HLIB Research

PP 9484/12/2012 (031413)

Mitrajaya Holdings (BUY ←→; EPS ↑)

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT

19 May 2015

Price Target: RM2.92 (↑)

Share price: RM1.82

The coming of age

Highlights

- **Backed by superior orderbook cover.** Given strong job wins recorded last year at RM1.1bn, Mitrajaya currently sits on an all-time high orderbook of RM1.9bn. This implies a superior orderbook cover of 5.1x FY14 construction revenue vis-à-vis its peers average of 2.1x. As such, earnings growth visibility over the next 2 years is already anchored by this.
- **More in the pipeline.** YTD job wins amount to RM230m and management is gunning for RM1bn this year compared to our more conservative assumption of RM500m. Mitrajaya has tendered for RM1.9bn worth of jobs comprising buildings in the Klang Valley (RM1.4bn) as well as buildings (RM350m) and infra works (RM180m) in Johor. We gather that a potential contract win (RM300m) could be on the cards over the next 1 to 2 months. Aside that, Mitrajaya is also a strong contender for the LRT3 station works (RM750-1,000m) which should take off in 1Q16.
- **Riding the ebb and flow.** While take up rate for Phase 1 (RM185m) of Wangsa 9 has hit 70%, it has been much slower for Phase 2 (RM195m) at only 17%. We won't deny, like all developers, Mitrajaya is also subjected to the ebb and flow of the property cycle. That said, our sales assumptions have been conservative to begin with at only RM100m this year against a backdrop of RM455m in ongoing developments and RM138m in inventories.
- **Exploring affordable housing.** Mitrajaya is exploring a potential affordable housing development in Putrajaya. Take up is almost certain given demand that outstrips supply. To ensure viability of the development, the Government is willing to subsidise up to 25% of construction cost.

Risks

- Execution and delays for its construction jobs (nothing significant thus far) and slow sales for its property division.

Forecasts

- We raise FY15-16 earnings by 3% due to bookkeeping changes following the release of its FY14 audited accounts.
- FY15 will be another record year for earnings in which we forecast to growth 49% YoY. Our earnings estimate of RM80m is 20% below management's internal target of RM100m, providing room for upgrade should results (1QFY15 released on 25 May) surprise on the upside.

Rating

Maintain BUY, TP: RM2.92 (+61% upside)

- Mitrajaya offers investors superior earnings growth prospects with 3 year CAGR of 24% on the back of undemanding valuations at 9.1x and 7.6x FY15-16 P/E.

Valuation

- We raise our TP from RM1.97 to RM2.92 given earnings upgrade and switching our valuation from P/E based to Sum of Parts (SOP). Our TP implies FY15-16 P/E of 14.7x and 12.2x respectively.
- Near term "bonus" to investors would come in the form of free warrants (1 for 5 basis) and 5 sen DPS, both of which should go ex in 3Q15.

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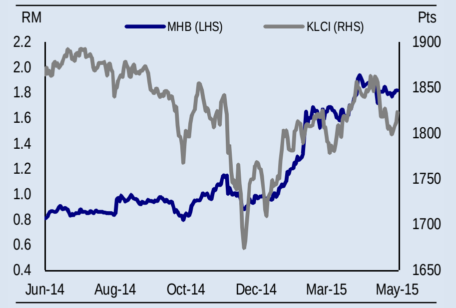
KLCI	1,823.5
Expected share price return	60.4%
Expected dividend return	3.8%
Expected total return	64.3%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	402
Market cap (RM m)	732
3-mth avg. volume ('000)	2,558
SC Shariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-3.2	13.8	106.8
Relative	-2.0	12.8	113.6

Major shareholders

Tan Eng Piow	40.5%
Hong Leong Asset Mgmt	2.1%
Soon Aw Eng	2.1%

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	520	764	931	984
EBITDA	86	122	145	153
EBIT	76	112	134	142
Profit Before Tax	72	108	130	138
Core PATAMI	54	80	96	102
vs Consensus (%)		-	-	-
Core EPS (sen)	13.4	19.9	24.0	25.5
P/E (x)	13.6	9.1	7.6	7.1
Net DPS (sen)	5.0	7.0	8.4	8.9
Net DY (%)	2.7	3.8	4.6	4.9
BV per share	0.98	1.11	1.27	1.43
P/B (x)	1.9	1.6	1.4	1.3
ROE (%)	14.5	19.1	20.2	18.9
Net Gearing (%)	19.8	16.9	15.4	8.1

HLIB

Highlights

Anchored by sizable orderbook

Update from management

Management update. We recently had a one-on-one teleconference with Mitrajaya's management to gather some updates on the company and hung up convinced that its strong growth prospects remain intact.

