Upgrading to BUY; stay on course

We upgrade Perak Transit (PT) to BUY (from HOLD) and raise our TP to RM0.36 (from RM0.26). Recent news flow and our discussions with management point to PT's terminal business remaining resilient, and our earlier concerns on the restructuring of the governing body now seem overblown. Meanwhile, PT's Kampar Terminal Phase 1 is set for completion by end-2018. Overall, we like PT for its proven track record in the underserved bus-terminal business, resilient earnings profile, and undemanding valuation of 12.6x 2019E PER.

After all, it's business as usual

Following our meeting with PT's management, we conclude that our earlier concerns on regulatory risk were overblown. Backed by the company's strong track record of operating the Ipoh Amanjaya terminal and Ipoh's stage buses, PT is likely to retain its terminal license slated for renewal in January 2019. Its Kampar Terminal, which had been green-lighted earlier before commencing construction, is unlikely to see an approval u-turn from the newly formed Land Public Transport Agency (APAD).

Kampar Terminal is set to drive double-digit earnings CAGR

The Kampar Terminal Project Phase 1 is on track for completion in December 2018 with Phase 2 slated for completion by March 2019. Management is confident on the project - discussions with F&B, cinema and supermarket operators are ongoing with an indicative take-up for 70% of the F&B space. All in, we expect the Kampar bus terminal to open on schedule by end-2018, followed by staggered openings of various facilities (ie, cinema, badminton court, gym, library, hotel, etc) throughout 2019.

Upgrading to BUY with a higher TP of RM0.36

We revise our 2018-20E EPS by +10.6%/-4.6%/+3.1%, after imputing a higher project-facilitation fee income and contribution from the Kampar Terminal, somewhat offset by the c.10% dilution from the recent private placement and new terminal start-up losses in 2019E. In tandem, we upgrade our call to BUY with a higher SOTP-based 12-month TP of RM0.36 (from RM0.26). PT's imminent move to the Main Market could be a re-rating catalyst (pending SC approval). We like PT for its: i) proven track record in the niche, underserved bus-terminal business; ii) strong earnings profile from its existing core business; and iii) earnings growth led by the Kampar Terminal and upcoming terminal expansion. Downside risks: regulatory overhang, construction disruption at its Kampar Terminal.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	90.2	106.8	113.7	128.6	145.2
EBITDA (RMm)	40.4	46.9	49.8	57.3	66.7
Pretax profit (RMm)	25.3	30.5	29.9	34.5	42.8
Net profit (RMm)	21.6	28.8	27.1	31.2	38.8
EPS (sen)	1.9	2.3	2.0	2.3	2.8
PER (x)	15.0	12.4	14.6	12.6	10.2
Core net profit (RMm)	21.6	28.8	27.1	31.2	38.8
Core EPS (sen)	1.9	2.3	2.0	2.3	2.8
Core EPS growth (%)	12.8	21.5	(14.7)	15.2	24.4
Core PER (x)	15.1	12.4	14.6	12.6	10.2
Net DPS (sen)	0.2	0.8	0.7	0.8	1.0
Dividend Yield (%)	0.7	2.8	2.4	2.7	3.4
EV/EBITDA (x)	11.9	12.1	10.6	9.1	7.5
Chg in EPS (%)			10.6	(4.6)	3.1
Affin/Consensus (x)			1.0	0.9	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Company Update

Perak Transit

PERAK MK
Sector: Transportation

RM0.285 @ 9 October 2018

BUY (upgrade)

Upside: 26%

Price Target: RM0.36

Previous Target: RM0.26

Price Performance

	1M	3M	12M
Absolute	3.6%	9.6%	-1.7%
Rel to KLCI	5.1%	3.3%	-2.3%

Stock Data

Issued shares (m)	1,382.9
Mkt cap (RMm)/(US$m)	394.1/94.8
Avg daily vol - 6mth (m)	4.2
52-wk range (RM)	0.23-0.34
Est free float	42.9%
BV per share (RM)	0.17
P/BV (x)	1.6
Net cash/ (debt) (RMm) (2Q18)	(169.6)
ROE (2018E)	11.1%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Kong Fitt Cheong	15.8%
CBS Link	15.1%
Lim Sow Keng	6.0%

Source: Affin Hwang, Bloomberg

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Business intact; renewed government focus on bus transportation presents more opportunities

APAD and JPJ to replace SPAD's functions

The Transport Minister, Anthony Loke, said in June 2018 (*The Star*, *NST*) that a new agency called the Land Public Transport Agency (APAD) will be set up under the Transport Ministry to better manage the functions and development policies of the country's land transport sector. He said APAD, which will be led by the Ministry's director-general, would draw up plans to develop the land public transport sector, specifically MRT, LRT and the bus system. APAD will take over most of the functions of the Land Public Transport Commission (SPAD), which was recently decommissioned. At the same time, the Road Transport Department (JPJ) will be authorised to conduct SPAD's previous enforcement and over-the-counter services, as well as the issuance of licenses and permits for public transport operators.

