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Investment Ideas

RCR Tomlinson (RCR): Continuing to Grow Order Book to Record Levels

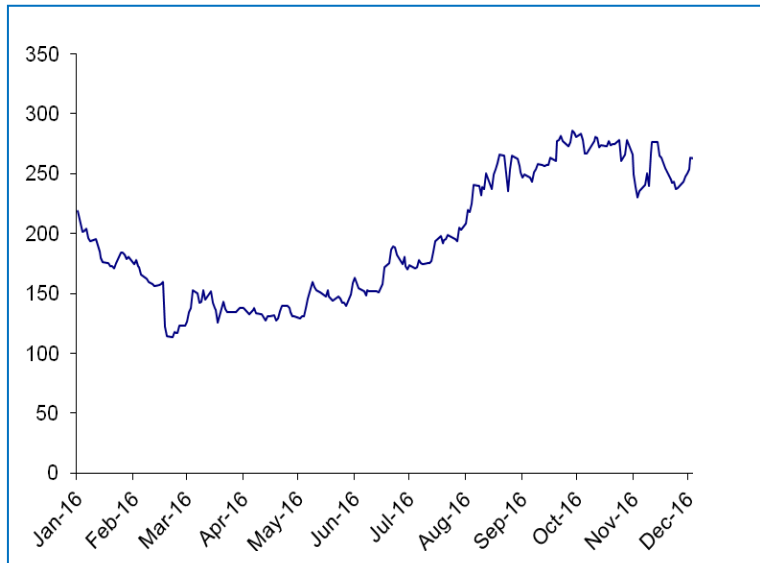
The recent activity in RCR Tomlinson's book continues to show the company's ability to acquire work in growth sectors; this places the company in a strong position to deliver in 2017.

At current prices, an investment in RCR reflects upside potential of 17.5% based on a Target Price of \$3.30 and forecasted Dividend Yield of 2.45% based on IRESS consensus estimates.

RCR Tomlinson has had a busy week announcing a range of contracts worth approximately \$250 million over the past two days. The breadth of contracts have taken the value of the company's order book to record levels and is a positive sign for future growth within the company, with the potential for further contracts on the horizon.

Headlining Contractual Agreements Include:

- ***A two staged contract worth up to \$148 million with Pilbara Minerals (ASX: PLS) to deliver Engineering, Procurement and Construction (EPC) services for PLS's Pilgangoora Lithium-Tantalum Mine.***
 - o *Stage 1 of the project includes the front-end engineering and design of the project and is to commence immediately. The first stage of the project is worth \$10.3 million.*
 - o *Stage 2 of the project is subject to the successful completion of the project's front-end engineering and design and the approval by PLS in its final investment decision. This stage is expected to begin in May 2017 with completion in early 2018. As this stage of the project comprises the bulk of the contract's total worth, and PLS is under no obligation to commit to the construction of stage 2 (with or without RCR), this stage remains uncertain.*
 - o *With the recent boom in the demand for Lithium, miners of the commodity are rushing to commence projects to capitalise on the strength in current prices. Successful completion of this project could potentially lead to further contracts within this sector for RCR.*
 - o *However, despite the fact that no further contracts with Lithium producers are on the horizon at this point in time, recent reports have suggested that the current demand levels for Lithium are not sustainable as production ramps up and prices are set to peak in the latter part of 2017. This should not affect RCR's current arrangement with PLS, however potentially decreases the availability of future Lithium projects.*
- ***RCR also announced a set of contracts across an array of sectors on Tuesday, 17th January 2017 worth approximately \$100 million.***
 - o ***Contracts include:***
 - *A joint venture with WBHO Infrastructure to undertake engineering, procurement, construction and commissioning of the Balance of Plant works for Pacific Hydro's 30MW Yaloak South Wind Farm*
 - *A contract to complete the stage 1 works for the Sydney Northwest Rail Project*
 - *Three new contracts with the company's primary boilers: Red Stag Timber (Australia), Mataura Valley Milk Limited (New Zealand) and a petrochemical plant in Indonesia.*
 - *Three year extension of the company's currently contract for facility management services at Wollongong University's Innovation Campus*
- ***The set of new contracts add to RCR's agreement late December 2016 to deliver EPC works for Sun Metals Corporation worth \$155 million which is due for completion by early 2018.***

RCR share price history (18 January 2016 - Present) (A\$cps)


These contracts set a positive outlook for the company with the continued diversification of services across growth sectors such as renewable energy and infrastructure across Australia.

This is supported by the company's FY16 results which saw a significant increase in the value of the company's preferred status and order book, and diversification of operations with more than 70% of revenue now generated by the Infrastructure and Energy divisions.

Continued investment in new technology will also contribute to the company's future growth by sustaining its competitive advantage.

Source: IRESS, State One Stockbroking

Investment Data	
Share Price (\$)	2.86
Ord Shares (m)	140
Market Cap (\$'m)	400.3
EV (\$'m)	455.9
Net Debt (\$'m)	55.6
Average Daily Vol (6 mths)	313,370

EPS Data	FY16	FY17F	FY18F	FY19F
EPS (c)	14.00	26.50	30.90	34.00
PER (X)	20.46	10.81	9.27	8.43
DPS (c)	1.80	7.00	8.00	10.00
DPS yield (%)	0.63	2.45	2.80	3.50

Substantial Shareholders (%)	
Dr Paul Joseph Dalgleish	5.94
Celeste Funds Management Ltd	5.79
Australian Superannuation Fund	5.14
Commonwealth Bank Australia Ltd	5.10
Perpetual Ltd	5.02
Eley Griffiths Group Pty Ltd	5.00

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Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Alexander Bax
Equities Advisor
Phone +61 8 9288 3340
abax@stateone.com.au

Daniel Chiew
Analyst
Phone: +61 8 9288 3349
dchiew@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au