

# Lingkar Trans Kota (LTK MK)

## 3QFY22: Positively surprised

### Recovery on track; maintain BUY

3QFY22 results positively surprised on lower opex and higher associate contribution, bringing 9M net profit to 78% of our FY22 forecast. Traffic volume have recovered to their pre-pandemic levels; FY23E should thus reflect a full-year of recovery. We raise FY22E net profit by 9% and make slight tweaks to our FY23/24 forecasts (+0.1%/-3%). Our equity DCF-TP is unchanged at MYR4.85 (ke: 8.3%). Maintain BUY.

### 3QFY22 net profit +73% QoQ, 9M -14% YoY

3Q revenue rose 56% QoQ as the resumption of more economic activities under the NRP P3 (from 1 Oct) and P4 (from 18 Oct) led to traffic volume recovery. As of end-Nov 2021, traffic at the LDP/SPRINT were at 100%/95% of their pre-pandemic levels, compared to 77%/54% end-Aug 2021. This, alongside higher associate contribution, more than offset a new provision for *Cukai Makmur*, leading to a strong 73% QoQ jump in net profit. 9M revenue contracted 3% YoY implying softer traffic volume by a similar percentage, but net profit was down by a larger 14% YoY on lower associate contribution and higher taxes (*Cukai Makmur* provision).

### Traffic recovering; *Omicron* could be a dampener

Traffic have fully recovered to their pre-pandemic levels in Jan 2022. That said, the resurgence of COVID-19 cases of late, due to the *Omicron* variant, could have softened traffic volume again as more businesses re-implement the work-from-home arrangement. We retain our +5%/+12% traffic growth assumption for the LDP/SPRINT for FY22E for now. Our financial model has imputed for a full-year of recovery in FY23.

### DPS back to pre-FY21 level; div capacity to grow

A 15sen 2<sup>nd</sup> interim DPS, payable on 30 Mar (ex-date 11 Mar), lifts FY22 DPS to 25sen, similar to its pre-FY21 level (FY21: 20sen). LITRAK's cash balance should continue to grow, building a case for higher dividend capability as the LDP's Sukuk is being redeemed, fully by Apr 2023.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	504	393	410	501	501
EBITDA	451	347	367	441	438
Core net profit	262	206	197	280	302
Core EPS (sen)	49.4	38.7	37.1	52.7	56.9
Core EPS growth (%)	10.4	(21.6)	(4.1)	41.9	8.0
Net DPS (sen)	25.0	20.0	25.0	25.0	25.0
Core P/E (x)	7.5	10.0	10.3	7.2	6.7
P/BV (x)	1.8	1.7	1.6	1.5	1.3
Net dividend yield (%)	6.8	5.2	6.5	6.5	6.5
ROAE (%)	26.1	18.2	16.3	21.2	20.5
ROAA (%)	12.1	9.9	10.1	15.0	16.4
EV/EBITDA (x)	4.7	5.8	5.1	3.8	3.3
Net gearing (%) (incl perps)	14.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	188	277	296
MKE vs. Consensus (%)	-	-	5.0	1.2	2.4

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## BUY

Share Price	MYR 3.82
12m Price Target	MYR 4.85 (+27%)
Previous Price Target	MYR 4.85

### Company Description

*Lingkar Trans Kota Holdings Bhd. engages in the design and construction of highway and manages its toll operations.*

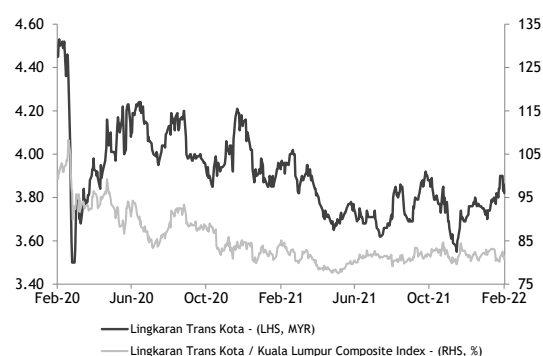
### Statistics

52w high/low (MYR)	4.02/3.55
3m avg turnover (USDm)	0.1
Free float (%)	44.2
Issued shares (m)	533
Market capitalisation	MYR2.0B USD486M

