

Mitrajaya Holdings (BUY↔; EPS↔)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

19 August 2016

Price Target: RM1.88 (↔)

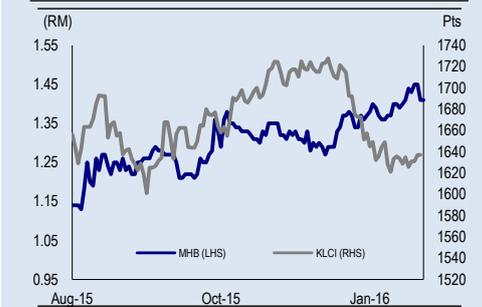
Share price: RM1.41

Achieving a record quarter

- | | |
|-------------------|--|
| Results | <ul style="list-style-type: none"> Mitrajaya reported 2QFY16 results with revenue of RM245.6m (+1% YoY, +26% QoQ) and earnings of RM29.6m (+28% YoY, +61% QoQ). On a quarterly basis, this is the highest level of earnings achieved. Cumulative 1HFY16 earnings totalled RM48.1m, up +32% YoY. |
| Deviation | <ul style="list-style-type: none"> 1HFY16 earnings made up 48% of our full year forecast and consensus which is within expectations. |
| Dividends | <ul style="list-style-type: none"> None declared. Usually in 4Q. |
| Highlights | <ul style="list-style-type: none"> Construction continues to perform. The construction division experienced the best of both worlds with topline growth and margin expansion. 1H revenue rose by 17% along with an EBIT margins expanding from 11.6% to 12.9% YoY. The former was attributed to higher orderbook execution and the latter due to prudent project management and effective cost controls. Decent job wins. YTD, Mitrajaya has managed to secure 3 contracts totalling RM503m. This has already surpassed the full year sum for FY15 at RM469m. Its orderbook of RM1.5bn translates to a 1.9x cover ratio on FY15 construction revenue. Awaiting the big one. With 7 packages of the Pan Borneo Highway (PBH) awarded, there are 3 more up for grabs. We reckon that Mitrajaya (via a JV with 2 local "Sarawakian" companies) is in a decent position to secure 1 of the remaining 3 packages. Based on the average package size of RM1.4bn so far and Mitrajaya's 30% stake in the JV, its attributed contract value would be RM430m. This could potentially boost its orderbook by 29% to RM1.9bn. Property drag from finance cost. Overall 1H property revenue was flat YoY as higher domestic contribution (mainly Wangsa 9) was offset by the fall in South Africa. Division PBT slipped -2% YoY largely due to inter-co finance cost expensed off to the income statement. |
| Risks | <ul style="list-style-type: none"> Slower than expected orderbook replenishment. |
| Forecasts | <ul style="list-style-type: none"> Our forecast is unchanged as the results were inline. |
| Rating | Maintain BUY, TP: RM1.88 <ul style="list-style-type: none"> Mitrajaya offers decent earnings growth prospects with a 3-year CAGR of 11.2%. Securing a package of the PBH could be the next catalyst. |
| Valuation | <ul style="list-style-type: none"> Our SOP based TP of RM1.88 implies FY16-17 P/E of 12.7x and 11.5x respectively. |

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KLCI	1694.9
Expected share price return	33.3%
Expected dividend return	3.8%
Expected total return	37.1%

Share price

Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	669
Market cap (RM m)	943
3-mth avg. volume ('000)	1,836
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	5.2	4.4	36.9
Relative	3.7	0.7	27.8

Major shareholders

Tan Eng Piow	40.7
Soon Aw Eng	2.1

Summary Earnings Table

FYE Dec (RM m)	FY15	FY16F	FY17F	FY18F
Revenue	891	953	1,029	1,081
EBITDA	148	162	175	188
EBIT	130	143	157	170
Profit Before Tax	125	137	150	164
Core PATAMI	87	99	109	119
vs Consensus (%)		(0)	(2)	0
Core EPS (sen)	12.9	14.8	16.3	17.8
P/E (x)	10.9	9.5	8.6	7.9
Net DPS (sen)	4.8	5.3	5.7	6.2
Net DY (%)	3.4	3.7	4.1	4.4
BV per share	0.75	0.84	0.95	1.07
P/B (x)	1.9	1.7	1.5	1.3
ROE (%)	19.3	18.6	18.2	17.7
Net Gearing (%)	24.5	16.7	12.0	6.4