Operationally, we see little impact to PT's existing business

Based on news articles and our conversations with industry players, we believe that the changes (formation of APAD) will have little impact to PT's business operations. We gather that APAD will be comprised of SPAD's key personnel, lending confidence to PT's business continuity. Correspondingly, following the formation of APAD, we have yet to observe any changes to the country's bus transportation space.

Efficient operations, strong track record go a long way

In view of PT's commendable track record in running the Ipoh Amanjaya integrated bus terminal and the city's stage bus services, we expect few hiccups for the company to renew its business licenses. On the terminal business, the Amanjaya Terminal is the sole gazetted bus terminal in Ipoh – this gives us confidence that a smooth renewal will take place when the 2-year license expires in January 2019. Elsewhere, APAD is honouring the Stage Bus Service Transformation (SBST) programme, where PT operates the Ipoh stage bus services for the agency and gets paid on a recurring basis. We expect the programme to carry on until its expiry in 2024. In Ipoh, the state's capital, buses remain the cheapest mode of transport.

"Airport feel" for state bus terminals should spur opportunities

Transport Minister Anthony Loke envisages "airport" standard facilities for bus terminals in the country, reported *The Star*. Loke has urged the state governments to follow as-and-when-ready a modernisation framework for bus terminals in the country, which would be introduced by APAD soon. Amongst the measures that were drafted include facility upgrades for safety and convenience, as well as a centralised ticketing system to prevent illegal ticket touting.

Drawing from PT's industry knowledge and track record of operating its Amanjaya integrated terminal, as well as its involvement in several bus-terminal projects, we believe that the company's high-margin project facilitation division could potentially benefit from more consistent fee generation as a result of consultations sought by transport operators around the country to modernise existing terminals and/or build new ones.

Terminal expansions to drive earnings growth

Kampar Terminal on track for completion by end-2018

We understand that the construction of Kampar Terminal Project Phase 1 is on track for commencement by end-2018 (Fig 2). Concurrently, the leasing team is having active discussions with the prospective tenants (F&B, supermarkets and cinema operators) while the project team does not expect difficulties in obtaining the required licenses, ie, Certificate of Completion and Compliance (CCC) and terminal operator license.

Kampar Terminal - a student-centric lifestyle hub

The Kampar Terminal Project Phase 1 includes a bus terminal and a few shops / kiosks situated on the ground floor. The Project Phase 2, which is slated for completion by March 2019, will see a full ramp-up of its terminal operations including its advertising & promotion (A&P) services, in addition to a hotel, cineplex, F&B / lifestyle outlets as well as facilities such as a badminton court, gym, library, and supermarket. In total, the Kampar Terminal Project has a gross floor area of over ~400k sq ft.

At present, management has shared that the take-up interest of F&B outlets has exceeded 70%. We expect the terminal to garner strong reception from the local residents and a large student population of ~30k, hailing mainly from UTAR, TARC and Westlake International School, all located in Kampar.

Fig 1: Rendered image of Kampar Terminal

Source: Company

Fig 2: Site progress at Kampar Terminal

Source: Affin Hwang – picture taken as at September 2018

Expansion plans: Amanjaya expansion, terminals at Bidoh / Tronoh

After the completion of the Kampar Terminal Project, PT plans to expand its highly profitable Amanjaya Terminal, increasing its gross floor area by 80%. Thereafter, PT plans to construct new terminals at its land bank in Bidoh and Tronoh. For Bidoh and Tronoh, the land seller is in the process of converting the land usage, before the group applies for the agency approvals.

Broadly, we are positive on PT's expansion plans, in view of its strong construction and operational track records, as well as the large catchment in Ipoh and Kampar. That said, we have yet to impute in our forecasts any expansions beyond the Kampar Terminal, due to a lack of project details.