Superior orderbook cover at 5.1x

Sizable orderbook support. With strong job wins recorded last year at RM1.1bn, Mitrajaya currently sits on an all-time high orderbook of RM1.9bn (end 2014). This translates to a superior orderbook cover of 5.1x its FY14 construction revenue. In comparison, this is more than double the average orderbook cover of contractors under our coverage at 2.1x. Even in the (unlikely) absence of securing any new jobs or margin expansion, Mitrajaya's earnings growth is already anchored simply by running down on its existing orderbook over the next 2 years.

Figure #1 Orderbook balance (RM m)

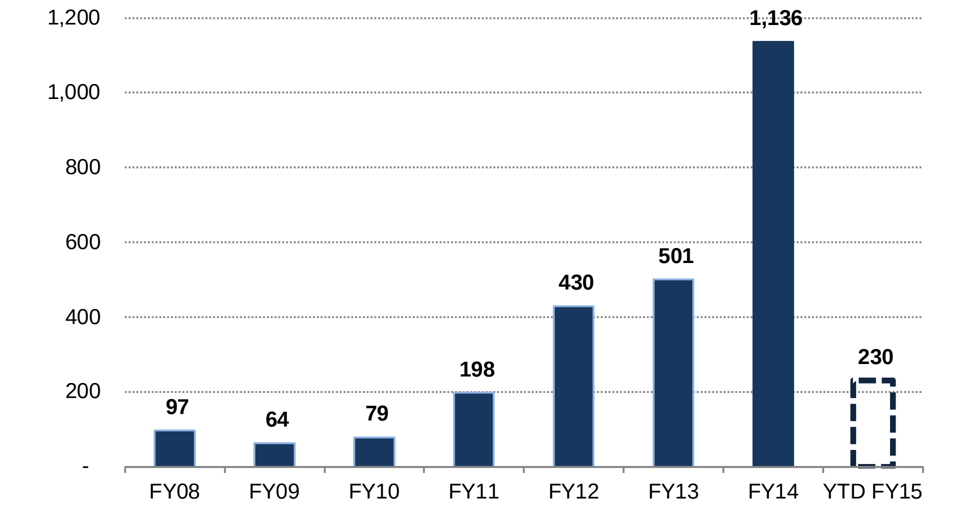
Contract	Client	Value	Balance	Completion
6 stations for Kelana and Ampang LRT extensions	Prasarana	248	126	2015
MACC headquarters, Putrajaya	Putrajaya Holdings	428	389	Mar-2017
Symphony Hills condo, Cyberjaya	UEM Sunrise	277	236	Aug-2016
Raffles American School, Nusajaya	Raffles	270	270	Jul-2016
MK22 condo, Mont Kiara	UEM Sunrise	402	402	Aug-2017
BNM Business Operation Complex, KL	Bank Negara M'sia	187	187	Mar-2016
3 blocks of PP1AM appartments, Putrajaya	Putrajaya Holdings	230	230	Feb-2018
Others	Various		36	
Orderbook balance as of end 2014			**1,875**	

Company

Tenders totaling RM2bn, RM230m secured YTD

What's in the pipeline? Mitrajaya's YTD orderbook replenishment stands at RM230m comprising apartments under the PP1AM housing scheme. Management is targeting RM1bn in new job wins this year while our assumption is more conservative at RM500m. In terms of potential job wins, Mitrajaya has tendered for several building works worth RM1.4m in the Klang Valley and another RM350m in Nusajaya, Johor. We gather that a potential contract win worth RM300m could be in the offing within the next 1 to 2 months. On top of that, Mitrajaya is also in the bidding for another RM180m worth of infra based works in Johor.

