

Mitrajaya Holdings Bhd

9M16 Below Expectations

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9M16 CNP of RM72.1m came in within consensus (72%) but below ours at 68% of full year estimates. Negative deviation stemmed from weaker than expected take up rates and margins for their property division. No dividends, as expected. Reduce FY16-17E earnings by 5%-11%. Maintain OP with lower SoP-derived TP of RM1.49 (previously RM1.79) after switching property SoP valuations to 5x FY17 PER (from 60% discount to RNAV).

Below expectations. 9M16 CNP of RM72.1m came in within consensus expectations (72%) but below our full-year estimates at 68%. The negative deviation stemmed weaker than expected take up rates and margins for their property division. No dividends declared as expected.

Result Highlights. 9M16 CNP was up 17% YoY mainly due to 10% increase in top line as a result of (i) higher construction billings (+12%) and (ii) higher property recognition (+28%) as construction of on-going Wangsa 9 property project picks up pace. 3Q16 CNP was down 11% QoQ despite a marginal increase in revenue by 2% due to (i) compression in construction EBIT margins (-2.2ppt) underpinned by the progression of lower margin projects secured at the beginning of the year, i.e. PPA1M and Section 13 mixed development and (ii) higher financing costs (+56%).

Construction outlook. Currently, MITRA's outstanding order book stands at RM1.35b providing earnings visibility for another c.1.5 years. Year-to-date, MITRA has secured RM577m worth of contracts, making up 72% of our RM800m order book assumption with a remainder of RM223m to be achieved. On the back of c.RM2.0b tenderbook, we believe our target is achievable either by year end/early FY17.

Weak property sales. Due to MITRA's product prices of >RM1.0m coupled with the tightening bank loans, take up rates for their completed projects (280 Parks Homes, Kiara 9) has been slow with c.RM320m of unsold inventory. Meanwhile, their ongoing Wangsa 9 residency project sales remain weak with phase 2 registering only 45% take up since launch in Nov-14. Wangsa 9's unbilled sales of RM156m will provide visibility for another 1.5 years. Meanwhile, its South Africa division will see unbilled sales of Rand29m (RM9.1m) recognised progressively upon completion of the transfer of ownership in FY16- FY17E.

Reduced earnings. Post results, we lower our FY16-17E core earnings by 5%-11% to RM99.9m-RM102.1m, respectively. This is after accounting for (i) lower take up rates for their completed and on-going property projects i.e Kiara 9, Wangsa 9, 280 Park Homes and (ii) lower margins assumptions (-6ppt) for their property division.

Maintain OP with lower TP of RM1.49 (from RM1.79) after switching our Property SoP valuation to 5.0x FY17 PER (from 60% discount to RNAV). We feel that rebasing valuations to PER method is fair as small-and-mid-cap property counters are currently trading at PE range of 5.0-7.0x. Our TP implies 11.0x FY17 FD PER, which is in line with small-mid cap contractors' targeted Fwd. PER range of 9-13x. Despite the reduction in TP, MITRA still offers an upside of 22%. Hence, we maintain our OP call.

Risks to our call include lower-than-expected margins, delay in construction works, lower-than-expected order book replenishment and lower-than-expected property sales.

OUTPERFORM ↔

Price: **RM1.25**
 Target Price: **RM1.49** ↓

Share Price Performance



KLCI	1,628.66
YTD KLCI chg	-3.8%
YTD stock price chg	4.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MHB MK Equity
Market Cap (RM m)	836.4
Issued shares	669.2
52-week range (H)	1.47
52-week range (L)	1.02
3-mth avg daily vol:	864,579
Free Float	55%
Beta	1.3

Major Shareholders

ENG PIOW TAN	40.6%
AW ENG SOON	2.1%
EMPLOYEES PROVIDENT FUND	1.8%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	891.0	969.7	1,024.8
EBIT	130.1	144.1	146.6
PBT	124.8	132.3	133.1
Net Profit (NP)	87.7	101.4	102.1
Core net profit	87.7	99.9	102.1
Consensus (NP)	n.a.	99.0	109.0
Earnings Revision	n.a.	-5%	-11%
Basic EPS	13.1	15.0	15.3
FD EPS (sen)	11.6	13.3	13.6
EPS growth (%)	63%	14%	2%
DPS (sen)	2.5	4.0	4.0
NTA/Share (RM)	0.61	0.71	0.81
Basic PER (x)	9.5	8.4	8.2
FD PER (x)	10.7	9.4	9.2
BVPS (RM)	0.61	0.71	0.81
Net Gearing (x)	0.2	0.2	0.1
Dividend Yield (%)	2.0%	3.2%	3.2%



