

Out think. Out perform.

Bonus issue and free warrants

In a Bursa announcement last night, Perak Transit has proposed a bonus issue of up to 114.29m new ordinary shares (1 bonus share for every 10 existing Perak Transit shares) and 571.47m free warrants (on the basis of 1 warrant for every 2 Perak Transit shares). The warrants will be issued at no cost to the entitled shareholders of Perak Transit. The exercise price of the warrants will be determined by the Board at a later date.

A pleasant surprise

The 1-10 bonus issue comes as a positive surprise and should further improve trading liquidity of the stock. The accompanying free warrants while also a sweetener should also help address the issue of funding for its upcoming Kampar terminal, which is expected to be constructed at an estimated cost of RM128m. Cost of the new terminal is relatively large, in relation to the stock's current market cap of RM320m. Hence, for illustrative purposes and based on an example RM0.235 strike price, the warrants should be able to raise RM134m.

**Note that RM0.235 is discount of approximately 6.0% to the theoretical ex-bonus price of PT shares of RM0.25.*

Any short term dilutive impact should be fully negated by 2019E

While the 572m bonus free warrants may seem large and possibly EPS dilutive (shares outstanding is expected to increase from 1.142m to 1.829m post the bonus issue and full conversion of warrants), we think that any negative impact should be fully negated upon commencement of the terminal at 4Q18. For the moment we are forecasting net profit to increase by 51% yoy to RM41.8m in 2019E, while PERs should fall from current level of 11.0x to 7.7x. While we have modelled in some contribution from the Kampar terminal, we think that our forecast may still be conservative at this point, considering that the built-up area of the terminal at 480k sf is nearly 8x the size of its existing Amanjaya terminal in Ipoh.

Maintain BUY and TP of RM0.34

Maintain Buy at an unchanged TP of RM0.34 (based on 14.0x 2018E EPS). We continue to like Perak Transit for its (i) attractiveness as a monopoly business; (ii) strong earnings growth from its core existing businesses; and (iii) long-term potential from the upcoming terminal in Kampar.

Earnings & Valuation Summary

FYE 31 Jul	2015	2016	2017E	2018E	2019E
Revenue (RMm)	74.1	90.2	114.6	129.4	160.7
EBITDA (RMm)	33.5	40.5	47.8	53.1	69.9
Pretax profit (RMm)	19.3	25.3	29.6	32.1	48.5
Net profit (RMm)	19.2	21.8	25.5	27.7	41.8
EPS (sen)	1.7	1.9	2.2	2.4	3.7
PER (x)	6.7	8.7	12.5	11.6	7.7
Core net profit (RMm)	19.2	21.8	25.5	27.7	41.8
Core EPS (sen)	1.7	1.9	2.2	2.4	3.7
Core EPS growth (%)	42.3	13.5	17.1	8.4	51.0
Core PER (x)	6.7	8.7	12.5	11.6	7.7
Net DPS (sen)	0.2	0.2	0.2	0.3	0.4
Dividend Yield (%)	2.0	1.2	0.8	0.9	1.4
EV/EBITDA (x)	6.0	7.8	9.2	8.2	6.1
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	-	-	-

Source: Company, Affin Hwang forecasts, Bloomberg

Company Update

Perak Transit

PERAK MK
Sector: Transportation

RM0.28 @ 5 June 2017

BUY (maintain)

Upside 21.0%

Price Target: RM0.34

Previous Target: RM0.31



Price Performance

	1M	3M	12M
Absolute	9.8%	47.4%	NA
Rel to KLCI	8.3%	40.8%	NA

Stock Data

Issued shares (m)	1,142.9
Mkt cap (RMm)/(US\$m)	320.0/75.1
Avg daily vol - 6mth (m)	6.4
52-wk range (RM)	0.16-0.30
Est free float	18.4%
BV per share (RM)	0.23
P/BV (x)	1.19
Net cash/ (debt) (RMm)	(108.63)
ROE (2017F)	13.0%
Derivatives	NA
Shariah Compliant	Yes

Key Shareholders

CBS Link	16.62%
Dato' Sri Cheong Kong Fitt	15.60%
Dato' Cheong Peak Soo	1.62%
Datin Sri Lim Sow Keng	6.53%

Source: Affin Hwang, Bloomberg

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PERAK – FINANCIAL SUMMARY

Profit & Loss Statement

FYE31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	74.1	90.2	114.6	129.4	160.7
Operating expenses	(40.6)	(49.7)	(66.9)	(76.2)	(90.8)
EBITDA	33.5	40.5	47.8	53.1	69.9
Depreciation	(6.7)	(7.9)	(7.9)	(8.0)	(8.4)
EBIT	26.7	32.6	39.8	45.1	61.5
Net interest expense	(7.5)	(7.3)	(10.2)	(13.0)	(13.0)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	0.0	0.0	0.0	0.0	0.0
Pretax profit	19.3	25.3	29.6	32.1	48.5
Tax	(0.1)	(3.5)	(4.1)	(4.5)	(6.8)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	19.2	21.8	25.5	27.7	41.8

