

16 October 2017

Mitrajaya Holdings Bhd

1-for-5 Rights Issue and Bonus

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MITRA has proposed for a 1-for-5 renounceable rights issuance followed by 1 free warrant and 1 bonus for every 2 rights subscribed. We were negatively surprised by the rights which are priced at RM0.68 per piece as it is EPS and ROE dilutive and the entire proceeds of RM94m would be used to pare down debts, which are manageable at 0.34x. Net gearing would be reduced to 0.18x while FY18E CNP increased by 6% from interest savings, but EPS diluted by 6%. Maintain MP with lower SoP-derived Cum/Ex TP of RM1.10/RM0.95 (from RM1.20/1.03).

Rights, warrants and bonus. Last Friday, MITRA proposed a 1-for-5 rights issuance of up to 157.5m rights shares, indicatively priced at RM0.68 (25.27% discount to TEAP of RM0.91 calculated based on 5-day WAMP) to raise proceeds of RM94-107m. Additionally, for every 2 rights share subscribed, there will be 1 free warrant (indicative exercise price of RM1.15) and 1 bonus share. We believe the exercise will raise close to the minimum of RM94m as we exclude further dilution on current share base from existing ESOS and Warrants-D given that their exercise price is above current market price. Post rights and bonus, the enlarged share base will increase to 896m (from 689m). The proposals are expected to be completed by 1Q18.

Negatively surprised. We were negatively surprised by the rights issuance given that it would be dilutive for FY18E EPS and ROE (by 6% and 7%, respectively) and the rationale of using the rights proceeds to pare down debts despite manageable current net gearing levels of 0.34x (as of 2Q17), while there are no clear expansion plans. We note that the last time MITRA did a cash call (via rights issuance) was in the year 2000 where the proceeds were used for working capital purposes. We note that net gearing for small-mid cap contractors under our universe can go as high as 0.8x but the typical comfortable level is <0.5x. Post-rights issuance, we expect net gearing position to decrease to 0.18x (from 0.34x as of 2Q17). We believe their lighter balance sheet would serve the working capital needs for their current outstanding order-book of RM1.8b and we do not expect any major land banking activities in the near future. Meanwhile, FY18E PER is also expected to expand by 7% based on an "ex-all" basis to 9.4x (from 8.8x).

Outlook. YTD, MITRA has secured RM787m new contracts (vs our target of RM800m) and its outstanding order-book stands at c.RM1.80b, providing earnings visibility for another c.2.0 years. Current steel prices are at a 5-year high of RM2,655/t (+37% against FY16 average of RM1,933/t) could cause margin compressions for on-going projects secured back in FY16. However, we have already factored in higher cost assumptions into our FY17-18E earnings. For their property arm, unbilled sales stood at RM233m (mostly from Wangsa 9 residency and Puchong Prima affordable homes) provide c.2.0 year visibility to the group. We note that management plans to launch their Wangsa 9 Phase 3 by Nov 2017 (GDV of RM300m). Meanwhile, its South African division will see unbilled sales of Rand45m (RM14.8m) recognised progressively upon completion of the transfer of ownership in FY17 and early FY18.

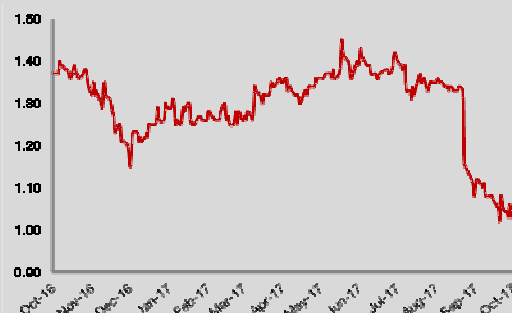
Raising FY18E earnings. We make no changes to our FY17E earnings but raised FY18E earnings by 6% to RM85m after accounting for the interest savings of RM4.9m post rights issuance. That said, FY18E EPS will be diluted by 6% to 9.5 sen (previous 10.2 sen) from the rights. (refer back for calculations table).

