

# Stock Digest

## Results Note – Mitrajaya Holdings Bhd

Wednesday, 01 Mar, 2017



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## Riding High

### Results Highlights

- Mitrajaya's 4Q2016 net profit jumped 76.5% Y.o.Y to RM42.8 mln, on the back of higher contribution from the property development segment. Revenue for the quarter gained 10.0% Y.o.Y to RM271.7 mln. For 2016, cumulative net profit added 36.1% Y.o.Y to RM117.8 mln. Revenue for the year grew 11.9% Y.o.Y to RM964.1 mln.
- The reported earnings came in above expectations as it accounts to 113.8% of our full year estimated net profit of RM103.6 mln. The reported revenue came within our forecast, accounting to 99.1% of our full year estimated revenue of RM972.5 mln.
- Segment wise, the construction segment's 4Q2016 pretax profit gained 4.0% Y.o.Y to RM31.0 mln due to higher billings on the final stages of construction on several projects. Its domestic property development segment's pretax profit stood at RM21.1 mln vs. a pretax loss of RM2.9 mln in the previous corresponding quarter on receipts from a compulsory land acquisition at Kota Tinggi Johor of RM17.6 mln. The South Africa property segment's pretax profit, however, fell 28.2% Y.o.Y to RM5.4 mln on lower sales.
- 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)	2014A	2015A	2016A	2017F	2018F
Revenue	520.2	890.7	964.1	1017.3	1157.2
EBITDA	85.0	147.9	185.5	202.0	228.7
Net Profit	53.8	86.8	117.8	122.7	140.3
Revenue Growth (%)	53.7	71.2	8.2	5.5	13.8
EBITDA Growth (%)	59.7	73.9	25.5	8.9	13.2
Net Profit Growth (%)	92.1	61.5	35.7	4.1	14.3
EPS (sen)	8.0	13.0	17.6	18.3	20.9
Diluted EPS (sen) #	N/A	N/A	N/A	17.8	22.8
P/E (x)	15.7	9.7	7.2	6.9	6.0
Diluted P/E (x) #	N/A	N/A	N/A	7.1	5.5
DPS (sen)	3.0	5.0	5.0	5.5	5.5
Dividend Yield (%)	2.4	4.0	4.0	4.4	4.2
P/BV (x)	2.1	1.7	1.4	N/A	N/A
ROE (%)	13.6	17.3	19.1	N/A	N/A
# Based on enlarged share capital of 748.4 mln outstanding shares (After adjusting for warrants-D conversion in 2017)					

Source: Company Data, MSSB Research

## BUY

Share Price: RM1.26  
Target Price: RM1.95

### 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): 669.8

Market Capital (RM mln): 843.9

Par Value (RM): 0.50

Major Shareholders:

Tan Eng Piow	40.6%
Aw Eng Soon	2.1%
Kenanga Unit Trust	1.9%

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## Prospects

Mitrajaya has secured two major construction contracts collectively worth RM233.7 mln in 4Q2016, bringing the group's orderbook replenishment to RM736.4 mln in 2016 (see Appendix 1) – slightly above our targeted orderbook replenishment rate of RM700.0 mln for the year. The orderbook replenishment rate is also a step-up of its previous year's orderbook replenishment rate of RM468.5 mln.

Meanwhile, the group's outstanding construction orderbook of RM1.53 bln – implying a construction orderbook-to-revenue cover ratio of 1.8x against 2016's construction revenue will sustain its earnings visibility over the next 2-3 years. We have imputed a targeted construction orderbook replenishment of RM700.0 mln for 2017 and we think that figure is achievable, premised to the group's tenderbook of approximately RM3.00 bln.

We think Mitrajaya's prospects remain robust moving into 2017 given that the group will be able to capitalise on the recent Budget 2017's reiteration of key transportation and affordable housing projects. Already, the group has secured construction and completion of civil works worth RM183.4 mln for Section 2 of the West Coast Expressway in January 2017.

Over at the property development segment, Mitrajaya's unbilled domestic property sales of RM160.8 mln, mainly from the Wangsa 9 Residency project, will provide earnings visibility over the next 2-3 years. We believe that the aforementioned project's recognition will be ramped up in coming quarters, given that the construction progress is at the advanced stages of completion. On its South Africa property segment, the unbilled sales of Rand 22.0 mln (RM7.0 mln) will be recognised progressively until early-2017.

