HongLeong Investment Bank

HLIB Research

PP 9484/12/2012 (031413)

Mitrajaya Holdings (BUY←→; EPS←→)

INDUSTRY: OVERWEIGHT

NEWSBREAK

16 March 2015

Price Target: RM1.97 (←→)

Share price: RM1.66

Proposes bonus issue, warrants and ESOS

News

- **1 for 2 bonus issue.** Mitrajaya has proposed a bonus issue on a basis of 1 bonus share for every 2 existing shares held.
- **Free warrants.** It also proposed the issuance of 89m new free warrants on the basis of 1 free Warrant D for every 5 existing shares held. The bonus shares will not be entitled for the free warrants (i.e. the free warrants on a 1 for 5 basis are based on the current share base pre bonus issue).
- **ESOS up to 15%.** Lastly, it also proposed the establishment of an ESOS scheme involving up to 15% of its issued and paid up share capital.

Comments

- **Neutral on bonus issue.** We are neutral on the proposed bonus issue as from a shareholder value perspective, "three 1/3rd slices of a cake is the same as 2 halves". Enhanced liquidity in Mitrajaya shares should eventuate post bonus issue.
- **New warrants to replace the old.** Mitrajaya's current warrant (Warrant C) expires in July 2016 with an exercise price of RM0.90. The issuance of Warrant D will serve as a replacement for Warrant C.
- **Impact to share base.** Under the minimum case scenario where no dilutive securities are exercised, Mitrajaya's share base will increase from the current 398.2m to 597.3m. For the maximum case scenario, where all warrants (both C and D) and ESOS are exercised, the share base will increase to 857.1m.
- **Adjustment to target price.** Post bonus issue, our TP would be adjusted from RM1.97 to RM1.31.

Risks

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

Forecasts

- The bonus issue has no impact to our earnings forecast. The proposed Warrants D and ESOS may result to some interest savings when exercised. Our forecast is unchanged.

Rating

BUY, TP: RM1.97 (←→)

- As with the past trends of companies embarking on bonus issues, expect some short term share price uptrend.
- Mitrajaya is our top small cap construction pick given its superior earnings growth prospects which is anchored by its sizable orderbook of RM1.9bn, implying 5.1x FY14 construction revenue cover.

Valuation

- Our TP is based on 10x FY15 earnings, inline with our target valuation parameter used for small cap contractors.
- Investors with a higher risk appetite can consider its warrants (exercise: RM0.90, expiry: July 2016) which is now trading at a 2.1% discount.

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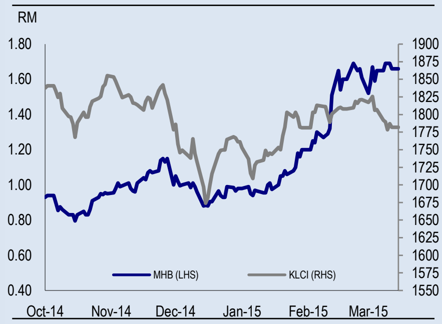
KLCI	1781.8
Expected share price return	18.7%
Expected dividend return	3.6%
Expected total return	22.2%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	395
Market cap (RM m)	655
3-mth avg. volume ('000)	2,902
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	0.6	87.6	210.3
Relative	2.1	76.2	214.4

Major shareholders

Tan Eng Piow	41.1%
Employees Provident Fund	5.04%
Hong Leong Asset Management	3.73%

Summary Earnings Table

FYE Dec (RM m)	FY13	FY14F	FY15F	FY16F
Revenue	338	520	862	1,022
EBITDA	49	92	123	144
EBIT	39	76	112	133
Profit Before Tax	36	72	108	128
Core PATAMI	25	54	78	93
vs Consensus (%)	-	-	-	-
Core EPS (sen)	6.4	13.6	19.7	23.7
P/E (x)	26.1	12.2	8.4	7.0
Net DPS (sen)	2.0	5.0	5.9	7.1
Net DY (%)	1.2	3.0	3.6	4.3
BV per share	0.89	1.00	1.12	1.28
P/B (x)	1.9	1.7	1.5	1.3
ROE (%)	7.4	14.4	18.6	19.8
Net Gearing (%)	17.9	19.0	16.8	20.2

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Figure #1 Impact to share base (million shares)

Impact to share base	Minimum	Maximum
Current share base	398.2	398.2
New shares from the exercise of Warrants C	-	47.0
Share base after exercise of Warrants C	398.2	445.3
New shares from 1 for 2 bonus issue	199.1	222.6
Share base after bonus issue	597.3	667.9
New shares from the exercise of Warrants D	-	89.1
Share base after exercise of Warrants D	597.3	756.9
New shares from ESOS	-	100.2
Share base after corporate proposals	**597.3**	**857.1**

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Disclaimer

1. As of 16 March 2015, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 16 March 2015, the analyst, Low Yee Huap, who prepared this report, has interest in the following securities covered in this report:
(a) -.

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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.