Maintain MP. Post rights, we maintain MP with lower SoP-derived cum/ex TP of RM1.10/RM0.95 (previously cum/ex TP RM1.20/RM1.03). Our TP implies FY18E PER of 10x, which we find fair given that it is within our applied targeted PER for small-mid cap contractors of 9-13x.

MARKET PERFORM ↔

Cum/Ex-Price : RM1.03/RM0.90
Cum/Ex-Target Price : RM1.10/RM0.95 ↓

Share Price Performance



KLCI	1,755.32
YTD KLCI chg	6.9%
YTD stock price chg	-18.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MHB MK Equity
Market Cap (RM m)	709.6
Issued shares	688.9
52-week range (H)	1.46
52-week range (L)	1.02
3-mth avg daily vol:	1,630,570
Free Float	51%
Beta	0.8

Major Shareholders

Tan Eng Piow	40.9%
Employees Provident Fund	5.9%
CIMB-Principal Asset	2.2%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	964.1	1,110.6	1,054.7
EBIT	162.9	86.2	116.3
PBT	155.3	72.6	107.2
Net Profit (NP)	117.8	70.5	85.4
Core net profit	97.3	70.5	85.4
Consensus (NP)	n.a.	68.8	50.5
Earnings Revision	0%	0%	6%
*Core EPS (sen)	10.9	7.9	9.5
EPS growth (%)	11%	-28%	21%
DPS (sen)	5.0	2.0	2.0
NTA/Share (RM)	0.64	0.76	0.93
*Core PER (x)	8.3	11.4	9.4
BVPS (RM)	0.69	0.76	0.93
Net Gearing (x)	0.3	0.3	0.2
Dividend Yield (%)	5.6%	2.2%	2.2%

*post rights

Corporate Proposals

Exercise	Details	Number of share	Share price/Issue price	Market Cap/Proceeds
	Existing shares	688.9	1.03	709.6
1 for 5 rights	137.8m number of rights shares (assuming all taken up)	+137.8	0.68	93.7
	Post rights	826.7	0.97 (ex-rights price)	803.2
1 bonus for 2 rights subscribed	68.9m number of bonus shares	+68.9	-	-
	Post rights and bonus share base (our ex-all basis)	895.6	0.90 (ex-all price)	803.2
Exercise	Details	Number of warrants	Tentative exercise price	Proceeds to be raised in the next 5 years
1 warrant-E for 2 rights	68.9m number of warrants-E to be received by subscribers*	68.9	1.15	79.22
* We exclude dilution for Warrants-E into our calculations for now given that it is currently out of the money based on exercise price of RM1.15				

Source: Kenanga Research

Comparison of OLD and NEW FY18E EPS post rights and bonus issuance

Scenario	Details	Share Base	FY18 CNP	FY18 EPS	FY18 PER (based on Last closing cum/ex price of RM1.03/RM0.90)
OLD	Prior Rights and Bonus Earnings and EPS based on OLD sharebase	688.9	80.4	11.7	8.8
A1	Post rights	826.7	85.4	10.3	9.4
A2	Post rights and Bonus (New Earnings and New EPS)	895.6	85.4	9.5	9.4
To make an apple to apple comparison for New and Old FY18 EPS, we need to adjust Old sharebase to encapsulate effect of (i) bonus element from rights issuance and (ii) Bonus issuance.					
B1	Adjusted Old EPS after adjusting OLD share base for (i) Bonus element from Rights issue	730.2	80.4	11.0	8.8
B2	Adjusted Old EPS after adjusting OLD share base for: (i) Bonus element from Rights issue and (ii) Bonus issue	791.1	80.4	10.2	8.8
TRUE Comparison of Old and New FY18E EPS					
A2 vs B2	Compare A2 against B2 to see the true comparison of FY18E EPS post rights issuance (%)		+6%	-6%	+7%

