AmInvestment Bank

Company report

AmInvestment Bank
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PERAK TRANSIT

(PERAK MK EQUITY, PERT.KL) **4 May 2021**

Forges ahead with business plans

BUY
(Maintained)

Rationale for report: Company update

Price	**RM0.74**
Fair Value	**RM1.21**
52-week High/Low	RM0.98/RM0.51

Key Changes

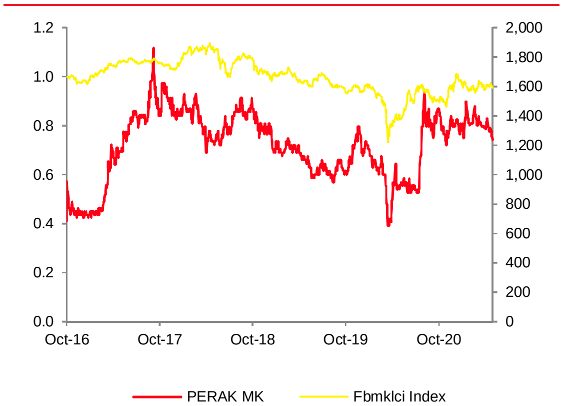
Fair value	↓
EPS	⇔

YE to Dec	**FY20**	**FY21F**	**FY22F**	**FY23F**
Revenue (RM mil)	119.4	130.3	146.5	155.2
Core net profit (RM mil)	42.0	49.3	54.1	58.8
FD Core EPS (sen)	6.5	7.6	8.4	9.1
FD Core EPS growth (%)	136.1	17.3	9.8	8.7
Consensus Net Profit (RM mil)	-	50.3	53.5	57.1
DPS (sen)	2.3	2.7	2.9	3.2
PE (x)	13.5	9.7	8.8	8.1
EV/EBITDA (x)	9.1	8.1	7.5	7.3
Div yield (%)	1.8	2.2	2.4	2.6
ROE (%)	12.7	14.9	16.4	17.8
Net Gearing (%)	50.0	52.1	52.6	52.6

Stock and Financial Data

Shares Outstanding (million)	645.1
Market Cap (RM mil)	477.4
Book Value (RM/share)	0.30
P/BV (x)	2.5
ROE (%)	12.7
Net Gearing (%)	50.0
Major Shareholders	Cheong Kong Fitt(13.7%) CBS Link Sdn Bhd(11.0%) Lim Sow Keng(5.8%)
Free Float	69.5
Avg Daily Value (RM mil)	2.7

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(8.1)	2.8	34.6
Relative (%)	(8.5)	(5.6)	19.1



Investment Highlights

- **We maintain our forecasts but tweak our fair value (FV) lower by 3% to RM1.21 (from RM1.25) to incorporate a slight discount to reflect a 2-star ESG rating as appraised by us (Exhibit 3). The basis of our FV is now 15x FY22F EPS (at a 30% discount to our FY22F target PE of 22x for Malaysia Airports) with a 3% ESG discount. We use Malaysia Airports as the valuation benchmark for Perak Transit as we see many similarities between this operator of modern public transport terminals and an airport operator. Maintain BUY.**

- **We came away from our recent meeting with Perak Transit feeling positive. Here are key highlights from our meeting:**

  1. **On the newly commissioned (in 2020) Kampar Putra Sentral Terminal, Perak Transit is hopeful that its occupancy rate will rise to 70% this year vs. 50% currently (our forecasts assume 60% in FY21F, rising to 70–80% in FY22–23F). The additional kicker shall come from the return of the more normalised student crowd in the campus town of Kampar once the pandemic comes under better control on the back of the rollout of the national vaccination programme.**

     As the terminal is still relatively new amidst the pandemic, its advertising and promotion (A&P) rates naturally have not been maximized. As a comparison, they are on average only at two-thirds of those of the more established Meru Raya Terminal. We see an upside potential over time and we project its A&P incomes to grow by 6% annually.

     Based on our forecasts, Kampar Putra Sentral Terminal will contribute 12–15% of the group's revenue in FY21–23F.

