



AmInvestment Bank

Company report

PROTASCO

(PRTA MK EQUITY, PRTO.KL)

30 Nov 2017

A soft patch in 9MFY17, but stronger prospects ahead

BUY

(Maintained)

AmInvestment Bank

www.amesecurities.com.my

03-2036 2250

Rationale for report: Company results

Price	RM1.07
Fair Value	RM1.33
52-week High/Low	RM1.29/RM0.95

Key Changes

Fair value	↔
EPS	↔

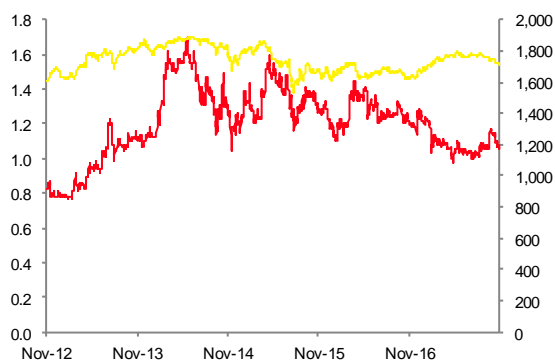
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	1,110.2	1,072.4	1,160.5	1,191.6
Core net profit (RM mil)	42.4	34.8	43.3	46.7
FD Core EPS (sen)	10.0	8.2	10.3	11.1
FD Core EPS growth (%)	(37.8)	(17.8)	24.2	7.8
Consensus Net Profit (RM mil)	-	32.6	45.1	53.2
DPS (sen)	6.0	6.0	7.0	8.0
PE (x)	10.7	13.0	10.4	9.7
EV/EBITDA (x)	7.6	8.9	7.6	7.2
Div yield (%)	5.4	5.4	6.3	7.2
ROE (%)	11.0	8.7	10.5	10.9
Net Gearing (%)	81.2	81.8	77.6	74.4

Stock and Financial Data

Shares Outstanding (million)	422.3
Market Cap (RMmil)	451.9
Book Value (RM/share)	0.93
P/BV (x)	1.1
ROE (%)	11.0
Net Gearing (%)	81.2

Major Shareholders	Dato' Sri Ir. Chong Ket Pen (24.6%) EPF (8.7%) AIA (4.6%)
Free Float	239.0
Avg Daily Value (RMmil)	0.7

Price performance	3mth	6mth	12mth
Absolute (%)	4.9	8.1	(12.3)
Relative (%)	7.4	10.9	(17.1)



— PRTO MK — FBMKLCI Index

Investment Highlights

- We maintain our BUY call, forecasts and SOP-based FV of RM1.33 (Exhibit 2) for Protasco.
- Protasco's 9MFY17 came in at only 62% and 66% of our full-year forecast and the full-year consensus estimates respectively. However, we consider the results within expectations as we anticipate a stronger 4QFY17 with key construction projects (i.e. PPA1M Phase 2 and SUKE) gathering momentum, as well as better performance from its maintenance division following the recent renewal of the federal road maintenance concession.
- 9MFY17 net profit dropped by 49% YoY as key new construction jobs are still at initial stages of execution, coupled with the absence of new property launches amidst a soft property market.
- These were partially cushioned by stronger performance of its engineering services thanks to increased engineering consultancy works for highways and the transport sector and soil investigation services.
- We project Protasco's earnings to recover by 24% in FY18F underpinned by: (1) accelerated billings from key construction projects such as the PPA1M phase 2 and SUKE; (2) higher earnings from the road maintenance arm following the renewal of federal road maintenance concession under Roadcare and maiden contributions from two additional state road maintenance concessions secured last year; and (3) higher demand for its engineering consultancy works and soil investigation services.
- We continue to like Protasco for: 1) the recurring income stream from its road maintenance concessions with an outstanding value of RM4.0bil which will last until 2026 (and beyond if they are renewed); 2) its growing conventional construction business, particularly the affordable housing segment; 3) the tremendous value of its landbank in Bangi, KL; and 4) its attractive dividend yield of 5-7% per annum.