Source: Kenanga Research

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Sum-of-parts valuation			
<u>Segment</u>	<u>Stake</u>	<u>Method</u>	<u>Value (RM m)</u>
Construction	100%	FY18 PE of 12x	672.2
Property Division	100%	FY18 PE of 7x	134.9
South Africa	100%	RNAV 60% discount	46.7
Sub Total			853.9
Total			853.9
No of shares			896
SOP/Share			0.95
Target Price			0.95
FD FY18 EPS			9.5
Implied FD FY18 PER			10.0
Source: Kenanga Research			

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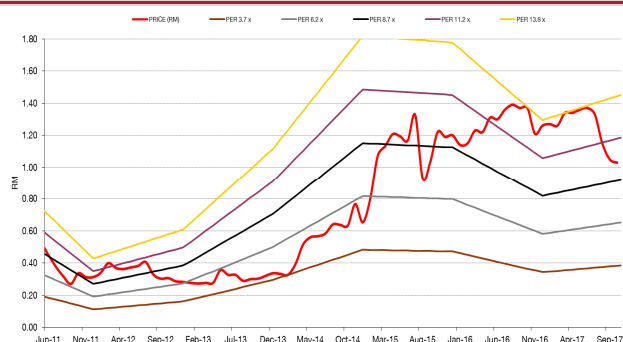
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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	520	891	964	1111	1055	Growth (%)					
EBITDA	86	149	191	105	135	Revenue	54%	71%	8%	15%	-5%
Depreciation	-10	-18	-18	-19	-19	EBITDA	59%	74%	29%	-45%	29%
EBIT	76	130	163	86	116	EBIT	74%	71%	25%	-47%	35%
Net Interest Exp	-4	-5	-12	-14	-9	Pre-tax Income	80%	72%	24%	-53%	48%
Investing	0	0	0	0	0	Net Income	83%	63%	34%	-40%	21%
Associate/JCE	0	0	0	0	0	Core Net Income	83%	63%	11%	-28%	21%
Exceptionals/FV	0	0	1	0	0						
PBT	72	125	155	73	107	Profitability (%)					
Taxation	-19	-37	-31	-20	-25	EBITDA Margin	16%	17%	20%	9%	13%
Minority Interest	0	0	2	-18	-3	EBIT Margin	15%	15%	17%	8%	11%
Net Profit	54	88	118	71	85	PBT Margin	14%	14%	16%	7%	10%
Core Net Profit	54	88	97	71	85	Net Margin	10%	10%	12%	6%	8%
						Effective Tax Rate	-26%	-30%	-20%	-28%	-24%
						ROE	14%	15%	16%	10.3%	10%
						ROA	8%	9%	8%	6%	7%
						DuPont Analysis					
						Net margin (%)	10%	10%	12%	6%	8%
						Assets Turnover (x)	0.8	0.9	0.8	0.9	0.8
						Leverage Factor (x)	1.6	1.7	2.0	1.8	1.5
						ROE (%)	14%	15%	19%	10%	10%
						Leverage					
						Debt/Asset (x)	0.16	0.16	0.21	0.18	0.13
						Debt/Equity (x)	0.26	0.28	0.41	0.32	0.19
						Net Debt/(Cash)	3	3	3	15	5
						Net Debt/Equity (x)	0.20	0.21	0.32	0.30	0.16
						Valuations					
						Core EPS (sen)	6.0	9.8	10.9	7.9	9.5
						NDPS (sen)	0.9	2.1	5.0	2.0	2.0
						BV/share (RM)	0.44	0.55	0.69	0.76	0.93
						Core PER (x)	15.0	9.2	8.3	11.4	9.4
						Net Div. Yield (%)	1.0%	2.4%	5.6%	2.2%	2.2%
						PBV (x)	2.0	1.6	1.3	1.2	1.0
						EV/EBITDA (x)	10.3	5.8	4.5	7.0	3.9

