

Lingkaran Trans Kota Holdings Berhad

(6645 | LTK MK) Main | Transportation & Logistics

Cost management remains a driver for earnings growth

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 results exceeded expectations**
- **Higher traffic volume plying the LDP due to low base effect. There was additional public holiday post-GE14 and toll discounts in the preceding year.**
- **Lower finance costs and scheduled toll hike for Penchala Link-Mont Kiara underpinned earnings growth**
- **Earnings estimates slightly tweaked upwards to impute lower-than-expected finance cost**
- **Maintain Trading BUY with unchanged TP of RM5.08 per share**

Growth in PBT continues. Litrak reported a 3QFY20 net profit of RM79,6.0m (+0.9%yoy). This brings its cumulative 9MFY20 net profit to RM207.4m (+17.2%yoy) which exceeded expectations, accounting for 84.3% and 81.2% of our and consensus' full year forecasts, respectively. The positive deviation mainly came from the lesser-than-expected maintenance expenses during the period

Low base effect for tollable traffic volume. The revenue of RM392.4m in 9MFY20 was +0.7%yoy higher mainly due to the higher traffic volume plying the LDP. The higher traffic volume was due to a low base effect. There was a two-day public holiday following the 14th General Election (GE14) in May 2018 combined with toll discounts worth 10% and 50% for Class 1 users on GE14 and all classes before Hari Raya Aidilfitri last year respectively.

SPRINT remains in the green. Cost management played a significant role during the period as evident by maintenance expenses dropping by -43.2%yoy. Earnings in 1HFY20 were also lifted by the -20.4%yoy drop in finance costs pursuant to repayment of borrowings in April 2019. In addition, the share of profit from SPRINT worth RM15.4m versus a share of loss of -RM1.3m a year ago underpinned earnings growth in 9MFY20, mainly attributable to the scheduled toll hike for Penchala Link-Mont Kiara Toll Plaza effective 1 January 2019 (which is being compensated by the government in lieu of the toll rate hike freeze).

Long run outlook. Moving forward, the introduction of the unlimited monthly pass called My100 and My50 would encourage the use of public transportation, posing a downside risk on traffic volume. On a longer term, the completion of KVMRT Line 2 in 2022 which connects Sungai Buloh, Serdang and Putrajaya combined with the possibility of KVMRT Line 3 to be reinstated will exacerbate the risk on tollable traffic volume. Specifically for SPRINT, the Damansara Link runs parallel to the stretch of KVMRT Line 1 from Semantan Station to Taman Tun Dr. Ismail station and we opine that the impact towards traffic volume will be more pronounced with the continuous improvement in public amenities and connectivity. Of the four stations competing directly with Damansara Link, Phileo Damansara and Pusat Damansara Station are equipped with park and ride facilities with over 500 car parking bays.

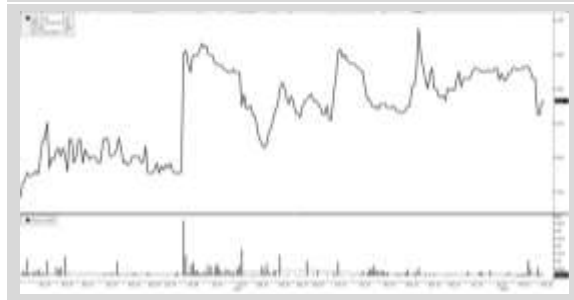
Maintain Trading BUY

Unchanged Target Price: RM5.08

RETURN STATISTICS

Price @ 27 th Feb 2020 (RM)	4.53
Expected share price return (%)	+12.14
Expected dividend yield (%)	+5.50
Expected total return (%)	+17.64

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.0	-1.1
3 months	-1.3	5.9
12 months	7.9	22.3

KEY STATISTICS


FBM KLCI	1,505.59
Syariah compliant	Yes
Issue shares (m)	527.98
Estimated free float (%)	22.14
Market Capitalisation (RM'm)	2,406.91
52-wk price range	RM4.13 - RM5
Beta vs FBM KLCI (x)	0.51
Monthly velocity (%)	3.20
Monthly volatility (%)	14.06
3-mth average daily volume (m)	0.11
3-mth average daily value (RM'm)	0.50
Top Shareholders (%)	
Gamuda Bhd	43.30
Skim Amanah Saham Bumiputera	8.48
Employees Provident Fund Board	5.95

Analyst(s)

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Earnings estimates. Adjustments are made to reflect higher-than-expected contribution from associate and lower-than-expected finance costs. These have resulted in earnings for FY20, FY21 being increased by 9.9% and 8.0% respectively.

