



AmInvestment Bank

Company report

PERAK TRANSIT

(PERAK MK EQUITY, PERT.KL)

18 Jan 2021

A new breed of transport terminal operator

BUY

(Initiation)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Initiation

Price	RM0.83
Fair Value	RM1.25
52-week High/Low	RM0.98/RM0.37

Key Changes

Fair value	Initiation
EPS	Initiation

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	124.5	109.4	130.3	146.5
Core net profit (RM mil)	39.8	40.2	49.0	53.8
FD Core EPS (sen)	2.7	6.2	7.6	8.3
FD Core EPS growth (%)	2	127	22	10
Consensus Net Profit (RM mil)	-	40.1	47.5	50.1
DPS (sen)	1.0	2.2	2.7	2.9
PE (x)	8.1	13.2	10.8	9.8
EV/EBITDA (x)	9.8	10.1	8.6	8.0
Div yield (%)	2.4	1.7	2.1	2.3
ROE (%)	13.0	12.1	14.8	16.3
Net Gearing (%)	47.5	50.0	52.1	52.6

Stock and Financial Data

Shares Outstanding (million)	645.1
Market Cap (RM mil)	529.0
Book Value (RM/share)	0.5
P/BV (x)	1.6
ROE (%)	13.0
Net Gearing (%)	47.5

Major Shareholders	Cheong Kong Fitt(13.6%) CBS Link Sdn Bhd(11.0%) Lim Sow Keng(5.8%)
Free Float	69.6
Avg Daily Value (RM mil)	2.6

Price performance	3mth	6mth	12mth
Absolute (%)	(3.7)	50.0	16.6
Relative (%)	(9.3)	48.1	15.1



— PERAK MK — Fbmklci Index

Investment Highlights

- We initiate coverage on Perak Transit with a BUY recommendation and fair value (FV) of RM1.25. We see many similarities between this operator of modern public transport terminals and an airport operator. We value Perak Transit at RM1.25 based on 15x its FY22F EPS, at a 30% discount to our FY22F target PE of 22x for Malaysia Airports.
- Here's why we like Perak Transit:
 1. Its unique business model, i.e. the operation of modern public transport terminals, also known as integrated public transport terminals (IPTTs) that emulate airports with spacious and brightly lit shopping, dining and waiting areas, and clean public facilities, particularly the washrooms. This entices visitors and commuters to spend more money and time in the terminal prior to their departure or upon their arrival, or while sending off or picking up their loved ones. This captive traffic is monetized in the form of rental incomes from commercial units and advertising space within the terminal;
 2. Perak Transit has proven the commercial viability of this business model in its Terminal Meru Raya in Ipoh (an interstate transportation hub) and the newly opened Terminal Kampar Putra Sentral in Kampar. Kampar Putra Sentral is supported by a high and fast-growing student population in the campus town. This student population has high propensity for travel during school breaks and festivities, as well as during weekends for leisure; and
 3. The vast opportunities for Perak Transit to replicate this successful business model. Already, it has at least three more projects in the pipeline, namely, in Bidor, Tronoh and Kuantan.
- We project Perak Transit's earnings to grow by 22% and 10% in FY21–22F underpinned by higher footfalls, and hence improved rental and advertising incomes arising from: (1) the normalisation of intrastate and interstate bus passenger travel (including the student population in Kampar) assuming the Covid-19 pandemic is to gradually come under control by 2H2021 with the availability of effective vaccines; (2) Kampar Putra Sentral's first full-year contribution from FY21F; and (3) the organic growth in bus passenger travel post-pandemic.
- At 9–11x forward earnings, we believe Perak Transit offers investors a good opportunity to own a defensive public infrastructure business that is replicable for growth at bargain valuations.

COMPANY BACKGROUND

Perak Transit is principally involved in the operations of IPTT (i.e. Terminal Meru Raya in Ipoh and Kampar Putra Sentral) and the provision of public bus services. It also owns and operates several petrol stations in Ipoh, Lahat and Kuala Kangsar, Perak.

We project Terminal Meru Raya to contribute 69–72% of Perak Transit's total EBIT in FY21–22F, followed by Kampar Putra Sentral (22–26%) with the balance coming from the operation of petrol stations and small-scale bus services.

