

30 November 2018 | 2QFY19 Results Review

Lingkar Trans Kota Berhad

Earnings slightly lifted by lower amortisation charges

Maintain BUY

Revised Target Price (TP): RM4.92

(Previously: RM5.90)

INVESTMENT HIGHLIGHTS

- **1HFY19 missed expectations**
- **Average weekday traffic subdued by a batch of public holidays**
- **Lower amortisation of HDE lifts earnings slightly**
- **Traffic volume to be sustained by subsidies for petrol**
- **Maintain BUY with revised TP of RM4.92 per share**

1HFY19 missed expectations. Litrak reported 2QFY19 net profit of RM60.6m (+0.8%yoy) which contributed toward a cumulative 1HFY19 net profit of RM115.8m (+0.5%yoy). The results were below our estimates, accounting for 40% of full year forecasts but were in-line with consensus estimates at 46.2%. The earnings miss was mainly due to the +4.1%yoy and +4.9%yoy increase in staff and maintenance costs in 2QFY19 respectively.

A batch of public holidays impacted weekday traffic. We note that the revenue of RM132.2m in 1HFY19 was -1.8%yoy lower due to the lower traffic volume plying the LDP. There were a batch of public holidays in 2QFY19 such as; (i) Hari Raya Aidil Adha; (ii) Hari Merdeka; (iii) the four-day weekend in conjunction with the birthday of Yang di-Pertuan Agong and Awal Muharram; and also (iv) Hari Malaysia which was brought forward to a Monday. This further compounded the effect of the additional public holiday in connection with the GE14 in May 2018. Likewise, Sprint, could have seen a fall in traffic volume as it recorded a loss of RM1.6m in 1HFY19 (+6.0%yoy).

Lower amortisation of HDE lifted earnings slightly. Nevertheless, the drop in revenue was outweighed by the lower amortisation of highway development expenditure. Since FY17, LDP and Sprint amortises its HDE using forecasted traffic volume instead of revenue. The accounting practice is common for infrastructure assets.


Near term prospect. We believe that tollable traffic can be sustained by the influx of last mile delivery players in the wake of the e-commerce activities. With online mega sales being held especially towards the end of the year, last mile delivery players will be faced by higher demand to deliver items especially in the Klang Valley area which has a high possibility of passing by the Sistem Penyuraian Trafik KL Barat (SPRINT) and Lebuhraya Damansara-Puchong (LDP).

RETURN STATS	
Price (29 th Nov 18)	RM3.94
Target Price	RM4.92
Expected Share Price Return	+24.9%
Expected Dividend Yield	+7.6%
Expected Total Return	+32.5%

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	6645 / LTK MK
Board / Sector	Main/Trading Services
Syariah Compliant	Yes
Issued shares (mil)	527.98
Market cap. (RM'm)	2.080.22
Price over NA	2.36
52-wk price Range	RM3.63 – RM5.95
Beta (against KLCI)	0.47
3-mth Avg Daily Vol	0.18m
3-mth Avg Daily Value	RM0.87m
Major Shareholders	
Gamuda Bhd	43.57%
PNB	21.90%
EPF	5.72%

Long term outlook. Another catalyst that we foresee for LITRAK is the RON95 petrol subsidy for owners of cars with 1,500cc engines which was tabled during Budget 2019. Such initiatives could surpress the shift of people opting to commute by MRT and LRT and thus, limit the compression of traffic growth.

Earnings estimates. We are trimming our earnings forecasts for FY18 and FY19 by -16.2%. and -15.6% respectively. This after taking into consideration of the near term headwinds in 3QFY19 where tollable traffic might fall during the year end festive season in addition to the commencement of DUKE 2 in November 2017.

