6th April 2020

Large Cap

Transurban Group:

Reading Time: 5 Mins
By Team Ace Investors

Stock Code	ASX: TCL
Shares O/S	2.74 billion
Closing Price	AUD 11.16
Market Cap	30.52 billion
52 High/Low	16.44/9.10
One Year Stock Performance	-15%
Avg volume (TTM)	8.04 million
EPS (TTM)	0.081
P/E	137.78
Annual Dividend Yield	5.47%
Franking	6.45%
Last Dividend Ex-Date	30 Dec 2019
Last Dividend Pay Date	14 Feb 2020
DPS (AUD)	0.61
ROE %	2.38%

COMPANY OVERVIEW

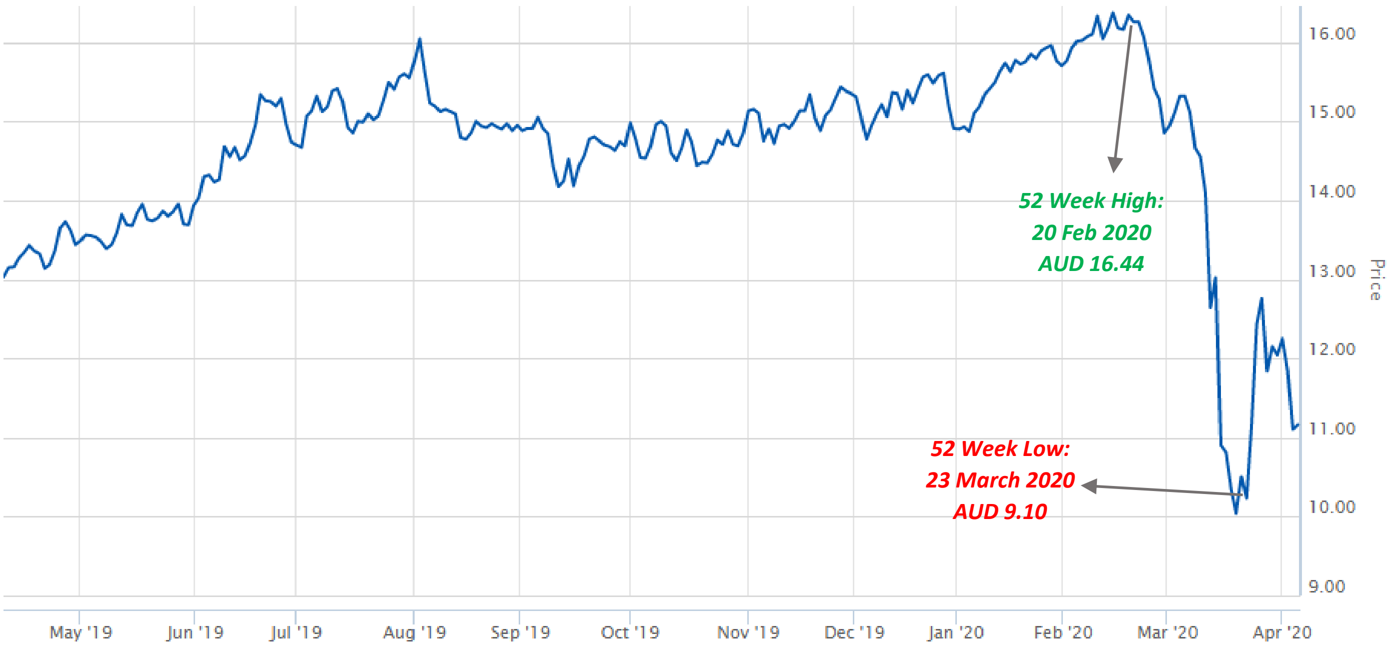
Transurban Group **("Transurban" or the "Company")** build and operate toll roads in Melbourne, Sydney and Brisbane, as well as in Greater Washington, United States and Montreal, Canada.

Currently, Transurban's business going through tough time because of the lock down imposed in many countries due to coronavirus. As many people are working from home, there are few cars on the roads and hence fewer toll revenues for Transurban.

On 1st April 2020, the Company announced that the during the fourth week of March, average daily traffic volumes across its toll roads fell by 36% over the prior corresponding period. Overall, for the March quarter, the Company's average daily traffic fell 4% compared to the same period a year earlier.

Despite of this short-term hurdle, we believe that this does not change the Company's long-term business model, its growth plans and the high demand for its roads in a normal scenario. The recent correction in the stock price makes it an attractive long-term opportunity.