COMPANY MANAGEMENT

□ *Datuk Seri Cheong Kong Fitt*

He is the founder and managing director of the company since 2008, and is responsible for the company's day-to-day management. He graduated with a Diploma in Business from the School of Marketing, Ipoh in 1986 and was awarded a postgraduate certificate in International Business from York St John University, England in 2017. He has 27 years of working experience in the public bus terminal operations.

Cheong Kong Fitt began his career as a supervisor in Choong Sam Tin Mine in 1980. In 1985, he joined Swee Keong Construction Pte Ltd, Singapore, as a supervisor. He left Swee Keong Construction Pte Ltd in 1992 and joined The Combined Bus Services (Partnership), the operator of Stesen Bas, Jalan Kidd as supervisor where he was responsible for its public bus terminal operations. From 2006 to 2009, Cheong was instrumental in leading the initiative to merge the bus services operations of The General Omnibus Company (Perak) Sdn Bhd, Ipoh Omnibus Company Sdn Bhd and The Kinta Omnibus Company Sdn Bhd. After successfully merging the bus services' operations, he left The Combined Bus Services (Partnership) in 2013.

In 2008, he founded Perak Transit, which was converted into a public company in 2010, and subsequently listed on Bursa Malaysia Securities in 2016. Under his management, the group successfully built and commenced operations of Terminal Meru Raya in 2012 followed by phase 1 of Kampar Putra Sentral in 2019.

□ *Datuk Cheong Peak Sooi*

He is an executive director of Perak Transit. Peak Sooi was reappointed to the board on 1 October 2012. He holds a certificate in Business Management from MDIS Business School, Singapore, obtained in 1988.

Peak Sooi began his career in 1992 as a site manager for G&C Civil Engineering Pte Ltd in Singapore. In 2000, he left G&C Civil Engineering and took a position as a field service representative in Ameron Pte. Ltd, Singapore. In 2008, he joined Star Kensington Sdn Bhd as a director where he was responsible for the operation of the company's petrol stations and subsequently resigned in 2011.

In the same year of 2011, he was appointed as a director of The Combined Bus Services Sdn Bhd, a position that he continues to hold till today. He was responsible in the construction, and subsequently day-to-day operations of Terminal Meru Raya and Terminal Kampar Putra Sentral.

□ *Jennifer Chin Yi Teng*

She is the chief financial officer (CFO) of Perak Transit. Chin graduated with a Bachelor of Science (Hons) in Applied Accounting from Oxford Brookes University, United Kingdom, in 2011. She is currently pursuing a professional qualification with the Association of Chartered Certified Accountants.

Chin began her career as an account executive with Kin Kun Group Sdn Bhd in April 2010. In September 2012, she left Kin Kun Group and joined Perak Transit as an account executive. In July 2014, Chin was promoted to administration and finance manager. She became the CFO in June 2019, taking charge of all aspects of the group's finance, accounting and reporting functions.

