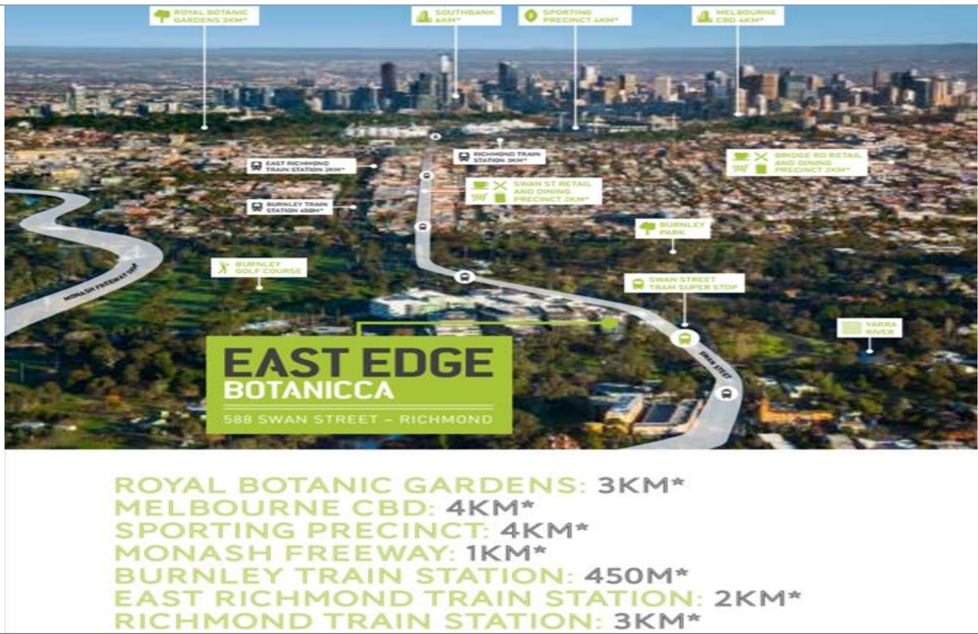
Moreover, there is a ready pool of potential buyers within the matured Ara Damansara township, and its surrounding areas (e.g. Subang, USJ, Shah Alam, Petaling Jaya, Tropicana, Damansara Jaya, Damansara Uptown, Kota Damansara).

For its hotel venture, TRC is exploring the possibility of tapping into the market segment for cost-conscious guests or business travellers (possibly three-star) within a transport hub, which it believes is still underserved despite the rapid development of Ara Damansara, and its expanding business/commercial community. From our web checks, Ara Damansara only has one hotel operating within this category at the moment, i.e. the 3.5-star The Verve Hotel.

By the same token, the proposed retail mall will likely benefit from the constant flow of footfall from the Ara Damansara LRT station. The entire development will take about five years to complete. We estimate average project margins of ~20% over its estimated GDV of RM1b, with meaningful contributions tipped to flow through by FY19.

Ultimately, the bigger picture is to lift revenue contributions from its property division to ~20% of group revenue from ~5% in FY16 *(Chart 25).*

Chart 24 : East Edge Botanicca, 588 Swan Street, Richmond, Melbourne



Source: CBRE, KAF

Chart 25 : Proposed Ara Damansara Transit-Oriented Development (TOD)

Source: MyRapid, KAF

Valuation and recommendation

Earnings on the mend

For its 1QFY17 reporting period, TRC recorded a 243% QoQ jump in its core net profit at RM7m. Despite a 25% QoQ decline in turnover (YoY: - 36%), the big boost to bottomline mainly came from a significant improvement in construction margins (12.1% vs 2.4% in 4Q16 and 4.4% in 1Q16) following the conversion of some VO claims for its LRT 3 extension. Core earnings would have been better if not for the RM6m write-off for its investments in the Petrobru venture in Brunei.

Excluding the VO's, we estimate TRC's construction margins to be ~7% in 1Q17. Our margin assumptions are a tad more conservative at 4.9%-5.5% over the next three FY's against 3.1%-3.8% in FY15-16.

Most important of all, we expect TRC's sequential earnings momentum to gain momentum; supplanted by newly-secured projects in recent months. TRC's construction billings should pick-up as more work is done on the Pan Borneo Sarawak and MRT 2 contracts. Both jobs account for a combined 85% of its unbilled construction revenue. *(Table 4).*

Stacking it up, we project TRC's core earnings to be higher at RM27m for FY17F vs RM23m in FY16, accelerating further to RM31m-RM35m in FY18F-19F. Underpinning TRC's new growth cycle is its outstanding job backlog of RM1.8b (orderbook cover: ~2.6x its FY16 construction revenue), which assures construction earnings over the next four years. This translates into a robust EPS CAGR of 19%.

Our key assumptions include:

(i) New contract orders of RM1.3b, RM650m and RM700m, respectively for the next three FY's (ytd: RM858m);

(ii) Launch of the RM1b-GDV Ara Damansara project in 2Q18;

(iii) Roll-out of construction works for the Element Melbourne Richmond Hotel by year-end;

(iv) Higher construction margins of 4.9%-5.5% for FY17F-19F (FY16: 3.8%), as the billings cycle for key projects pick-up (e.g. MRT 2 viaduct, Pan Borneo Sarawak); and

(v) Capex of RM25m-RM35m for equipment and machinery to support existing MRT work or new MRT 2/LRT 3 bids

Our projections, however, exclude future contributions from TRC's commercial portion of the PPA1M project in Putrajaya, for which any development plans will likely only take place after 2019.

