

Protasco Bhd

Beefing up concession arm

Summary

- Protasco Bhd's 70.0% owned subsidiary, Permint Granite-HCM Sdn Bhd has entered into a supplementary agreement with the State Government of Terengganu to supplement the principal agreement which was entered between the parties in 2017. Under the principal agreement, the Government awarded Permint Granite-HCM Sdn Bhd a 5-year contract to maintain minor roads in the state of Terengganu, at a total contract sum of RM49.9m, which was expired in April 2022.
- Through the supplementary agreement, Permint Granite-HCM Sdn Bhd will undertake the addition of emergency works for minor road facilities and maintenance services and the contract period will be extended to 10 years until 2027. Meanwhile, the contract sum will also increase to RM171.8m.
- We were not surprised by the abovementioned extension of road maintenance contract, premised to the group's expertise and historical track record as a road maintenance specialist in Malaysia. We expect double digit EBITDA margins from the extension of the works, which is similar to their historical margins recorded in the maintenance segment.
- Moving forward, we expect the maintenance segment to anchor the overall performance, backed by multiple long term federal and state road concession agreements will provide earnings visibility till 2029. Although the maintenance segment will be kept busy with current works on hand, we think that Protasco will continue to leverage onto the allocation of RM3.50bn under Budget 2022 for the development of infrastructure projects.
- Following the recent heavy rainfall that resulted in serious flood issue across Peninsular Malaysia, we also think that there would be additional periodic and emergency maintenance works to be carried out for the upgrade of drains, repair and replacement of drains, culverts, slopes and guardrails.

Valuation & Recommendation

- We made no changes to our earnings forecast, given that the extension of the abovementioned contract is largely within expectations and value of the maintenance contracts would only be recognised depending on the value of works carried out during the period. Following the recent weakness in share price, we upgrade Protasco to **BUY** (from Hold) with an unchanged target price of RM0.21.
- Our target price is derived via a sum-of-parts basis by ascribing a target PER of 7.0x to both its FY23f fully diluted construction and concession segments, while the other segment valuations remain pegged at target PERs of 5.0x respectively due to its smaller scale businesses. Meanwhile its property development division is pegged to BV at 0.4x amid the sluggish property market outlook.

Company Update

Kenneth Leong
kennethleong@msec.com.my
(603) 22012100

BUY (from Hold)

Share price	RM0.19
Target price	RM0.21
Previous TP	RM0.21
Capital upside	10.5%
Dividend return	-
Total return	10.5%

Company profile

One stop road solutions provider covering the full spectrum of road design, construction, rehabilitation and maintenance

Stock information

Bursa Code	5070
Bloomberg ticker	PRTA MK
Listing market	Main
Share issued (m)	495.4
Market Cap (m)	94.1
52W High/Low	0.26/0.19
Est. Free float	50.8%
Beta (x)	0.9
3-mth avg vol ('000)	188.8
Shariah compliant	Yes

Major shareholders

	%
Dato' Sri Ir. Chong Ket Pen	19.4
Penmacorp Sdn Bhd	9.5
Gan Chun Hui	7.4

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-9.5	0.0	-20.8
Absolute	-9.5	0.0	-20.8
Relative	-6.8	4.7	-17.2

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	16.7	14.8	22.9
EPS (sen)	3.4	3.0	4.6
P/E (x)	5.6	6.4	4.1

Relative performance chart



- Risks to our forecast and target price include (i) weaker-than-expected the targeted construction orderbook replenishment amount, (ii) slower work orders for the concession segment (iii) weaker property sales from new launches in its property business unit.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	823.6	996.2	1,112.8	1,029.0	1,064.5	Cash	136.7	256.0	199.4	159.2	139.4
EBITDA	56.2	36.1	76.3	68.0	81.0	Receivables	233.6	149.2	247.6	225.5	233.3
EBIT	41.4	20.5	59.3	51.1	63.0	Inventories	44.4	29.4	33.0	(73.4)	(95.2)
Net finance income/ (cost)	(9.8)	(8.7)	(7.6)	(8.1)	(7.9)	PPE	216.4	238.2	242.7	256.5	270.4
Associates & JV	3.0	2.7	2.7	2.8	3.0	Others	437.1	204.6	182.6	178.5	183.5
Profit before tax	34.6	14.6	54.4	45.9	58.1	Assets	1,068.1	877.2	905.3	746.3	731.5
Tax	(15.5)	(21.6)	(16.0)	(13.8)	(17.4)	Debts	384.2	260.1	248.6	223.5	210.7
Net profit	19.1	(7.0)	38.4	32.1	40.7	Payables	310.3	174.0	194.3	215.0	203.1
Minority interest	13.1	18.2	21.7	17.4	17.8	Others	18.2	105.0	101.7	91.0	93.1
Core earnings	6.0	(25.2)	16.7	14.8	22.9	Liabilities	712.7	539.0	544.6	529.5	506.9
Diluted core earnings	-	-	-	15.5	23.5	Shareholder's equity	331.0	304.1	315.9	319.5	339.7
Exceptional items	-	-	-	-	-	Minority interest	24.4	34.1	44.8	33.0	22.9
Reported earnings	6.0	(25.2)	16.7	14.8	22.9	Equity	355.4	338.3	360.7	352.6	362.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	34.6	14.6	54.4	45.9	58.1	Core EPS (sen)	1.2	(5.1)	3.4	3.0	4.6
Depreciation & amortisation	14.8	15.6	16.9	16.8	18.0	Diluted Core EPS (sen)	-	-	-	2.6	3.9
Changes in working capital	(84.2)	220.2	(58.1)	107.8	26.9	P/E (x)	15.7	-	5.6	6.4	4.1
Share of JV profits	(3.0)	(2.7)	(2.7)	(2.7)	(2.7)	Diluted P/E (x)	-	-	-	7.4	4.9
Taxation	(13.0)	(16.0)	(25.9)	(13.8)	(17.4)	DPS (sen)	1.2	-	-	-	-
Others	-	-	-	-	-	Dividend yield	6.3%	0.0%	0.0%	0.0%	0.0%
Operating cash flow	(44.8)	272.3	(8.3)	145.2	74.2	BVPS (RM)	0.72	0.68	0.73	0.71	0.73
Net capex	(0.5)	(4.5)	3.2	-	-	P/B (x)	0.3	0.3	0.3	0.3	0.3
Others	-	-	-	-	-	EBITDA margin	6.8%	3.6%	6.9%	6.6%	7.6%
Investing cash flow	(40.1)	(38.5)	(13.8)	(28.9)	(30.2)	EBIT margin	5.0%	2.1%	5.3%	5.0%	5.9%
Changes in borrowings	98.5	(124.2)	(11.5)	(25.1)	(12.8)	PBT margin	4.2%	1.5%	4.9%	4.5%	5.5%
Issuance of shares	-	-	-	-	-	PAT margin	2.3%	-0.7%	3.5%	3.1%	3.8%
Dividends paid	(2.9)	(2.9)	-	-	-	Core PAT margin	0.7%	-2.5%	1.5%	1.4%	2.1%
Others	-	-	-	-	-	ROE	1.8%	-8.3%	5.3%	4.6%	6.7%
Financing cash flow	82.9	(182.8)	(34.3)	(16.0)	(17.6)	ROA	0.6%	-2.9%	1.8%	2.0%	3.1%
Net cash flow	(2.0)	50.9	(56.4)	100.3	26.4	Net gearing	69.7%	1.2%	13.6%	18.2%	19.7%
Forex	0.4	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	145.2	168.8	219.8	163.3	132.7						
Ending cash	168.8	219.8	163.3	132.7	116.1						

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