COMPANY FUNDAMENTALS

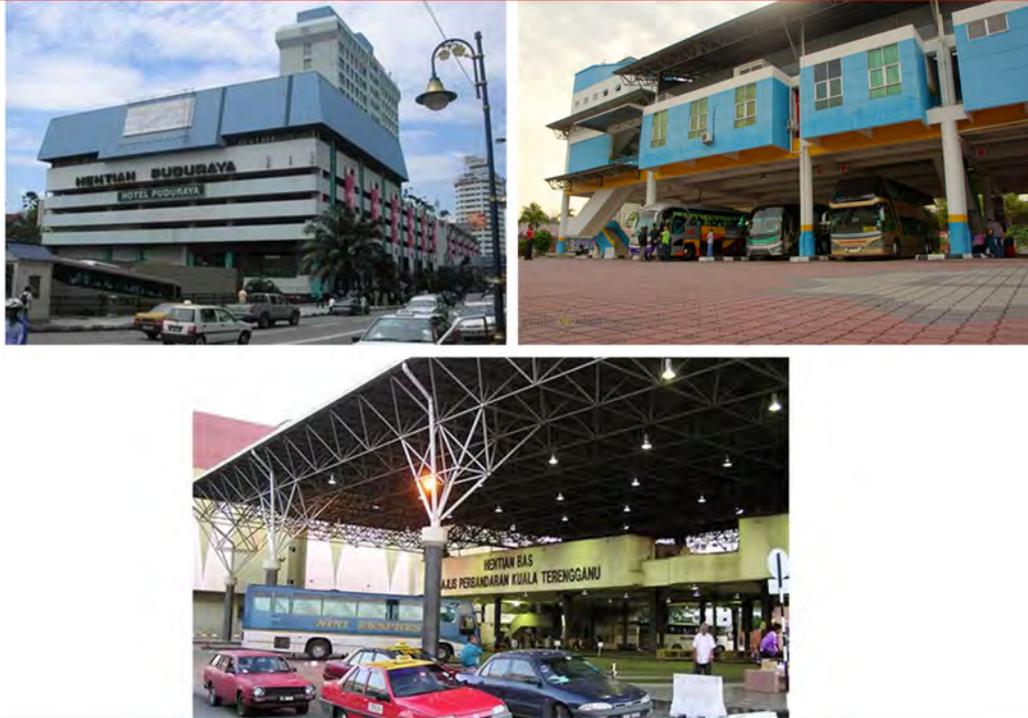
□ *Unique business model*

Perak Transit has a unique business model that emulates airports for its operation of modern public transport terminals (i.e. IPTTs) by providing spacious and brightly lit shopping, dining and waiting areas, and clean public facilities, particularly the washrooms. This entices visitors and commuters to spend more money and time in the terminal prior to their departure or upon their arrival, or while sending off or picking up their loved ones. This captive traffic is monetized in the form of rental incomes from commercial units and advertising space with the terminal.

In the past, traditional express bus terminals (Exhibit 1) are usually old, poorly maintained and far away from the city centre with little to no development in the surrounding areas (or example, Hentian Puduraya Bus Terminal, Sungai Nibong Bus Terminal,

Kuala Terengganu Express Bus Terminal, etc). There are also limited amenities in the terminals, making them mere transit stops for the passengers. The revenue streams from old bus terminals are mainly ticketing booth rental and buses entrance fees, which are smallish and thus not enough to cover the maintenance costs of the bus terminals.

EXHIBIT 1: TRADITIONAL BUS TERMINALS



Source: (From top left) Hentian Puduraya Bus Terminal, BusOnlineTicket.com; Sg Nibong Express Bus Terminal, Gmbr; Kuala Terengganu Express Bus Terminal, Easybook

Learning from lessons in the past, Perak Transit has come to see the values that can be unlocked from bus terminals. The business nature of bus terminals which generate a captive traffic within the building can actually be converted into a new revenue stream, i.e. advertising income, and this could be further enhanced by developing more commercial space within the terminal, thus creating another lucrative revenue source, i.e. rental income. This concept was proven successful in Terminal Meru Raya in Ipoh.

Meru Raya

EXHIBIT 2: IPOH EXPRESS BUS TERMINALS – PAST VS. PRESENT



Source: company

Terminal Meru Raya is a successful example of Perak Transit's business model in transforming a traditional bus terminal into a more vibrant commercial and lifestyle hub. The passenger volume in Terminal Meru Raya has recorded a CAGR of ~11% in the first three years following the commencement of the terminal, or a CAGR of 5.9% in the past 6 years (FY14–FY19) (Exhibit 3), with a significant increase of 16% in 2017 when Perak hosted the *Visit Perak Year*. Meanwhile, the advertising rate has also recorded a strong CAGR of 7% in the past 5 years (FY15–FY19), which is above the average market growth rate of 3%. We believe this is mainly underpinned by the continuous increase in footfall at the terminal over the years.

EXHIBIT 3: PASSENGER GROWTH IN TERMINAL MERU RAYA



Source: Company, AmlInvestment Bank

To further capitalize on this, Perak Transit is expanding Terminal Meru Raya's gross build-up area as well as getting more contract bus services to operate at the terminal, which will translate into extra revenue growth in the medium term.

Proven commercial viability

EXHIBIT 4: TERMINAL MERU RAYA



Status	Open since 25 Sept 2012
Total built-up area	209k sq ft
Total lettable area	51k sq ft
No. of car parks	400
No. of bus operators	55

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 5: KAMPAR PUTRA SENTRAL



Status	Open since 7 Aug 2020
Total built-up area	1.2mil sq ft
Total lettable area	409k sq ft
No. of car parks	950
No. of bus operators	12

Source: Company, AmlInvestment Bank Bhd

Perak Transit has replicated its success in Terminal Meru Raya in Kampar Putra Sentral. There is also an addition growth driver for Kampar Putra Sentral — a big and fast-growing student population in Kampar, which has a high propensity for travel during school breaks and festivities, as well as during weekends for leisure.