### Major shareholders:

Gamuda Bhd.	43.2%
Permodalan Nasional Bhd.	20.0%
Employees Provident Fund	5.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	4	(4)
Relative to index (%)	(1)	(1)	(5)

Source: FactSet

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Tear Sheet Insert

## Value Proposition

- Holding company to two urban tolled highway concessions - LDP (100%) and SPRINT (50%).
- LDP is a 40-km six-lane expressway with four toll plazas - Penchala, PJ Selatan, Puchong Barat, Puchong Selatan - its concession ends on 14 Aug 2030.
- SPRINT is a 26.5-km six-lane expressway with three inter-linked highways - Kerinchi (concession ends on 14 Dec 2034), Damansara (14 Dec 2034), Penchala (14 Dec 2031).

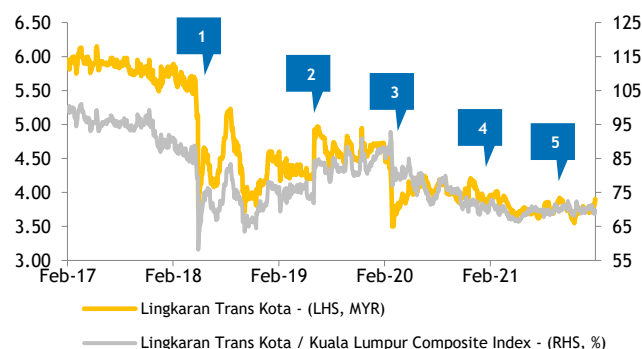
### Scheduled toll rates

	LDP	SPRINT		
		Kerinchi	Damansara	Penchala
Class 1	3.10	3.50	2.00	5.00
Class 2	6.20	7.00	4.00	10.00
Class 3	9.30	10.50	6.00	15.00
Class 4	1.60	1.80	1.00	2.50
Class 5	3.10	3.50	2.00	5.00
Next toll increase	Nil	Jan 2022	Jan 2022	Nil

Source: Company

## Price Drivers

### Historical share price trend



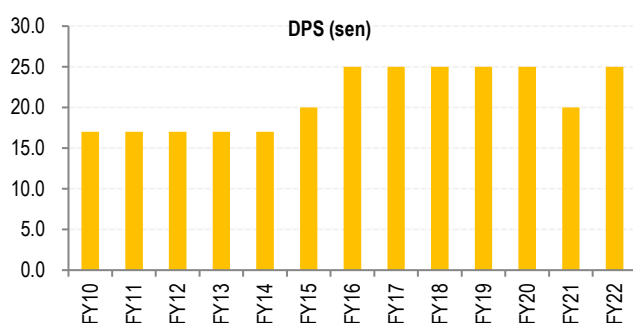
Source: Company, Maybank IBG Research

1. Post GE14 (9 May 2018) overhang on infrastructure sector from potential abolition of tolled highways.
2. Letter of Offer (21 Jun 2019) from the Government to acquire both LDP and SPRINT.
3. Cut-off date to finalise the terms of definitive agreements with the Government lapsed (29 Feb 2020), followed by the start of Malaysia's MCO (18 Mar 2020).
4. MCO 2.0 (from 13 Jan 2021), MCO 3.0 (from 6 May) and FMCO (from 1 Jun) dented traffic volume again.
5. More economic activities re-opened in states under National Recovery Plan Phase 1 (from 16 Aug 2021).

