

25 July 2014 | Corporate Update

## Protasco Berhad

*Price retracement offers buying opportunity*

**Reaffirm BUY**

**Unchanged Target Price (TP): RM2.90**

### INVESTMENT HIGHLIGHTS

- The share price of Protasco has retraced 15% from a peak of RM2.13 in June 2014.
- We believe the share price is bottoming out.
- Contract extension of the road maintenance concession is still under negotiation and we expect positive results.
- Construction jobs are progressing well and property offerings received strong response from buyers.
- We maintain our earnings forecasts at this current juncture.
- We reaffirm our BUY recommendation with an unchanged TP of RM2.90.

**Minimal downside.** We note that the share price of Protasco has retraced 15% from a peak of RM2.13 in June 2014. We view the knee-jerk price action of late was related to some shareholders trimming their stakes. We opine it has nothing to do with the Group's business prospects. We also believe that some investors were taking their profits prior to long Hari Raya break and coupled with the unrest in the Middle East. Hence we reckon the share price is bottoming out at the main support level of RM1.80. Thus, the minimal downside should provide a strong buying opportunity for investors at current levels.

**Maintenance concession will be renewed.** Although there are concerns with regard to contract extension of the expiring road maintenance concession, we are still positive on the contract extension award and even coupled with possible new additional work scope. We believe that the group is well positioned to renew its road maintenance concession given its vast experience in handling road maintenance works and its strong partnership with Bumiputera contractors. Therefore, we are expecting the extension contract to be awarded to Protasco possibly before the end of this year.

**Construction progress to deliver ahead.** Recall that construction works progressed strongly in 1QFY14, during which the segmental contribution in terms of revenue and PBT jumped by more than 100%yoy. We anticipate our projected earnings growth this year to be achieved by a further step-up in outstanding construction works of RM710m and property unbilled sales of RM122.6m.

RETURN STATS	
Price (24 <sup>th</sup> July 2014)	RM1.81
Target Price	RM2.90
Expected Share Price Return	+60.0%
Expected Dividend Yield	+7.7%
<b>Expected Total Return</b>	<b>+67.7%</b>

STOCK INFO	
KLCI	1,877.05
Bursa / Bloomberg	5070/PRTA MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	334.6
Par Value (RM)	0.50
Market cap. (RM'm)	605.7
Price over NTA	1.45x
52-wk price Range	RM1.15–RM2.13
Beta (against KLCI)	0.89x
3-mth Avg Daily Vol	1.03m
3-mth Avg Daily Value	RM2.01m
Major Shareholders	
Ket Pen Chong	21.28%
Por Yee Tey	17.55%
LTH	4.93%


## INVESTMENT STATISTICS

FYE Dec (RM'm)	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	696.0	793.9	972.2	1,196.0	1,396.0
EBIT (RM'm)	74.3	108.6	104.5	174.5	223.7
Pre-tax Profit (RM'm)	72.2	106.6	101.6	171.7	220.6
PATAMI (RM'm)	31.8	37.5	48.6	79.4	102.0
EPS (sen)	9.6	11.3	14.6	23.9	30.7
EPS growth (%)	-32.4	17.7	29.8	63.3	28.5
PER(x)	18.9	16.1	12.4	9.2	7.7
Net Dividend (sen)	8.0	14.0	10.0	12.0	14.0
Net Dividend Yield (%)	4.4	7.7	5.5	6.6	7.7

Source: Company data, forecasts by MIDFR

**Buoyant property division.** Protasco recently has launched Phase 2 of De Centrum Unipark Condominium, comprising two 20-storey towers with an indicative GDV of RM220m. It has been well received (Tower C in particular) by buyers with a take up rate of 50% in a week. We expect contribution from the property development segment should improve substantially with a net margin of between 15% and 20%. We foresee that there will be continuing demand for their property due its good connectivity (i.e. KVMRT Line 2 and two major highways, namely the North-South Expressway and SILK Highway) and growing university population in the vicinity.

**Forecasts unchanged.** At this juncture, we make no changes to our earnings forecasts.

**Reaffirm BUY.** We are still positive on its earnings growth prospect in coming quarters. Therefore, we are maintaining our BUY recommendation on Protasco with an unchanged TP of RM2.90 based on FY15 sum-of-parts valuation. 