29 November 2016

Result Highlight

FYE: Dec (RM'm)	3Q16	2Q16	QoQ	3Q15	YoY	9M16	9M15	YoY
Revenue	251.4	245.6	2%	231.3	9%	692.5	629.0	10%
EBIT	37.1	40.1	-8%	35.8	3%	102.6	87.0	18%
PBT	34.6	38.7	-11%	33.9	2%	97.3	82.6	18%
Taxation	-8.7	-10.0	-13%	-8.0	8%	-24.2	-21.0	15%
Net Profit (NP)	26.9	29.6	-9%	25.8	4%	75.0	61.5	22%
Core Net Profit (CNP)	25.2	28.4	-11%	25.8	-2%	72.1	61.5	17%
Basic EPS (sen)	3.3	3.8	-11%	3.4	-2%	9.6	8.2	17%
EBIT margin (%)	15%	16%		15%		15%	14%	
PBT margin (%)	14%	16%		15%		14%	13%	
Effective tax rate (%)	25%	26%		24%		25%	25%	
NP margin (%)	11%	12%		11%		11%	10%	
CNP margin (%)	10%	12%		11%		10%	10%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE: Dec (RM'm)	3Q16	2Q16	QoQ	3Q15	YoY	9M16	9M15	YoY
Revenue								
Construction	228.8	224.9	2%	209.3	9%	618.8	551.6	12%
Property	14.5	14.2	2%	11.9	21%	54.4	42.6	28%
South Africa Investment	8.1	6.4	28%	2.1	280%	19.3	19.2	0%
Healthcare	n.a.	n.a.	n.m.	6.6	-100%	0.0	21.4	-100%
Manufacturing & trading	n.a.	n.a.	n.m.	n.a.	n.m.	0.0	0.0	n.m.
	251.4	245.6		230.0		692.5	634.8	
Segmental EBIT								
Construction	29.9	34.4	-13%	31.6	-5%	80.5	71.3	13%
Property	3.0	2.7	12%	1.7	72%	11.9	7.6	57%
South Africa Investment	3.9	3.1	27%	2.3	73%	9.7	8.8	11%
Healthcare	n.a.	n.a.	n.m.	0.3	-100%	0.0	1.8	-100%
Manufacturing & trading	n.a.	n.a.	n.m.	n.a.	n.m.	0.0	0.0	n.m.
Others	2.0	4.6	n.m.	0.0	9262%	6.6	-0.2	-3111%
Eliminations	(1.7)	(4.7)	-63%	(0.1)	1581%	-6.2	-1.1	452%
	37.1	40.1		35.8		102.6	88.1	
EBIT margin								
Construction	13.1%	15.3%	-2.2	15.1%		13.0%	12.9%	
Property	20.8%	18.9%	1.9	14.6%		22.0%	17.9%	
South Africa Investment	48.2%	48.5%	-0.3	105.8%		50.6%	45.8%	
Healthcare	n.m.	n.m.		4.4%		n.m.	8.3%	
Manufacturing & trading	n.m.	n.m.		n.m.		n.m.	n.m.	

Source: Company, Kenanga Research

Sum-of-parts valuation

Segment	Stake	Method	Value (RM m)
Construction	100%	FY17 PE of 12x	869.0
Property Division	100%	FY17 PE of 5x	81.7
South Africa	100%	RNAV 60% discount	45.2
Sub Total			995.9
Proceeds from Warrant C and D			123.2
Proceeds from disposal of Optimax			5.1
Total			1124.2
No of FD shares			753.5
SOP/Share			1.49
Target Price			1.49
Implied Basic FY17 PER			9.7
Implied FD FY17 PER			11.0

