

# Lingkar Trans Kota (LTK MK)

## Fair offer; bumper upside

### Bumper upside; maintain BUY

ALR's MYR3.93b offer (based on enterprise value) for LITRAK's two highway concessions, which translates into e.MYR3.15b in equity value, is fair; the latter at 8% above our equity DCF est. (ke: 8.3%). LITRAK's share of the equity value (based on its 100% holding in LDP, 50% in SPRINT) is e.MYR2.7b or MYR5.06/shr, a bumper 26% upside from yesterday's close and 4% above our MYR4.85 DCF-TP which we maintain for now.

### MYR2.7b, being LITRAK's share of equity value

LITRAK has received an offer from Amanat Lebuhraya Rakyat Bhd (ALR) to acquire its two highway concessionaires - LDP, SPRINT - for MYR3.93b cash, based on enterprise value. ALR is a public limited company; its shareholders are essentially 'stewards' to facilitate the restructuring of highway concessions; thus, not profit motivated. The concessions will return to the Government as soon as ALR's debts to take over the concessions and any refinancing of existing concession debts are repaid. LITRAK's e.MYR2.7b share of equity value is equiv. to MYR5.06/shr.

### Key take-aways from Gamuda's investor briefing

(i) The internal intention is to return all cash proceeds that LITRAK will receive, back to LITRAK's shareholders post deal completion. This means a capital return of up to MYR5.06/shr in 3Q2022, based on Gamuda's target for deal completion in 3 months. (ii) Post deal completion, LITRAK will become a 'shell' holding company with no core business/operation; it will either have to find a new business to maintain its listing status, or Gamuda may sell the Company (LITRAK) off.

### For LITRAK, it means an unlocking of value ...

... as we have highlighted in our earlier reports. Overall, we view this as a 'win-win-win' proposition for LITRAK (fair offer), the Government (savings in toll compensation which it will otherwise need to pay), and highway users (certainty of no toll hikes until mid-2032, or even earlier, when the concessions are expected to go back to the Government).

Please see our separate Gamuda report [\[link\]](#) for details of the offer.

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	10.8	7.6	7.1
P/BV (x)	1.8	1.7	1.7	1.5	1.4
Net dividend yield (%)	6.8	5.2	6.2	6.2	6.2
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	5.4	4.0	3.6
Net gearing (%) (incl perps)	14.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	197	277	291
MKE vs. Consensus (%)	-	-	0.4	1.1	3.9

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# BUY

Share Price	MYR 4.03
12m Price Target	MYR 4.85 (+20%)
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.

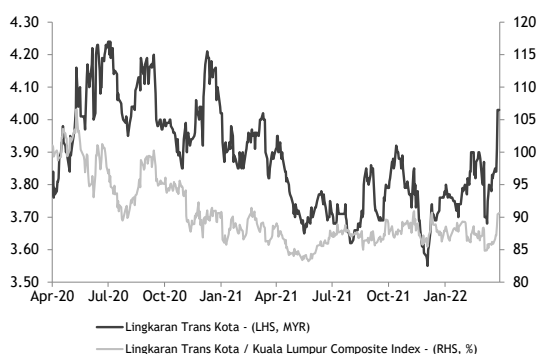
### Statistics

52w high/low (MYR)	4.03/3.55
3m avg turnover (USDm)	0.2
Free float (%)	44.2
Issued shares (m)	533
Market capitalisation	MYR2.1B USD509M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	7	4
Relative to index (%)	4	3	2

Source: FactSet

### Abbreviation

LDP = Lebuhraya Damansara-Puchong

SPRINT = Western Traffic Dispersal Link

### Stock mentioned in this report

Gamuda (GAM MK, BUY, CP: MYR3.49, TP: MYR4.28)

ESG@MAYBANK IBG  
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

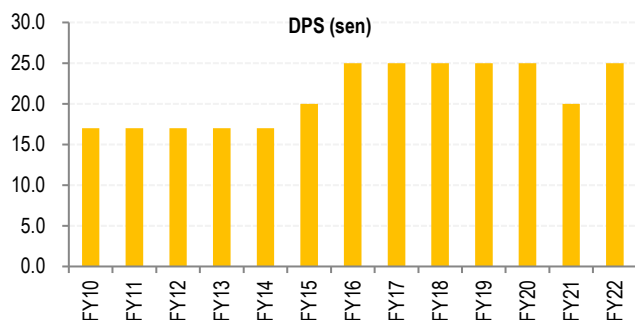
	LDP	SPRINT		
		Kerinchi	Damansara	Penchala
Class 1	3.10	3.50	2.00	5.00
Class 2	6.20	7.00	4.00	10.00
Class 3	9.30	10.50	6.00	15.00
Class 4	1.60	1.80	1.00	2.50
Class 5	3.10	3.50	2.00	5.00
Next toll increase	Nil	Jan 2022	Jan 2022	Nil

Source: Company

## Financial Metrics

- FY22E earnings to be impacted by (i) MCO 3.0 (from 6 May 2021), (ii) FMCO (from 1 Jun), (ii) 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.