## SUM-OF-PARTS VALUATION

Segments	FY15 Earnings (RM'm)	Basis	Value
Construction	24.2	PER15 of 9x	217.9
Maintenance	37.1		334.2
Oil & Gas	4.9	Cash	4.9
Property	RNAV of RM503.7m on a 20% discount		403.0
Education	1.3	PER15 of 7x	9.4
Trading & Manufacturing	3.1		21.9
Engineering & Consultancy	5.0		35.2
<b>TOTAL</b>			<b>1,026.4</b>
Net debt			225.6
Enlarged diluted sharecap			432.2
<b>Sum-of-parts per share</b>			<b>2.90</b>

Source: Forecasts by MIDFR

## FINANCIAL STATEMENT

Income Statement	2011	2012	2013	2014F	2015F
<b>Revenue</b>	<b>696.0</b>	<b>793.9</b>	<b>972.2</b>	<b>1,196.0</b>	<b>1,396.0</b>
Gross profit	169.4	208.2	201.4	263.1	307.1
<b>EBIT</b>	<b>74.3</b>	<b>108.6</b>	<b>104.5</b>	<b>174.5</b>	<b>223.7</b>
Interest expense	-2.1	-2.0	-2.9	-2.7	-3.1
<b>PBT</b>	<b>72.2</b>	<b>106.6</b>	<b>101.6</b>	<b>171.7</b>	<b>220.6</b>
Taxation	-24.0	-35.3	-30.9	-55.0	-70.6
Minority interest	16.4	33.7	22.1	37.4	48.0
<b>PATAMI</b>	<b>31.8</b>	<b>37.5</b>	<b>48.6</b>	<b>79.4</b>	<b>102.0</b>
PER (x)	18.9	16.1	12.4	9.2	7.7
FD EPS (sen)	9.6	11.3	14.6	19.6	23.6
DPS (sen)	8.0	14.0	10.0	12.0	14.0
Dividend yield (%)	4.4	7.7	5.5	6.6	7.7

Balance Sheet	2011	2012	2013	2014F	2015F
<b>Non-current assets</b>	<b>191.4</b>	<b>181.5</b>	<b>177.5</b>	<b>243.5</b>	<b>304.2</b>
PPE	185.5	178.8	175.1	241.1	301.8
Others	5.8	2.6	2.4	2.4	2.4
<b>Current assets</b>	<b>468.4</b>	<b>517.9</b>	<b>706.2</b>	<b>751.4</b>	<b>858.2</b>
Inventories	3.2	1.2	1.3	4.9	5.7
Receivables	205.1	255.3	313.2	327.7	382.5
Others	70.1	111.8	170.5	170.5	170.5
Cash & equivalent	190.0	149.6	221.2	248.3	299.5
<b>TOTAL ASSETS</b>	<b>659.7</b>	<b>699.3</b>	<b>883.7</b>	<b>994.9</b>	<b>1,162.4</b>

Share capital	150.0	150.0	166.1	202.7	223.4
Minority interest	27.3	46.6	24.7	49.3	82.4
Retained & others	208.3	204.0	229.6	269.1	324.5
<b>TOTAL EQUITY</b>	<b>385.6</b>	<b>400.5</b>	<b>420.5</b>	<b>521.1</b>	<b>630.3</b>

<b>Non-current liabilities</b>	<b>12.5</b>	<b>12.2</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>
Long-term borrowings	4.0	4.3	3.8	3.8	3.8
Others	8.5	7.9	7.9	7.9	7.9
<b>Current liabilities</b>	<b>261.6</b>	<b>286.6</b>	<b>451.5</b>	<b>462.0</b>	<b>520.3</b>
Short-term borrowings	33.6	38.0	44.1	51.1	58.1
Payables	167.3	186.0	303.2	306.7	358.0
Others	60.7	62.6	104.3	104.3	104.3
<b>TOTAL LIABILITIES</b>	<b>274.1</b>	<b>298.8</b>	<b>463.3</b>	<b>473.8</b>	<b>532.0</b>