## Valuation And Recommendation

We raised our earnings forecast by 12.8% and 12.1% to RM122.7 mln and RM140.3 mln for 2017 and 2018 respectively after adjusting a higher contribution from its property development segment, coupled with a slightly lower effective tax rate at 25.0% (from 26.0%). Consequently, we maintain our **BUY** recommendation on Mitrajaya with a higher target price of RM1.95 (from RM1.90).

Our target price is derived from ascribing an unchanged target PER of 11.0x to its 2017 (fully diluted) construction earnings, while the value of its property development units, both local and overseas, are valued at 0.8x (unchanged) their respective book values. At the target price of RM1.95, Mitrajaya will be trading at prospective PERs of 10.6x and 9.3x in 2016 and 2017 respectively, which is close to the construction industry averages of 11.0x.

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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 project 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.

Quarterly Performance					
FY Dec (RM mln)	4Q2016	4Q2015	% Change Y.o.Y	3Q2016	% Change Q.o.Q
Revenue	271.7	247.0	10.0%	251.4	8.1%
EBITDA	71.7	46.9	52.7%	42.7	67.7%
Depreciation & Amotization	11.7	6.4	81.7%	6.2	89.0%
Net Interest Income/ (Expense)	-2.0	-0.6	254.3%	-2.0	-1.4%
Profit before Tax	58.0	40.0	44.9%	34.6	67.7%
Net Profit	42.8	24.3	76.5%	26.9	59.2%
Basic EPS (Sen)	6.4	3.6	76.5%	4.0	59.2%

Source: Company Data, MSSB Research

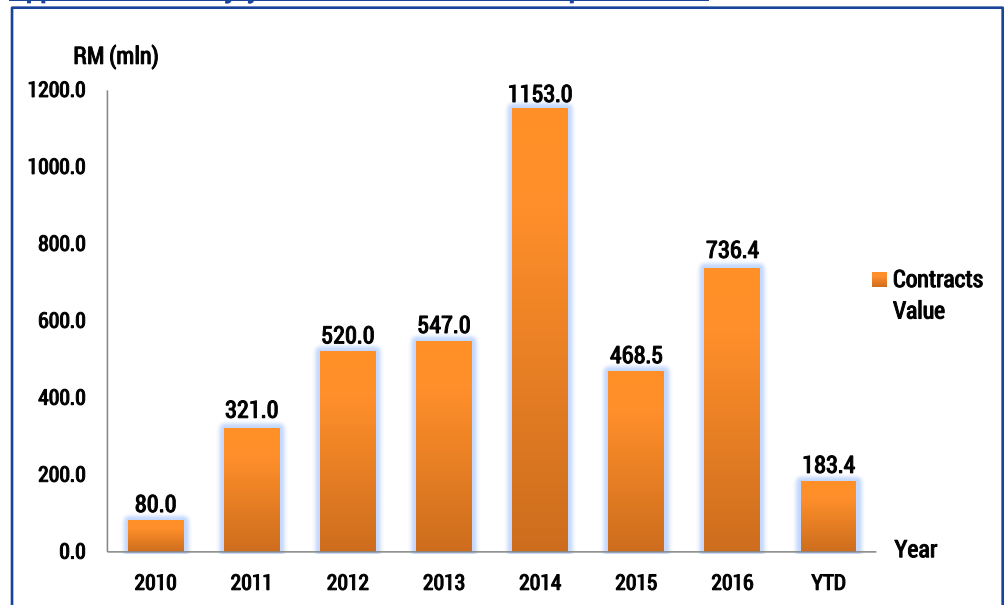
Income Statement					
FYE Dec (RM mln)	2014A	2015A	2016A	2017F	2018F
Revenue	520.2	890.7	964.1	1017.3	1157.2
EBITDA	85.0	147.9	185.5	202.0	228.7
Depreciation & Amortisation	-9.5	-18.3	-24.5	-29.5	-32.5
Net Interest Expense	-3.0	-4.5	-6.0	-6.1	-6.5
Pre-tax Profit	72.5	124.9	155.3	166.1	189.5
Effective Tax Rate	26.5%	30.4%	24.8%	25.0%	25.0%
Net Profit	53.8	86.8	117.8	122.7	140.3
EBITDA Margin	16.3%	16.6%	19.2%	19.9%	19.8%
PreTax Margin	13.9%	14.0%	16.1%	16.3%	16.4%
Net Margin	10.3%	9.8%	12.2%	12.1%	12.1%

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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