## Financial Metrics

- FY22E earnings to be impacted by (i) MCO 3.0 (from 6 May 2021), (ii) FMCO (from 1 Jun), (iii) EMCO (3-16 Jul).
- LDP: With no more scheduled toll rate hike during the remaining of its concession period, earnings growth is very much dependent on traffic growth.
- SPRINT: Earnings growth is dependent on one final toll rate hike at the Kerinchi and Damansara Links in 2022 (no more for Penchala Link), and traffic growth at the three links.
- Paid 25sen DPS p.a. for FY16-20, 20sen for FY21; dividends are declared during 1Q and 3QFY results release, payment in Sep/Mar.
- Balance sheet has turned net cash as of end-FY21.

### Dividend history



Source: Company

## Swing Factors

### Upside

- Stronger-than-expected traffic recovery at the LDP and SPRINT.
- Unlocking of values via a highway trust.

### Downside

- Traffic recovery disrupted by prolonged pandemic-induced lock-downs.
- Another attempt by the Government to take-over toll concessions but at unfair terms.

Risk Rating & Score <sup>1</sup>	N/A
Score Momentum <sup>2</sup>	N/A
Last Updated	N/A
Controversy Score <sup>3</sup>	N/A

## Business Model & Industry Issues

- As a pure tolled highway concession group, LITRAK's ESG risks are low with no major reported deviations over the years, based on our observation.
- LITRAK's commitment to strong governance principles and managing the environmental & social aspects of its operations lends support to its investment case; we have a BUY recommendation on the stock.

### Material E issues

- Energy efficiencies. Initiatives include replacing buildings' fluorescent lightings with LED lightings; initiatives moving forward include exploring and adopting new technology for energy conservation at its highways. From FY19 to FY21, electricity consumption was down 7.7%.
- Noise management. Efforts include constructing noise barrier walls, planting of trees and shrubs. There has been minimal noise level complains received in recent years.
- Waste management. Initiatives include recording and tracking the volume of waste managed and disposed, and harvesting rain water for cleaning of its maintenance depot and operational vehicles.

### Material S issues

- Women made up 53% of LITRAK Group's workforce in FY21 (32% at executive level, 52% at non-executive level).
- Employees' training was an average 29.1/24.5 hours per employee in FY19/FY20 respectively, but this was down to 5.3 hours in FY21 due to pandemic-induced restrictions affecting classroom based trainings.
- To mitigate COVID-19 infection risk at work places, LITRAK has initiated mandatory RT-PCR or Antibody RTK tests for all its employees on a fortnightly basis since Dec 2020.
- LITRAK contributed MYR1.06m for its community investment program in FY21 with the largest contribution (96%) towards toll discounts and rebates to highway users.

### Key G metrics and issues

- LITRAK's Board comprises 5 Directors of which 4 are Non-Executive (incl. Chairman); 3 (or 60%) are Independent; each has not served a cumulative term of >9 years. The Board's policy provides for a mandatory retirement age of 75 years for all Independent Directors.
- There are presently 2 women on LITRAK's Board or 40% representation, higher than the Malaysian Code on Corporate Governance's recommendation of 30%.
- LITRAK provides detailed disclosure on remuneration of its directors but not of its top five senior management. In FY21, directors' remuneration was 0.38% of pretax profit.
- LITRAK has been audited by Ernst & Young PLT since FY2000, at least.
- An Anti-Bribery and Corruption Policy was rolled out on 27 Aug 2020 to all employees, business associates and associated parties. In line with this, LITRAK's Whistleblowing Policy & Procedure (established in 2007) was revised and enhanced in Aug 2020.
- There were no material contracts entered by LITRAK involving its directors and major shareholders over the past five FYs of our observation (including FY21).