Figure #2 Orderbook replenishment trend (RM m)

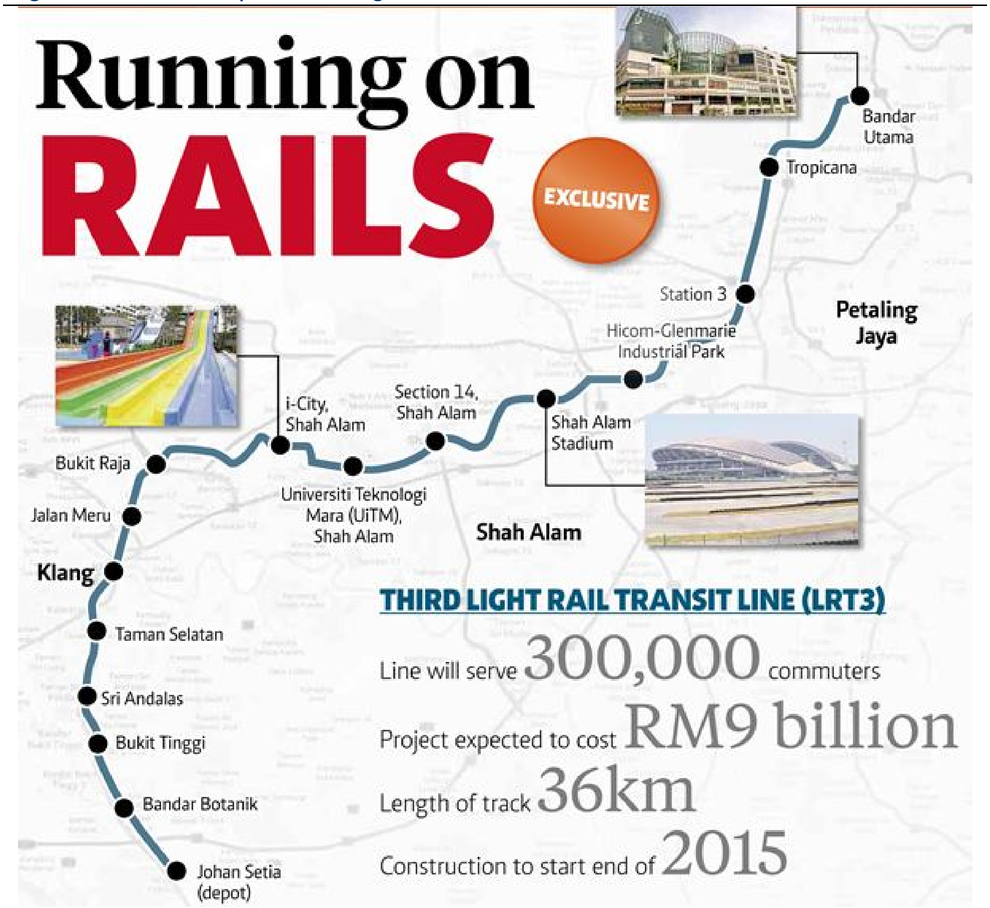


HLIB estimates

Strong contender for the LRT3 station works

Contender for the LRT3 stations. Last week, Prasarana unveiled the proposed alignment for the LRT3 (RM9bn) which spans 36km from Bandar Utama to Klang. Timeline wise, Prasarana aims to award the PDP role by July, route alignment finalisation by year end and construction works to begin in 1Q16. There will be a total of 25 stations along with 10 park and ride facilities for the LRT3. Based on the estimated cost of RM30-40m per station, there would be RM750-1,000m worth of station works up for grabs. Having undertaken 6 stations for the ongoing Kelana and Ampang LRT extensions, we opine that Mitrajaya is a strong contender for the LRT3 station works as well.

Figure #3 Proposed alignment of the LRT3



New Straits Times

Riding through the ebb and flow

Take up rates subjected to the ebb and flow of the property cycle

Sales not as hot but… Mitrajaya's Wangsa 9 condominium development (GDV: RM680m) in Wangsa Maju has achieved a take up rate of 70% for Phase 1 (RM185m) which was launched in July 2014. However, Phase 2 (RM195m) which was launched in Nov 2014 saw much slower take up rates at only 17% thus far. We won't deny, like all developers, Mitrajaya is also subjected to the ebb and flow of the property cycle. We understand that the lacklustre take up rate for Phase 2 was attributed to factors such as bank tightening measures on loan disbursements and the overall cautious tone amongst property buyers. That said, we continue to like the Wangsa 9 development for its strategic location which include (i) 7km from the KL city centre; (ii) 150m away from the Sri Rampai LRT station which is 6 stops from KLCC; (iii) across the road from Wangsa Walk Mall and; (iv) facing a hill with 40 acres of green lung which has been designated as recreational. In efforts to boost take up rates, management is mulling to (i) engage property agents as the sales are solely done in house at this juncture and; (ii) potentially tapping the overseas market. For Phase 3 (RM300m), launches are only targeted in 2016 once Phase 1 has been completed.