Source: Kenanga Research

29 November 2016

Peer Comparison

CORE COVERAGE																
NAME	Price (28/11/16)	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	0.56	433.4	9.1	7.2	8.0	0.0	6.1	0.4	47.5	60.4	54.2	27.2	-10.3	0.63	Outperform	-26.80
GAMUDA BHD	4.72	11437.0	18.2	16.0	15.3	2.5	9.8	1.6	626.1	709.5	741.7	13.3	4.5	4.85	Market Perform	1.29
IJM CORP BHD	3.23	11635.7	23.1	21.0	18.9	1.9	5.9	1.2	499.9	549.5	612.0	9.9	11.4	3.51	Market Perform	-3.59
KIMLUN CORP BHD	2.14	664.0	10.0	8.2	7.7	3.0	15.1	1.2	64.4	78.7	83.8	22.2	6.5	2.51	Outperform	55.07
MUHIBBAH ENGINEERING (M) BHD	2.15	1032.7	11.1	10.6	9.4	2.3	9.0	1.0	88.9	92.9	104.9	4.5	12.9	2.53	Outperform	-2.71
HOCK SENG LEE BERHAD	1.69	928.7	12.2	14.5	10.4	1.4	9.0	1.3	76.2	64.1	89.2	-15.9	39.1	1.79	Market Perform	-10.58
NAIM HOLDINGS BERHAD	1.40	331.7	150.8	-28.4	7.7	0.0	-0.9	0.3	2.2	-11.7	43.3	-631.8	-470.1	1.65	Market Perform	-43.09
WCT HOLDINGS BHD	1.79	2238.7	60.8	28.9	15.8	1.4	4.3	1.3	49.3	103.6	190.2	110.1	83.6	1.58	Underperform	11.18
MMC CORP BHD	2.41	7338.6	61.8	19.8	14.9	1.5	4.0	0.8	118.8	371.5	491.6	212.7	32.3	2.70	Outperform	22.96
MITRAJAYA HOLDINGS BHD	1.25	836.4	10.7	9.4	9.2	3.2	18.7	1.8	87.7	99.9	102.1	13.9	2.2	1.49	Outperform	4.17
SUNWAY CONSTRUCTION GROUP BH	1.63	2107.4	16.6	15.8	14.1	2.2	24.5	3.9	127.2	133.2	149.0	4.7	11.9	1.81	Outperform	16.43
KERJAYA PROSPEK GROUP BHD	2.14	1089.2	74.9	12.2	9.6	3.1	13.7	1.7	16.1	98.9	125.9	512.6	27.4	2.64	Outperform	31.29
Average			38.3	11.3	11.7											
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	0.81	433.4	-304.4	-23.0	9.7	5.6	-1.7	0.4	-1.4	-18.9	45.0	1223.5	-337.8	n.a.	Not Rated	-31.78
PROTASCO	1.22	517.5	7.7	6.3	n.a.	n.a.	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	-5.28
PINTARAS JAYA	3.52	576.4	32.2	14.4	11.5	5.4	11.8	1.7	17.8	39.9	49.9	124.2	25.1	4.20	Trading Buy	6.67
GABUNGAN AQRS	0.88	343.6	-34.6	16.9	9.2	0.0	n.a.	n.a.	-9.9	20.3	37.0	-305.3	82.3	n.a.	Not Rated	6.02
GADANG HOLDINGS	0.94	607.8	5.8	6.3	6.0	2.8	16.8	1.1	94.2	86.9	90.8	-7.7	4.4	2.44	Not Rated	10.85
AZRB	0.61	294.1	12.9	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	-3.94
TRC SYNERGY	0.42	199.4	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	30.7	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	12.16
BINA PURI	0.43	102.9	27.2	6.9	6.0	n.a.	n.a.	n.a.	3.3	13.0	15.0	294.4	15.4	n.a.	Not Rated	-1.16
GEORGE KENT	2.89	1085.2	21.6	17.1	12.7	2.6	17.5	3.0	50.3	63.4	85.5	26.0	35.0	2.80	Trading Buy	121.63
PESONA	0.55	360.1	30.8	15.0	9.2	3.6	12.6	1.9	11.7	23.9	39.3	104.4	64.2	0.485	Take Profit	37.50
Average			-35.1	n.a.	n.a.											

Source: Kenanga Research

29 November 2016

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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