Valuation upside

At our current TP of RM1.06, TRC trades at a steep 51% discount viz-a-viz its NAV of RM1.50. While its share price has done well since March, renewed optimism on TRC's orderbook prospects could drive a stronger PE-rerating towards its 2-year historical peak of 16x, which is near our implied PE.

As such, we expect TRC's improved job flow prospects to rekindle investor interest in the stock. Note that the new job wins secured ytd (RM858m) has already surpassed management's annual base target of RM500m. Per our estimates, every RM100m increase in our new contract assumptions will lift TRC's earnings by 1%-9%.

On top of this, balance sheet remains healthy with a projected FY18F-19F net gearing range of 7%-5% even after factoring-in new construction machinery requirements, ~A$40m budgeted to develop the Element Melbourne Richmond Hotel and landbanking needs in Putrajaya.

From a dividend standpoint, the stock offers decent net yields of 4%-5% on our payout assumptions of 23%-27%. TRC paid out a DPS of 5 sen or 40% of its earnings in FY16 (yield: 4.7%). Extrapolating last year's payout will bump up our FY17F-19F yield projections to 6%-8% *(Chart 26 & 27).*

Table 4 : Financial Result

YE 31 Dec (RM m)	1Q16	1Q17	% YoY	4Q16	1Q17	% QoQ
Turnover	**193.2**	**132.9**	***(31.2)***	**206.3**	**132.9**	***(35.6)***
EBIT	**8.4**	**8.9**	***6.3***	**(0.6)**	**8.9**	***n/m***
Interest Expense	(1.3)	(1.3)		(1.3)	(1.3)	
Interest Income	1.5	1.4		1.6	1.4	
Pre-Exceptionals Profit	8.6	9.1		(0.2)	9.1	
Exceptionals	(7.8)	5.1		5.1	5.1	
Pre-Associates/JV Profit	0.8	14.2		4.9	14.2	
Associates/JVs	0.4	0.7		1.2	0.7	
Pretax Profit	**1.2**	**14.9**	***n/m***	**6.1**	**14.9**	***143.7***
Taxation	(0.0)	(2.3)		1.1	(2.3)	
Minority Interest	0.1	(0.5)		(0.0)	(0.5)	
Net Profit	**1.2**	**12.1**	***n/m***	**7.2**	**12.1**	***68.5***
Core Net Profit	**9.1**	**6.9**	***(23.5)***	**2.0**	**6.9**	***243.3***
					0.0	
Core EPS (sen)	1.9	1.4		0.5	1.4	
Gross DPS (sen)	0.0	0.0		1.9	0.0	
BV/share (RM)	0.74	0.83		0.80	0.83	
EBIT Margin (%)	4.4	6.7		(0.3)	6.7	
Pretax Margin (%)	0.6	11.2		3.0	11.2	
Effective Tax (%)	2.4	15.6		(18.1)	15.6	
Segmental Breakdown (RM m)						
Turnover						
Construction	207.7	133.3	*(35.8)*	177.2	133.3	*(24.8)*
Property development	13.0	3.4	*(74.2)*	3.7	3.4	*(10.6)*
Others	8.0	2.4	*(69.4)*	22.5	2.4	*(89.1)*
Eliminations	(35.4)	(6.1)	*n/m*	2.9	(6.1)	*n/m*
Total	**193.2**	**132.9**	***(31.2)***	**206.3**	**132.9**	***(35.6)***
Pre-tax profit						
Construction	9.2	16.2	*75.9*	4.2	16.2	*281.9*
Property development	(0.6)	0.5	*n/m*	(1.7)	0.5	*n/m*
Others	(5.6)	(2.6)	*(53.2)*	3.8	(2.6)	*n/m*
Eliminations	(1.8)	0.8	*n/m*	(0.2)	0.8	*n/m*
Total	**1.2**	**14.9**	***n/m***	**6.1**	**14.9**	***143.7***
Pre-tax margin (%)						
Construction	4.4	12.1		2.4	12.1	
Property development	(4.9)	15.6		(44.8)	15.6	
Others	(70.0)	n/m		16.8	n/m	
Total	**0.6**	**11.2**		**3.0**	**11.2**	

Source: Company, KAF

Closure to Petrobru investments

To recap, TRC entered into a MoU with the Brunei Government in January 2008 to explore the prospects of setting up an oil refinery. As part of the deal, TRC was required to provide a feasibility study for the proposed development of an oil refinery and storage facility in Pulau Muara Besar. In September the same year, TRC received an official approval letter from the Brunei Government to proceed with it.

The detailed feasibility study, prepared by Woods MacKenzie, was completed in June 2009. TRC took up a 26% stake in Petrobru (B) Sdn Bhd, the vehicle that was used to facilitate this ambitious project. TRC's share was subsequently raised to the present 40%. The other shareholders in this venture are three individual Bruneian's.