Cash Flow Statement	2011	2012	2013	2014F	2015F
<b>Operating activities</b>					
PBT	72.2	106.6	101.6	171.7	220.6
Depr & Amort	15.5	25.9	14.3	14.0	19.3
Chgs in working capital	-5.6	-92.5	32.9	-14.6	-4.3
Non-cash adjustment	14.6	6.7	-14.2	-2.7	-3.1
Interest expense	2.1	2.2	2.7	2.7	3.1
Tax paid	-27.4	-29.5	-34.3	-55.0	-70.6
<b>CF from Operations</b>	<b>71.3</b>	<b>19.4</b>	<b>103.0</b>	<b>116.2</b>	<b>165.0</b>

<b>Investing activities</b>					
Capex	-15.7	-22.0	-17.1	-80.0	-80.0
Others	4.3	26.5	-13.9	0.0	0.0
<b>CF from Investments</b>	<b>-11.4</b>	<b>4.5</b>	<b>-31.0</b>	<b>-80.0</b>	<b>-80.0</b>

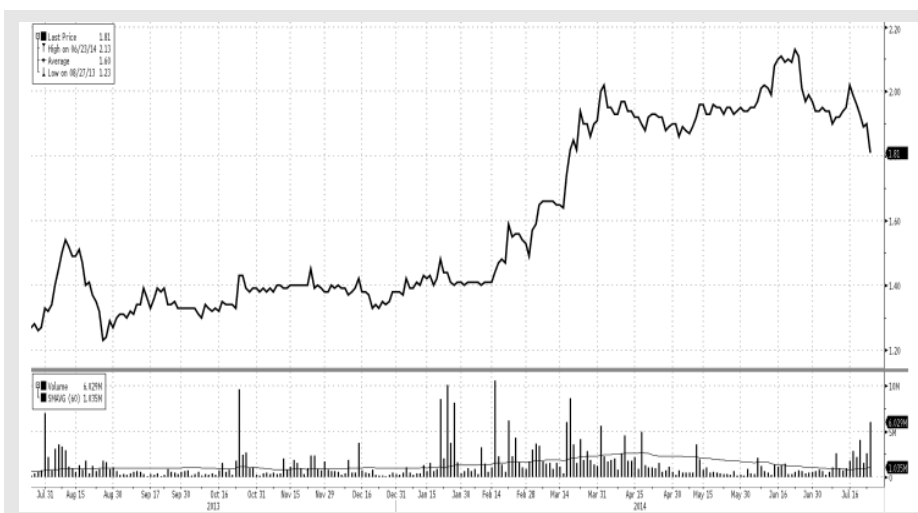
<b>Financing activities</b>					
Dividends paid	-54.6	-68.0	-51.3	-52.7	-61.5
Net proceeds in borrowings	2.2	6.7	6.7	7.0	7.0
Others	-0.3	-1.5	37.7	36.6	20.7
<b>CF from Financing</b>	<b>-52.7</b>	<b>-62.8</b>	<b>-6.9</b>	<b>-9.1</b>	<b>-33.8</b>

Net changes in cash	7.2	-38.9	65.1	27.1	51.2
Beginning cash	180.2	187.1	148.4	221.2	248.3
Overdrafts	2.6	1.4	7.8	0.0	0.0
<b>Ending cash</b>	<b>190.0</b>	<b>149.6</b>	<b>221.2</b>	<b>248.3</b>	<b>299.5</b>

Ratios	2011	2012	2013	2014F	2015F
Revenue growth	-9.7%	14.1%	22.5%	23.0%	16.7%
PBT growth	-23.3%	47.6%	-4.6%	69.0%	28.5%
PATAMI growth	-32.4%	17.7%	29.8%	63.3%	28.5%
PBT margin	10.4%	13.4%	10.5%	14.4%	15.8%
PATAMI margin	4.6%	4.7%	5.0%	6.6%	7.3%
ROE	8.3%	9.4%	11.6%	15.2%	16.2%
ROA	4.8%	5.4%	5.5%	8.0%	8.8%
Net gearing (x)	Ncash	Ncash	Ncash	Ncash	Ncash
BV/share (RM)	1.2	1.2	1.3	1.6	1.9
PBV (x)	1.6	1.5	1.4	1.4	1.2

Source: Company data, forecasts by MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.