Figure #4 Location of Wangsa 9

Wangsa 9

…backed by unbilled sales and inventories. We are not overly concerned about the soft sales for Phase 2 of Wangsa 9. Mitrajaya's unbilled sales currently amounts to RM181m, translating to 1.5x FY14 property revenue. On top of that, Mitrajaya has RM138m worth of property inventories (mainly from Kiara 9) that can be immediately booked as revenue once sold. Our assumptions only impute a conservative RM100m in sales against a backdrop of RM455m in ongoing developments and RM138m in inventories.

Unbilled sales provide 1.5x revenue cover

Exploring affordable housing. Mitrajaya is exploring to submit 2 proposals to the Government to undertake an affordable housing development for civil servants in Putrajaya. These units, ranging from 1k to 1.2k sq ft will be sold at prices between RM150k to RM260k. Take up rates are almost guaranteed as demand for affordable housing exceeds supply and interested buyers have to undergo a balloting process. To ensure that the development is commercially viable to undertake, the Government is prepared to subsidise up to 25% of the project's construction cost. We believe that Mitrajaya has an edge to undertake this development given its similarity to the PP1AM housing scheme contract it secured earlier this year.

Exploring the development of affordable housing for civil servants

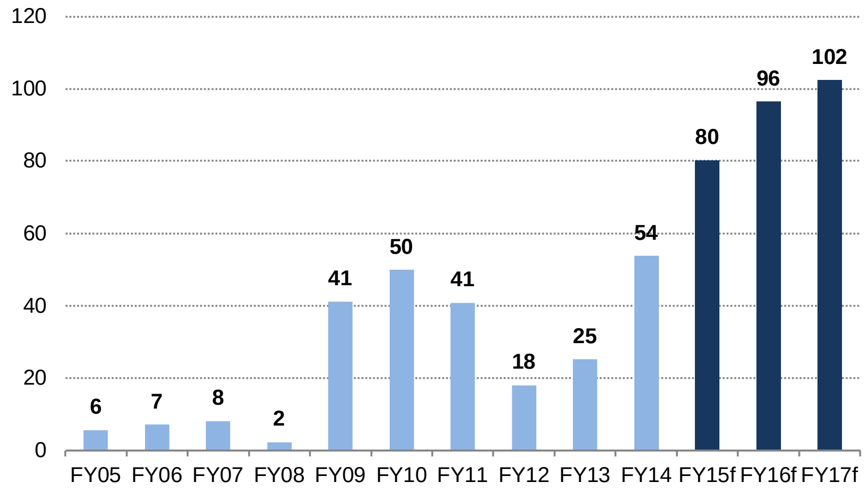
Financial Highlights

Another record year in the making

Following the release of its FY14 audited accounts, we update our financial model and raise FY15-16 earnings by 3.2% and 3.3% respectively due to bookkeeping changes. Our FY17 earnings projection is also introduced at RM102.4m. We expect FY15 to be another record year for Mitrajaya's earnings, growing 49.1% YoY to RM80.2m. All in all, we forecast a 3 year earnings CAGR of 24%.

Another record year in FY15, +49% YoY growth

Figure #5 Core earnings trend for Mitrajaya (RM m)



HLIB estimates

Potential upside to estimates

Based on management's internal target of construction progress on its orderbook, new job wins and property sales, it expects earnings to surpass the RM100m mark this year. Our forecast is more conservative at only RM80.2m for FY15 due to our assumptions of (i) less aggressive recognition of its orderbook; (ii) lower job wins target at RM500m vs management's target of RM1bn and; (iii) lower property sales. 1QFY15 results are set to be released on 25 May and any surprise on the upside could prove to be a catalyst to upgrade.