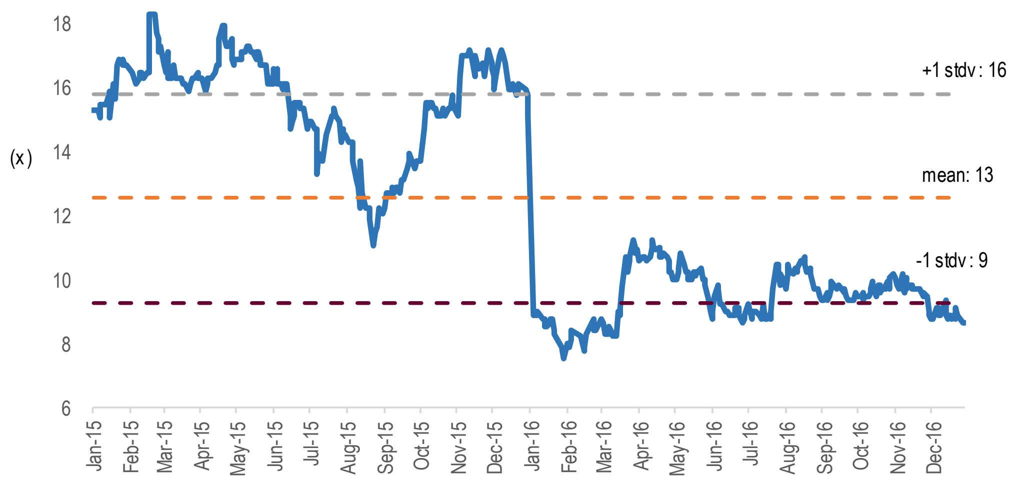
According to the Woods McKenzie report, Pulau Muara Besar was earmarked as an export-oriented refinery to ride the oil & gas uptrend, with the Asia-Pacific region as its main market. The overarching plan back then was for Petrobru to rope-in JV partners within the oil & gas industry to set up a JV to own and run the refinery, with the former holding a non-significant stake.

The construction for the refinery was supposed to kick-off in 2011 over a period of three-years, with a projected cost of US$4b. Out of this total, TRC was eyeing a slice of the infrastructure portion worth c.US$500m (e.g. roads, bridges, land reclamation).

Since then, the Petrobru project did not make much headway for several reasons, one of which was the downturn in the global oil & gas cycle, which made the project technically and financially unviable.

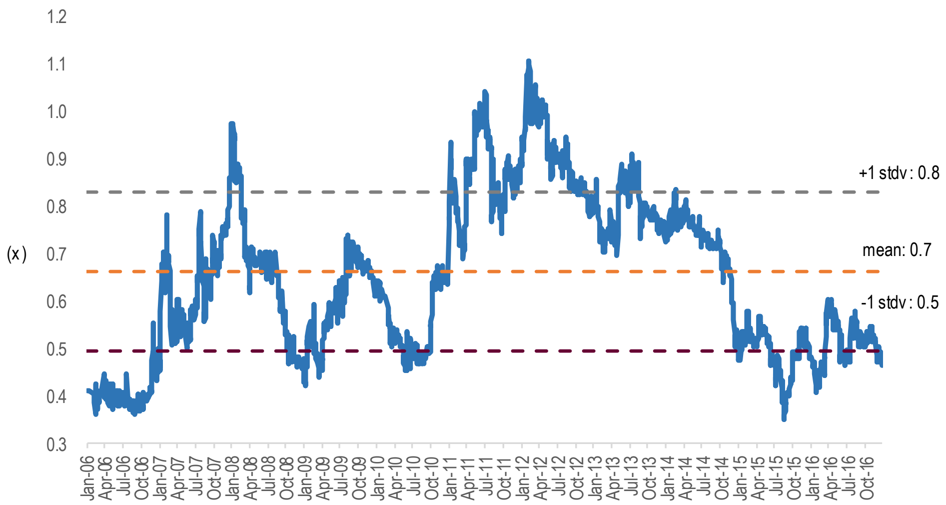
After much deliberation, the group has decided to discontinue the project, and provided a one-off charge of RM6m during the last quarter, where it wrote-off its entire investments in Petrobru. We nevertheless view this decision in positive light; it averts the risk of a further earnings drag, thus freeing up management's time and resources towards other value-accretive deals.

Chart 26 : Historical PE band



Source: Bloomberg, KAF

Chart 27 : Historical PBV band



Source: Bloomberg, KAF

Background

The evolution of TRC

TRC's origins can be traced back to December 1996, when it was initially incorporated as a private limited company. TRC was subsequently listed on the Main Board of Bursa Malaysia in August 2002. Back then, TRC started off as a contractor that mainly undertook road, infrastructure and building works, some for the Public Departments Department (JKR).

With the injection of more professionals on board, TRC has grown in stature to be where it is today by embracing a broader spectrum of jobs. Tactical moves were made via ventures into specialised construction and engineering services for airports, railway track works, stadiums, hospitals as well as large property development construction.

TRC operates on a lean structure, with a total staff strength of 743 as at FY16 (FY15: 973). Despite having a lower headcount, revenue per employee expanded 29% YoY in FY16 to ~RM1m vs RM0.8m in the previous year despite revenue levels being relatively unchanged.

Key management & shareholding structure

Managing Director, Tan Sri Dato' Sri Sufri Bin Hj Mohd Zin, is the founder and driving force behind the TRC group. As a stalwart of the Malaysian construction industry, Sufri is the Vice President and Council Member of Master Builder Association Malaysia (2016-2018), a member of the Road Engineering Association of Asia & Australia (REAAA) as well as corporate Advisor to the Malay Contractors Association Malaysia (KL branch).

He is aided by Dato' Abdul Aziz Bin Mohamad (Group Executive Director), Dato' Richard Khoo Teng San (Group Chief Operating Officer) and Dato' Leong Kam Heng. The latter also spearheads TRC's Australian investments as Chief Operating Officer of TRC (Aust) Pty Ltd.

TRC's senior management has been with the group for 15 to 23 years; with most of them joining during its formative years. As at 31 March, we estimate its founders and senior management to hold close to half of TRC's shares. The group's institutional shareholding is ~15%, with Lembaga Tabung Haji being the single-largest institutional shareholder with a 9% stake (group-wide: fifth-largest).

