

Mitrajaya Holdings (BUY↔↔; EPS↔↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

29 January 2015

Price Target: RM1.97 (↔↔)

Share price: RM1.18

Good start to contract flows

News

- **Wins affordable housing job.** Mitrajaya was awarded a RM229.9m affordable housing contract by Putrajaya Holdings. The contract involves the construction of 3 blocks of 20 storey (1062 units) apartments in Precint 5, Putrajaya. The contract duration is for 3 years and is expected to be completed by Feb 2018.

Comments

- **Within expectations.** This contract win is within our expectations (i.e. within the RM200-250m range) as highlighted in our TP upgrade report yesterday.
- **Orderbook hits another record high.** Including this recent contract, we estimate Mitrajaya's orderbook to currently stand at RM1.8bn (assuming RM150m burn rate in 4QFY14). This marks another record high for its orderbook level and translates to a cover of 8.4x FY13 (trailing) and 4.7x FY14 (prospective) construction revenue.
- **Potential upside to job wins.** With this job in the bag, 46% of our FY15 orderbook replenishment target has been met. We see potential upside to job wins this year as it is only the month of January. To recap, job wins almost doubled our assumption in FY14, coming in at RM1.1bn. Mitrajaya is targeting for RM1bn in new job wins this year. However, we choose to take a conservative stand and maintain our FY15 assumption at RM500m.
- **Strong clientele base.** This recent job win reinforces our view that Mitrajaya has a strong working relationship with Putrajaya Holdings. Over the years, it has managed to secure various contracts from the latter.

Risks

- Execution risk on its construction jobs and slow sales for its property developments.

Forecasts

- Maintain projections as YTD job wins are still within our RM500m new job wins target. However, we see potential upside to our target as 46% of it has already been met in the month of January.
- We forecast earnings to double in FY14 and growing another 51% and 20% in FY15-16 amid the higher base. All in all, we project a 3 year earnings CAGR of 55%.

Rating

BUY, TP: RM1.97 (↔↔)

- Mitrajaya is an under researched hidden gem which offers superior earnings growth at cheap valuations of 6x and 5x FY15-16 P/E and decent yields of 3-6%. It is our top small cap construction pick.

Valuation

- Our TP is based on 10x FY15 earnings, inline with our target valuation parameter used for small cap contractors.
- For an alternate valuation perspective, the net value of its landbank alone is already worth RM1.88/ share.
- Investors with a higher risk appetite can consider its warrants (exercise price: RM0.90, expiry: July 2016) which has seen its premium compress to an all-time low (19.5%).

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KLCI	1795.9
Expected share price return	66.9%
Expected dividend return	3.3%
Expected total return	70.3%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	394
Market cap (RM m)	465
3-mth avg. volume ('000)	2,738
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	19.2	24.2	151.1
Relative	17.1	26.3	149.0

Major shareholders

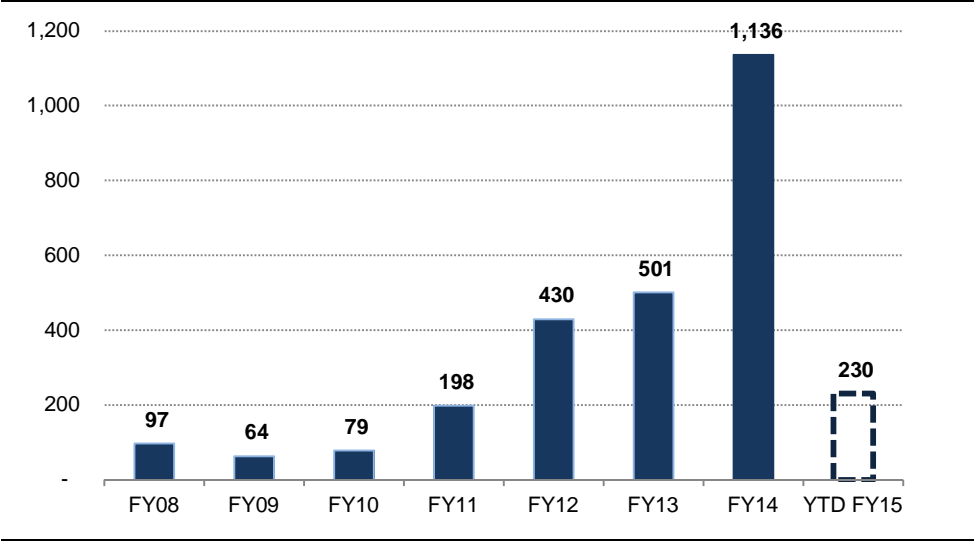
Tan Eng Piew	41.1%
Hong Leong Asset Management	3.7%
Soon Aw Eng	2.1%

Summary Earnings Table

FYE Dec (RM m)	FY13	FY14F	FY15F	FY16F
Revenue	338	531	862	1,022
EBITDA	49	85	123	144
EBIT	39	75	112	133
Profit Before Tax	36	71	108	128
Core PATAMI	25	51	78	93
vs Consensus (%)	-	-	-	-
Core EPS (sen)	6.4	13.0	19.7	23.7
P/E (x)	18.5	9.1	6.0	5.0
Net DPS (sen)	2.0	3.9	5.9	7.1
Net DY (%)	1.7	3.3	5.0	6.0
BV per share	0.89	0.98	1.12	1.28
P/B (x)	1.3	1.2	1.1	0.9
ROE (%)	7.4	14.0	18.8	19.8
Net Gearing (%)	17.9	21.0	16.8	20.2

