

27 October 2015

Mitrajaya Holdings Bhd

Acquisition of Land in South Africa

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News

- Yesterday, MITRA announced that its wholly-owned subsidiary, Mitrajaya Development SA Proprietary Limited has entered into a Deed of Sale with Scarlet Ribbon Properties 27 (Pty) Ltd for the acquisition of a piece of c.215 acres freehold land in South Africa, for SAR 40.0m (c.RM12.2m), which translates to c.RM1.30 psf. The acquisition is expected to be completed by 2016.
- The land is located at Western Suburbs of Pretoria, South Africa, which is in close proximity to the Lanseria Airport and just north of the N14 Highway. It takes about 20 minutes' drive from Blue Valley Golf & Country Estate via the R562 or R55 roads.

Comments

- We were surprised by the acquisition as we expected the group to focus on its existing 300-hectare South Africa project, Blue Valley Gold & Country Estate which the group has ventured into since 1998.
- The land acquired is proposed for the development of an Eco Park Residential Estate with at least 1,600 units of medium to high density cluster/apartment homes to be built, with an estimated GDV of SAR1.6b (c.RM497.3m). However, based on our conservative land cost GDV assumption of 15%, we are only expecting a GDV of RM80.0m.
- As of 2Q15, MITRA's net gearing stands at 0.23x and we expect its net gearing to inch up to 0.26x post acquisition of this parcel of land which is still within our comfortable net gearing level of <0.5x.
- Based on its historical track record, we expect that the EBIT margin of the development project to easily range between 35%-40% which is largely similar to its other South Africa project, Blue Valley Golf & Country Estate, which yields at average EBIT margin of 38%. While the proposed acquisition of the land is expected to be completed by 1Q16, we do not expect development on that parcel of land to take off in the near term.

Outlook

- We reaffirm our positive view that the construction division should be able to sustain at least for the next three years, driven by government's spending on infrastructure projects and development of affordable housing projects for the next five years under 11MP. Furthermore, the group's current outstanding orderbook of RM1.55b provides visibility for at least two years.
- While its property division will be driven by its Wangsa 9 project (GDV: RM680m) and upcoming project in Puchong Prima (GDV: RM1.5b) by end-2015, we expect some slowdown in the property segment, given the current drag in property sales. However, we believe this should not impact the group significantly, given both projects' attractive locations, which are adjacent to LRT stations, hence providing convenience and connectivity, are strong selling points.

Forecast

- No change to our FY15-16E earnings estimates, as we do not expect that the development for this particular land to take place in the near term.

Rating

Maintain OUTPERFORM

Valuation

- Following the proposed acquisition of the South African land, we are keeping our OUTPERFORM recommendation on MITRA with unchanged TP of RM1.63. Our TP implies 7.3x Fwd-PER, which falls at the lower end of the small-mid cap contractors' Fwd-PER range of 7-13x. Given that the stock is still trading at single-digit valuation, i.e. FY16E PER of 5.4x, it offers a potential total upside of 37.8%, including dividend yield of 2.1%.

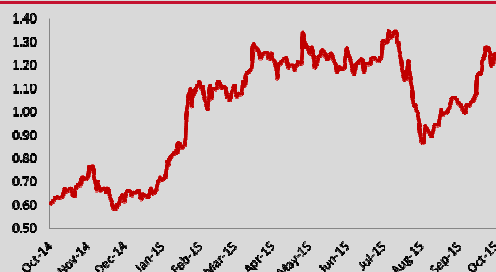
Risks to Our Call

- Lower-than-expected margins
- Delay in construction works
- Lower-than-expected orderbook replenishment
- Lower-than-expected property sales
- Political changes in property development policy in South Africa

OUTPERFORM ↔

Price: RM1.20
Target Price: RM1.63 ↔

Share Price Performance



KLCI	1,706.79
YTD KLCI chg	-3.1%
YTD stock price chg	83.7%

Stock Information

Bloomberg Ticker	MHB MK Equity
Market Cap (RM m)	769.9
Issued shares	641.6
52-week range (H)	1.39
52-week range (L)	0.57
3-mth avg daily vol:	3,122,595
Free Float	55%
Beta	1.6

Major Shareholders

ENG PIOW TAN	39.8%
EMPLOYEES PROVIDENT	2.7%
KUMPULAN WANG PERSAR	2.6%

Summary Earnings Table

FY Dec (RM'm)	2014A	2015E	2016E
Turnover	520.2	878.6	1,109.4
EBIT	76.1	109.8	137.6
PBT	72.5	104.4	132.3
Net Profit (NP)	53.8	78.9	99.8
Core net profit	53.8	78.9	99.8
Consensus (NP)	n.a.	93.3	110.3
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	11.9	17.5	22.2
FD EPS (sen)	7.1	10.4	13.2
EPS growth (%)	83%	47%	26%
DPS (sen)	1.0	2.5	3.0
NTA/Share (RM)	0.52	0.60	0.70
Basic PER (x)	10.0	6.8	5.4
FD PER (x)	16.9	11.5	9.1
BVPS (RM)	0.52	0.60	0.70
Net Gearing (x)	0.2	0.1	0.0
Dividend Yield (%)	0.9	2.1	2.5