Flexing its versatility

TRC's construction activities are undertaken under its wholly-owned subsidiary, Trans Resources Corp Sdn Bhd. From its humble origins as a contractor for the JKR, TRC has since spread its wings to embark on more challenging construction jobs.

Over the year's TRC has successful completed several design & build projects (some on a fast-tracked basis) such as the National Hockey Stadium in Bukit Jalil, Labuan Airport, Westport Rail Link, Prison Complex in Bentong (Pahang), UniKL Pasir Gudang branch (Johor), Sepangar Bay Submarine Base (Sabah), Scorpene refit infrastructure works at the Royal Malaysian Navy submarine base in Sepangar Bay, New Training Centre for the Maritime Enforcement Agency (Kuantan, Pahang) as well as the Kuala Terengganu Runaway Extension projects.

More recently, TRC has established itself as a key player in major railway transportation projects. Indeed, TRC is one of only two-listed contractors that have played a role in the last three major rail projects in Malaysia:

- Kelana Jaya LRT extension facilities Package A (civil works);
- MRT 1: Station works from Sg.Buloh to Kota Damansara stretch, Sg.Buloh Depot and Pasar Seni Paid Link; and
- MRT 2: Construction of viaducts or guideways under Package V205.

As testament to its growing versatility, TRC has stepped up its pursuit for more specialised works within new areas. Apart from submarine and marine-based projects, the group is bidding for more repeat jobs from the SSGP, where it is currently undertaking a RM62m-contract to maintain the access roads, and provide slope stabilization solutions. The good work done has not gone un-noticed; in October 2008, TRC was awarded with the prestigious ISO 9001: 2008 certification by SIRIM, Malaysia's main accreditation agency.

Strong foothold in Sarawak

While it has kept a relatively low profile, TRC has actually enjoyed a prolific run in Sarawak. Prior to the Pan Borneo Highway, TRC is among a handful of Peninsula-based contractors that has carved a strong presence in Sarawak since early 2000, where the large Sarawakian contractors normally have a 'home' advantage.

Unknown to many, TRC holds a Unit Pendaftaran Kontraktor (UPK) Class A licence from the Sarawak State Financial Secretary. Poignantly, the license, which was issued in 1998, enables TRC to bid for state projects that are initiated by the Sarawak Government. It has established a branch office in Sarawak, which contributed as much as 60% of the group's construction revenue at one point in time.

This bold 'leap of faith' has paid dividends. Over the years, TRC has racked up a couple of notable construction wins in Sarawak. From road and pipe-laying jobs, TRC has erected warehouses and bulking facilities for Bintulu Port Holdings (BPH MK, RM6.00, Unrated), besides delivering the Samalaju interim port facility for the same client.

TRC was also involved in the upgrading of the Kuching Polytechnic and Sibu Airport. In January 2013, TRC won part of the RM4b access road packages (total: 15) under SCORE via a RM170m contract to build an 18.2km-long road from Sangan to Sg.Anap.

In October 2015, TRC broke new ground by garnering its first road/infrastructure-related contract for the oil & gas industry through the SSGP project. But, the latest and most high-profile win in Sarawak to-date is its role in Package 5 of Pan Borneo Sarawak worth RM1.3b (TRC's portion: RM700m).

Ventures abroad

TRC has also exported its construction expertise beyond Malaysia, particularly during dips in the local construction cycle. However, unlike many of its peers, which have ventured into construction markets as far as North/Central Asia, South America, the Middle East, Europe and even Africa, TRC's direct exposure abroad has so far been largely confined within the ASEAN region.

In Cambodia, TRC has assisted in building and infrastructure-related works for the Delta Garden Development in Phnom Penh, for which it owns an effective 34% stake. However, the group's first big break overseas came in October 2011, where it teamed up with Swee Corp to modernize Brunei's airport for a contract sum of RM319m.

With the spadework done, TRC expanded its presence in the oil-rich sultanate last year, when it won another airport-related job – this time involving Phase 1 of airfield pavement rehabilitation works at Brunei International Airport. Worth RM231m, TRC should wrap-up works by the end of this year.

Broadening its property reach

As part of its diversification strategy, TRC first made tentative steps into property development by launching projects in Tmn. Andaman Ukay (121 units of double-storey terrace houses & semi-detached homes); Tmn. Ukay Tropika (83 units of luxurious super-link houses), TRC Business Centre (24 units of shop office plus a four-storey car park); Tmn. Waja, Kuala Pilah (249 units of low-medium cost apartments); Bayu Senibong in Johor (708 units of medium-cost apartments) and Impian Senibong Phase 2 (232 units of apartments and 11 units of SOHOs).

A major upcoming project is the Ara Damansara TOD project, which has been pencilled-in for a debut in 2Q18.

In Australia, TRC has two ongoing projects, both of which are situated in Melbourne under TRC (Aust) Pty Ltd. TRC's firsts foray down south can be traced back to July 2009, when it shelled out A$8m to acquire a 33% stake in Pretty Sally. The latter is the developer of the 133-ha (~330 acres) Springridge Estate in Wallan, approximately 50km north of central Melbourne.

A popular rural residential locality in Melbourne, Springridge Estate offers a total of 906 lots, with 353 units having already been sold. Besides providing a foothold into the Australian market, Springridge Estate provides a platform for TRC to ride on the rising popularity of residential subdivided lots outside of Melbourne city, given the steep pricing within the city centre.