We are projecting Kampar Putra Sentral's revenue to grow by 18% and 8% for FY21 and FY22 respectively, following its official commencement on September 2020. This is mainly underpinned by the low base and strong growth in its take-up rate over the years, as well as a stronger growth of advertisement and rental rates of 6%, supported by the quality footfall at the terminal, which serves a better targeted audience (student population vs. general public) with greater stickiness and higher chance of return. Currently, the occupancy rate at Kampar Putra Sentral is estimated to be at around 50%.

Kampar

EXHIBIT 6: KAMPAR EXPRESS BUS TERMINALS – PAST VS. PRESENT

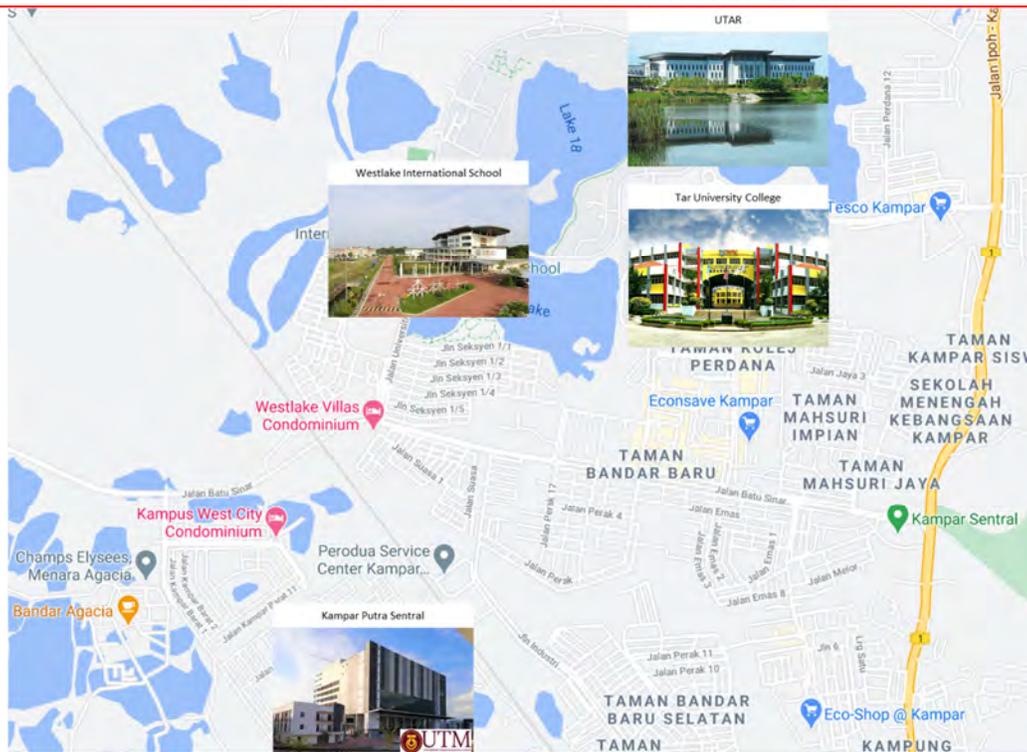


Source: Company, AmlInvestment Bank

Zooming in on Kampar, the quiet town gained a new lease of life when Universiti Tunku Abdul Rahman (UTAR) set up a campus in 2003. Kampar has an area of 66,997.5 hectares, with only 7.1% utility land for housing, industries, businesses, social institutions, mixed development, infrastructure utilities and transportation in 2014, with a goal to increase this to 15.2% by 2030. The continuous development of the town will drive the economy and thus attract more visitors to the town. As an education hub, it will attract other education institutions to set up their new campus there with its improved facilities and connectivity. This will thus help to grow the student population in the town, as well as visitors, which will translate into passenger traffic at Kampar Putra Sentral.

Back in 2010, Kampar has a population of 90,313, with an estimated 11,000 UTAR students. Today, the population of UTAR students alone has grown to ~18,000, at a CAGR of 2.4% in the past 5 years. Apart from that, the town also has other education institutions such as Westlake International School, the new campus for Universiti Teknologi Malaysia (UTM) which will be housed within Kampar Putra Sentral itself, as well as an upcoming specialist training hospital by UTAR, expected to be completed by the end of this year.

