

Analyst: Vincent Leung

Main-Board Listing - Research

進智公共交通控股有限公司

AMS Public Transport Holdings Limited [Stock Code: 0077]

Sponsor : Kingsway Capital Limited
Bookrunner and Lead Manager : Kingsway Financial Services Group Limited

Sector : Transport
Business : Operation of green minibus routes and the provision of public light bus-related services in Hong Kong

<p>Total share offer: <u>50,000,000</u> shares (25% of the enlarged share capital)</p> <p>IPO: 5,000,000 shares (10%) Placement: 45,000,000 shares (90%)</p>	<p><u>Business of AMS Public Transport</u></p> <p>AMS Public Transport is principally engaged in the operation of green minibus (GMB) routes and the provision of public light bus (PLB)-related services, including repair & maintenance, advertising as well as rental and administration of PLBs in Hong Kong.</p> <p>The Company currently operates 40 green minibus routes (25 on Hong Kong Island and 15 in the New Territories) under 13 passenger-service licences issued by the Commissioner of Transport, using 12 owned and 266 leased GMBs. It also operates 2 residents' bus routes, supplementing its GMB services.</p>
<p>Price: HK\$1.07 per share Market Cap. : HK\$214 million</p> <p>Historical 2003 P/E: 7.9x (pro forma fully diluted) Adjusted NTA per share: HK\$0.10</p> <p>Staffing: 845</p>	
<p>IPO commences: 30th March 2004 IPO closes: 6th April 2004</p> <p>Receiving bank: Bank of China (Hong Kong)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 15th April 2004</p>	

Major Shareholder after Listing

The family of the Company's chairman Mr. WONG Man Kit	73.0%
Mr. CHAN Yau Yue (a director of 3 subsidiaries of the Company)	1.3%
Mr. CHAN Man Chun (an executive director and the general manager of the Company)	0.7%
	<u>75.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$39 million.

	HK\$ million
To acquire other GMB-routes operators	22
To serve as deposits and working capital for new GMB routes that may be tendered by the Company	10
To upgrade the Company's IT infrastructure	2
To serve as the Company's general working capital	5

Financial Highlights

	6 months ended 30 th September 2003 HK\$ '000	2003 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Turnover				
<i>GMB-routes operation</i>	113,818	228,040	189,993	161,598
<i>Residents' bus-routes operation</i>	494	2,734	2,034	735
<i>Red minibus rental income</i>	871	441	1,859	5,054
<i>*Gross rental income on investment properties (discontinued operation)</i>	-	3,516	3,351	3,089
	<u>115,183</u>	<u>234,731</u>	<u>197,237</u>	<u>170,476</u>
Operating profit	<u>17,454</u>	<u>46,504</u>	<u>37,287</u>	<u>37,209</u>
Net profit	<u>13,959</u>	<u>27,172</u>	<u>19,877</u>	<u>12,152</u>
Dividend	-	401,038	10,153	1,504
EPS – basic	<u>HK\$9.3</u>	<u>HK\$18.1</u>	<u>HK\$13.3</u>	<u>HK\$8.1</u>

*The Company's investment-property rental business was discontinued on 1st April 2003.

Strengths

- ✓ Entry barrier in relation to the provision of green minibus services is obtaining the Passenger Service License (PSL) of the GMB routes as only the GMB operator can provide service on the route fixed by the PSL. The Company currently has 40 GMB routes, representing some 11.5% share of the GMB market which has 348 routes as of 31st October 2003.
- ✓ Shares of AMS Public Transport are valued at a historical 2002/2003 P/E of 7.9x on a pro-forma fully-diluted basis. While there is no direct comparison in the local market, the Company's valuation does not look expensive when compared with Kwoon Chung Bus (*Stock code: 0306*), which engages in franchised and non-franchised bus services. Kwoon Chung Bus, which has a market capitalization of some HK\$441 million, is now trading at a historical 2002/2003 P/E of 17.9x.

Weaknesses

- ✗ Competition in Hong Kong public transportation sector is keen, while that in the GMB segment is intensifying with the Government encouraging red-minibus operators to convert to GMB operations.
- ✗ As of 31st March 2003, the Company had bank borrowings of HK\$24.5 million, while cash on hand amounted to HK\$11.1 million only. However, the Company has declared dividends of over HK\$401 million for the year ended 31st March 2003. As of 30th September 2003, the Company's gearing ratio was high at 105.7%. The financial position of the Company should be a concern.
- ✗ The Company largely relies on the use of leased GMBs. Currently, it leases 266 GMBs, most of which are from the Wong Family (the major shareholder of the Company), and only owns 12. Although this reduces its exposure to the fluctuation in the value of PLB licences, the Company's operation and profitability will be adversely affected should it fail to renew or extend the leasing agreements on terms favourable to the Company.

Recommendation: Unexciting