To stimulate sales, we understand that Springridge Estate is offering a package, which only requires a 10% deposit upfront. Customers are only required to pay the balance 90% upon completion of the house. Further to that, Springridge Estate has a wide range of affordable homes and land packages to choose from. To complement its services, TRC (Aust) also owns local homebuilders, i.e. Hermitage Homes and Vibe Homes, which also provide various construction packages for the development.

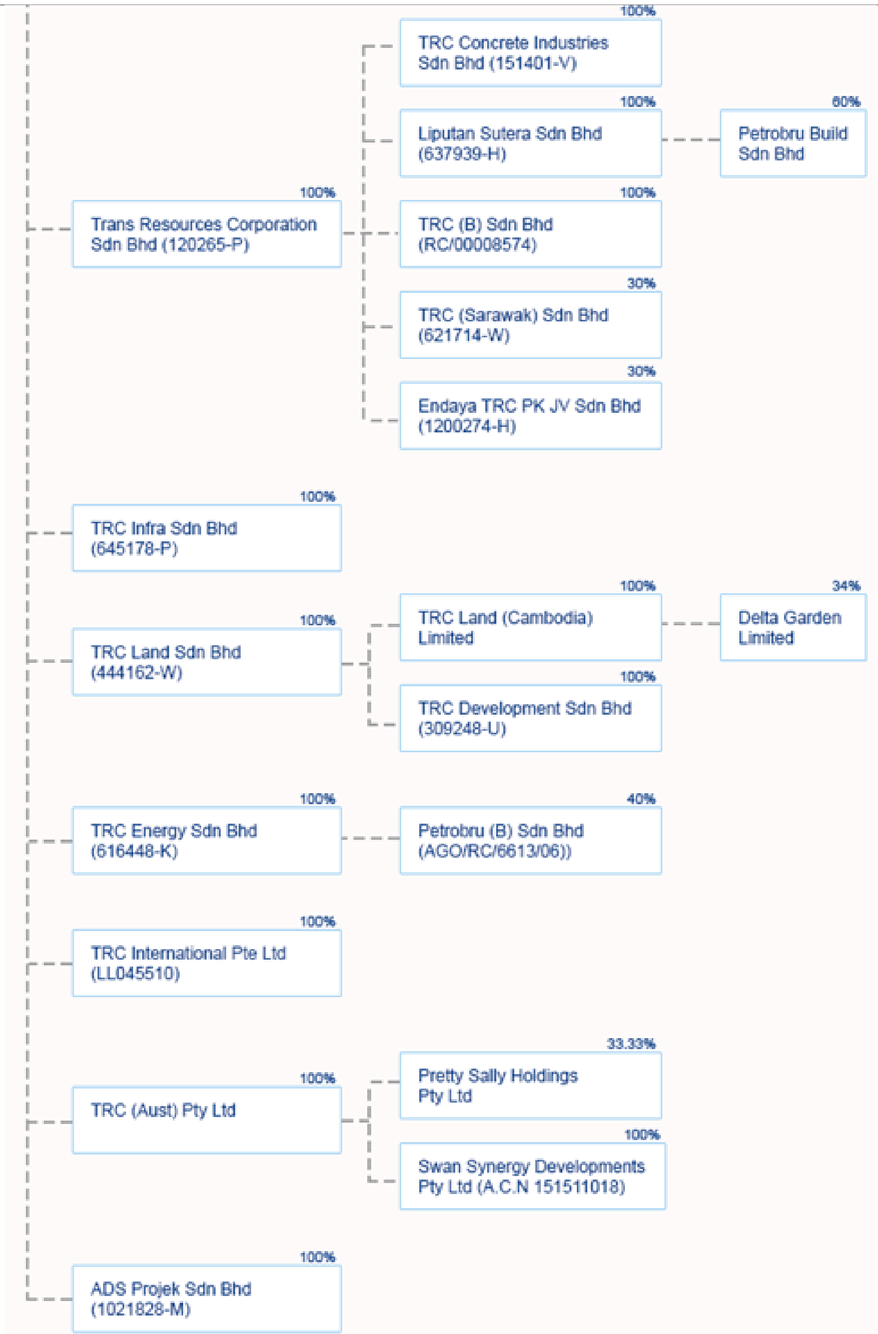
TRC's latest venture in Melbourne is the East Edge Botanicca project that is located on 588 Swan Street, approximately 5km east of Melbourne. East Edge Botanicca is a redevelopment project, which incorporates two separate buildings within one single complex. TRC paid AUD11m in cash to acquire a building on the project site, which was previously leased to pharmaceutical company, Avexa Ltd. The acquisition, which was initiated in December 2011, was to have been bundled together with planning approval for 15,300 sq m (~165k sf) of commercial space, and 300 car parks.

The land area is approximately 6,830 sq m (1.7 acre). From our latest checks, the development will now comprise of two components; i.e. a stratified office block (8,400 sq m) and the Element Melbourne Richmond Hotel (7,900 sq m), which neighbours each other. The project forms part of the Botanicca Corporate Park, within the suburb of Richmond. Botanicca Park itself is fast-becoming a new magnate for retailers, as well as owner-occupiers looking for office space. Construction works on the hotel is scheduled to kick off by year-end.

In Cambodia, TRC has a 34% stake in a residential development project called Delta Gardens. The development comprises of 123 homes together with a club house, and is Iocated along the Tonle Bassac river, south of Phnom Penh. In May 2010, TRC, via its Cambodian unit, TRC Land (Cambodia) Ltd, secured a US$9m contract to complete the balance of work on 49 bungalows and associated infrastructure for Phase 1 of Delta Gardens.