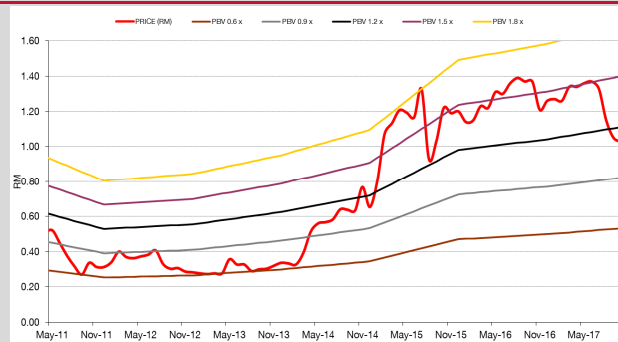
Source: Kenanga Research

Core earnings excludes one-offs including remeasurement gains, impairments/provisions/write-backs, translation FOREX, one-off disposals

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (13/10/17)	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	0.88	681	-4.8	11.5	9.7	2%	6%	0.7	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	52.2
GAMUDA BHD	5.18	12715	20.8	19.7	16.5	2%	10%	1.6	700.6	741.7	885.4	6%	19%	5.45	Market Perform	8.4
IJM CORP BHD	3.30	11973	22.1	20.4	18.2	2%	6%	1.2	539.1	585.8	656.1	9%	12%	3.48	Market Perform	3.1
KIMLUN CORP BHD	2.30	735	8.7	10.1	9.1	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	10.6
MUHIBBAH ENGINEERING (M) BHD	2.83	1359	16.7	14.4	13.8	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	26.9
HOCK SENG LEE BERHAD	1.48	813	14.4	16.5	11.8	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-7.5
WCT HOLDINGS BHD	1.69	2377	33.4	19.0	16.7	2%	5%	1.0	84.8	149	169.4	76%	14%	1.83	Market Perform	-1.7
MITRAJAYA HOLDINGS BHD	0.90	710	6.9	9.6	9.4	6%	10%	1.0	97.3	70.5	80.5	-28%	14%	0.95	Market Perform	-18.3
SUNWAY CONSTRUCTION GROUP	2.31	2985	25.4	20.6	17.3	2%	25%	5.2	117.7	145.2	173.1	23%	19%	2.29	Market Perform	35.9
KERJAYA PROSPEK GROUP BHD	3.82	2151	21.5	17.0	14.5	1%	16%	2.7	100	126.7	148.1	27%	17%	3.30	Underperform	76.0
Average			16.5	15.9	13.6											
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	1.21	716	-2.5	17.0	12.4	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	33.0
PROTASCO	1.06	450	8.6	7.7	7.4	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-6.2
PINTARAS JAYA	3.93	649	36.2	15.3	12.7	5%	12%	1.9	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	11.6
GABUNGAN AQRS	1.78	772	30.8	18.7	8.9	1%	12%	2.2	22.6	37.2	77.9	65%	109%	1.6	Not Rated	96.7
GADANG HOLDINGS	1.21	796	4.2	4.5	4.3	2%	29%	1.3	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	15.2
AZRB	1.10	585	19.6	9.3	7.3	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	73.2
TRC SYNERGY	0.79	380	12.7	11.5	14.4	3%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	107.9
BINA PURI	0.36	95	84.7	5.7	5.7	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-18.4
GKENT	3.29	1853	18.3	19.8	17.5	3%	21%	4.1	101.4	93.8	106	-7%	13%	2.8	Trading Buy	62.3
PESONA	0.54	375	17.7	10.0	7.3	4%	22%	2.3	20	35.3	48.5	77%	37%	0.485	Take Profit	-10.7
JAKS	1.27	622	0.8	9.0	6.5	0%	12%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	24.5
Average			21.0	11.7	9.5											

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

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

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