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## Investment Idea / IPO Note

# TCS Group Holdings Bhd

## Construction partner for growth

By Rakuten Trade Research Team

TCS Group Holdings Bhd (“TCS”), is an established building and infrastructure construction services provider supported by strong orderbook of RM463.8m, providing earnings visibility over the next 3 years. TCS is set to debut on the ACE Market today, we recommend BUY with a target price of RM0.70 based on 9x PER FY21 as per closest industry players.

Incorporated in 1998, TCS is primarily involved in the provision of construction services for buildings, infrastructure, civil and structural works in Malaysia with track record of completing its construction projects ahead of schedule. Over the years, revenue growth was mainly centred on residential projects, as the segment contributed 77.9% to sales as compared to 22.1% from the commercial projects in FY2019. Project scope covers terrace houses, bungalows, apartments, condominiums, shop offices, shopping complex, high-rise and purpose-build buildings and other infrastructure works. TCS has achieved CAGR of 51% in revenue between 2017 and 2019 on the back of rising orderbook.

The group has established relationships with key clients notably IJM Land Group, Worldwide Holdings and Tropicana Group. As at 30 Apr 2020, unbilled order book stands at RM463.8m with visibility until FY23. Major on-going projects are located at Putrajaya (48.2%) and Kuala Lumpur (34.2%), including projects such as Putrajaya Sentral, Tropicana Urban Homes and Setia City Residences.

Bulk of the IPO proceeds (62.8% or RM13m) is earmarked for the purchase of new construction machinery and equipment, in line with the plans to expand its infrastructure construction segment as the segment contribution remains marginal for now. We believe this expansion will put the group in a better position, as we expect works resumption within the construction sector especially for infrastructure projects. RM4.2m of the funds will be used for working capital and RM3.5m is allocated for listing expenses.

The group has tender book worth of RM2.13bn, with historical success rate of 20%-30%. Post listing, balance sheet continues to be net cash position rising from RM18.5m to RM39.5m. There is no fixed dividend policy at this juncture. Moving forward, we expect the resumption of construction activities by the government especially in the infrastructure sector and TCS is in a strong position to ride on the expected recovery in the construction sector.



# BUY

**IPO Price:**  
**Target price:**

**RM0.23**  
**RM0.70**

KLCI	1,587.0
YTD KLCI change	-0.11%
YTD stock price change	N.A.

### Stock Information

Market Cap Upon Listing (RM'm)	82.8
Enlarged Share Capital (m)	360.0

### IPO Proceeds (RM'm)

Purchase of new construction machinery and equipment	13.0
Working capital for construction projects	4.2
Estimated listing expenses	3.5
<b>Total</b>	<b>20.7</b>

### Major Shareholders

Dato' Ir Tee Chai Seng	59.1%
Datin Koh Ah Nee	10.4%

### Summary Earnings Table

FYE Dec (RM'm)	2018A	2019A	2020F	2021F
Turnover	146.3	358.4	380.0	406.6
EBIT	13.0	22.4	26.6	28.5
PBT	13.1	21.9	24.7	26.4
<b>Net Profit</b>	<b>9.7</b>	<b>15.7</b>	<b>23.6</b>	<b>28.1</b>
Consensus	-	-	-	-
EPS (sen)	2.7	4.3	6.5	7.8
EPS growth (%)	56.8	61.6	50.5	19.1
DPS (sen)	-	-	-	-
PER (x)	8.5	5.3	3.5	3.0
BV/Share (RM)	0.07	0.12	0.18	0.26
ROE (%)	37.2	37.4	36.0	30.0
Div. Yield (%)	-	-	-	-

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
<b>Buy</b>	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
<b>Trading Buy</b>	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
<b>Take profit</b>	The stock return previously recommended has gained by >10%
<b>Hold</b>	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
<b>Sell</b>	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
<b>Overweight</b>	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Neutral</b>	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Underweight</b>	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

### Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

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