EXHIBIT 7: ADJACENT COMMUNITY AT KAMPAR PUTRA SENTRAL

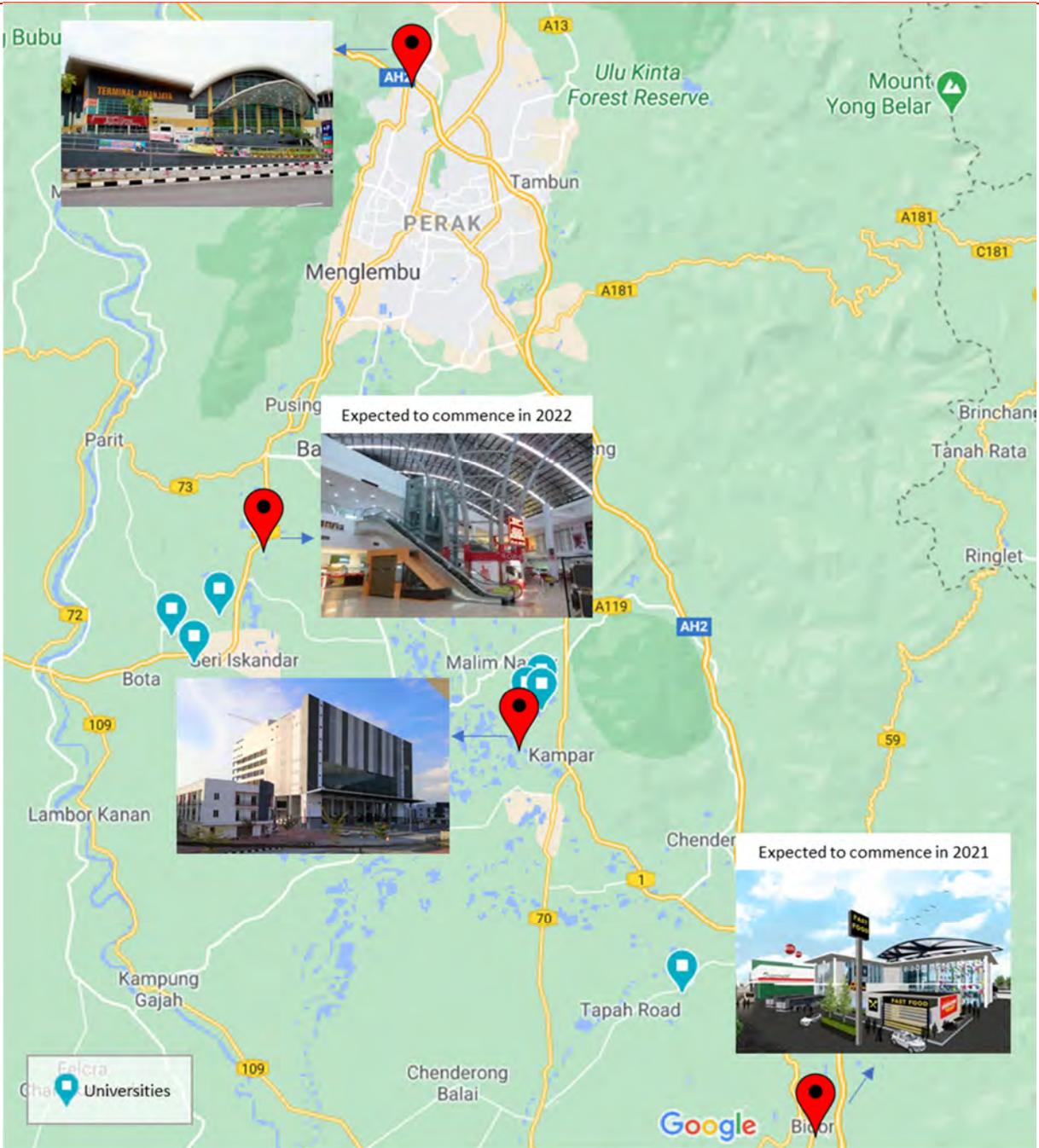


Source: Google Map, multiple sources

❑ *Vast opportunities to replicate successful business model*

Learning from the success of its first terminal, Perak Transit’s will continue to expand its business by replicating the business model in other bus terminals. Already, it has at least three more projects in the pipeline, namely, in Bidor, Tronoh and Kuantan.

