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## Change in the air

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TECHNOLOGY counters have seen a change in fortunes in the past four months on expectations of a revival in IT-related demand as the world economy regains its expansionary path.

Also set to benefit from the change in sentiment is air-cargo transport company Transmile Group Bhd, listed on the Kuala Lumpur Stock Exchange's (KLSE) second board.

'The counter's price rise has been a play on the tech-sector recovery,' says an analyst with a local brokerage. 'In 2000, about 40 per cent of its cargo load was manufactured and semi-manufactured products. Transmile carries parts for manufacturers who form the supply chain of the global electronics industry located between China and Penang,' he adds.

During the past three to four months, the stock has risen by more than 40 per cent, buoyed by a resilient financial performance, new contract possibilities and potential increase in demand for the company's services, as well as its proposed transfer to the KLSE main board.

Last year was a tough one for export-oriented Asian economies that Transmile operates in. The cyclical downturn for durable goods and the technology and telecom sector worldwide effected exports and hence air-cargo services.

So when the company posted a five per cent rise in revenue and 3.8 per cent rise in earnings per share (EPS) for financial year ended Dec 31, 2001 over the previous period, the handful of analysts who track the counter have begun to call an outperform - for 2002, at least.

Affin-UOB Securities Sdn Bhd expects Transmile to post a 19 per cent growth in EPS for 2002 and 16 per cent for 2003, or 21 sen and 30 sen, respectively.

Trading at a historical price-earnings multiple of 17x, at a 44.6 per cent premium to its net tangible asset value of RM2.42 at time of writing, the counter's valuation is seen as undemanding at current levels of around RM3.50.

Transmile has a fleet of 10 freighters consisting of six Boeing 737s, two 727s and two Cessna Grand Caravans. The fleet operates under 70 per cent-owned Transmile Air Services Sdn Bhd. Pos Malaysia Bhd holds the remaining 30 per cent.

Transmile's revenue streams are fixed for the most part due to the leasing and chartering arrangement of its planes. One 737 plane has been dry-leased to a private company that provides deliveries for Brazil Post for another 18 months, while two 737s have been wet-leased to Kartika Airlines of Indonesia for another four years.

The two Cessna planes are used in the feeder service between the peninsula and Sabah-Sarawak routes, delivering newspapers, manufactured products and Pos Malaysia cargo.

Domestic operations account for 30 per cent of turnover while the remainder comes from its regional operations covering the North East, Far East and India, as well as Indonesia, the Philippines and Thailand.

Express delivery services today account for 70 per cent of Transmile's turnover. Just-in-time inventory management by manufacturers, not just for electrical and electronic products but also pharmaceuticals, garments and newspapers with the time-sensitive element, will spearhead the company's growth.

'The regional express cargo delivery market has great potential. Once we

get our intra-Asian network in place, we will be able to move goods from across the region overnight,' executive director Khiudin Mohd tells Malaysian Business.

The focus on express cargo delivery services is understandable. Transmile is the sole service-provider in Malaysia as well as the region, says Khiudin, although the company faces indirect competition from cargo operations of major airlines like MASKargo Sdn Bhd.

Transmile's main customers for its signature overnight services are Pos Malaysia, United Parcel Service (UPS) Singapore and DHL Worldwide Express International, as well as Citylink Courier, Bax Global, AEI Express and Nationwide Courier.

Revenue growth will have to come from increased international services and new clients or a rise in flight frequency. Its fleet is running at 70 per cent capacity and the domestic market shows signs of saturation.

'The high-yield routes are the Hong Kong and China routes. The Sarawak-Sabah routes are saturated unless both states undergo more economic development,' says Khiudin.

The company has been contracted for the next 12 months to fly four rotation flights per week to provide dedicated air express freight service for DHL and UPS, connecting Penang/Kuala Lumpur-Bangkok-Hong Kong using a 727-200 freighter.

Khiudin says the company is in negotiations with two parties to provide its express delivery services. If successful in getting these contracts, Transmile is expected to acquire two freighters by mid-year that will increase its revenue by about 20 per cent, according to Khiudin.

Revenue growth this year, minus the two projects under negotiations, will still be a respectable 15 to 20 per cent, which is why analysts are excited about the company's prospects.

The company's balance sheet as at financial year-end December 2001 shows a gearing rate of 0.5, with long-term borrowings of RM63.16 million and total borrowings of RM130.85 million. Transmile will have to settle about RM45 million in debt in the next 20 months but Affin-UOB believes the situation is under control.

The company is classified as a designated national cargo carrier by the Ministry of Transport, which allows it to take part in international air traffic negotiations among governments. Transmile operates out of Subang, where it is expected to remain for another 10 years.

Another growth area the company is exploiting is support services such as aircraft maintenance or third-party services done through wholly owned engineering arm GroupTech Sdn Bhd and Transmile Spares Sdn Bhd.

Transmile is an approved Cessna service provider and distributor of Cessna parts. 'We have been pursuing some leads in Indonesia and the Philippines and prospects are good. This business accounts for about 10 per cent of turnover and we want to increase that to 30 to 40 per cent in the next 15 months,' says Khiudin.

Transmile also supplies spares and maintenance services to the Malaysian Police Air Wing and the Royal Malaysian Air Force. This activity contributed RM2-RM3 million to its spare-parts business, which accounts for about 10 per cent of group turnover. The contracts are up for renewal every three years.

Another plus factor to support a re-rating of the company is its proposed two-for-five bonus issue giving rise to 45.1 million new shares, thus raising its paid-up capital to RM143.6 million.

The company is seeking a transfer to the main board. The proposal has been submitted to the authorities and a decision is expected by end of June. A successful application will enable the company to increase visibility among institutional investors and liquidity of its shares.

`The impact on the Transmile price from the bonus issue and listing on the main board could be higher in line with the market. As it is now, Transmile is a liquid stock for the second board but not liquid enough for the main board,' says an Affin-UOB analyst.

Management is more focused on why it wants to transfer to the main board. `Our business is very capital-intensive and we need a platform to raise cash. There is a limit to doing that now,' says Khiudin.

A previous attempt at transfer failed when the Securities Commission rejected Transmile's proposal as the company failed to report consecutive three to five years profits due to its extraordinary losses in 1998 following the currency crisis.

Despite its growth potential, the company has been meek in paying out dividends. For 2000 it gave two per cent and is expected to declare a dividend of three per cent for 2001.

Analysts contacted have faith in the ability of management to see the company to bigger things. The second national cargo carrier is now controlled by Gan Boon Aun who took over the chairmanship from Mirzan Mahathir. However, Transmile and Konsortium Logistik Bhd, which Mirzan controls, are common shareholders in CEN Worldwide Sdn Bhd.

Mirzan does not hold any shares in Transmile even though the company was associated with him and he had plans to build an integrated logistics operations in the region.

The stock used to trade at RM15 and above but has hovered at present levels since the 1997/98 crisis.

Basic technical analysis suggests a decisive break above the RM3.50 resistance level could see the company's price test resistance of RM4.50. Downward pressure will be met with support at about RM2.00.