Our estimate is 20% below management's target

Valuation & Recommendation

Applying a more reflective valuation methodology

Switching valuation method from P/E based to SOP

Our previous valuation of Mitrajaya was based on 10x FY15 earnings. We believe it is now appropriate to switch our valuation to the Sum of Parts (SOP) methodology as it would be a better reflection of the company's worth. The following parameters have been applied in our SOP for Mitrajaya

- **Core earnings:** Our earnings base is rolled forward from FY15 to mid-CY16 at a higher multiple of 12x from 10x previously. We believe this higher multiple is justified given Mitrajaya's strong earnings growth prospects.
- **Landbank:** We value its undeveloped land (net of its associated debt) at a 50% discount to its estimated market value of RM739m (see Figure #7).
- **Warrants:** We have imputed the cash proceeds from the conversion of its outstanding Warrants C (47m expiring in July 2016). For the impending free Warrants D (89m expiring in 2020), we have assumed an exercise price of RM1 to determine the estimated cash proceeds.
- **Share base:** In deriving our SOP based TP, we apply a fully diluted share base after taking into account the conversion of Warrants C and D.

Figure #6 SOP based valuation for Mitrajaya

Sum of Parts (SOP)	Amount (RM m)	PE (x) / Discount	Value (RM m)	Basis
Mid CY16 earnings	88	12	1,060	12x P/E target
Net land value	739	50%	370	50% discount to market value less debt
Cash from warrants conversion			131	Full exercise of Warrants C&D
SOP Value			**1,561**	
Fully diluted share base (mil)			534	
Target price (RM/ share)			**2.92**	

HLIB estimates

Figure #7 Landbank held by Mitrajaya

Location	Type	Acres	Year Acquired	Book value		Market value	
				RM m	RM psf	RM m	RM psf
Banting	Freehold	180.0	2007	29	3.7	118	15.0
Pulau Melaka	Leasehold	17.8	2006	28	36.6	60	77.2
Seksyen 28, Petaling Jaya	Leasehold	9.3	2009	42	103.6	101	250.0
Sungai Rengit, Johor	Freehold	10.8	1996	5	10.4	20	42.5
Bukit Beruntung	Freehold	16.9	1997	10	13.3	22	29.9
Wangsa Maju	Leasehold	7.8	1999	29	84.3	102	300.0
Puchong Prima	Freehold	15.0	1999	22	33.0	200	306.9
Blue Valley, South Africa	Freehold	152.0	2006^	23	3.5	132	19.9
Gross land value		409.7		188		755	
Less: associated debt						(16)	
Net land value						**739**	

Mitrajaya, HLIB, ^Note: All land carried at cost with no revaluation done except for South Africa which was revalued in 2006.

Maintain BUY, TP: RM2.92 (+61% upside)

With our earnings upgrade, rolling over effect and changes to our valuation method, our TP is raised from RM1.97 to RM2.92, offering an upside potential of 60.5%. Our TP implies FY15-16 P/E of 14.7x and 12.2x respectively. Mitrajaya's share price has done rather well, having appreciated 85.7% since our initiation report in Nov 2014. Despite that, we continue to see further room to manoeuvre upwards as the current share price merely reflects its net land value (i.e. RM739m or RM1.84/ share) with no value accredited to its core business of construction, property development and Optimax. Dividend yield is also decent at 3.8-4.8% for FY15-17 based on a payout ratio of 35% (3 year average: 36%). Mitrajaya remains our top pick amongst small cap contractors.

TP raised to RM2.92 (+61% upside), our top small cap construction pick

Near term bonus from free warrants…

In March, Mitrajaya proposed a corporate exercise involving (i) a 1 for 2 bonus issue and; (ii) free Warrants D on a 1 for 5 basis pre bonus issue, expected to be completed by in 3Q15. For every 5 shares owned pre bonus issue, investors will be entitled to 1 free Warrant D which has tenure of 5 years (i.e. expiring in 2020). Assuming an exercise price of RM1 (being the illustrative exercise price in its proposal), Warrants D should be worth RM0.21 at the current mother share price of RM1.82 (i.e. RM1.21 on an ex-bonus basis), assuming 0% premium is ascribed. Figure #8 below details the possible pricing for Warrants D at various prices for the mother share and premiums applied. Note that the existing Warrant C has traded at a premium of more than 100% before.