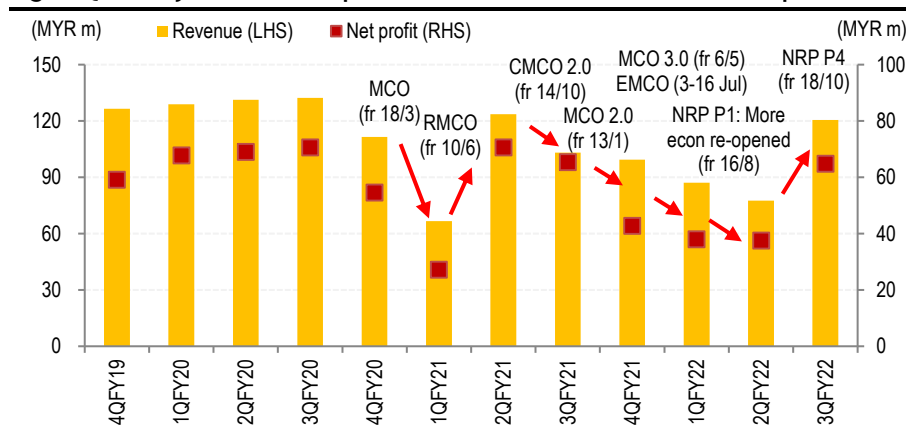
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Summary results

	Quarterly					Cumulative		
FY Mar (MYR m)	3QFY22	3QFY21	% YoY	2QFY22	% QoQ	9MFY22	9MFY21	% YoY
Revenue	120.6	103.2	16.8	77.5	55.5	285.2	293.5	(2.8)
EBITDA	110.4	94.6	16.7	67.9	62.7	254.2	261.8	(2.9)
Depr & amort	(23.6)	(19.7)	20.3	(15.1)	56.8	(55.4)	(55.5)	(0.2)
Interest & other inc	2.3	2.2	2.0	2.3	(1.1)	6.9	7.4	(7.1)
Interest expense	(6.6)	(9.9)	(33.0)	(6.6)	0.0	(20.3)	(30.1)	(32.5)
Associate	12.0	15.1	(20.7)	1.2	867.4	10.3	25.6	(59.7)
<b>Pre-tax profits</b>	<b>94.4</b>	<b>82.3</b>	<b>14.6</b>	<b>49.7</b>	<b>89.9</b>	<b>195.7</b>	<b>209.2</b>	<b>(6.5)</b>
Tax	(29.5)	(17.0)	73.8	(12.2)	142.2	(55.5)	(46.1)	20.2
Minority Interests	-	-	NM	-	NM	-	-	NM
<b>Net profit</b>	<b>64.8</b>	<b>65.3</b>	<b>(0.8)</b>	<b>37.5</b>	<b>72.9</b>	<b>140.2</b>	<b>163.1</b>	<b>(14.0)</b>
EPS (sen)	12.2	12.3	(0.7)	7.0	73.1	26.3	30.6	(14.1)
DPS (sen)	15.0	10.0	50.0	-	NM	25.0	20.0	25.0
	3QFY22	3QFY21	ppt YoY	2QFY22	pptQoQ	9MFY22	9MFY21	ppt YoY
EBIT margin (%)	91.6	91.6	(0.1)	87.5	4.0	89.1	89.2	(0.0)
Pretax margin (%)	78.3	79.8	(1.5)	64.1	14.2	68.6	71.3	(2.7)
Tax rate (%)	31.3	20.7	10.7	24.6	6.8	28.4	22.1	6.3

Source: Company

Fig 2: Quarterly revenue and profit at various movement restriction phases



Source: Company data, Maybank IBG Research

Fig 3: Pandemic induced movement restrictions

2020	2021-2022
18 Mar - 3 May → MCO	14 Oct 2020 - 12 Jan → CMCO 2.0
4 May - 9 Jun → Conditional MCO (CMCO)	13 Jan - 4 Mar → MCO 2.0
10 Jun - 13 Oct → Recovery MCO (RMCO)	5 Mar - 5 May → CMCO 3.0
14 Oct - 12 Jan 2021 → CMCO 2.0	6 May - 31 May → MCO 3.0
	1 Jun - 9 Sep → Full MCO (FMCO) cum National Recovery Plan (NRP) Phase 1
	3 Jul - 16 Jul → Enhanced MCO in Selangor and certain areas in KL
	10 Sep - 30 Sep → NRP Phase 2
	1 Oct - 17 Oct → NRP Phase 3
	18 Oct - present → NRP Phase 4

