

Mitrajaya Holdings (BUY↔↔; EPS↔↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

10 February 2016

Price Target: RM1.95 (↔↔)

Share price: RM1.12

Disposing Optimax

News

- **Disposing its stake in Optimax.** Mitrajaya announced that it has entered into a Sale and Purchase of Shares to dispose its 51% stake in Optimax for a cash consideration of RM5.1m. The transaction is expected to be completed by mid-2016.

Comments

- **Background.** Optimax is the largest standalone eye specialist in Malaysia with 8 centres nationwide and has handled over 90k cases. While Optimax provides a wide range of eye related treatments, laser surgery or Lasik is its main contributor. Mitrajaya acquired a 51% stake in Optimax back in 2001 as part of its diversification plans. Optimax was mostly loss making from FY08 to FY12 but managed to return to the black since FY13 and has remained profitable since.
- **Price tag appears fair.** Optimax recorded PBT of RM1.5m for 9MFY15. Annualising this and assuming a 25% tax rate would imply net earnings of RM1.5m for the full year FY15. At the price tag of RM5.1m for a 51% stake, this would imply FY15 P/E of 6.6x. We reckon this is fair given the relatively small profit base of Optimax. Looking at it from a P/B perspective, this would translate to a multiple of 1.4x.
- **Disposal of a non-core business.** Optimax has never been a significant contributor to Mitrajaya's profits. In FY14, it only made up 5% of revenue and 1% of PBT. For the 9MFY15 period, revenue and PBT contributions stood at 1% and 2%, respectively. As such, its disposal will have an insignificant impact to earnings. We are slightly positive by this move in that it allows Mitrajaya remain focused on its core business of construction and property development.

Risks

- We see minimal risks to this transaction as it is relatively small and is merely a disposal of a non-core business.

Forecasts

- The sale of Optimax will result to a gain on disposal of RM1.5m in FY16. This in turn would enhance our FY16 earnings forecast by 1.5% but would be treated as an exceptional item.

Rating

Maintain BUY, TP: RM1.95

- Mitrajaya remains our top pick amongst the small cap contractors as it offers a compelling case of robust growth prospects (3 year CAGR: 24%) at inexpensive valuations of 9x and 7.5x FY15-16 P/E

Valuation

- Our SOP based TP of RM1.95 implies FY15-16 P/E of 15.6x and 13x respectively.

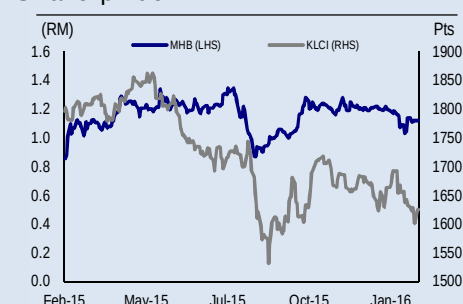
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KLCI	1,662.5
Expected share price return	74.1%
Expected dividend return	3.9%
Expected total return	78.0%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	642
Market cap (RM m)	719
3-mth avg. volume ('000)	1,288
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-6.7	-7.4	31.3
Relative	-6.9	-6.1	43.2

Major shareholders

Tan Eng Piow	40.5%
Employees Provident Fund	2.6%
KWAP	2.5%

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 (%)		(14)	(13)	0
Core EPS (sen)	8.4	12.5	15.0	16.0
P/E (x)	13.4	9.0	7.5	7.0
Net DPS (sen)	5.0	4.4	5.3	5.6
Net DY (%)	4.5	3.9	4.8	5.0
BV per share	0.61	0.70	0.79	0.90
P/B (x)	1.8	1.6	1.4	1.2
ROE (%)	14.5	19.1	20.2	18.9
Net Gearing (%)	19.8	16.9	15.5	8.2

HLIB

Figure #1 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)			801	
Target price (RM/ share)			1.95	

HLIB estimates

Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	19	24	25	18	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	575
Minority interest	1	1	1	1	1
Equity	351	395	447	509	576

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)	(32)	(28)	(34)
Others	(19)	2	-	-	-
CFF	(26)	14	(34)	(31)	(37)
Net cash flow	2	17	1	(6)	29
Forex	(0)	(0)	-	-	-
Others	14	(12)	-	-	-
Beginning cash	3	19	24	25	18
Ending cash	19	24	25	18	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	-	-	1	-
PATMI (reported)	29	54	80	98	102

Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	3.9	8.4	12.5	15.0	16.0
P/E (x)	28.6	13.4	9.0	7.5	7.0
EV/EBITDA (x)	16.7	9.6	6.7	5.7	5.4
DPS (sen)	1.2	5.0	4.4	5.3	5.6
Dividend yield	1.1%	4.5%	3.9%	4.8%	5.0%
BVPS (RM)	0.55	0.61	0.70	0.79	0.90
P/B (x)	2.1	1.8	1.6	1.4	1.2
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%	15.5%	8.2%

Assumptions

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