Free warrants to go ex in 3Q15…

Figure #8 Possible pricing scenario for Warrants D

Pre Bonus	Ex Bonus	Premium applied to Warrants D 0%	5%	10%	15%	20%	25%	30%
1.82	1.21	0.21	0.27	0.33	0.40	0.46	0.52	0.58
2.00	1.33	0.33	0.40	0.47	0.53	0.60	0.67	0.73
2.20	1.47	0.47	0.54	0.61	0.69	0.76	0.83	0.91
2.40	1.60	0.60	0.68	0.76	0.84	0.92	1.00	1.08
2.60	1.73	0.73	0.82	0.91	0.99	1.08	1.17	1.25
2.80	1.87	0.87	0.96	1.05	1.15	1.24	1.33	1.43
2.92	1.95	0.95	1.04	1.14	1.24	1.34	1.43	1.53

HLIB estimates, Note: Figures may not tally due to rounding errors

…and dividends

Another bonus in the near term would be the proposed 5 sen dividend (in respect of the year FY14) which is expected to be approved during its AGM towards month end. The ex-date for this dividend is expected towards end Aug.

…along with 5 sen DPS

Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	19	24	25	19	48
Receivables	130	204	271	326	343
Inventories	125	94	169	208	220
PPE	38	41	41	40	39
Others	249	277	312	343	367
Assets	**560**	**640**	**817**	**936**	**1,018**
	-	-	-	-	-
Debts	82	102	100	97	95
Payables	124	136	264	323	341
Others	4	6	6	6	6
Liabilities	**209**	**245**	**370**	**426**	**442**
	-	-	-	-	-
Shareholder's equity	350	394	447	509	576
Minority interest	1	1	1	1	1
Equity	**351**	**395**	**447**	**510**	**577**

Cash Flow Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Profit before taxation	36	72	108	130	138
Depreciation & amortisation	10	10	10	11	11
Changes in working capital	31	(23)	(15)	(35)	(11)
Taxation	(12)	(19)	(28)	(34)	(36)
Others	(43)	(32)	(43)	(37)	(26)
CFO	**23**	**7**	**33**	**35**	**76**
Net capex	(8)	(11)	(10)	(10)	(10)
Others	13	6	-	-	-
CFI	**5**	**(4)**	**(10)**	**(10)**	**(10)**
Changes in borrowings	1	20	(2)	(3)	(3)
Issuance of shares	(0)	(0)	-	-	-
Dividends paid	(8)	(8)	(20)	(28)	(34)
Others	(19)	2	-	-	-
CFF	**(26)**	**14**	**(22)**	**(31)**	**(36)**
Net cash flow	**2**	**17**	**1**	**(6)**	**29**
Forex	(0)	(0)	-	-	-
Others	14	(12)	-	-	-
Beginning cash	3	19	24	25	19
Ending cash	19	24	25	19	48

Income Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	**338**	**520**	**764**	**931**	**984**
EBITDA	49	86	122	145	153
EBIT	39	76	112	134	142
Finance cost	(3)	(4)	(4)	(4)	(4)
Associates & JV	-	-	-	-	-
Profit before tax	**36**	**72**	**108**	**130**	**138**
Tax	(12)	(19)	(28)	(34)	(36)
Net profit	**24**	**53**	**80**	**96**	**102**
Minority interest	1	0	-	-	-
PATMI (core)	**25**	**54**	**80**	**96**	**102**
Exceptionals	4	-	-	-	-
PATMI (reported)	29	54	80	96	102

Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	6.2	13.4	19.9	24.0	25.5
P/E (x)	29.2	13.6	9.1	7.6	7.1
EV/EBITDA (x)	16.4	9.5	6.6	5.6	5.3
DPS (sen)	2.0	5.0	7.0	8.4	8.9
Dividend yield	1.1%	2.7%	3.8%	4.6%	4.9%
BVPS (RM)	0.87	0.98	1.11	1.27	1.43
P/B (x)	2.1	1.9	1.6	1.4	1.3
EBITDA margin	14.6%	16.5%	16.0%	15.6%	15.5%
EBIT margin	11.7%	14.6%	14.7%	14.4%	14.4%
PBT margin	10.7%	13.9%	14.2%	14.0%	14.1%
Net margin	7.4%	10.3%	10.5%	10.4%	10.4%
ROE	7.4%	14.5%	19.1%	20.2%	18.9%
ROA	4.5%	9.0%	11.0%	11.0%	10.5%
Net gearing	17.9%	19.8%	16.9%	15.4%	8.1%

Assumptions

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Contracts secured	501	1,136	500	500	500

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Published & Printed by
Hong Leong Investment Bank Berhad (43526-P)
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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.
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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.