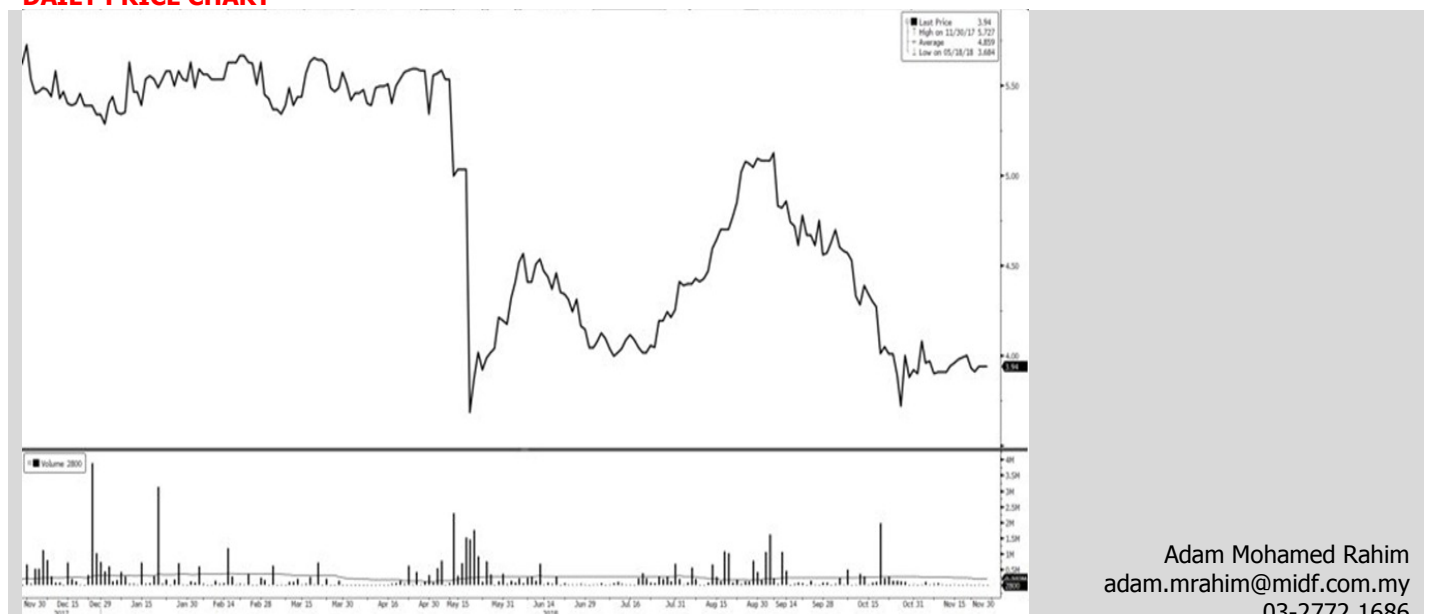
Maintain BUY with a revised TP of RM4.97 per share. Post earnings revision, our TP based on DCF method (WACC: 6.1%, Beta: 0.6) is revised down to RM4.97 (from: RM5.95). LITRAK is still a defensive play with decent dividends yield of 7.6% for FY20 while trading at a steep discount with a PER of 9.1x, -12.5 standard deviation below its 5-year historical PER of 14.5x. This translates to an earnings yield of 11.0%, implying an attractive spread of 7.12% against the latest 5-year Malaysian Government Securities yield of 3.88%. 

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)	11.8	9.3	9.0	8.7	8.3
Net Dividend (sen)	25.0	25.0	30.0	30.0	30.0
Net Dividend Yield (%)	6.3	6.3	7.6	7.6	7.6

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

LITRAK: 2QFY19 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative	
	2QFY19	%YoY	%QoQ	6MFY19	%YoY
FYE Mar					
Revenue	132.3	-1.8%	4.8%	258.5	-2.0%
Staff cost	(6.6)	4.1%	-16.5%	(14.4)	3.0%
Maint. & other expenses	(8.5)	2.8%	14.0%	(16.0)	0.5%
EBITDA	117.2	-2.5%	5.7%	228.1	-2.0%
Depreciation	(24.5)	-2.7%	3.9%	(48.1)	2.1%
EBIT	92.7	-2.4%	6.2%	180.0	-2.0%
Finance cost	(11.7)	-18.3%	-7.2%	(24.2)	16.5%
Other income	0.5	102.7%	10.3%	0.9	100.5%
Shares of assoc.	(0.5)	18.8%	-49.6%	(1.6)	6.0%
Profit before tax	81.0	0.8%	9.3%	155.0	0.9%
Net Profit	60.56	0.8%	9.6%	115.8	0.5%
EBIT Margin (%)	70.1%	-0.4 pts	+0.9pts	69.6%	0.0pts
Net Margin (%)	45.8%	1.2 pts	+2.0pts	44.8%	1.1 pts

Source: Company, MIDFR

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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.