EXHIBIT 8: EXISTING AND UPCOMING TERMINALS IN THE PIPELINE



Source: Google Map, multiple sources

This is part of Perak Transit’s mid-to-long-term goal to become a leading developer and operator of bus terminals and transportation services provider in Malaysia, generating higher margins of over 75% in operating income.

To accelerate the growth/expansion, Perak Transit is also actively seeking opportunities to export its expertise by managing the bus terminals for the local councils as a third-party operator in a profit-sharing scheme (i.e. Terminal Sentral Kuantan, a collaboration with Energetic Point). This will allow Perak Transit to accelerate its growth in the high-margin business with minimal capex, and thus enhance the ROE of the company. On top of that, the contract-based collaboration also serves as a sustainable and secure revenue stream that offers steady growth over time.

Tronoh

We believe Tronoh is very much following the footsteps of Kampar. It was a quiet tin mining town in Perak that is moving towards developing into an education hub. It currently has three universities, namely Universiti Teknologi Petronas (UTP), commenced in 1996), Universiti Teknologi MARA (UiTM), opened in 2001) and Kolej Profesional MARA (KPM, started in 2005).

Recently, another well-established university (UCSI University) set up shop in the growing education town, and due to open in 2022/23. Being one of the top-ranking private universities in the country, we believe the opening of UCSI University in Tronoh will not only contribute to the growth of student population, but also bring a better profile of the students with higher spending power that will eventually attract more commercial development around the area. At the same time, Perak Transit's expansion to Tronoh will create a synergistic effect on the development of the town by providing better connectivity.

Bidor

Bidor is an industrial town located between Ipoh and Kuala Lumpur, with direct access to the North–South Expressway. While it is still an emerging town, it is also home to UiTM as well as an upcoming plant by Kossan Rubber, expected to be completed by 2021.

We believe the upcoming bus terminal by Perak Transit is critical for the development of the town, which improves the connectivity as well as bringing in commercial convenience to the existing population. Realizing that there's a lack of established retailers in the town, Perak Transit is actively in talks with them to expand their footprint in Tronoh. By making established retailers as anchor tenants at the terminal, it will help to attract traffic to the terminal for its convenience as a one-stop commercial hub (instead of having to travel to multiple retail shops while running errands). This will generate footfall and thus improve the advertising and rental rates at the terminal.

EXHIBIT 9: BIDOR EXPRESS BUS TERMINAL – PAST VS. PRESENT



Source: Company

RISKS

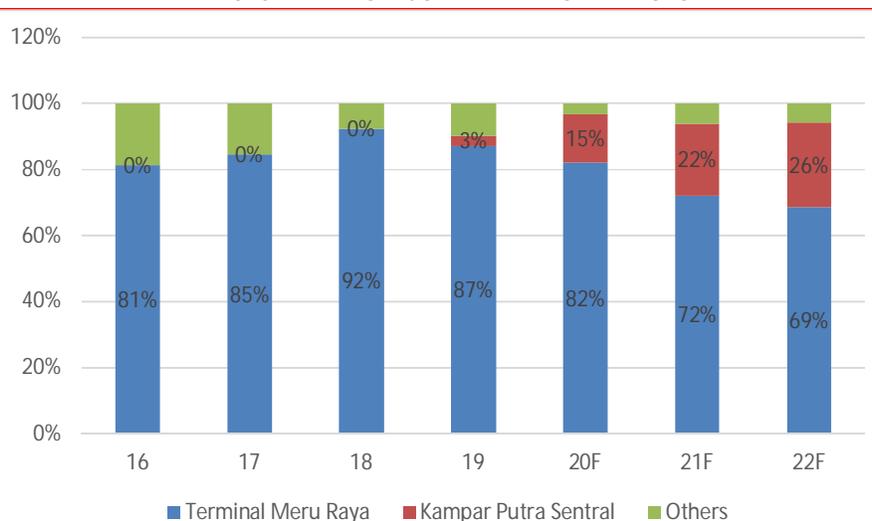
The key risks for Perak Transit include: (i) slower-than-expected passenger traffic/footfall growth/recovery at the terminals, which could result in lower margins for the IPTT segment; (ii) uncertainties in future projects (upcoming terminals in the pipeline), i.e. potential delays; (iii) concentration risks; and (iv) regulatory risks.

