

Equity Beat

11 March 2010

Corporate Update

PLUS Expressways

No other highway

Maintain Neutral

Unchanged Target Price (TP): RM3.50

- The government announced recently that it is conducting a viability study on an alternative North-South highway, with a coastal route, going from Taiping to Banting. Cost of the highway is expected to be between RM5b to RM6b.
- We are skeptical on the viability of this new highway. We believe that the cost of the highway is large, which raises several questions pertaining to toll rates, concession period and source of funding.
- We maintain our NEUTRAL recommendation to our target price of RM3.50, derived using the discounted cash flow model.

STOCK INFO

Price (9 March 2010)	3.38	KLCI	1,317.94
Issued shares (mil)	5,000	Bursa / Bloomberg	5052/ PLUS
Par Value (RM)	0.25	Board / Sector	Trading / Services
Market cap. (RM'm)	16,900	Syariah Compliant	Yes
Price over NA	0.9		
52-wk price Range	RM2.85 – 3.50	Major Shareholders	
Beta (against KLCI)	0.57	Khazanah	55.2%
3-mth Avg Daily Vol	4.773m	EPF	12.8%
3-mth Avg Daily Value	RM15.5m	KWAP	6.6%

Reincarnation of the West Coast highway. The idea of another highway going from north to south is not new. The idea was first mooted in 1996, but was postponed due to the 1997 financial crisis, before being reactivated in 2007. However, it was finally shelved in November 2008 as the concessionaire, Konsortium LPB Sdn Bhd, could not raise the necessary funding which was estimated to be RM3.12b within the timeframe given. Konsortium LPB is 60% controlled by Kumpulan Europlus Bhd. Recently, government announced that a viability study is being conducted to evaluate a new proposal to build another highway linking Taiping, Perak to Banting, Selangor. The cost of the new highway is estimated to be between RM5b to RM6b. The government study would be exploring at possible toll rates, projected traffic volume and also the impact on PLUS.

The impact on PLUS. We expect the proposed highway to have some adverse impact on PLUS should it be given the green light by the government. However, the impact is not expected to be severe as PLUS highway is still the major road connector to major towns. At most, the highway would serve as an alternative highway during festivities. Additionally, the government stated that it does not want PLUS to be severely affected by the new highway.

The cost might be too high. We believe the cost of the new highway is too high and raises several questions on the viability of the new highway. It is possible that the high cost could be due to the propose alignment of the highway being in the coastal areas which may require the soil to be treated or strengthen. To give an idea of the construction


FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	2,968.0	3,179.0	3,133.5	3,923.7
EBIT (RM'm)	2,112.4	2,245.0	2,039.8	2,828.5
Pretax Profit (RM'm)	1,515.7	1,623.6	1,439.1	2,228.5
Net Profit (RM'm)	1,079.3	1,185.1	1,163.1	1,952.5
EPS (sen)	21.6	23.7	23.3	39.1
EPS growth (%)	-12.0	9.7	0	67.9
PER(x)	15.6	14.2	14.5	8.6
Net Dividend (sen)	16.0	16.5	17.4	19.5
Net Dividend Yield (%)	4.7	4.9	5.2	5.8

Source: Company, Forecasts by MIDFR

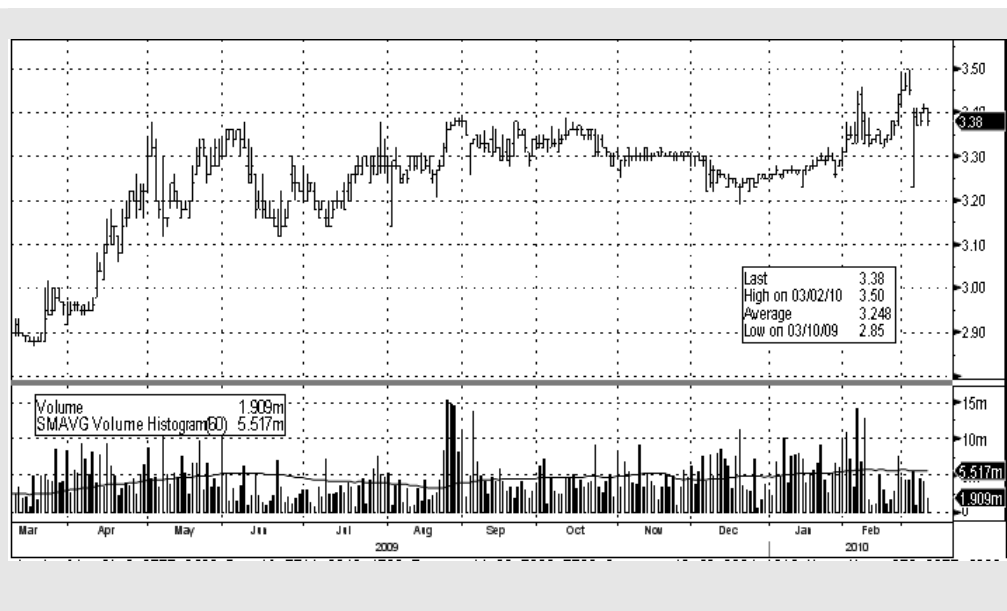
cost involved, we assume that the cost for the 215.8 km propose highway is RM5b, which gives a cost of RM23.2m per km. We compare this with the Senai Desaru Expressway (SDE), due to its alignment cutting across less populated areas (hence lower land acquisition cost), which is similar to the proposed highway. The SDE's estimated cost is RM1.68b for 77.2 km highway, giving a cost of RM21.7m per km.

Source of funding would be an issue. The challenge for any new concessionaire awarded with the proposed highway would be to find funders given that the previous concessionaire failed to get funding on a much lower amount. Comparing with previous greenfield project financing, the highest amount was funding for the SILK highway with RM2.01b. PLUS raised RM4.5b on a single instrument, but it was in 2007, 25 years after it had started.

The economics might not be right. If we do assume that there is available funding, then the next area of concern would be on the concession period and the toll rates. We expect that in order for the concessionaire to meet its finance obligations, the toll rates may have to be high and could possibly be higher than PLUS' toll rates, with a long concession period. The most fundamental area of concern would be the projected traffic volume of the propose highway. We do not expect that the traffic volume in the coastal areas can justify for a new highway. According to the management, PLUS is currently underutilized, with a utilization rate of 50%, 30% and 35% in the central, northern and southern region respectively.

Maintain Neutral call. We maintain our forecast and NEUTRAL call on PLUS as we are skeptical on the viability of the new highway. In addition, the government had stated that it does not want the propose highway to have an adverse impact on PLUS, which we believe as a positive reassurance for PLUS. Our target price at RM3.50 per share is based on discounted cash flow model at a rate of 10%. 

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.