EXHIBIT 1: RESULT SUMMARY

YE Dec (RM mil)	FY17 1Q	FY17 2Q	FY17 3Q	QoQ Chg	FY16 9M	FY17 9M	YoY Chg
Net Revenue	132.2	219.8	301.2	37%	826.1	653.2	(21%)
Maintenance	50.4	121.2	181.9	50%	301.3	353.4	17%
Construction	71.0	44.6	47.7	7%	287.7	163.3	(43%)
Property Development	0.2	3.0	0.6	(78%)	41.4	3.8	(91%)
Engineering Services	20.0	12.8	19.0	49%	40.0	51.8	29%
Trading & Manufacturing	18.1	22.4	58.5	162%	119.6	99.0	(17%)
Education	14.0	12.3	16.7	36%	44.0	43.1	(2%)
Others & elimination	(41.7)	3.6	(23.2)	(749%)	(7.9)	(61.3)	(672%)
Segment Pre-tax profit	6.7	16.3	22.3	37%	74.2	45.3	(39%)
Maintenance	4.8	10.7	18.8	75%	33.7	34.3	2%
Construction	5.1	0.9	(1.8)	(297%)	19.4	4.2	(78%)
Property Development	(1.0)	4.3	0.3	(93%)	10.6	3.6	(66%)
Engineering Services	0.6	2.2	5.1	128%	2.7	7.9	196%
Trading & Manufacturing	0.7	0.3	1.1	219%	2.4	2.1	(13%)
Education	0.0	0.0	0.0	34%	0.9	0.1	(92%)
Others & elimination	(3.5)	(2.3)	(1.1)	51%	4.5	(6.9)	(253%)
Minority Interest	(1.7)	(3.7)	(6.6)	(80%)	(9.4)	(12.0)	(27%)
Taxation	(1.7)	(4.7)	(5.5)	(16%)	(22.8)	(11.9)	48%
Net profit	3.3	7.9	10.3	30%	42.0	21.5	(49%)
EPS (Sen)	0.8	1.9	2.4	31%	9.9	5.1	(49%)
Pre-tax margin	5%	7%	7%	0%	9%	7%	(23%)
Effective tax rate	25%	29%	24%	(16%)	31%	26%	(15%)

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: SOP VALUATION

Division	Methodology	Basis	Valuation	
			(RM mil)	(RM/share)
Concession	DCF	Discount rate: 8.35%	97.20	0.23
Construction	P/E	10x	195.35	0.46
Land	RNAV	50% discount	223.18	0.53
Others	P/E	8x	47.51	0.11
SOP FV			563.24	1.33

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: OUTSTANDING CONSTRUCTION ORDER BOOK

	Outstanding Orderbook
PPA1M Putrajaya (Precinct 16), Phase 2	287
Road construction in Sibu & Bintulu, Sarawak	51
Road connection work at Old Klang Road-New Pantai Expressway	10
Construction of Sungai Besi – Ulu Klang Elevated Expressway	153
Infrastructure Works for Development of Pulau Indah Industrial Park, Phase 3C	86
Total	587

*As of 30/9/2017

Note: Protasco received LOI for PPA1M Putrajaya (Precinct 5), Phase 3 (Total: RM120m)

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 4: ROAD MAINTENANCE CONCESSION OUTSTANDING ORDER BOOK

Concession	Stake	Start	End	Orderbook (RM mil)		
				Routine	Periodic	Total
Roadcare - Federal Road (Pahang, Terengganu, Kelantan & Selangor)	51%	Feb-16	Jan-26	1,541	1,975	3,516
HCM Engineering - Federal Roads (Sarawak)	100%	Sep-03	Aug-18	22	87	109
Empayar Indera - State Roads	51%	Jan-13	Dec-19	78	77	155
Empayar Indera - Agriculture Roads	51%	Feb-17	Feb-19	49	20	69
HCM Kijang Sdn Bhd - State Roads (Kelantan)	60%	Aug-16	Aug-26		129	129
PG HCM - Rural Roads (Terengganu)	70%	May-17	Apr-22	26	17	43
Total				1,716	2,305	4,021