10% earnings CAGR over 2017-20E

Terminal business to be the key earnings driver

We revise our 2018-20E EPS by +10.6%/-4.6%/+3.1% after imputing higher project-facilitation fees and quicker proliferation of its Kampar terminal, offset somewhat by the c.10% dilution from the recent private placement, as well as higher start-up costs in 2019E on the new terminal. Overall, we expect PT's core net profit to grow by a 10.4% CAGR over the 2017-20E period (Fig 6), driven by:

(i) **Contribution from Kampar Terminal**. We expect the Kampar Terminal Project to be fully operational starting 2Q19. We have pencilled in minimal earnings contributions during the early stages (1H19), in anticipation of progressive filling up of shops / kiosks, higher upfront expenses, and rental discounts for new tenants during the outfitting phases. We expect revenue and earnings to improve notably in 2020E as tenancy hits critical mass (long-term occupancy rate assumption of 80%) and operating expenses normalise.

While the Kampar Terminal has 8x gross floor area compared to the Amanjaya Terminal, its revenue will not be 8x as much due to the different revenue mix. For the Kampar Terminal, retail / kiosk rentals will be a key revenue contributor, while advertising & promotion activities (A&P) contribute the most to Amanjaya's revenue. Overall, we expect Kampar Terminal's A&P and rentals to contribute an additional RM14m and RM11m to the top line (Fig 3) respectively by 2020E.

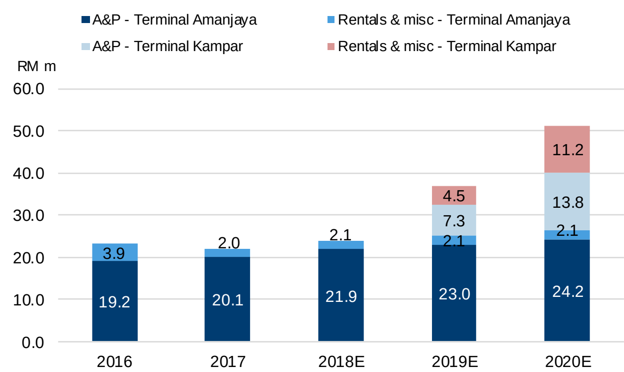
(ii) **Higher A&P revenue.** Organically, PT has raised the A&P rates for its Amanjaya Terminal starting in April 2018, and will continue to revise rates on an annual basis. Post-increments, we expect the A&P revenue for Amanjaya Terminal to grow to RM22m-24m over 2018-20E, from RM20m in 2017.

(iii) **Project facilitation fees – lumpy, but overall outlook is positive.** We forecast PT to maintain its project facilitation fees of RM18m per annum over 2018-20E (RM14m in 2016, RM18.5m in 2017). The risks to project facilitation fees are on the upside, we believe, in view of a possible increase in bus terminal construction and overhauls nationwide, in line with the minister's call to modernise the terminals.

(iv) **Petrol stations and bus services should remain stable.** We expect the earnings contribution from the high-revenue / low-margin petrol-station operations to remain stable, as the margins are underwritten by the government's Automatic Pricing Mechanism. Elsewhere, margins for PT's bus services are governed under the long-term SBST agreement with the state government, which should protect margins.

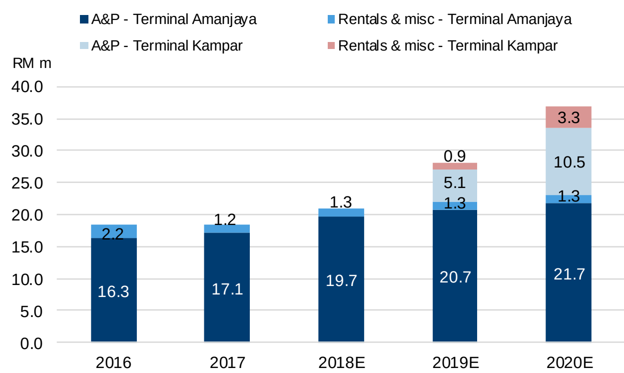
(v) **Effective tax rate likely to remain low at 8-9%.** The company still has c.RM128m of unutilised tax allowances from its Approved Service Project status. This should keep effective tax rates at c.8-9% over until 2020E.

