

28 December 2018 | Corporate Update

Lingkaran Trans Kota Berhad

Toll rate hike freeze extended beyond intra-city tolls

Maintain BUY

Unchanged Target Price (TP): RM4.92

INVESTMENT HIGHLIGHTS

- **GoM freezes toll hike for 21 highways in 2019, an extension from only intra-city tolls announced in Budget 2019**
- **Compensation payment to LDP to remains the same**
- **Toll hike for SPRINT in 2019 already scheduled but compensation from GoM to increase following the freeze**
- **Earnings forecasts unchanged**
- **Maintain BUY with unchanged TP of RM4.92 per share**

GoM freezes toll hike for 21 highways in 2019. The Government of Malaysia (GoM) decided on 12 December 2018 to freeze all toll hikes covering all vehicle classes on 21 highways across the country that were scheduled for an increase in 2019. This is an extension from the Budget 2019 announcement which planned to freeze the toll hike in 2019 for intra-city tolls only.

GoM has been compensating LDP since January 2016. Recall that toll rates for the LDP highway were raised by +48% beginning January 2016 which marks the third and final hike according to Littrak's concession agreement with the GoM. However, as the rates payable by highway users were only recently raised by +31% from RM1.60 to RM2.10 in October 2015, the scheduled hike in January 2016 was not passed on to highway users but instead compensated by the GoM. Meanwhile, SPRINT experienced an average +72% or RM1 increase for its three tolls rates in October 2015.

No changes in compensation for LDP. With the latest announcements by the GoM and the initial statement during Budget 2019, we are certain that GoM will continue bearing the 48% difference on toll rates charged to highway users by LDP through 2019. As there will not be any change in toll rates, we believe that traffic volume will not be affected. Therefore we make no changes to our traffic volume for LDP.


Portion of compensation payment for SPRINT to increase. As per LITRAK's Annual Report, the Penchala toll plaza is scheduled for a toll rate hike in 2019. The scheduled hike for the Penchala toll will be above 60% (from RM3.00 to RM5.00) while the average 2019 toll rate hike of SPRINT's three tolls is +69% according to the Ministry of Finance, which is broadly in line with our earlier estimates. Following the freeze in toll rate hike, compensation payments by the government to SPRINT would increase. We estimate the overall compensation payments to LITRAK is set to increase to above RM170m in FY19 and FY20 while earnings contribution from the concessionaires will remain unchanged.

RETURN STATS	
Price (28 th December 18)	RM4.11
Target Price	RM4.92
Expected Share Price Return	+19.7%
Expected Dividend Yield	+7.3%
Expected Total Return	+27.0%

STOCK INFO	
KLCI	1,683.82
Bursa / Bloomberg	6645 / LTK MK
Board / Sector	Main/Trading Services
Syariah Compliant	Yes
Issued shares (mil)	527.98
Market cap. (RM'm)	2.175.26
Price over NA	2.45
52-wk price Range	RM3.63 – RM5.90
Beta (against KLCI)	0.45
3-mth Avg Daily Vol	0.09m
3-mth Avg Daily Value	RM0.40m
Major Shareholders	
Gamuda Bhd	43.57%
PNB	21.90%
EPF	5.76%

Looking ahead. With the freeze extended to more highways around the country, we do not discount the possibility of indirect traffic spillovers especially from non-intracounty tolls to SPRINT and LDP, sustaining growth in tollable traffic. Aside from that, the GoM's move to return to the weekly float for RON 95 petrol price effective January 2018 to allow consumers to benefit from the current weakness in crude oil prices. However, the GoM will cap the RON95 petrol price at a maximum of RM2.20 per litre should crude oil prices increase. Hence, such initiatives could suppress the shift of people opting to commute by public transport and thus, limiting the compression of traffic growth.

Earnings estimates. As our current traffic volume and earnings forecasts have taken into account of the freeze of toll hikes on intra-city tolls in the country for 2019 as per the Budget 2019 announcement, we are maintaining our earnings estimates at this juncture.