Appendix

Chart 28 : Corporate structure



Source: Company, KAF

Table 5: Awarded contracts under MRT 2 (Sg. Buloh-Serdang-Putrajaya)

Package	LOA	Value (RM m)	Contractor
Advanced works			
Advance Works Package 1: TNB Pylon & Overhead Transmission Line Relocation	Nov-15	n/a	P.E.S.B Engineering Sdn Bhd
Advance Works Package 2: TNB Pylon & Overhead Transmission Line Relocation	Nov-15	n/a	Huls Transmission Sdn Bhd
New JKR Wilayah Persekutuan Workshop Including Automotive and Heavy Machinery	Feb-16	n/a	Acre Works Sdn Bhd
Workshop at Jln. 6/19 Cheras, “Taska”, Tennis Court & access road at existing JKR Chan Sow Lin vicinity	Feb-16	n/a	Central Geo Sdn Bhd
Renovation And Conservation Works To Block A & Block C, Bangunan Sultan Abdul Samad (BSAS)	Mar-16	74	TRC
Cafeteria and ‘Preka’ Centre at Craft Complex Kuala Lumpur, Jln. Conlay	Mar-16	n/a	M.O. Jaya Sdn Bhd
20 Storey Police Quarters: 300 Units of Police Quarters Class F with Facilities & 5-Storey Podium Carpark	Mar-16	134	WCT
Sg. Besi Police Quarters	Jul-16	60	SN AKMIDA Holdings Sdn Bhd
Advanced Works for Package V201 (Sg.Buloh-Persiaran Dagang)	Sept-16	53	Sunway Construction
Underground Works			
Tunnels, stations & ass structures: Jln. Ipoh North Escape Shaft to Desa Waterpark South Portal Guideway	Mar-16	15,470	MMC-Gamuda KVMRT(T) Sdn Bhd
Package V201 : Viaducts - Sg.Buloh-Persiaran Dagang	Mar-16	1,210	Sunway Construction
Package V202 : Viaducts - Persiaran Dagang to Jinjang	Apr-16	1,440	Ahmad Zaki Resources Bhd
Package V203 : Viaducts - Jinjang to Jln.Ipoh North Portal	May-16	1,470	IJM Corp
Package V210 : Viaducts - Persiaran APEC to Putrajaya Sentral	May-16	648	MRCB
Package V204: Viaducts - Bandar Malaysia South Portal to Kampung Muhibbah	Nov-16	896	WCT
Package V208: Viaducts - Tmn. Pinggiran Putra to Persiaran Alpina	Nov-16	679	MTD Construction Sdn Bhd
Package V207: Viaducts - UPM to Tmn. Pinggiran Putra	Dec-16	559	Mudajaya
Package V209: Viaducts - Persiaran Alpina to Persiaran APEC	Mar-17	716	Acre Works Sdn Bhd
Package V205: Viaducts - Kg. Muhibbah to Serdang Raya	Mar-17	858	TRC Synergy
Package V206: Viaducts - Serdang Raya to UPM Station	Mar-17	952	Gadang Holdings
Systems			
Package SY201 : Signalling & Train Control System & Platform Screen Doors/Automatic Platform Gates	May-16	458	Bombardier-Global Rail Consortium
Package SY202 : Integrated Control Supervisory System & Computerised Maintenance Management System	May-16	n/a	NAJCOM-EVD JV
Package SY203 : Electric Trains And Depot Equipment	May-16	1,620	HAP Consortium (Hyundai Rotem Co, Apex Communications Bhd, Posco Engineering Co.Ltd)
Package SY205 : Power Supply & Distribution System	Jul-16	693	Colas Rail Consortium
Package SY206 : Communications, Govt Integrated Radio Network, Commercial Telecom (INFRA) & IT System	Aug-16	632	Sapura-EVD Consortium
Package SY-204: Track works, Maintenance Vehicles & Works Train	Aug-16	1,010	CCCC-George Kent JV
Package SY207: Automatic Fare Collection System	Sep-16	153	Indra Sistemas S.A.-Rasma Contractors JV
Designated suppliers			
Package SBG201 : Supply and Delivery of Segmental Box Girders (SBG) (Packages V201 to V205)	Mar-16	199	Kim Lun Corp
Package SBG202 : Supply and Delivery of Segmental Box Girders (SBG) (Packages V206 to V210)	Mar-16	170	Acre Works