FINANCIAL REVIEW

Earnings breakdown

In the past, Perak Transit has been transforming itself to focus more on the higher margin bus terminals' operations, and is planning to expand its business further in this segment. This is reflected in its earnings contribution growth from the segment, from a mere 81% in its operating income in FY16 to 90% in FY19. We believe the growing trend will continue moving forward, underpinned by the large pipeline of upcoming terminal projects by Perak Transit, as well as the company's new initiative in securing more third-party collaboration to manage existing terminals as a bus terminal operator.

EXHIBIT 10: OPERATING INCOME BREAKDOWN BY SEGMENT



Source: Company, AmInvestment Bank

Financial performance

On its financial performance, Perak Transit has recorded a slight increase in net profit by 2% YoY during 9MFY20 despite the pandemic and economic downturn in the country, thanks to: (i) margin expansion on higher project facilitation fees; and (ii) earnings contribution from Kampar Putra Sentral, which has reported its full maiden advertising income during the quarter. This is in spite of an 8% decline YoY in revenue, as the public transport segment and petrol station segment were impacted by the MCO, as well as rental rebates given during 2Q.

FINANCIAL PROJECTION

We are projecting Perak Transit's earnings to grow by 22% and 10% in FY21–22F driven largely by:

1. The normalisation of intrastate and interstate bus passenger travel (including the student population in Kampar), assuming the Covid-19 pandemic is to gradually come under control by 2H2021 with the availability of effective vaccines;
2. Kampar Putra Sentral's first full-year contribution from FY21F; and
3. The organic growth in bus passenger travel post-pandemic.

We are projecting the advertising and rental rates at Kampar Putra Sentral to increase by 6% each year for FY21–22F on the back of increasing footfall at the terminal. This is supported by the well-connected and established community around the terminal (i.e. multiple schools, colleges/universities nearby, local residential areas within walking distance, etc.).

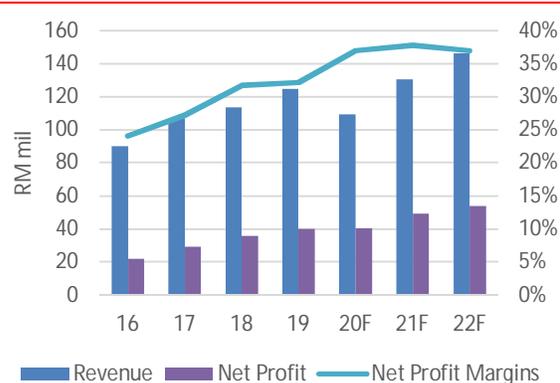
We forecast Terminal Meru Raya and Kampar Putra Sentral to contribute to 72% and 22% of total EBIT respectively in FY21F, followed by 69% and 26% respectively in FY22F (Exhibit 10).

EXHIBIT 11: OPERATING INCOME PERFORMANCE



Source: Company, AmInvestment Bank Bhd

EXHIBIT 12: NET PROFIT PERFORMANCE



Source: Company, AmInvestment Bank Bhd

VALUATION

We are valuing Perak Transit at an FV of RM1.25 based on a forward PE of 15xits FY22F EPS, which is at a 30% discount to our FY22F target PE for Malaysia Airports. We see many similarities between a modern public transport terminal operator and an airport operator, from the growing trend of public transport terminals emulating the airports with spacious and brightly lit shopping, dining and waiting areas. This entices visitors and commuters to spend more money and time in the terminal prior to their departure or upon their arrival.

At 9–11x forward earnings, we believe Perak Transit offers investors a good opportunity to own a defensive public infrastructure business that is replicable for growth at bargain valuations.

EXHIBIT 13: PB BAND CHART

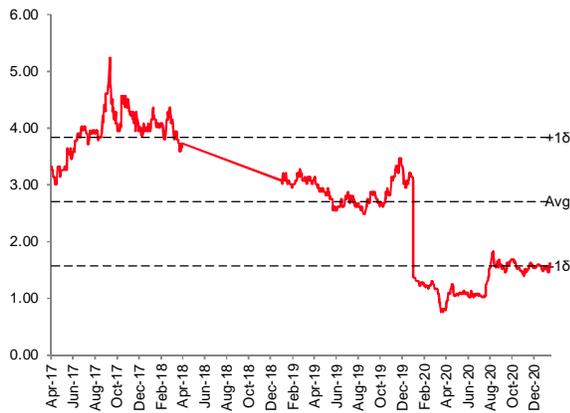


EXHIBIT 14: PE BAND CHART



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