

29 November 2017

Buy

Price
RM0.66

Target price
RM1.12

Bloomberg Code
TRC MK

TRC Synergy

Upside potential remains

Financial Highlights

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Revenue	768.0	753.8	675.5	811.2	949.8
Core net profit	12.5	22.9	26.0	32.3	36.7
Core EPS (sen)	2.3	4.3	5.4	6.7	7.6
Core 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	15.5	12.5	11.0
ROE (%)	8.9	7.6	7.6	7.4	7.6
Yield (%)	1.8	4.7	3.0	3.6	4.2
Net gearing (%)	Net Cash Net Cash Net Cash			7.9	16.0
PBV (x)	0.5	0.5	1.0	0.9	0.8

Source: Company, KAF

- We maintain our BUY rating on TRC Synergy with an unchanged TP of RM1.12. This pegs the stock to an 25% discount to NAV. TRC delivered a 3Q17 core net profit of RM23m for the quarter ended 30 September 2017, bringing 9M17F earnings to RM23m.
- Despite flattish turnover, the corresponding 11% YoY increase at the bottomline level was largely driven by three key factors: (i) a normalization of construction margins (from 3.9% in 9M16 to 7.1% in 9M17); (ii) absence of legacy cost following the completion of the LRT extension works (completed in FY16); and (iii) higher associate contributions from its Springridge development in Melbourne.
- Although 9M17 earnings contributed 89% of our full-year estimates, we are conservatively keeping our FY17F net profit forecast of RM26m to account for a potential slowdown in construction activities in 4Q17 due to the ongoing rainy season.
- TRC's share price has corrected recently in tandem with the broader market. Nevertheless, our BUY call remains intact ahead of a new phase of contract flows.
- Having built-up an impressive track record in rail-related contracts, including its maiden MRT 2 viaduct package as well as the double depot wins for MRT 2 and LRT 3), TRC is primed for the next upswing in big-ticket railway jobs, in our view. Ytd, the group was won ~RM1.8b worth of new contracts, per our estimates.
- This will include the upcoming MRT 3 (Circle Line) and the KL-Singapore High Speed Rail. The same can be said for Pan Borneo Sabah, for which TRC is currently undertaking a package the Sarawak leg under a JV (effective share: ~RM700m).
- During the quarter, TRC booked-in a net gain of RM4.4m from the divestment of part of its Swan Street project in Melbourne that was originally designated for offices.
- We are positive on this deal, as the proceeds from the divestment (RM32m) can be used to part-fund the balance of the Swan Street land that will be developed into Melbourne's first Element Hotel. Construction is slated to commence by year-end ahead of its scheduled opening in December 2019.
- Aside from this, plans are afoot to launch the RM1b-GDV Ara Damansara Transit-Oriented Development (TOD) by 3Q next year. TRC's balance sheet remains healthy with a net cash position of RM111m.

Equity | Malaysia | Construction

Flashnote

Analyst

Mak Hoy Ken
+60 3 2171 0508
mak.hoyken@kaf.com.my

Produced by KAF-Seagroatt & Campbell Securities Sdn Bhd
Important disclosures can be found in the Disclosure Appendix

Exhibit 1: Quarterly results

YE 31 Dec (RM m)	9M16	9M17	% YoY	2Q17	3Q17	% QoQ
Turnover	547.5	548.4	0.2	258.6	156.8	(39.4)
EBIT	25.1	26.9	7.3	10.0	7.9	(20.8)
Interest Expense	(4.1)	(3.6)		(1.2)	(1.2)	
Interest Income	4.7	4.9		2.1	1.4	
Pre-Exceptionals Profit	25.8	28.2		10.9	8.2	
Exceptionals	(0.1)	3.3		(3.9)	2.0	
Pre-Associates/JV Profit	25.6	31.5		7.1	10.2	
Associates/JVs	1.0	4.9		1.3	3.0	
Pretax Profit	26.6	36.4	36.5	8.3	13.1	57.5
Taxation	(6.0)	(10.1)		(4.4)	(3.4)	
Minority Interest	0.0	0.2		(0.1)	0.8	
Net Profit	20.7	26.5	27.9	3.9	10.5	173.9
Core Net Profit	20.8	23.2	11.2	7.7	8.5	10.6
Core EPS (sen)	4.3	4.8		1.6	1.8	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	0.78	0.84		0.82	0.84	
EBIT Margin (%)	4.6	4.9		3.9	5.1	
Pretax Margin (%)	4.9	6.6		3.2	8.4	
Effective Tax (%)	22.4	27.7		52.2	26.0	
Segmental Breakdown (RM m)						
Turnover						
Construction	567.5	559.1	(1.5)	248.4	177.4	(28.6)
Property development	31.5	24.6	(21.8)	13.7	7.6	(44.2)
Others	15.4	7.0	(54.5)	2.7	1.9	(30.0)
Eliminations	(66.9)	(42.3)	n/m	(6.1)	(30.1)	n/m
Total	547.5	548.4	0.2	258.6	156.8	(39.4)
Pre-tax profit						
Construction	22.0	39.4	79.1	12.6	10.7	(14.9)
Property development	3.7	5.3	43.7	0.9	3.9	n/m
Others	(3.0)	(5.0)	n/m	(4.6)	2.2	n/m
Eliminations	4.0	(3.4)	n/m	(0.5)	(3.7)	n/m
Total	26.6	36.4	36.5	8.3	13.1	57.5
Pre-tax margin (%)						
Construction	3.9	7.1		5.1	6.0	
Property development	11.6	21.4		6.4	50.9	
Others	(19.6)	(71.3)		n/m	n/m	
Total	4.9	6.6		3.2	8.4	

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.

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)