Note: The dates refer to movement control phases in the Klang Valley

Source: Compiled by Maybank IBG Research

Fig 4: Traffic at tolled highways (compared against pre-movement control levels)

Highways	Mid-Mar to mid-Apr '20	Jun 2020	Sep 2020	Mid-Oct to Dec 2020	End-Feb 2021	End-Apr 2021	End-May 2021	End-Jul 2021	End-Aug 2021	End-Oct 2021	End-Nov 2021
	MCO 1.0	CMCO 1.0	RMCO	CMCO 2.0	MCO 2.0	CMCO 3.0	MCO 3.0	FMCO	NRP P1	NRP P4	NRP P4
LDP	10-20%	90%	100%	88%	90%	97%	69%	60%	77%	92%	100%
SPRINT	10-20%	90%	98%	61%	70%	90%	52%	24%	54%	79%	95%

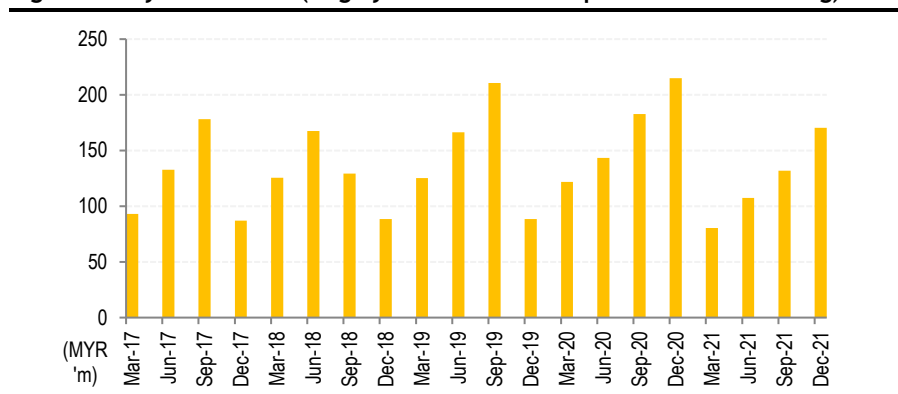
Source: Gamuda's results announcements

Fig 5: Our traffic assumptions

	FY21	Existing FY22E	FY23E
Traffic growth (% YoY)			
- LDP	(22.0)	5.0	22.5
- SPRINT	(30.0)	12.0	18.0

Source: Maybank IBG Research

Fig 6: Sundry receivables (largely Government compensation outstanding)



Source: Company data

## Valuation

Fig 7: DCF

	DCF (MYR'm)	Shareholding (%)	LITRAK's share (MYR'm)
Lebuh Raya Damansara-Puchong	2,241	100%	2,241
Western Traffic Dispersal Scheme (SPRINT)	669	50%	335
<b>TOTAL</b>			<b>2,576</b>
DCF/share (MYR) - rounded			4.85
No. of shares existing (m)			532.9

Source: Maybank IBG Research

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	9.1	10.3	10.3	7.2	6.7
Core P/E (x)	7.5	10.0	10.3	7.2	6.7
P/BV (x)	1.8	1.7	1.6	1.5	1.3
P/NTA (x)	1.8	1.7	1.6	1.5	1.3
Net dividend yield (%)	6.8	5.2	6.5	6.5	6.5
FCF yield (%)	18.2	15.3	13.8	17.2	16.9
EV/EBITDA (x)	4.7	5.8	5.1	3.8	3.3
EV/EBIT (x)	5.9	7.4	6.5	4.9	4.3

