

05 Dec 2018

TRC Synergy

Hold

Price
RM0.58

Target Price
RM0.62 (from RM0.59)

Bags RM499m building job in Putrajaya

We maintain our Hold rating on TRC Synergy with a higher TP of RM0.62 (from RM0.59) on an unchanged 50% discount to NAV. Our revised TP reflects the award of a RM499m building contract in Putrajaya. It also bumps up TRC's orderbook to RM3b, and underpins its earnings visibility that stretches into 2021.

Market Data

Bloomberg Code	TRC MK
No. of shares (m)	480.5
Market cap (RMm)	276.3
52-week high/low (RM)	0.79 / 0.42
Avg daily turnover (RMm)	0.3
KLCI (pts)	1,695.0

Source: Bloomberg, KAF

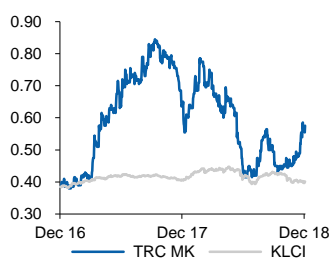
Major Shareholder (%)

Dato' Leong Kam Heng	(10.2%)
Tan Sri Sufri Bin Hj Mohd Zin	(9.9%)
Lembaga Tabung Haji	(7.3%)
Free Float	66.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	20	25	(12)
Rel Market (%)	21	34	(11)



Source: Bloomberg, KAF

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	753.8	727.3	671.2	897.3	980.2
Core net profit (RMm)	22.9	37.4	24.0	25.5	33.2
Core EPS (Sen)	4.3	7.8	5.0	5.3	6.9
EPS growth (%)	81.9	82.7	(35.8)	6.2	30.4
DPS (Sen)	1.9	2.5	3.0	3.5	4.0
Core PE (x)	9.0	7.7	11.5	10.8	8.3
Div yield (%)	5.0	4.2	5.2	6.1	7.0
ROE (%)	7.6	7.4	5.9	6.0	7.4
Net Gearing (%)					
PBV(x)	0.5	0.7	0.7	0.6	0.6

Source: Company, KAF

Secures building job worth nearly RM500m

In a filing with Bursa Malaysia, TRC disclosed that it has been awarded a building contract in Putrajaya.

The contract was secured from Putrajaya Holdings, and is worth RM499m. Under the contract, TRC will construct and complete residential towers, serviced apartments with retail space and show gallery, facilities block for serviced apartments, event hall, basement parking, common facilities, high street, and the upgrading of promenade and other associated works at plot 8MD3, Precinct 8 in Putrajaya.

The group is mandated to complete this project within 57 months. We estimate the project margins to be ~4% at the pre-level.

Raising new win target to RM716m for FY18F

Following this latest contract in Putrajaya, TRC has secured RM716m worth of new jobs for the current FY. Prior to this, the group clinched another two building contracts worth a combined RM217m over the last two to three months.

By extension, TRC's outstanding orderbook will now surge to RM3b, and provides clear earnings visibility that stretches into 2021.

We therefore raise our FY18F new contract win target to RM716m (previously: RM200m), and assume no additional contracts for the rest of the year.

Accordingly, we lift our TP from RM0.59 to RM0.62 on an unchanged discount to NAV of 50%.

However, we retain our Hold rating on the stock, as there may be some earnings downside to its existing MRT 2 and LRT 3 contracts, once negotiations with the turnkey contractors are finalized.

At the moment, TRC is the main depot contractor for both of these projects, and is also involved in a viaduct package under MRT 2.

Analyst

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

Exhibit 1: Financial results

YE 31 Dec (RM m)	9M17	9M18	% YoY	2Q18	3Q18	% QoQ
Turnover	548.4	527.5	(3.8)	229.3	117.4	(48.8)
EBIT	26.9	30.4	13.1	5.1	10.3	102.6
Interest Expense	(3.6)	(3.3)		(0.4)	(1.2)	
Interest Income	4.9	3.4		1.2	1.1	
Pre-Exceptionals Profit	28.2	30.5		5.9	10.1	
Exceptionals	3.3	(5.8)		2.0	2.0	
Pre-Associates/JV Profit	31.5	24.7		7.9	12.1	
Associates/JVs	4.9	1.1		(0.2)	0.6	
Pretax Profit	36.4	25.8	(28.9)	7.7	12.7	65.0
Taxation	(10.1)	(9.5)		(2.5)	(2.7)	
Minority Interest	0.2	(0.4)		(0.4)	(0.2)	
Net Profit	26.5	16.0	(39.7)	4.7	9.8	107.6
Core Net Profit	23.2	21.8	(5.9)	2.7	7.7	190.5
Core EPS (sen)	4.8	4.5		0.6	1.6	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	0.84	0.85		0.83	0.85	
EBIT Margin (%)	4.9	5.8		2.2	8.7	
Pretax Margin (%)	6.63	4.9		3.4	10.8	
Effective Tax (%)	27.7	36.6		33.1	21.3	
Segmental Breakdown (RM m)						
Turnover						
Construction	559.1	581.0	3.9	252.2	125.4	(50.3)
Property development	24.6	64.2	160.4	21.5	26.0	20.6
Others	7.0	9.8	40.7	2.2	3.6	63.2
Eliminations	(42.3)	(127.5)	n/m	(46.6)	(37.6)	n/m
Total	548.4	527.5	(3.8)	229.3	117.4	(48.8)
Pre-tax profit						
Construction	39.4	37.6	(4.7)	9.1	14.5	59.0
Property development	5.3	1.6	(69.5)	0.5	0.4	(29.4)
Others	(5.0)	(10.1)	n/m	(0.9)	(1.6)	n/m
Eliminations	(3.4)	(3.2)	n/m	(1.1)	(0.6)	n/m
Total	36.4	25.8	(28.9)	7.7	12.7	65.6
Pre-tax margin (%)						
Construction	7.1	6.5		3.6	11.5	
Property development	21.4	2.5		2.5	1.5	
Others	(71.3)	(103.1)		(40.7)	(44.0)	
Total	6.6	4.9		3.3	10.8	