Balance Sheet Statement

FYE31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Fixed assets	226.0	248.5	330.5	352.5	374.1
Other long term assets	8.9	7.2	7.2	7.2	7.2
Total non-current assets	234.8	255.7	337.7	359.7	381.3
Cash and equivalents	12.3	33.2	65.1	65.1	74.8
Stocks	1.1	0.9	1.5	1.7	2.0
Debtors	11.9	23.7	24.2	27.4	34.0
Other current assets	7.2	29.9	29.9	29.9	29.9
Total current assets	32.5	87.6	120.7	124.0	140.7
Creditors	2.9	2.8	4.3	4.9	5.8
Short term borrowings	20.7	31.0	31.0	31.0	31.0
Other current liabilities	7.7	8.3	8.3	8.3	8.3
Total current liabilities	31.4	42.2	43.7	44.3	45.2
Long term borrowings	96.6	89.2	180.0	180.0	180.0
Other long term liabilities	12.4	10.4	10.4	10.4	10.4
Total long term liabilities	109.0	99.6	190.4	190.4	190.4
Shareholders' Funds	127.0	201.5	224.3	249.1	286.4
Minority interests	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

FYE31 Dec (RMm)	2015	2016	2017E	2018E	2019E
EBIT	26.7	32.6	39.8	45.1	61.5
Depreciation & amortisation	6.7	7.9	7.9	8.0	8.4
Working capital changes	(11.8)	0.4	0.4	(2.7)	(6.0)
Cash tax paid	0.0	0.0	0.0	0.0	0.0
Others	8.4	(16.1)	(14.3)	(17.5)	(19.8)
Cashflow from operation	30.1	24.8	33.8	32.9	44.2
Capex	(28.7)	(51.3)	(90.0)	(30.0)	(30.0)
Disposal/(purchases)	0.0	0.0	0.0	0.0	0.0
Others	(0.5)	(4.2)	0.0	0.0	0.0
Cash flow from investing	(29.2)	(55.5)	(90.0)	(30.0)	(30.0)
Debt raised/(repaid)	20.8	2.9	90.8	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.6)	(2.3)	(2.7)	(2.9)	(4.4)
Others	(6.5)	43.9	90.8	0.0	0.0
Cash flow from financing	(9.1)	41.6	88.1	(2.9)	(4.4)
Free Cash Flow	1.4	(26.5)	(56.2)	2.9	14.2

Source: Company, Affin Hwang

Key Financial Ratios and Margins

FYE31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	-4.5%	21.7%	27.1%	12.8%	24.2%
EBITDA (%)	30.6%	20.9%	17.9%	11.2%	31.6%
Core net profit (%)	42.3%	13.5%	17.1%	8.4%	51.0%
Profitability					
EBITDA margin (%)	45.2%	44.9%	41.7%	41.1%	43.5%
PBT margin (%)	26.0%	28.1%	25.9%	24.9%	30.2%
Net profit margin (%)	25.9%	24.2%	22.2%	21.4%	26.0%
Effective tax rate (%)	0.3%	14.0%	14.0%	14.0%	14.0%
ROA (%)	7.2%	7.1%	6.4%	5.9%	8.3%
Core ROE (%)	15.1%	13.3%	12.0%	11.7%	15.6%
ROCE (%)	11.3%	12.1%	11.1%	10.6%	13.4%
Dividend payout ratio (%)	13.6%	10.6%	10.6%	10.6%	10.6%
Liquidity					
Current ratio (x)	1.0	2.1	2.8	2.8	3.1
Op. cash flow (RMm)	30.1	24.8	33.8	32.9	44.2
Free cashflow (RMm)	1.4	(26.5)	(56.2)	2.9	14.2
FCF/share (sen)	2.0	(23.2)	(49.2)	2.6	12.4
Asset management					
Debtors turnover (days)	58.5	95.9	77.2	77.2	77.2
Stock turnover (days)	(9.6)	(6.6)	(8.1)	(8.1)	(8.1)
Creditors turnover (days)	(26.4)	(20.5)	(23.4)	(23.4)	(23.4)
Capital structure					
Net gearing (%)	(82.7)	(43.2)	(65.1)	(58.6)	(47.6)
Interest cover (x)	0.2	0.2	0.2	0.2	0.2

Quarterly Profit & Loss

FYE31 Dec (RMm)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Revenue	19.4	18.5	24.8	27.5	26.8
Operating expenses	(12.2)	(13.1)	(15.4)	(17.2)	(16.7)
EBIT	7.2	5.4	9.3	10.2	10.2
Net int income/(expense)	(1.8)	(2.0)	(1.9)	(1.6)	(1.7)
Associates	0.0	0.0	0.0	0.0	0.0
Forex gains	0.0	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	0.0	0.0	0.0	0.0	0.0
Pretax profit	5.5	3.4	7.4	8.7	8.4
Tax	(1.1)	(0.7)	(0.9)	(0.9)	(2.3)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	4.4	2.8	6.6	8.0	6.1
Margins (%)					
EBIT	37.3%	29.3%	37.7%	37.3%	37.9%
PBT	28.2%	18.2%	29.9%	31.6%	31.5%
Net profit	22.7%	15.2%	26.7%	28.9%	22.9%

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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