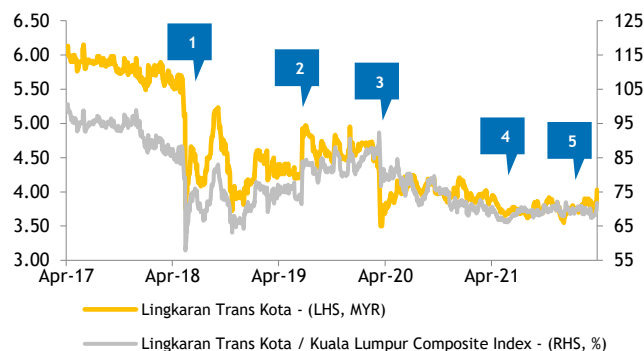
### Dividend history



Source: Company

## 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).

## Swing Factors

### Upside

- Stronger-than-expected traffic recovery at the LDP and SPRINT.

### Downside

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

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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).

## Offer details

Fig 1: ALR's offer to take-over two tolled highways, 4 Apr 2022

Highways	Purchase consideration = Enterprise value (MYR b)	Anticipated equity value, calculated by LITRAK (MYR b)	LITRAK's effective stake (%)	LITRAK's share of anticipated equity value (MYR b)
LDP	2.119	2.246	100.0%	2.246
SPRINT	1.808	0.904	50.0%	0.456
<b>Total</b>	<b>5.927</b>	<b>3,150</b>		<b>2.698</b>

Source: Company announcement to Bursa

Fig 2: ALR's offer vs. Maybank IBG Research's equity DCF estimates

Highways	Anticipated equity value, per LITRAK (MYR b) = (a)	LITRAK's share of anticipated equity value (MYR b)	Estimated equity value, per MIBG Research (MYR b) = (b)	LITRAK's share of estd. equity value by MIBG Research (MYR b)	Difference (%) = [(a) / (b)] - 1
LDP	2.246	2,246	2.241	2.241	0%
SPRINT	0.904	0.456	0.669	0.335	+35%
<b>Total</b>	<b>3.927</b>	<b>2.698</b>	<b>2.910</b>	<b>2.576</b>	<b>+8%</b>

Source: Company announcement to Bursa, Maybank IBG Research

## Valuation

Fig 3: 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	10.8	7.6	7.1
Core P/E (x)	7.5	10.0	10.8	7.6	7.1
P/BV (x)	1.8	1.7	1.7	1.5	1.4
P/NTA (x)	1.8	1.7	1.7	1.5	1.4
Net dividend yield (%)	6.8	5.2	6.2	6.2	6.2
FCF yield (%)	18.2	15.3	13.1	16.3	16.0
EV/EBITDA (x)	4.7	5.8	5.4	4.0	3.6
EV/EBIT (x)	5.9	7.4	6.9	5.2	4.6
<b>INCOME STATEMENT (MYR m)</b>					
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
<b>BALANCE SHEET (MYR m)</b>					
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>
<b>CASH FLOW (MYR m)</b>					
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 IBG Research

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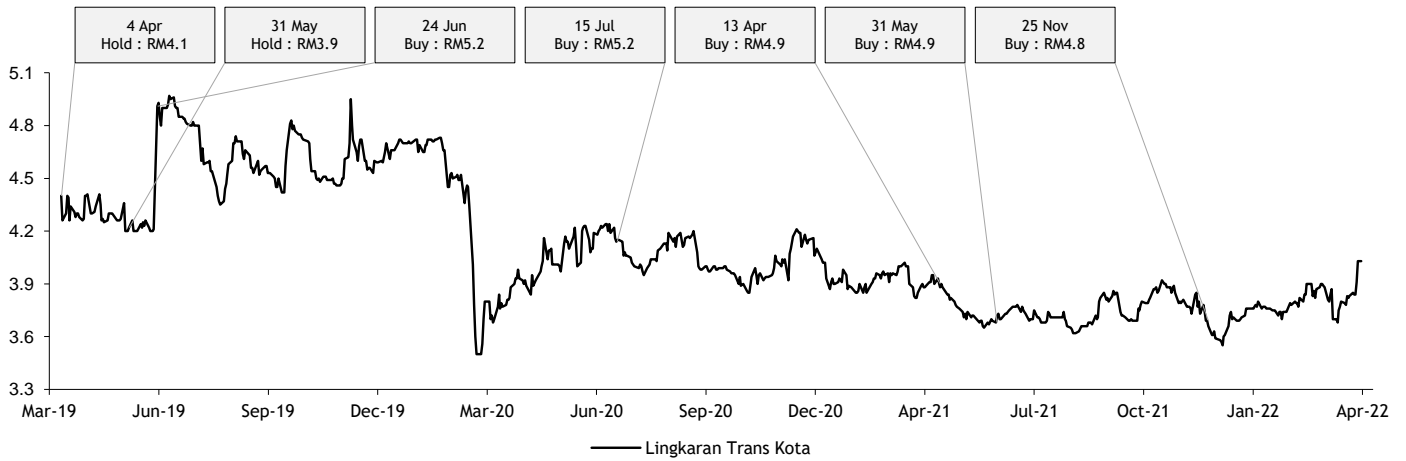
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