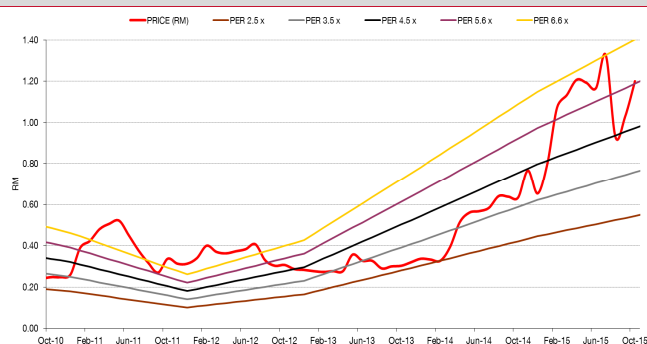
27 October 2015

Sum-of-parts valuation

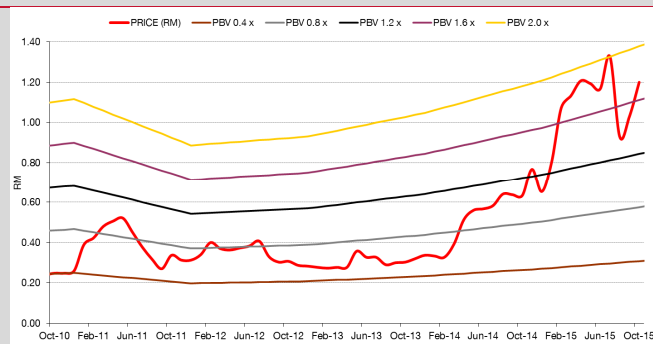
Segment	Stake	Method	Value (RMm)
Construction	100%	FY16 PE of 12x	748.6
Property Division (ex-South Africa)	100%	RNAV (60% discount)	322.3
South Africa	100%	RNAV (60% discount)	32.1
Healthcare (Optimax)	51%	Book Value	2.5
Sub Total			1,105.5
Proceed from warrants (C and D)			126.9
Total			1,232.5
No of FD shares			756.9
SOP/share			1.63
Target Price			1.63
Implied Basic PE (x)			7.3
Implied FD PE (x)			12.3

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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27 October 2015

Peer Comparison

CORE COVERAGE																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.81	626.9	18.8	9.8	9.0	2.5	7.0	0.7	33.4	64.0	69.7	91.8	8.9	0.99	Outperform	3.85
GAMUDA BHD	4.62	11115.3	16.2	17.5	15.7	2.6	13.2	2.3	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	-7.78
IJM CORP BHD	3.42	12218.6	25.0	17.8	16.6	4.4	3.7	0.7	488.6	685.0	736.0	40.2	7.4	3.48	Market Perform	4.11
KIMLUN CORP BHD	1.32	396.7	11.7	7.8	7.3	3.0	11.6	0.9	33.8	50.8	54.6	50.2	7.5	1.63	Outperform	10.92
MUHIHBAH ENGINEERING (M) BHD	2.22	1040.3	12.8	12.0	11.6	2.3	8.2	1.0	81.5	86.4	89.5	5.9	3.6	2.72	Outperform	18.72
HOCK SENG LEE BERHAD	1.87	1027.6	13.4	12.8	11.4	2.1	11.4	1.5	76.9	80.2	90.1	4.3	12.4	1.79	Market Perform	10.00
NAIM HOLDINGS BERHAD	2.18	516.5	5.3	10.3	8.6	1.8	3.7	0.4	98.3	50.1	60.0	-49.1	19.8	1.81	Under Perform	-26.85
WCT HOLDINGS BHD	1.38	1647.8	13.4	11.1	10.2	3.6	1.0	0.1	122.9	149.1	162.1	21.3	8.7	1.81	Outperform	-8.81
MMC CORP BHD	2.27	6912.3	21.4	21.2	19.6	0.0	4.1	0.9	322.4	325.6	352.6	1.0	8.3	2.87	Outperform	-5.02
MITRAJAYA HOLDINGS BHD	1.20	769.9	14.3	9.8	7.7	2.1	20.5	2.0	53.8	78.9	99.8	46.7	26.5	1.63	Outperform	83.67
Average			15.2	13.0	11.8											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA GROUP BHD	1.17	629.9	-9.0	-125.2	16.8	1.7	-0.5	0.6	-70.2	-5.0	37.4	-92.8	-843.8	n.a.	Not Rated	-19.31
PROTASCO BHD	1.72	577.5	-12.1	7.3	7.1	5.8	18.1	1.3	-47.9	78.9	81.4	-264.9	3.2	2.25	Trading Buy	21.13
PINTARAS JAYA BHD	3.60	586.0	11.3	11.5	8.7	4.2	n.a.	n.a.	51.9	51.1	67.4	-1.5	31.9	4.78	Trading Buy	-3.49
GABUNGAN AQRS BHD	0.85	330.0	6.2	11.3	6.0	2.2	n.a.	n.a.	52.9	29.1	54.9	-45.0	88.7	n.a.	Not Rated	-31.72
GADANG HOLDINGS BHD	1.50	352.7	6.0	4.8	5.2	2.7	15.0	0.7	58.8	73.6	68.0	25.2	-7.6	2.00	Take Profit	11.11
AHMAD ZAKI RESOURCES BERHAD	0.66	318.2	25.0	n.a.	n.a.	n.a.	n.a.	n.a.	12.7	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	-2.22
TRC SYNERGY BHD	0.38	180.2	50.5	7.8	8.7	3.2	6.9	0.5	3.6	23.2	20.6	550.8	-11.2	n.a.	Not Rated	-1.32
BINA PURI HOLDINGS BHD	0.47	102.3	16.7	14.6	7.5	4.3	n.a.	n.a.	6.1	7.0	13.7	14.1	95.7	n.a.	Not Rated	-12.96
Average			10.0	-9.7	8.6											

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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