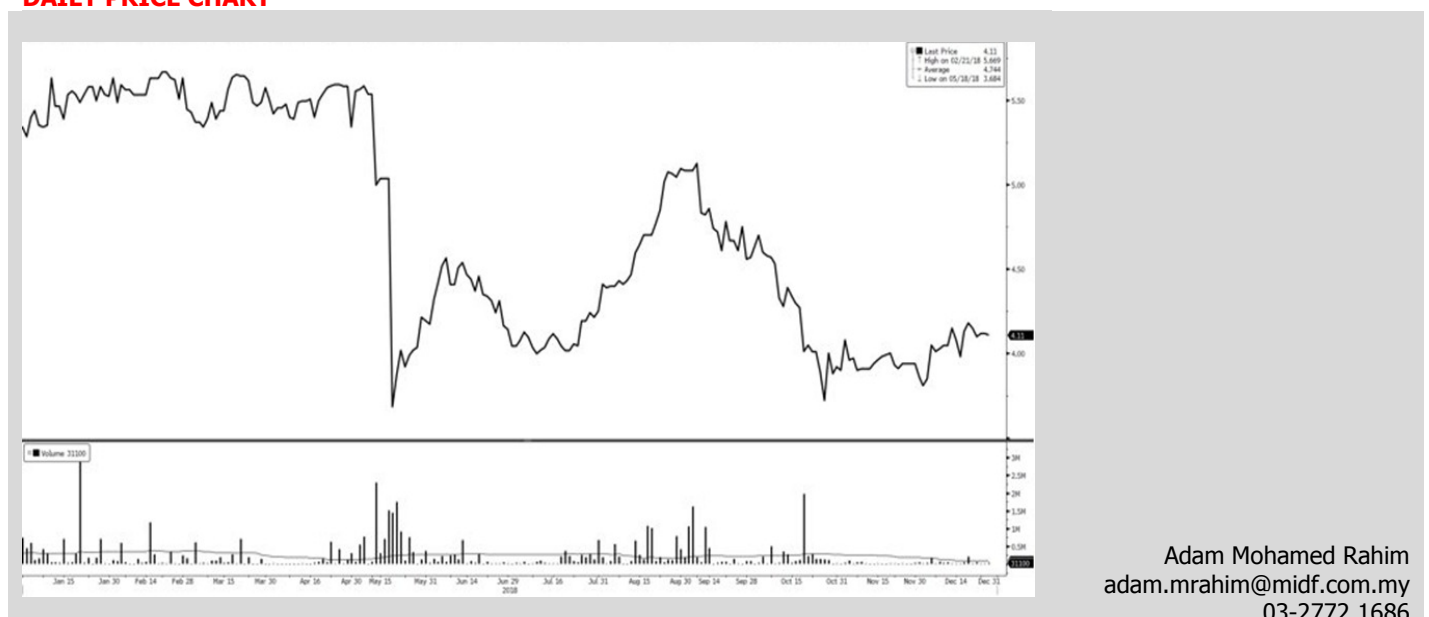
Maintain BUY with an unchanged TP of RM4.92 per share. Our TP based on DCF method (WACC: 6.1%, Beta: 0.6). LITRAK is still a defensive play with decent dividends yield of 7.3% for FY20 while trading at a steep discount with a PER of 9.5x, -2 standard deviation below its 5-year historical PER of 14.3x. This translates to an earnings yield of 10.5%, implying an attractive spread of 6.7% against the latest 5-year Malaysian Government Securities yield of 3.79%. Moreover, as Litrak is only holding two matured highways, SPRINT and LDP, major capital expenditure is not required. 

INVESTMENT STATISTICS

FYE Mar	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM' m)	416.2	534.2	523.9	525.1	531.8
EBIT (RM' m)	284.1	360.7	364.1	370.7	376.3
Pretax Profit (RM' m)	228.7	292.4	306.4	312.1	324.2
Net Profit (RM' m)	174.1	221.0	228.6	237.2	246.4
EPS (sen)	33.3	42.4	43.8	45.4	47.2
EPS growth (%)	24.5	27.0	3.4	3.8	3.9
PER (x)	12.3	9.7	9.4	9.0	8.7
Net Dividend (sen)	25.0	25.0	30.0	30.0	30.0
Net Dividend Yield (%)	6.1	6.1	7.3	7.3	7.3

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

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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.