Stock Digest

Friday, 04 Dec, 2015

Recommendation: BUY

Share Price: RM1.22
Target Price: RM1.75

Bursa Code: 9571

Stock Information: Engaged in construction, property development, overseas investment and operates eye specialist centre.

Sector: Infrastructure construction

Industry: Civil Engineering and Property Development

Listing: Main Market

Share Issued (mln): 642.1

Market Capital (RM mln): 783.4

Major Shareholders:

Tan Eng Piow	40.5%
Employees Provident Fund	2.6%
Kumpulan Wang Persaraan	2.5%

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Mitrajaya Holdings Bhd

Earnings On A High

Results Highlights

- Mitrajaya Holdings Bhd's 3Q2015 net profit jumped 96.9% Y.o.Y to RM25.8 mln, mainly due to higher contributions from the construction and South African property development segments, which offset the weaker performance of the local property development business. Revenue for the quarter rose 58.9% Y.o.Y to RM231.3 mln.

- For 9M2015, cumulative net profit climbed 65.6% Y.o.Y to RM62.3 mln. Revenue for the period gained 65.5% Y.o.Y to RM384.4 mln. The results are broadly within our estimates as the net profit and revenue accounts to 80.4% and 73.3% of our full year forecast respectively.

- Segment wise, the construction segment's pretax profit soared 250.7% Y.o.Y to RM30.9 mln, mainly on contributions from projects secured over the past two years. Its domestic property development segment's pretax profit, however, plunged 89.7% Y.o.Y to RM0.6 mln, as the Wangsa 9 Residency has yet to achieve a certain completion stage for higher recognition. The South Africa property segment's pretax profit climbed 43.4% Y.o.Y to RM2.3 mln, while the healthcare segment's pretax profit stood at RM0.2 mln vs. a net loss of RM0.1 mln recorded in the previous corresponding quarter due to a gain of RM0.7 mln arising from disposal of an office building.

- Meanwhile, the group continues to maintain a healthy balance sheet with a net gearing of 0.2x. We also note that Mitrajaya has been rewarding its shareholders with dividends in the fourth quarter over the past years and we expect a 4.5 sen dividend per share, translating to a 37.3% payout-ratio from its 2015's forecast net profit of RM77.5 mln, given the group's recent strong financial performance.

Financial Highlights

FY Dec (RM mln)	2012A	2013A	2014A	2015F	2016F
Revenue	250.5	338.4	520.2	868.1	972.5
EBITDA	38.6	53.2	85.0	122.1	135.4
Net Profit	17.9	28.0	52.8	77.5	86.8
Revenue Growth (%)	-4.3	35.1	53.7	66.9	12.0
EBITDA Growth (%)	-40.9	37.9	59.7	43.6	10.9
Net Profit Growth (%)	-56.1	56.1	88.7	46.8	12.0
EPS (sen)	2.8	4.4	8.2	12.1	13.5
Diluted EPS (sen) #	N/A	N/A	N/A	10.9	12.2
P/E (x)	43.6	28.0	14.8	10.1	9.0
Diluted P/E (x) #	N/A	N/A	N/A	11.2	10.0
Dividend Yield (%)	1.0	1.0	2.6	3.7	4.1
P/BV (x)	2.36	2.24	1.99	N/A	N/A
ROE (%)	5.4	8.0	13.4	N/A	N/A

 # Based on enlarged share capital of 748.4 mln outstanding shares (After adjusting for warrants-C & D conversion in 2015)

Source: Company data & MSSB Research

Your Gain, Our Aim

Prospects

Mitrajaya has secured a total of RM468.5 mln worth of new construction contracts, accounting to 66.9% of our estimated orderbook replenishment rate of RM700.0 mln for 2015. The bulk of the contracts secured in 2015 were from Putrajaya Holdings Sdn Bhd and the East Coast Economic Region Development Council (ECERDC), whom Mitrajaya has had dealings with on previous occasions – underlining the group’s established business relationship with its existing clienteles. We also note that the group is currently tendering for some RM4.1 bln worth of construction projects, predominantly in the Klang Valley, while approximately RM600.0 mln worth of tenders are being prepared.