*As of 30/9/2017

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 5: PB BAND CHART

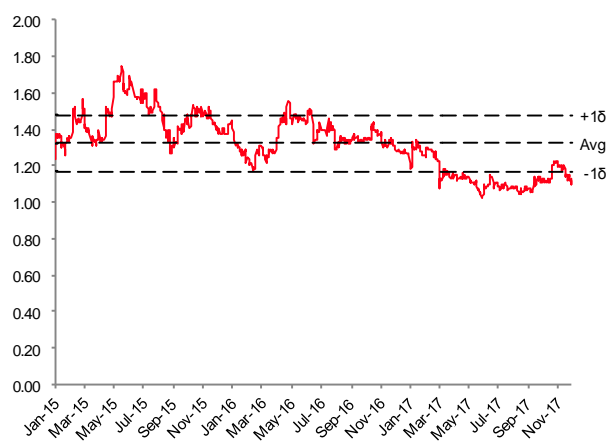


EXHIBIT 6: PE BAND CHART

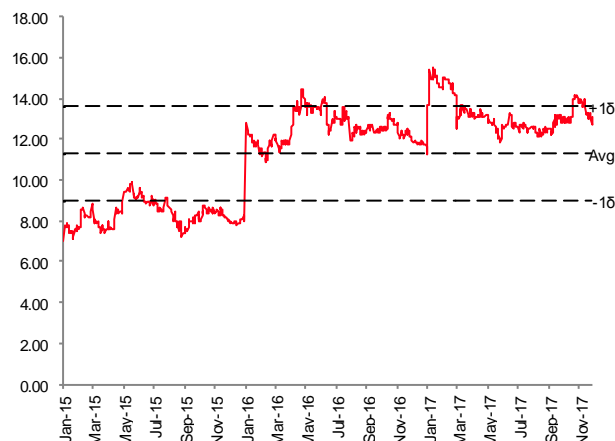


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,305.0	1,110.2	1,072.4	1,160.5	1,191.6
EBITDA	149.0	101.6	87.9	101.9	108.0
Depreciation/Amortisation	(15.9)	(16.6)	(19.3)	(21.3)	(23.3)
Operating income (EBIT)	133.1	84.9	68.6	80.6	84.7
Other income & associates	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Net interest	(4.0)	(7.2)	(8.2)	(8.0)	(7.7)
Exceptional items	-	-	-	-	-
Pretax profit	129.0	77.5	60.1	72.4	76.8
Taxation	(36.5)	(25.1)	(14.4)	(17.4)	(18.4)
Minorities/pref dividends	(25.9)	(10.1)	(10.8)	(11.7)	(11.7)
Net profit	66.6	42.4	34.8	43.3	46.7
Core net profit	66.6	42.4	34.8	43.3	46.7
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	205.8	205.9	236.5	265.2	291.9
Intangible assets	-	-	-	-	-
Other long-term assets	102.6	125.5	124.8	124.1	123.4
Total non-current assets	308.5	331.4	361.4	389.3	415.3
Cash & equivalent	89.8	102.4	(107.6)	(5.6)	95.9
Stock	-	-	-	-	-
Trade debtors	309.6	287.8	287.8	287.8	287.8
Other current assets	517.5	667.3	667.3	667.3	667.3
Total current assets	916.9	1,057.6	847.6	949.6	1,051.1
Trade creditors	477.6	447.9	447.9	447.9	447.9
Short-term borrowings	54.1	421.9	221.9	321.9	421.9
Other current liabilities	6.5	7.5	7.5	7.5	7.5
Total current liabilities	538.2	877.2	677.2	777.2	877.2
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	8.9	8.6	8.6	8.6	8.6
Total long-term liabilities	8.9	8.6	8.6	8.6	8.6
Shareholders' funds	378.0	393.4	403.0	421.8	438.1
Minority interests	33.7	14.7	25.6	37.3	48.9
BV/share (RM)	0.92	0.93	0.95	1.00	1.04
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	129.0	77.5	60.1	72.4	76.8
Depreciation/Amortisation	15.9	16.6	19.3	21.3	23.3
Net change in working capital	(125.5)	(226.9)	-	-	-
Others	(48.1)	(37.6)	(6.0)	(9.1)	(10.5)
Cash flow from operations	(28.7)	(170.4)	73.5	84.6	89.6
Capital expenditure	(68.3)	(39.0)	(50.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	2.0	-	-	-	-
Others	36.7	0.1	-	-	-
Cash flow from investing	(29.7)	(38.9)	(50.0)	(50.0)	(50.0)
Debt raised/(repaid)	268.3	(173.2)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(26.8)	(29.6)	(25.3)	(24.5)	(30.4)
Others	(174.2)	330.8	(8.2)	(8.0)	(7.7)
Cash flow from financing	67.4	128.0	(33.5)	(32.5)	(38.1)
Net cash flow	9.0	(81.3)	(10.0)	2.0	1.5
Net cash/(debt) b/f	227.4	236.2	154.7	144.7	146.7
Net cash/(debt) c/f	236.2	154.9	144.7	146.7	148.2
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	-	(14.9)	(3.4)	8.2	2.7
EBITDA growth (%)	-	(31.8)	(13.4)	16.0	6.0
Pretax margin (%)	9.9	7.0	5.6	6.2	6.4
Net profit margin (%)	5.1	3.8	3.2	3.7	3.9
Interest cover (x)	33.3	11.9	8.3	10.0	11.0
Effective tax rate (%)	28.3	32.3	24.0	24.0	24.0
Dividend payout (%)	-	69.8	60.0	65.0	70.0
Debtors turnover (days)	87	95	98	91	88
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	115	117	183	174	176

Source: Company, AmlInvestment Bank Bhd estimates

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