  2. **Apart from its bread-and-butter "develop-own-operate" (DOO) business model (of which it has two projects in the pipeline, i.e. the Bidor and Tronoh terminals, at present), Perak Transit also sees tremendous potential in the "terminal management contract" (TMC) business model.**

     Under the TMC model, Perak Transit provides largely expertise and assistance in managing third-party bus terminals (with some investment in upgrading and renovation works). This requires less capital expenditure, resulting in a shorter payback period of four years (vs. eight years under the DOO model).

Perak Transit guided for 4–5 such contracts in FY21F. Thus far in FY21F, it has secured two, i.e. Sentral Kuantan Terminal (Kuantan) and Shahab Perdana Bus Terminal (Alor Setar). We estimate that each TMC contract could contribute an additional RM1.5mil net profit to the company.

Despite the pandemic situation, we understand that A&P contracts at Meru Raya Terminal and Kampar Putra Sentral Terminal have been renewed with no discount being given. Typically, the A&P rates are revised annually. Meanwhile, for the up-and-coming Bidor terminal (slated for full opening in 2H 2023), the company is currently in talks with a potential hypermarket tenant. A deal will see it commencing operation at the terminal as soon as early 2022.

- **We continue to like Perak Transit for:**

  1. **Its unique business model, i.e. the operation of modern public transport terminals that emulate airports with spacious and brightly lit shopping, dining and waiting areas, and clean public facilities particularly the washrooms. These entice visitors 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. **It having proven the commercial viability of this business model in its Terminal Meru Raya in Ipoh (an interstate transportation hub) and the newly opened Kampar Putra Sentral. Kampar Putra Sentral is also buoyed by a large and fast-growing student population in the campus town of Kampar. This student population has high propensity to travel during school breaks and festivities, as well as during weekends for leisure; and**
  3. **The vast opportunities to replicate this successful business model. Already, it has at least two more BOO projects in the pipeline, namely in Bidor and Tronoh, as well as expecting at least 2–3 more TMC projects this year.**

- **At 8–10x 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 1: PB BAND CHART

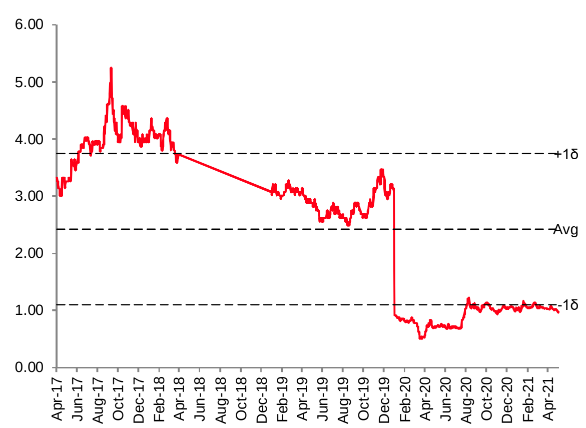


EXHIBIT 2: PE BAND CHART

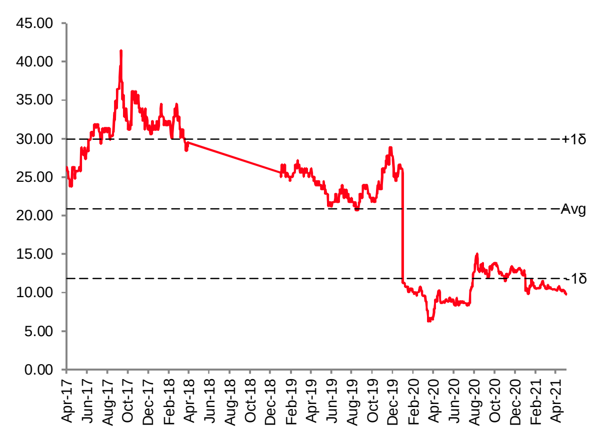


EXHIBIT 3: ESG RATING

Overall	★	★			
Zero-carbon initiatives	★				
Pollution control	★	★			
Sustainable industrialization	★	★			
Diversity and inclusion	★	★	★		
Employees welfare	★	★	★		
Corporate social responsibilities	★	★	★		
Accessibility & transparency	★	★	★		
Supply chain auditing	★	★	★		

*We accord a discount/premium of **-6%, -3%, 0%, +3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star*

DISCLOSURE AND DISCLAIMER