Highlighted in the recent Budget 2016, the upcoming LRT Line 3 is expected to begin construction in early 2016 and the tenders for the various packages are in the progress. We think that Mitrajaya is well positioned to become one of the key beneficiaries of the aforementioned project, backed by its strong technical capabilities, machinery capacity and the experienced in having delivered both the Ampang and Kelana Jaya LRT extensions. We also believe that Mitrajaya will continue to capitalise on the East Coast Economic Region development programs, which involves Public-Private Participation (PPP) that spans a period of 12 years from 2007, to boost its construction orderbook.

Meanwhile, Mitrajaya’s on-going property development project, the Wangsa 9 Residency is at the initial stage of construction. Despite the general slowdown in the property development industry, Phase 1 and Phase 2 of the aforementioned project had achieved a satisfactory take-up rate.

Valuation and Recommendation

With its reported earnings coming in largely within our estimates, we leave our earnings forecast unchanged. We also maintain our **BUY** recommendation on Mitrajaya with an unchanged target price RM1.75. Our target price is derived from ascribing a target PER of 11.0x to its fully diluted 2016 construction earnings and a PER of 9.0x to its fully diluted healthcare earnings, while the value of its property development units, both local and overseas, are valued at 0.8x of their book values.

We continue to like Mitrajaya for its strong outstanding orderbook of approximately RM1.48 bln that will help to sustain its earnings growth and for its exceptionally high construction cover ratio of 2.8x against 2014’s construction revenue that will anchor the segment earnings over the next two years. The group’s unbilled sales of approximately RM200.0 mln from its local property development projects will also provide earnings visibility over the next two years, while the unbilled sales of Rand 40.0 mln from the South Africa property development project will be recognised progressively by the end of 2015.

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 1Malaysia People’s Housing Scheme (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.

Quarterly Performance					
FY Dec (RM mln)	**3Q2015**	**3Q2014**	**% Change Y.o.Y**	**2Q2015**	**% Change Q.o.Q**
Revenue	**231.3**	**145.6**	58.9%	**243.2**	-4.9%
EBITDA	**42.6**	**22.5**	89.5%	**36.3**	17.3%
Depreciation & Amotization	**4.9**	**4.7**	4.9%	**4.2**	18.1%
Net Interest Income/ (Expense)	**-3.9**	**-0.8**	406.5%	**-1.0**	309.8%
Profit before Tax	**33.9**	**17.0**	99.4%	**31.2**	8.7%
Net Profit	**25.8**	**13.1**	96.9%	**23.1**	11.8%
Basic EPS (Sen)	**4.0**	**2.0**	96.9%	**3.6**	11.8%

Source: Company data & MSSB Research

Income Statement					
FYE Dec (RM mln)	**2012A**	**2013A**	**2014A**	**2015F**	**2016F**
Revenue	250.5	338.4	520.2	868.1	972.5
EBITDA	38.6	53.2	85.0	122.1	135.4
Depreciation & Amortisation	-7.5	-10.0	-9.5	-11.9	-13.0
Net Interest Expense	-3.2	-2.9	-3.0	-4.0	-3.6
Pre-tax Profit	27.8	40.3	72.5	106.2	118.8
Effective Tax Rate	*32.2%*	*28.9%*	*26.5%*	*26.5%*	*26.5%*
Net Profit	17.9	28.0	52.8	77.5	86.8
EBITDA Margin	*15.4%*	*15.7%*	*16.3%*	*14.1%*	*13.9%*
PreTax Margin	*11.1%*	*11.9%*	*13.9%*	*12.2%*	*12.2%*
Net Margin	*7.2%*	*8.3%*	*10.1%*	*8.9%*	*8.9%*

Source: Company data & MSSB Research