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY16	2QFY15	1QFY16	YoY	QoQ	Comments
Revenue	245.6	243.2	195.5	1.0	25.6	YoY: Flat as Optimax has been sold. QoQ: Higher on stronger orderbook execution.
EBIT	40.1	32.5	25.4	23.6	58.0	Driven by margin expansion.
Finance cost	(1.6)	(1.3)	(1.5)	28.5	10.0	
Associates	0.3	0.0	0.1	1,511.8	179.6	
PBT	38.7	31.2	24.0	24.2	61.5	
PAT	29.9	22.8	18.4	31.4	62.4	
PATMI - core	29.6	23.1	18.5	28.3	60.5	
PATMI - reported	29.6	23.1	18.5	28.3	60.5	
EPS - core	4.4	3.5	2.8			
EBIT margin	16.3	13.4	13.0			Margin expansion due to better project management and efficient cost controls.
PBT margin	15.8	12.8	12.3			

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	6MFY16	6MFY15	YoY (%)	Comments
Revenue	441.0	404.8	9.0	Stronger execution on its orderbook.
EBIT	65.5	52.3	25.2	
Finance cost	(3.1)	(2.6)	20.4	
Associates & JVs	0.4	0.0	3,281.8	
PBT	62.7	49.7	26.2	
PAT	48.4	36.6	32.2	
PATMI - core	48.1	36.5	31.8	1H number made up 48% of full year forecast.
PATMI - reported	48.1	36.5	31.8	
EPS - core	7.2	5.5		
EBIT margin	14.9	12.9		Margin expansion due to better project management and efficient cost controls.
PBT margin	14.2	12.3		

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Figure #3 SOP based valuation for Mitrajaya

Sum of Parts (SOP)	Amount (RM m)	PE (x) / Discount	Value (RM m)	Basis
FY16 earnings	99	10	991	10x P/E target
Net land value	638	50%	319	50% discount to market value less debt
Cash from warrants conversion			109	Full exercise of Warrants C&D
SOP Value			1,419	
Fully diluted share base (mil)			753	
Target price (RM/ share)			1.88	

HLIB estimates

Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Cash	24	40	59	74	102
Receivables	204	488	365	409	429
Inventories	94	131	166	179	188
PPE	41	75	76	73	70
Others	277	286	304	323	344
Assets	640	1,021	970	1,058	1,133
Debts	102	162	153	150	148
Payables	136	343	239	258	258
Others	6	13	13	13	13
Liabilities	245	519	405	421	419
Shareholder's equity	394	501	564	635	713
Minority interest	1	1	1	1	1
Equity	395	502	566	636	714

Cash Flow Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Profit before taxation	72	125	137	150	164
Depreciation & amortisation	10	18	19	19	18
Changes in working capital	(30)	(115)	(17)	(37)	(29)
Taxation	(19)	(38)	(38)	(41)	(45)
Others	(25)	25	(21)	(22)	(25)
CFO	7	15	81	68	83
Net capex	(11)	(52)	(20)	(15)	(15)
Others	5	17	-	-	-
CFI	(6)	(35)	(20)	(15)	(15)
Changes in borrowings	20	60	(10)	(2)	(2)
Issuance of shares	(0)	-	-	-	-
Dividends paid	(8)	(21)	(32)	(35)	(38)
Others	2	(29)	-	-	-
CFF	14	10	(42)	(38)	(41)
Net cash flow	16	16	19	15	28
Forex	(0)	(1)	-	-	-
Others	(11)	1	-	-	-
Beginning cash	19	24	40	59	74
Ending cash	24	40	59	74	102

Income Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	520	891	953	1,029	1,081
EBITDA	86	148	162	175	188
EBIT	76	130	143	157	170
Finance cost	(4)	(5)	(6)	(6)	(6)
Associates & JV	-	0	-	-	-
Profit before tax	72	125	137	150	164
Tax	(19)	(38)	(38)	(41)	(45)
Net profit	53	87	99	109	119
Minority interest	0	(0)	-	-	-
PATMI (core)	54	87	99	109	119
Exceptionals	-	-	1	-	-
PATMI (reported)	54	87	101	109	119

Valuation & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	8.0	12.9	14.8	16.3	17.8
P/E (x)	17.5	10.9	9.5	8.6	7.9
EV/EBITDA (x)	12.6	7.3	6.6	6.1	5.7
DPS (sen)	3.2	4.8	5.3	5.7	6.2
Dividend yield	2.3%	3.4%	3.7%	4.1%	4.4%
BVPS (RM)	0.59	0.75	0.84	0.95	1.07
P/B (x)	2.4	1.9	1.7	1.5	1.3
EBITDA margin	16.5%	16.6%	17.0%	17.0%	17.4%
EBIT margin	14.6%	14.6%	15.0%	15.2%	15.8%
PBT margin	13.9%	14.0%	14.4%	14.6%	15.2%
Net margin	10.3%	9.7%	10.4%	10.6%	11.0%
ROE	14.5%	19.3%	18.6%	18.2%	17.7%
ROA	9.0%	10.4%	10.0%	10.8%	10.9%
Net gearing	19.8%	24.5%	16.7%	12.0%	6.4%

Assumptions

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Contracts secured	1,136	469	800	1,000	1,000

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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