

Stock Digest

Results Note – Mitrajaya Holdings Bhd

Friday, 19 Aug, 2016



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On Target

Results Highlights

- Mitrajaya's 2Q2016 net profit added 28.3% Y.o.Y to RM29.6 mln, mainly due to the improvements in both the construction and domestic property development segments, coupled with the lower depreciation charges that offset the weakness in the South African property segment. Revenue for the quarter rose marginally by 1.0% Y.o.Y to RM245.6 mln. For 1H2016, cumulative net profit climbed 31.8% Y.o.Y to RM48.1 mln. Revenue for the period increased 13.1% Y.o.Y to RM441.0 mln.
- The reported earnings came in within expectations as it accounts to 50.1% of our full year estimated net profit of RM48.1 mln. The reported revenue, however, came slightly below our forecast, accounting to 45.4% of our full year estimated revenue of RM972.5 mln.
- Segment wise, the construction segment's 1H2016 pretax profit improved 25.7% Y.o.Y to RM47.6 mln, mainly on projects which are at the advance stages of construction, allowing for higher billings. Its domestic property development segment's pretax profit rose 13.2% Y.o.Y to RM4.5 mln on recognition of progressive work from the Wangsa 9 Residency project. The South Africa property segment's pretax profit, however, fell 11.8% Y.o.Y to RM5.8 mln, on lower recognition from its ongoing developments.
- Meanwhile, the group continues to maintain a healthy balance sheet with a decent net gearing at 0.3x, implying room to increase its financial leverage for business expansion, if required.

Financial Highlights					
FY Dec (RM mln)	2013A	2014A	2015A	2016F	2017F
Revenue	338.4	520.2	890.7	972.5	1033.1
EBITDA	53.2	85.0	147.9	157.9	172.9
Net Profit	28.0	53.8	86.8	95.9	106.2
Revenue Growth (%)	35.1	53.7	71.2	9.2	6.2
EBITDA Growth (%)	37.9	59.7	73.9	6.8	9.5
Net Profit Growth (%)	56.1	92.1	61.5	10.4	10.8
EPS (sen)	4.2	8.0	13.0	14.3	15.9
Diluted EPS (sen) #	N/A	N/A	N/A	13.6	15.0
P/E (x)	33.7	17.5	10.9	9.8	8.9
Diluted P/E (x) #	N/A	N/A	N/A	10.3	9.4
Dividend Yield (%)	0.8	2.1	3.5	3.5	3.9
P/BV (x)	2.70	2.39	1.88	N/A	N/A
ROE (%)	8.0	13.6	17.3	N/A	N/A
# Based on enlarged share capital of 748.4 mln outstanding shares (After adjusting for warrants-D conversion in 2016)					

Source: Company Data, MSSB Research

BUY

Share Price: RM1.41

Target Price: RM1.65

Key Statistics

Stock Information: Engaged in construction, property development and overseas investment.

Sector: Infrastructure construction.

Sector: Civil Engineering and Property Development

Industry: Construction

Listing: Main Market

Stock Code: 9571

Share Issued (mln): 643.6

Market Capital (RM mln): 943.6

Par Value (RM): 0.50

Major Shareholders:

Tan Eng Piow	40.7%
Aw Eng Soon	2.1%
Employees Provident Fund	1.8%

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Prospects

The RM52.4 contract mln for the road, drainage, culvert and duct bank works package for the RAPID Project secured by Mitrajaya in 2Q2016 brings the group's construction orderbook replenishment to RM502.7 mln in 1H2016 (see Appendix 1), accounting to 71.8% of our targeted orderbook replenishment rate of RM700.0 mln for the year. This brings its outstanding construction orderbook to approximately RM1.49 bln (a relatively high construction cover ratio of 1.9x against 2015's construction revenue) to provide earnings visibility over the next two years.

We think that the group's prospects are sanguine, premised to the robust construction industry where the group is tendering for approximately RM3.00 bln worth of new contracts (including some notable projects such as the Damansara-Shah Alam Expressway (DASH), Pan Borneo Highway and Petronas' Refinery and Petrochemical Integrated Development), coupled with an additional RM1.00 bln tenders that are under preparation.

Meanwhile, Mitrajaya's unbilled domestic property sales of RM160.0 mln, mainly from the Wangsa 9 Residency project will provide earnings visibility over the next 2-3 years. On its South Africa property segment, the unbilled sales of Rand 67.0 mln will underpin its segment earnings, going forward.

Valuation And Recommendation

With the reported earnings falling within our estimates, we leave our earnings forecast unchanged and we maintain our **BUY** recommendation on Mitrajaya, but with a lower target price of RM1.65 (from RM1.70) after taking into account the dilution effect from an employee share option scheme which saw additional 714,700 shares being added to the group's share issued.