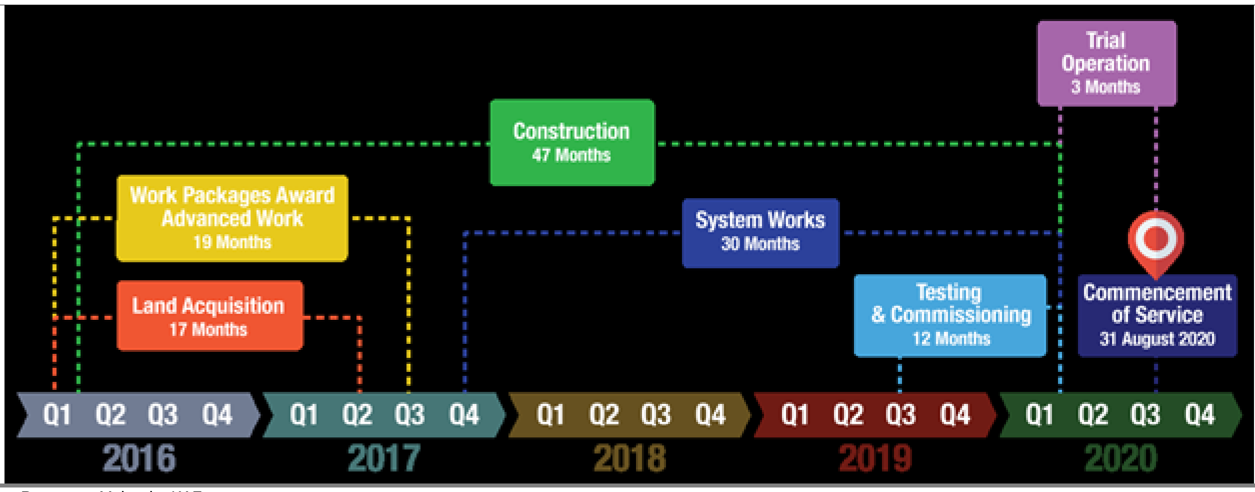
Source: MRT Corp, KAF

Table 6 : Upcoming tender schedule for MRT 2 (Sg.Buloh-Serdang-Putrajaya)

Package	Submission date
Tenders in progress	
Package DPT201 : Serdang Maintenance Depot	Jun-17
Package S205: Elevated Stations - Sg. Besi & Serdang Raya (North)	Jul-17
Package L&E202: Lift & Escalator System for all Elevated Stations, Serdang Depot & Multi-storey Car Parks	Jul-17
Package BMS201: Building Management System	Jul-17
Package S209: Elevated Stations - 6 Sierra & Cyberjaya North	Aug-17
Tenders under evaluation	
Package L&E201: Lift & Escalator System for Elevated Stations (Package V201, V202, and part-V203)	Apr-17
Package S210: Elevated Stations - Cyberjaya City Centre and Putrajaya Sentral	May-17
Package S204: Elevated Stations - Kuchai Lama & Tmn. Naga Emas	Jun-17
Package S208: Elevated Stations - Equine Park & Tmn. Putra Permai	Jun-17
Future tenders	
Package S206: Elevated Stations - Serdang Raya (South), Seri Kembangan & UPM	3Q17
Package LED201: LED Lighting for Elevated Stations & Multi-Storey Car Parks	3Q17
Package NB201: Noise Barriers & Enclosures	3Q17
Package EAC201: Electronic Access Control System	3Q17
Package UPS201: Uninterrupted Power Supply for all Elevated Stations	3Q17
Package LED202: LED lighting for Elevated Stations, Serdang Depot & Multi-Storey Car Parks	3Q17
Package LED203: LED Lighting for Elevated Stations & Multi-Storey Car Parks	3Q17