One Year Stock Price Performance



Source: ASX

Since the beginning of this year, the stock price of Transurban has fallen 25%, from $14.9 (on 2nd January 2020) to $11.16 (on 7th April 2020). At current price, the Company is offering an annual dividend yield of 5.47%. We believe that it is an attractive option for dividend investors especially when the interest rates are so low.

KEY FINANCIAL FIGURES

	2015	2016	2017	2018	2019
Revenue *(In AUD million)*	1,860.00	2,210.00	2,675.00	3,238.00	4,078.00
Growth %	-	*18.82%*	*21.04%*	*21.05%*	*25.94%*
EBITDA *(In AUD million)*	1,211.00	1,379.00	1,474.00	1,610.00	1,933.00
Margin (%)	*65.11%*	*62.40%*	*55.10%*	*49.72%*	*47.40%*
PAT *(In AUD million)*	-182.00	99.00	239.00	485.00	171.00
PAT Margin (%)		*4.48%*	*8.93%*	*14.98%*	*4.19%*
EPS *(In AUD)*	-0.09	0.05	0.11	0.22	0.07
BALANCE SHEET FIGURES					
Shareholders Fund *(In AUD million)*	4,769.00	5,035.00	4,490.00	5,591.00	8,754.00
Debt *(In AUD million)*	12,119.00	12,873.00	13,748.00	15,395.00	18,466.00
Cash *(In AUD million)*	1,253.00	834.00	1,145.00	1,356.00	1,630.00
D/E Ratio	2.54	2.56	3.06	2.75	2.11

INVESTMENT RATIONALE/CONCERNS

- **Well Placed Dividend Stock** – The Company is continuously delivering strong revenue and earnings growth due to ita attractive and strong portfolio assets. During H1 FY 2020, the reported a rise of 2.3% in average daily traffic and its proportional revenue stood at $1,396 million, which has increased by 8.6%. During this period, Transurban paid a distribution amounting to 31.0 cents per share. While the current lockdown situation is likely to impact the growth prospects of the Company, but the impact will be temporary.

  Due to the uncertain current environment, the Company has withdrawn its distribution guidance for FY 2020. Transurban will now pay a distribution in line with free cash, excluding capital releases. Earlier, the Company intended pay a final distribution of 31 cents per unit, bringing its full year distribution to 62 cents.
- **Traffic Data Showing Sign of Improvement** – In the recent update, the Company has indicated that the commercial traffic has displayed greater resilience to date, with large vehicles growing as a proportion of revenue to 37% in the most recent week of March. This compares to an average of 26% for the first quarter. In addition, the management has also indicated that the traffic has been increasing week on week since February 10 in major Chinese cities as lockdown restrictions are lifted and industries recommence operations. Highway traffic has also increased as people are commuting using their cars instead of public transport.
- **Capital Raising Initiatives** – The Company is closely considering capital raising as significant steps for balancing the Company's financial growth. On 3rd April, Hills M2 Motorway has arrived to the financial close on its raising of $815 million of non-recourse debt funded in the Asian loan market. Also, Hills is fully owned by TCL. To further strengthen its liquidity position, on 2 April 2020 the Company raised EUR 600 million of senior secured 10-year notes under its Euro Medium Term Note Programme.
- **Project Completion** – During H1FY2020, the Company and its construction partners have completed five major projects and another two are expected to reach completion in mid-2020. In North America the 395 Express Lanes opened in November on time and on budget, with the combined 95 and 395 Express Lanes now stretching 63 kilometres. It has now commenced the procurement process for the 495 Express Lanes Northern Extension.

STOCK RECOMMENDATION

The Company is going through short term turmoil as its whole business depends on the traffic and toll revenue. In the recent update the Company referred to the fact that Chinese traffic levels are starting to return to normal, though it's still lower than it was before. With the traffic going back to normal in the coming quarters, the Company will report strong revenue growth and will pay a normal distribution again.

Over the long term, we believe that the Company is one of the best dividend yielding stock that investors should consider due to the quality of its roads, strong pricing power, and increasing traffic flows. The Company operates and maintains sufficient liquidity to meet capital requirements and debt refinancing obligations to the end of FY21 with existing balance sheet capacity.

*The recent stock price correction could be an attractive entry point for long term investors. At current levels, we would like to recommend **BUY** rating on the stock.*

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