Fig 3: Amanjaya vs. Kampar – Revenue contribution



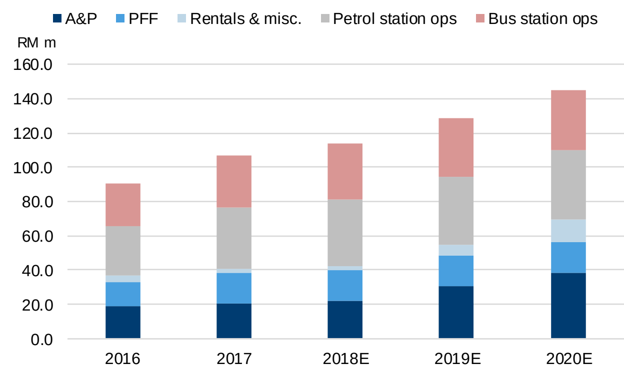
Source: Company, Affin Hwang forecasts

Fig 4: Amanjaya vs. Kampar – EBITDA contribution



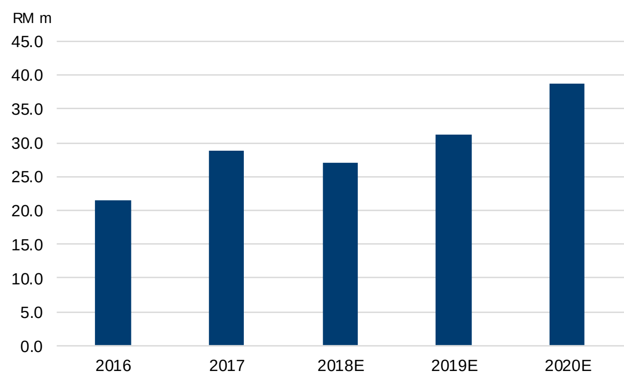
Source: Company, Affin Hwang forecasts

Fig 5: Revenue breakdown by operating segment



Source: Company, Affin Hwang forecasts

Fig 6: Core net profit to grow by 10.4% CAGR from 2017-20E



Source: Company, Affin Hwang forecasts

Valuation & Recommendation

Upgrading to a BUY

PT's proposed Main Market transfer listing is coming at the right time, in our view, given the passing of its administrative overhang, and should lift its profile amongst institutional investors. We had previously valued PT using a DCF analysis; however, to better reflect its project-facilitation fee business, which is lumpy in nature, we now apply a SOTP valuation for Perak Transit. This leads to our new 12-month target price of RM0.36 (from RM0.26). Key merits of PT include: (i) its established track record in the niche, underserved bus-terminal business; (ii) strong earnings profile from its existing core businesses; and (iii) earnings growth driven by Kampar Terminal and upcoming terminal expansions. Key downside risks to our investment thesis include regulatory overhang and construction disruptions to its Kampar Terminal.

Fig 7: SOTP Valuation

SOTP Component	Value (RM m)	Value per share (RM)	Remarks
Project facilitation fees	113.4	RM0.06	7x 2019E PER
Recurring businesses	590.1	RM0.30	DCF (WACC 8.1%; Beta 1.1; LTG 3%)
Less: Net cash/(debt)	(135.2)	(RM0.07)	
Add: Warrants conversion	134.3	RM0.07	Exercise price RM0.235, expiry Sep 2020
Equity Value	**702.6**	**RM0.36**	Fully diluted RNAV

**Based on enlarged share base of 1,954m shares (existing shares outstanding of 1,383m and conversion of 571m warrants)*

Source: Company, Affin Hwang forecasts

Fig 8: Trading at 13.0x forward PE

Source: Bloomberg, Affin Hwang forecasts

Perak Transit – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Revenue	**90.2**	**106.8**	**113.7**	**128.6**	**145.2**
Operating expenses	(49.7)	(59.9)	(63.9)	(71.2)	(78.5)
EBITDA	**40.4**	**46.9**	**49.8**	**57.3**	**66.7**
Depreciation	(7.9)	(9.3)	(10.2)	(12.0)	(12.2)
EBIT	**32.6**	**37.6**	**39.6**	**45.4**	**54.5**
Net interest expense	(7.3)	(7.1)	(9.7)	(10.9)	(11.7)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	0.0	0.0	0.0	0.0	0.0
Pretax profit	**25.3**	**30.5**	**29.9**	**34.5**	**42.8**
Tax	(3.5)	(1.5)	(2.7)	(3.1)	(3.9)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	**21.6**	**28.8**	**27.1**	**31.2**	**38.8**