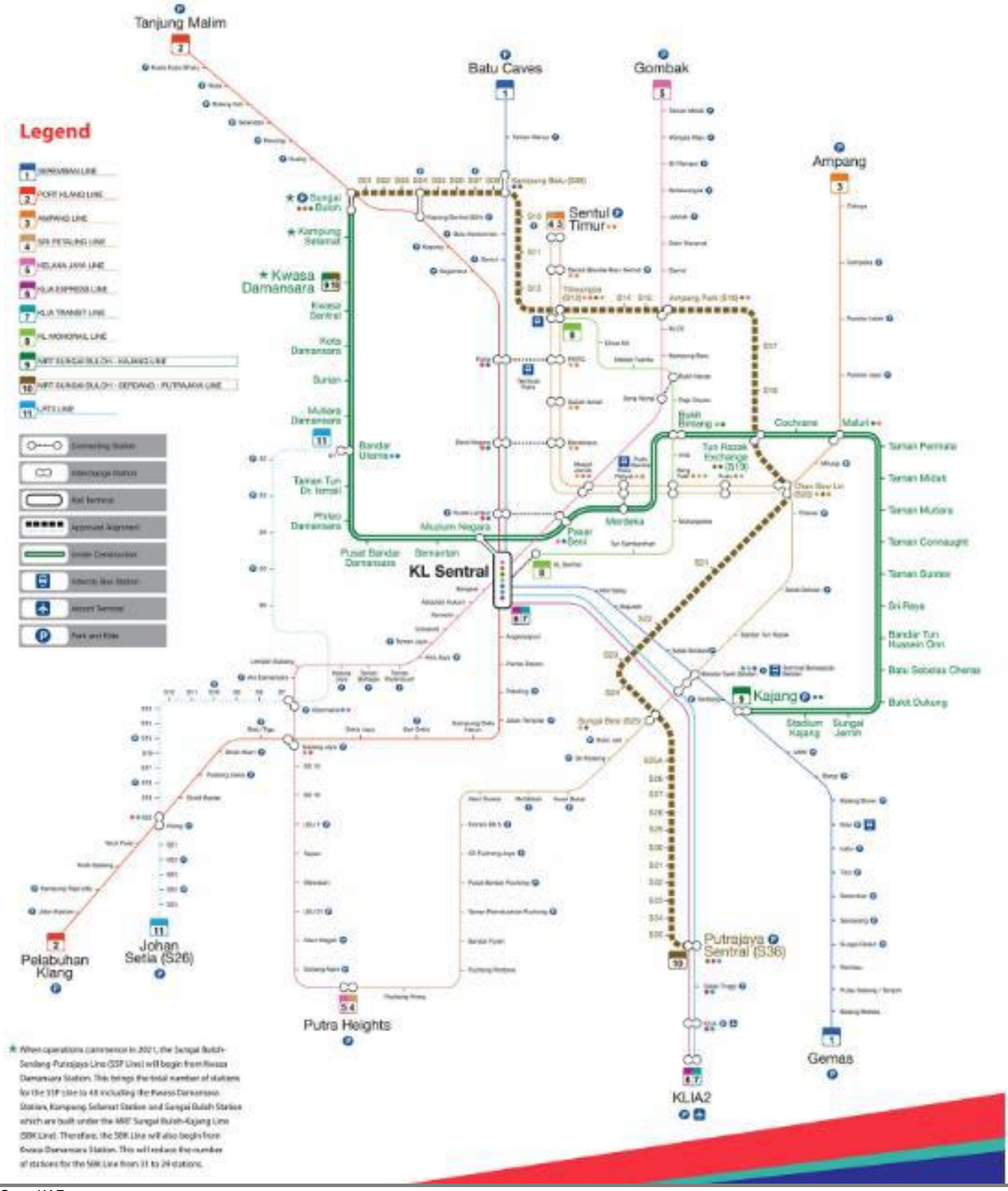
Source: MRT Corp, KAF

Chart 29 : Timeline for LRT 3 (Bandar Utama to Johan Setia, Klang



Source: Prasarana Malaysia, KAF

Chart 30 : Klang Valley Rail Transit Map



Source: MRT Corp, KAF

Income Statement

FYE Dec (RM m)	2015	2016	2017F	2018F	2019F
Revenue	**768.0**	**753.8**	**663.5**	**747.3**	**844.8**
EBITDA	**33.0**	**37.6**	**52.2**	**61.9**	**69.9**
Depreciation/Amortization	(13.2)	(13.1)	(14.0)	(16.2)	(17.6)
Operating Income (EBIT)	**19.8**	**24.5**	**38.1**	**45.7**	**52.3**
Net interest	1.2	2.2	1.6	2.2	2.4
Associates	(0.6)	1.0	(4.0)	(6.0)	(7.6)
Exceptional items	17.9	5.0	0.0	0.0	0.0
Pretax profit	**38.2**	**32.7**	**35.7**	**41.9**	**47.1**
Taxation	(7.4)	(4.9)	(7.3)	(8.6)	(9.7)
Minorities	(0.5)	(0.0)	(1.6)	(1.9)	(2.5)
Net profit	**30.4**	**27.9**	**26.8**	**31.4**	**34.8**
Core net profit	**12.5**	**22.9**	**26.8**	**31.4**	**34.8**

Source: Company, KAF

Balance Sheet

FYE Dec (RM m)	2015	2016	2017F	2018F	2019F
Fixed assets	58.1	47.1	58.1	61.9	54.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	111.3	118.2	144.4	204.6	281.0
Total non-current assets	**169.4**	**165.3**	**202.5**	**266.5**	**335.3**
Cash & equivalent	164.2	212.0	191.7	176.7	168.6
Stock	0.5	0.5	1.6	1.8	4.1
Trade debtors	364.4	322.8	281.8	317.3	370.3
Other current assets	62.1	104.9	130.0	140.0	130.0
Total current assets	**591.1**	**640.3**	**605.0**	**635.8**	**673.0**
Trade creditors	240.5	266.6	209.0	225.4	254.8
Short-term borrowings	146.1	146.6	134.6	140.1	140.9
Other current liabilities	1.7	1.4	1.4	1.4	1.4
Total current liabilities	**388.4**	**414.6**	**345.1**	**366.9**	**397.1**
Long-term borrowings	12.9	3.2	37.1	69.6	100.8
Other long-term liabilities	3.0	2.3	2.3	2.3	2.3
Total long-term liabilities	**16.0**	**5.5**	**39.4**	**71.9**	**103.2**
Shareholders' funds	**356.1**	**380.5**	**416.4**	**455.0**	**497.0**
Minority interests	0.1	5.0	6.6	8.5	11.0

Source: Company, KAF

Cashflow Statement

FYE Dec (RM m)	2015	2016	2017F	2018F	2019F
Pretax profit	38.2	32.7	35.7	41.9	47.1
Depreciation/Amortisation	13.2	13.1	14.0	16.2	17.6
Net change in working capital	(32.3)	24.8	(42.7)	(29.5)	(15.8)
Others	(14.3)	(6.1)	(8.9)	(10.8)	(12.1)
Cash flow from operations	**4.9**	**64.5**	**(1.9)**	**17.8**	**36.7**
Capital expenditure	(3.0)	(2.7)	(49.6)	(78.0)	(84.0)
Net investments & sale of fixed assets	5.0	2.0	0.0	0.0	0.0
Others	5.2	0.0	0.0	0.0	0.0
Cash flow from investing	**7.2**	**(0.7)**	**(49.6)**	**(78.0)**	**(84.0)**
Debt raised/(repaid)	2.6	(9.3)	22.0	38.0	32.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(0.9)	(3.1)	9.1	7.2	7.2
Others	(30.6)	(24.6)	0.0	0.0	0.0
Cash flow from financing	**(28.9)**	**(37.0)**	**31.1**	**45.2**	**39.2**
Net cash flow	**(16.8)**	**26.8**	**(20.4)**	**(15.0)**	**(8.1)**
Net cash/(debt) b/f	**69.8**	**53.1**	**79.9**	**59.5**	**44.5**
Forex	0.1	0.1	0.0	0.0	0.0
Net cash/(debt) c/f	**53.1**	**79.9**	**59.5**	**44.5**	**36.4**

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.

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