**INCOME STATEMENT (MYR m)**

Revenue	503.8	392.8	410.1	501.2	501.2
EBITDA	450.8	347.0	366.9	441.4	438.4
Depreciation	(94.1)	(74.5)	(80.0)	(101.8)	(101.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	356.6	272.5	286.9	339.6	336.6
Net interest income / (exp)	(33.8)	(29.7)	(21.6)	(10.1)	2.3
Associates & JV	18.4	22.7	13.4	33.2	48.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	1.6	1.6	0.0	0.0	0.0
Pretax profit	342.9	267.1	278.8	362.8	387.5
Income tax	(81.0)	(61.3)	(81.4)	(82.7)	(85.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	261.9	205.8	197.4	280.1	302.5
Core net profit	261.9	205.8	197.4	280.1	302.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	626.8	621.1	547.6	553.4	576.2
Accounts receivable	121.9	80.6	102.5	125.3	125.3
Inventory	0.0	0.0	0.0	0.0	1.0
Property, Plant & Equip (net)	1.5	1.4	2.5	3.5	5.5
Intangible assets	1.0	0.8	0.6	0.4	0.2
Investment in Associates & JVs	193.9	216.6	230.0	263.2	311.8
Other assets	1,178.4	1,095.1	1,011.8	904.7	810.3
<b>Total assets</b>	<b>2,123.5</b>	<b>2,015.6</b>	<b>1,895.1</b>	<b>1,850.6</b>	<b>1,830.4</b>
ST interest bearing debt	200.0	200.0	200.0	190.0	0.0
Accounts payable	34.3	26.7	36.9	45.1	45.3
LT interest bearing debt	580.7	385.3	190.0	0.0	0.0
Other liabilities	234.0	223.0	223.0	223.0	223.0
<b>Total Liabilities</b>	<b>1,049.2</b>	<b>834.6</b>	<b>649.5</b>	<b>457.7</b>	<b>267.9</b>
Shareholders Equity	1,074.3	1,181.0	1,245.6	1,392.9	1,562.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,074.3</b>	<b>1,181.0</b>	<b>1,245.6</b>	<b>1,392.9</b>	<b>1,562.5</b>
<b>Total liabilities and equity</b>	<b>2,123.5</b>	<b>2,015.6</b>	<b>1,895.1</b>	<b>1,850.6</b>	<b>1,830.4</b>

**CASH FLOW (MYR m)**

Pretax profit	342.9	267.1	278.8	362.8	387.5
Depreciation & amortisation	94.1	74.5	80.0	101.8	101.8
Adj net interest (income)/exp	33.8	29.7	21.6	10.1	(2.3)
Change in working capital	(1.8)	31.2	(11.7)	(14.6)	(0.8)
Cash taxes paid	(81.0)	(61.3)	(81.4)	(82.7)	(85.0)
Other operating cash flow	(27.5)	(23.5)	(1.7)	(18.7)	(47.7)
Cash flow from operations	360.6	317.7	285.5	358.8	353.4
Capex	(3.1)	(1.5)	(4.6)	(10.2)	(10.2)
Free cash flow	357.4	316.1	280.9	348.6	343.3
Dividends paid	(132.8)	(106.6)	(132.8)	(132.8)	(132.8)
Equity raised / (purchased)	13.3	5.3	0.0	0.0	0.0
Change in Debt	(220.0)	(200.0)	(200.0)	(200.0)	(190.0)
Other invest/financing cash flow	(32.6)	(20.6)	(21.6)	(10.2)	2.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(14.7)	(5.7)	(73.5)	5.6	22.7