Balance Sheet Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Fixed assets	248.5	325.4	365.2	373.2	371.0
Other long term assets	7.2	5.7	5.7	5.7	5.7
Total non-current assets	**255.7**	**331.0**	**370.9**	**378.9**	**376.7**
Cash and equivalents	33.2	25.8	57.9	114.6	119.6
Stocks	0.9	1.1	1.3	1.3	1.5
Debtors	23.7	24.2	24.6	30.2	32.8
Other current assets	29.9	25.9	25.9	25.9	25.9
Total current assets	**87.6**	**77.0**	**109.8**	**172.1**	**179.8**
Creditors	2.8	2.2	3.5	3.5	3.7
Short term borrowings	31.0	43.1	43.1	43.1	43.1
Other current liabilities	8.4	5.8	5.8	5.8	5.8
Total current liabilities	**42.2**	**51.1**	**52.4**	**52.4**	**52.6**
Long term borrowings	89.2	126.6	150.0	200.0	180.0
Other long term liabilities	10.4	10.0	10.0	10.0	10.0
Total long term liabilities	**99.6**	**136.7**	**160.0**	**210.0**	**190.0**
Shareholders' Funds	**201.5**	**220.3**	**268.1**	**288.5**	**313.8**
Minority interests	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Cash Flow Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
EBIT	32.6	37.6	39.6	45.4	54.5
Depreciation & amortisation	7.9	9.3	10.2	12.0	12.2
Working capital changes	(1.3)	(1.3)	0.7	(5.7)	(2.6)
Cash tax paid	0.0	0.0	0.0	0.0	0.0
Others	(15.9)	(4.9)	(12.5)	(14.2)	(15.7)
Cashflow from operation	**23.2**	**40.7**	**37.9**	**37.5**	**48.4**
Capex	(51.3)	(80.0)	(50.0)	(20.0)	(10.0)
Disposal/(purchases)	0.0	0.0	0.0	0.0	0.0
Others	(4.2)	5.5	0.0	0.0	0.0
Cash flow from investing	**(55.5)**	**(74.5)**	**(50.0)**	**(20.0)**	**(10.0)**
Debt raised/(repaid)	2.9	49.5	23.4	50.0	(20.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2.3)	(10.0)	(9.4)	(10.8)	(13.4)
Others	43.9	35.0	53.5	50.0	(20.0)
Cash flow from financing	**41.6**	**25.0**	**44.2**	**39.2**	**(33.4)**
Free Cash Flow	**(28.1)**	**(39.3)**	**(12.1)**	**17.5**	**38.4**

Source: Company, AffinHwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Growth					
Revenue (%)	21.7%	18.4%	6.5%	13.1%	13.0%
EBITDA (%)	20.7%	16.0%	6.1%	15.2%	16.4%
Core net profit (%)	12.8%	33.7%	-6.1%	15.2%	24.4%
Profitability					
EBITDA margin (%)	44.8%	43.9%	43.8%	44.6%	45.9%
PBT margin (%)	28.0%	28.6%	26.3%	26.8%	29.5%
Net profit margin (%)	23.9%	27.0%	23.8%	24.3%	26.7%
Effective tax rate (%)	14.0%	4.8%	9.0%	9.0%	9.0%
ROA (%)	7.1%	7.7%	6.1%	6.0%	7.0%
Core ROE (%)	13.1%	13.7%	11.1%	11.2%	12.9%
ROCE (%)	12.1%	11.4%	10.1%	9.8%	10.9%
Dividend payout ratio (%)	10.6%	34.5%	34.5%	34.5%	34.5%
Liquidity					
Current ratio (x)	2.1	1.5	2.1	3.3	3.4
Op. cash flow (RMm)	23.2	40.7	37.9	37.5	48.4
Free cashflow (RMm)	(28.1)	(39.3)	(12.1)	17.5	38.4
FCF/share (sen)	(24.5)	(30.8)	(7.7)	11.1	24.4
Asset management					
Debtors turnover (days)	95.9	82.7	79.0	85.9	82.5
Stock turnover (days)	6.6	6.5	7.5	6.9	6.9
Creditors turnover (days)	20.4	13.3	20.0	17.9	17.1
Capital structure					
Net gearing (%)	(43.2)	(65.3)	(50.4)	(44.6)	(33.0)
Interest cover (x)	5.5	6.6	5.2	5.3	5.7

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2Q17	3Q17	4Q17	1Q18	2Q18
Revenue	**28.2**	**18.5**	**24.8**	**27.5**	**26.8**
Operating expenses	(17.3)	(13.5)	(15.4)	(17.2)	(16.7)
EBIT	**10.9**	**5.1**	**9.3**	**10.2**	**10.2**
Net int income/(expense)	(1.9)	(2.0)	(1.9)	(1.6)	(1.7)
Associates	0.0	0.0	0.0	0.0	0.0
Forex gains	0.0	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	0.0	0.0	0.0	0.0	0.0
Pretax profit	**9.0**	**3.4**	**7.4**	**8.7**	**8.4**
Tax	(1.3)	(0.7)	(0.9)	(0.9)	(2.3)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	**7.8**	**2.8**	**6.6**	**8.0**	**6.1**
Margins (%)					
EBIT	38.7%	27.3%	37.7%	37.3%	37.9%
PBT	32.0%	18.2%	29.9%	31.6%	31.5%
Net profit	27.5%	15.2%	26.7%	28.9%	22.9%

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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