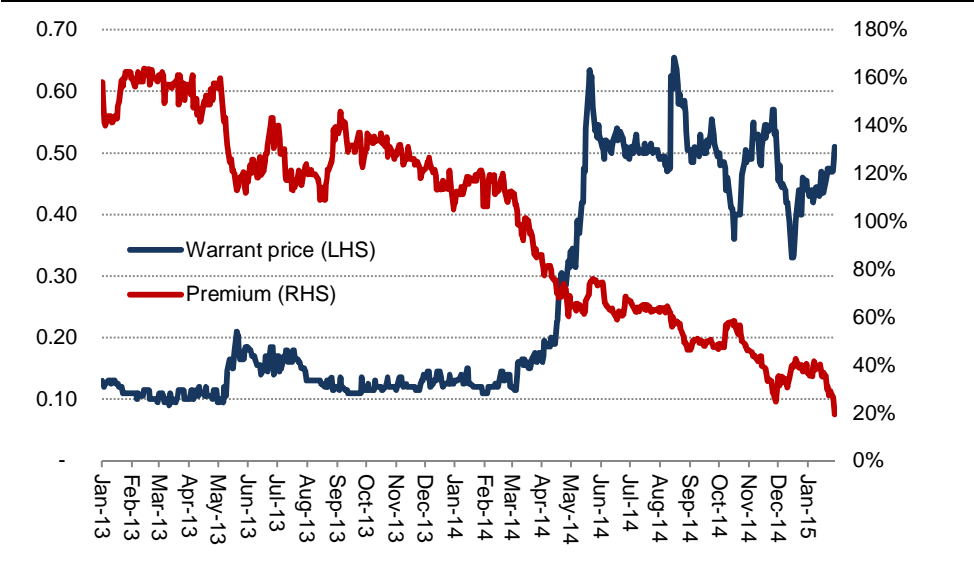
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Figure #1 Orderbook replenishment for Mitrajaya (RM m)



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Figure #2 Mitrajaya warrant price and premium



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Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Cash	3	19	8	42	30
Receivables	126	130	193	311	368
Inventories	160	125	206	349	415
PPE	41	38	38	38	37
Others	214	249	270	283	298
Assets	544	560	716	1,023	1,148
	-	-	-	-	-
Debts	80	82	89	116	132
Payables	126	124	232	375	442
Others	3	4	8	8	8
Liabilities	210	209	329	499	581
	-	-	-	-	-
Shareholder's equity	332	350	386	440	505
Minority interest	2	1	1	1	1
Equity	334	351	387	441	506

Cash Flow Statement

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Profit before taxation	28	36	71	108	128
Depreciation & amortisation	8	10	10	10	11
Changes in working capital	(144)	31	(60)	(118)	(57)
Taxation	(9)	(12)	(20)	(30)	(35)
Others	143	(43)	(2)	63	(42)
CFO	25	23	(0)	33	5
Net capex	(11)	(8)	(10)	(10)	(10)
Others	3	13	-	-	-
CFI	(8)	5	(10)	(10)	(10)
Changes in borrowings	23	1	7	27	17
Issuance of shares	(0)	(0)	(0)	-	-
Dividends paid	(20)	(8)	(8)	(15)	(23)
Others	(30)	(19)	-	-	-
CFF	(26)	(26)	(0)	11	(7)
Net cash flow	(9)	2	(11)	34	(12)
Forex	(2)	(0)	-	-	-
Others	11	14	-	-	-
Beginning cash	4	3	19	8	42
Ending cash	3	19	8	42	30

Income Statement

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	251	338	531	862	1,022
EBITDA	39	49	85	123	144
EBIT	31	39	75	112	133
Finance cost	(3)	(3)	(4)	(4)	(5)
Associates & JV	(0)	-	-	-	-
Profit before tax	28	36	71	108	128
Tax	(9)	(12)	(20)	(30)	(35)
Net profit	19	24	51	78	93
Minority interest	(1)	1	-	-	-
PATMI (core)	18	25	51	78	93
Exceptionals	-	4	-	-	-
PATMI (reported)	18	29	51	78	93

Valuation & Ratios

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Core EPS (sen)	4.5	6.4	13.0	19.7	23.7
P/E (x)	25.9	18.5	9.1	6.0	5.0
EV/EBITDA (x)	13.4	10.5	6.2	4.3	3.6
DPS (sen)	2.0	2.0	3.9	5.9	7.1
Dividend yield	1.7%	1.7%	3.3%	5.0%	6.0%
BVPS (RM)	0.84	0.89	0.98	1.12	1.28
P/B (x)	1.4	1.3	1.2	1.1	0.9
EBITDA margin	15.5%	14.6%	15.9%	14.2%	14.1%
EBIT margin	12.5%	11.7%	14.1%	13.0%	13.0%
PBT margin	11.1%	10.7%	13.4%	12.5%	12.5%
Net margin	7.2%	7.4%	9.7%	9.0%	9.1%
ROE	5.4%	7.4%	14.0%	18.8%	19.8%
ROA	3.5%	4.5%	8.1%	8.9%	8.6%
Net gearing	23.2%	17.9%	21.0%	16.8%	20.2%

Assumptions

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Contracts secured	430	501	1,136	500	500

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.