Target price. We maintain our TP to RM5.08 after taking into account of the enlarged share base as we assume all employee share option schemes (ESOS) will be exercised. Our TP is based on the combined price tag of RM2.75b for both highway concessions (SPRINT and LDP).

Maintain Trading BUY. We reiterate our **Trading BUY** stance as we believe that the takeover offer by the government via Gamuda's stake in SPRINT and LDP is appealing. The combined price tag of RM2.75b for both highway concessions translates to an effective offer price of RM5.08 per share (post enlarged share base assuming full conversion of ESOS) with a P/BV of 2.68x, a 7.2% premium to the current trading P/BV of 2.30x. Moreover, the anticipated offer price of RM5.08 per share constitutes a 12.1% upside to the last closing price of RM4.53 per share. LITRAK is also still deemed a defensive play with decent dividends yield of 5.6% for FY21, implying a forward PER of 8.7x, which translates to an earnings yield of 11.5%. This indicates an attractive spread of 8.8% against the latest 5-year Malaysian Government Securities yield of 2.7%. Downside risk for LITRAK would be the cancellation of the takeover of its concession or a revised price tag which could fetch an unattractive valuation for shareholders. 

INVESTMENT STATISTICS

FYE Mar	FY18	FY19F	FY20E	FY21F	FY22F
Revenue (RM' m)	523.9	516.0	531.8	533.2	544.4
EBIT (RM' m)	364.1	356.4	376.4	377.0	383.6
Pretax Profit (RM' m)	306.4	314.6	356.3	358.7	361.8
Net Profit (RM' m)	228.6	236.1	270.8	272.6	275.0
EPS (sen)	43.8	45.2	51.9	52.2	52.7
EPS growth (%)	3.4	3.3	14.7	0.7	0.9
PER (x)	10.3	10.0	8.7	8.7	8.6
Net Dividend (sen)	25.0	25.0	25.0	25.0	25.0
Net Dividend Yield (%)	5.5	5.5	5.5	5.5	5.5

Source: MIDFR, Company

LITRAK: 9MFY20 RESULTS SUMMARY

FYE Mar	Quarterly Results					
	3QFY20	YoY%	QoQ%	9M20	9M19	%YoY
<i>All in RM'm unless stated otherwise</i>						
Revenue	132.3	0.9	0.9	392.4	389.6	0.7
Staff cost	(6.4)	-6.1	1.8	(20.8)	(21.3)	-2.5
Maint. & other expenses	(6.5)	-23.9	-0.7	(17.4)	(24.5)	-28.8
EBITDA	119.4	3.2	0.9	354.2	343.8	3.0
Depreciation	(24.6)	1.5	1.3	(72.9)	(72.3)	0.8
EBIT	94.8	3.6	0.8	281.3	271.5	3.6
Net Finance cost	(8.0)	-26.1	-9.4	(26.0)	(35.0)	-25.7
Other income	0.6	43.7	71.6	1.2	1.2	-4.3
Shares of assoc.	5.3	>100	10.7	15.4	(1.3)	>100
Profit before tax	90.4	11.7	2.0	179.1	236.5	15.0
Net Profit	68.98	13.9	1.8	136.7	177.0	17.2
EBIT Margin (%)	71.7%	1.6 ppts	-1.0ppts	71.7%	69.7%	2.0 ppts
Net Margin (%)	52.6%	6.8 ppts	-2.0ppts	52.6%	45.4%	7.4 ppts

Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.