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.4)	(22.0)	4.4	22.2	0.0
EBITDA growth	(0.4)	(23.0)	5.7	20.3	(0.7)
EBIT growth	0.0	(23.6)	5.3	18.4	(0.9)
Pretax growth	9.0	(22.1)	4.4	30.1	6.8
Reported net profit growth	10.9	(21.4)	(4.1)	41.9	8.0
Core net profit growth	10.9	(21.4)	(4.1)	41.9	8.0
<b>Profitability ratios (%)</b>					
EBITDA margin	89.5	88.3	89.5	88.1	87.5
EBIT margin	70.8	69.4	70.0	67.8	67.2
Pretax profit margin	68.1	68.0	68.0	72.4	77.3
Payout ratio	50.6	51.6	67.3	47.4	43.9
<b>DuPont analysis</b>					
Net profit margin (%)	52.0	52.4	48.1	55.9	60.3
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.0	1.7	1.5	1.3	1.2
ROAE (%)	26.1	18.2	16.3	21.2	20.5
ROAA (%)	12.1	9.9	10.1	15.0	16.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	(166.2)
Days receivable outstanding	88.3	92.8	80.4	81.8	90.0
Days inventory outstanding	nm	nm	nm	nm	2.9
Days payables outstanding	247.5	239.6	265.2	246.8	259.0
Dividend cover (x)	2.0	1.9	1.5	2.1	2.3
Current ratio (x)	3.1	3.1	2.7	2.9	14.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.4	2.9	4.0	6.8
Net gearing (%) (incl perps)	14.3	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	14.3	net cash	net cash	net cash	net cash
Net interest cover (x)	10.6	9.2	13.3	33.8	na
Debt/EBITDA (x)	1.7	1.7	1.1	0.4	0.0
Capex/revenue (%)	0.6	0.4	1.1	2.0	2.0
Net debt/ (net cash)	153.9	(35.9)	(157.6)	(363.4)	(576.2)

Source: Company; Maybank

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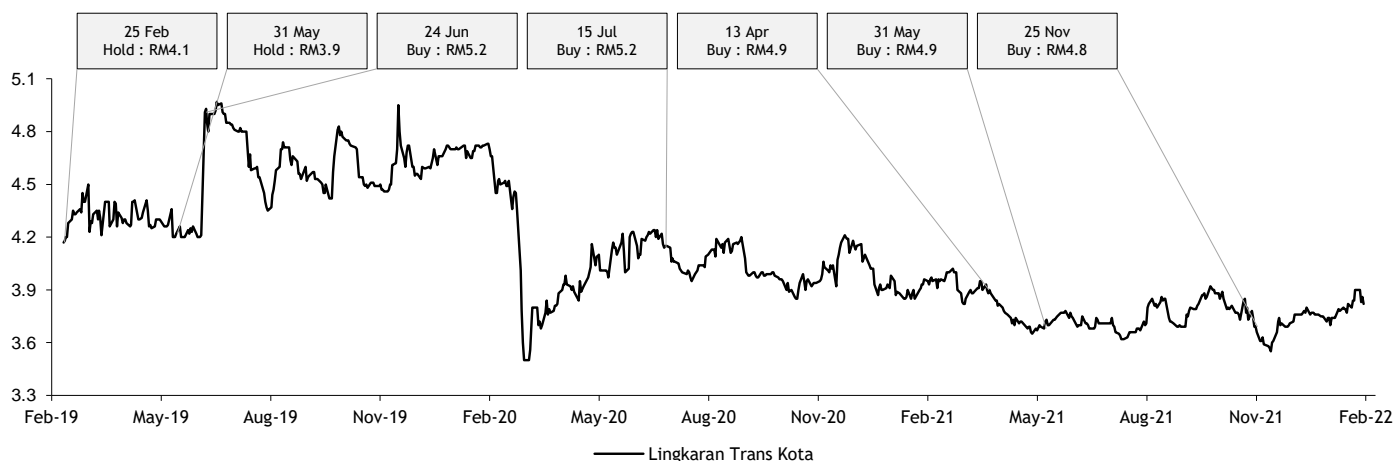
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