Our target price is derived from ascribing a target PER of 9.0x to its 2017 (fully diluted) construction earnings, while the value of its property development units, both local and overseas, are valued at 0.8x their respective book values. At the target price of RM1.65, Mitrajaya will be trading at prospective PERs of 11.5x and 10.4x in 2016 and 2017 respectively, which is close to the construction industry average of 11.0x.

Risks to our forecast and target price include inability to replenish its construction orderbook, particularly if there are delays in the implementation of upcoming government-sponsored projects such as the PR1MA, PPA1M and the new LRT route that could dent Mitrajaya's construction orderbook replenishment prospects. Further tightening of credit facilities from financial services providers will continue to negatively affect the general property market and the sale of its properties.

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Quarterly Performance					
FY Dec (RM mln)	2Q2016	2Q2015	% Change Y.o.Y	1Q2016	% Change Q.o.Q
Revenue	245.6	243.2	1.0%	195.5	25.6%
EBITDA	39.6	36.3	9.0%	31.7	24.9%
Depreciation & Amotization	0.1	4.2	-96.9%	6.5	-98.0%
Net Interest Income/ (Expense)	-0.7	-1.0	24.7%	-1.2	40.9%
Profit before Tax	38.7	31.2	24.2%	24.0	61.5%
Net Profit	29.6	23.1	28.3%	18.5	60.5%
Basic EPS (Sen)	4.4	3.5	28.3%	2.8	60.5%

Source: Company Data, MSSB Research

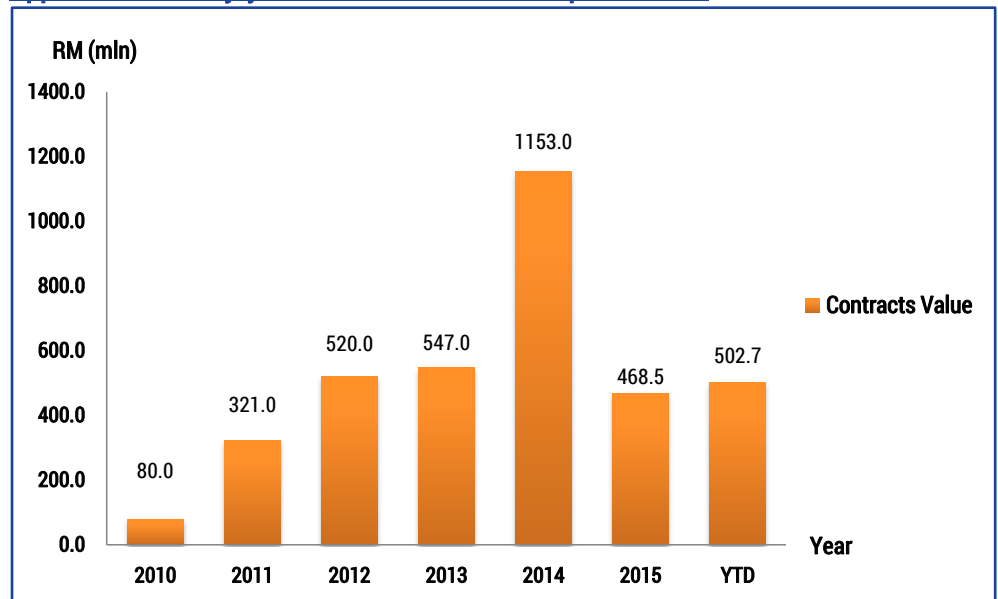
Income Statement					
FYE Dec (RM mln)	2013A	2014A	2015A	2016F	2017F
Revenue	338.4	520.2	890.7	972.5	1033.1
EBITDA	53.2	85.0	147.9	157.9	172.9
Depreciation & Amortisation	-10.0	-9.5	-18.3	-20.7	-22.0
Net Interest Expense	-2.9	-3.0	-4.5	-4.5	-4.6
Pre-tax Profit	40.3	72.5	124.9	132.4	146.1
Effective Tax Rate	28.9%	26.5%	30.4%	27.0%	27.0%
Net Profit	28.0	53.8	86.8	95.9	106.2
EBITDA Margin	15.7%	16.3%	16.6%	16.2%	16.7%
PreTax Margin	11.9%	13.9%	14.0%	13.6%	14.1%
Net Margin	8.3%	10.3%	9.8%	9.9%	10.3%

Source: Company Data, MSSB Research

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Appendix 1 – Mitrajaya's Historical Orderbook Replenishment



Source: Company Data, MSSB Research

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