Source: Company, KAF

Exhibit 2: NAV model

Division	Value (RM)		Method	Effective stake (%)	% of NAV
	m	per share			
Construction	300.8	0.63	8x FY17F net profit	various	50.8
Property					
Development projects					
Impian Senibong Phase 2, Permas Jaya, Johor	3.2	0.01	NPV @ 9%	100.0	
Ara Damansara TOD project, Selangor	65.6	0.14	NPV @ 12%	80.0	
Springridge Development, Wallan, Melbourne	21.6	0.04	NPV @ 11%	33.3	
Bandar Seri Alam, Masai (27 acres)	8.9	0.02	MV at RM10 psf	100.0	
Sub-total	99.3	0.21			16.8
Property Investment					
Element Melbourne Richmond Hotel (168 rooms), net of A\$40 investment cost	54.6	0.11	MV at A\$300k per room	100.0	9.2
Others	20.2	0.04	FY17 net book value		3.4
Gross NAV	475.0	0.99			80.2
Net cash	117.6	0.24	As at 31 Dec 2017		19.8
Total NAV	592.6	1.23			100.0
FD no of shares (m)	480.5				
NAV/share	1.23				
TP (less 50% discount to NAV)	0.62				
Upside (%)	7.2				
Discount to NAV (%)	(51.2)				
Implied PE	12.4				

Source: Company, KAF

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	753.8	727.3	671.2	897.3	980.2
EBITDA	37.6	58.7	51.3	56.2	66.8
Depreciation/Amortisation	(13.1)	(11.2)	(18.2)	(19.9)	(21.3)
Operating income (EBIT)	24.5	47.5	33.1	36.3	45.5
Other income & associates	2.2	5.0	2.8	3.4	3.5
Net interest	1.0	1.6	(2.5)	(4.4)	(3.3)
Exceptional items	5.0	(8.6)	0.0	0.0	0.0
Pretax profit	32.7	45.5	33.4	35.3	45.6
Taxation	(4.9)	(17.1)	(7.8)	(7.9)	(10.0)
Minorities/pref dividends	(0.0)	0.5	(1.5)	(1.9)	(2.5)
Net profit	27.9	28.8	24.0	25.5	33.2
Core net profit	22.9	37.4	24.0	25.5	33.2

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	47.1	82.8	84.5	79.6	73.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	118.2	82.6	191.5	269.0	272.5
Total non-current assets	165.3	165.3	276.0	348.5	345.7
Cash & equivalent	212.0	193.6	139.5	129.9	137.2
Stock	0.5	19.4	16.3	22.1	24.0
Trade debtors	322.8	304.1	220.7	307.3	335.7
Other current assets	104.9	71.3	140.0	130.0	130.0
Total current assets	640.3	588.4	516.4	589.3	626.9
Trade creditors	266.6	265.4	244.5	331.8	360.3
Short-term borrowings	146.6	69.8	68.7	70.0	60.7
Other current liabilities	1.4	5.8	5.8	5.8	5.8
Total current liabilities	414.6	341.0	319.1	407.6	426.9
Long-term borrowings	3.2	6.2	47.3	84.0	72.3
Other long-term liabilities	2.3	1.8	1.8	1.8	1.8
Total long-term liabilities	5.5	8.0	49.0	85.8	74.0
Shareholders' funds	380.5	400.2	418.2	436.5	461.3
Minority interests	5.0	4.5	6.1	8.0	10.4

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	32.7	45.5	33.4	35.3	45.6
Depreciation/Amortisation	13.1	11.2	18.2	19.9	21.3
Net change in working capital	24.8	32.2	(3.0)	4.8	(1.8)
Others	(6.1)	(49.1)	(10.6)	(11.4)	(13.5)
Cash flow from operations	64.5	39.7	38.0	48.7	51.7
Capital expenditure	(2.7)	(16.3)	(126.1)	(89.0)	(15.0)
Net investments & sale of fixed assets	2.0	40.1	0.0	0.0	0.0
Others	0.0	1.0	0.0	0.0	0.0
Cash flow from investing	(0.7)	24.7	(126.1)	(89.0)	(15.0)
Debt raised/(repaid)	(9.3)	(67.5)	40.0	38.0	(21.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(3.1)	(9.1)	(6.0)	(7.2)	(8.4)
Others	(24.6)	(12.1)	0.0	0.0	0.0
Cash flow from financing	(37.0)	(88.7)	34.0	30.8	(29.4)
Net cash flow	26.8	(24.3)	(54.1)	(9.5)	7.3
Net cash/(debt) b/f	53.1	79.9	55.6	1.5	(8.1)
Net cash/(debt) c/f	79.9	55.6	1.5	(8.1)	(0.7)

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(1.8)	(3.5)	(7.7)	33.7	9.2
EBITDA growth (%)	14.0	56.1	(12.7)	9.5	18.9
Pretax margins (%)	4.3	6.3	5.0	3.9	4.7
Net profit margins (%)	3.7	4.0	3.6	2.8	3.4
Interest cover (x)	n/m	n/m	13.2	8.0	13.7
Effective tax rate (%)	14.8	37.6	23.5	22.4	21.8
Net dividend payout (%)	32.8	20.8	30.0	33.0	28.9
Debtors turnover (days)	156	153	120	125	125
Stock turnover (days)	0	11	10	10	10
Creditors turnover (days)	142	152	150	150	150

Source: Bloomberg, 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)