

Stock Digest

Results Note – Mitrajaya Holdings Bhd

Tuesday, 29 Nov, 2016



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Expansion Remains On Course

Results Highlights

- Mitrajaya's 3Q2016 net profit gained 4.2% Y.o.Y to RM26.9 mln, mainly due to the improvements in both the construction and domestic property development segments, coupled with the lower depreciation charges. Revenue for the quarter added 11.9% Y.o.Y to RM251.4 mln. For 9M2016, cumulative net profit rose 20.3% Y.o.Y to RM75.0 mln. Revenue for the period increased 12.6% Y.o.Y to RM692.5 mln.
- The reported earnings came in slightly above expectations as it accounts to 78.0% of our previous full year estimated net profit of RM95.9 mln. The reported revenue, however, came below our forecast, accounting to 71.2% of our full year estimated revenue of RM972.5 mln.
- Segment wise, the construction segment's 9M2016 pretax profit added 9.4% Y.o.Y to RM75.2 mln due to higher billings from works that are in the advanced stages, coupled with stronger outstanding orderbook. Its domestic property development segment's pretax profit gained 19.3% Y.o.Y to RM5.5 mln, mainly due to recognition of its existing Wangsa 9 Residency project. The South Africa property segment's pretax profit improved 10.1% Y.o.Y to RM9.7 mln on higher topline growth.
- 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) | 2013A | 2014A | 2015A | 2016F | 2017F |
| Revenue | 338.4 | 520.2 | 890.7 | 972.5 | 1018.8 |
| EBITDA | 53.2 | 85.0 | 147.9 | 164.8 | 172.4 |
| Net Profit | 28.0 | 53.8 | 86.8 | 103.6 | 108.8 |
| Revenue Growth (%) | 35.1 | 53.7 | 71.2 | 9.2 | 4.8 |
| EBITDA Growth (%) | 37.9 | 59.7 | 73.9 | 11.4 | 4.6 |
| Net Profit Growth (%) | 56.1 | 92.1 | 61.5 | 19.2 | 5.0 |
| EPS (sen) | 4.2 | 8.0 | 13.0 | 15.5 | 16.2 |
| Diluted EPS (sen) # | N/A | N/A | N/A | 14.8 | 15.4 |
| P/E (x) | 29.9 | 15.5 | 9.6 | 8.1 | 7.7 |
| Diluted P/E (x) # | N/A | N/A | N/A | 8.4 | 8.1 |
| DPS (sen) | 1.2 | 3.0 | 5.0 | 5.0 | 5.5 |
| Dividend Yield (%) | 0.9 | 2.4 | 4.0 | 4.0 | 4.4 |
| P/BV (x) | 2.39 | 2.12 | 1.67 | N/A | N/A |
| ROE (%) | 8.0 | 13.6 | 17.3 | N/A | N/A |
| # Based on enlarged share capital of 748.4 mln outstanding shares (After adjusting for warrants-D conversion in 2016) | | | | | |

Source: Company Data, MSSB Research

BUY

Share Price: RM1.25
Target Price: RM1.90

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): 669.7

Market Capital (RM mln): 837.2

Par Value (RM): 0.50

Major Shareholders:
Tan Eng Piow 40.7%
Aw Eng Soon 2.2%
Kenanga Growth Fund 1.3%

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Prospects

Although Mitrajaya did not secured any major construction contracts in 3Q2016, the group's orderbook replenishment in 1H2016 already amounted to RM502.7 mln (see Appendix 1) or 83.8% of our targeted orderbook replenishment rate of RM600.0 mln for the year. We think that the target remains viable, premised to the acceleration of packages from various mega infrastructure projects that are expected to be awarded by end-2016.

Meanwhile, the group's outstanding construction orderbook of RM1.35 bln – implying a construction orderbook-to-revenue cover ratio of 1.8x against 2015's construction revenue will sustain its earnings visibility over the next 2-3 years. 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.

Over at the property development segment, Mitrajaya's unbilled domestic property sales of RM156.0 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 29.0 mln (RM19.0 mln) will be recognised progressively until early-2017. We also note that the group has completed the divestment of Optimax Eye Specialist Centre Sdn Bhd (Optimax) for RM5.1 mln in 3Q2016.

Valuation And Recommendation

We raised our earnings forecast by 8.0% and 2.4% to RM103.6 mln and RM108.8 mln for 2016 and 2017 respectively after adjusting a lower effective tax rate at 25.0% (from 27.0%). Consequently, we maintain our **BUY** recommendation on Mitrajaya with a higher target price of RM1.90 (from RM1.85).

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 RM1.90, Mitrajaya will be trading at prospective PERs of 12.3x and 11.7x in 2016 and 2017 respectively, which is close to the construction industry averages of 11.0x-13.0x.

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 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.

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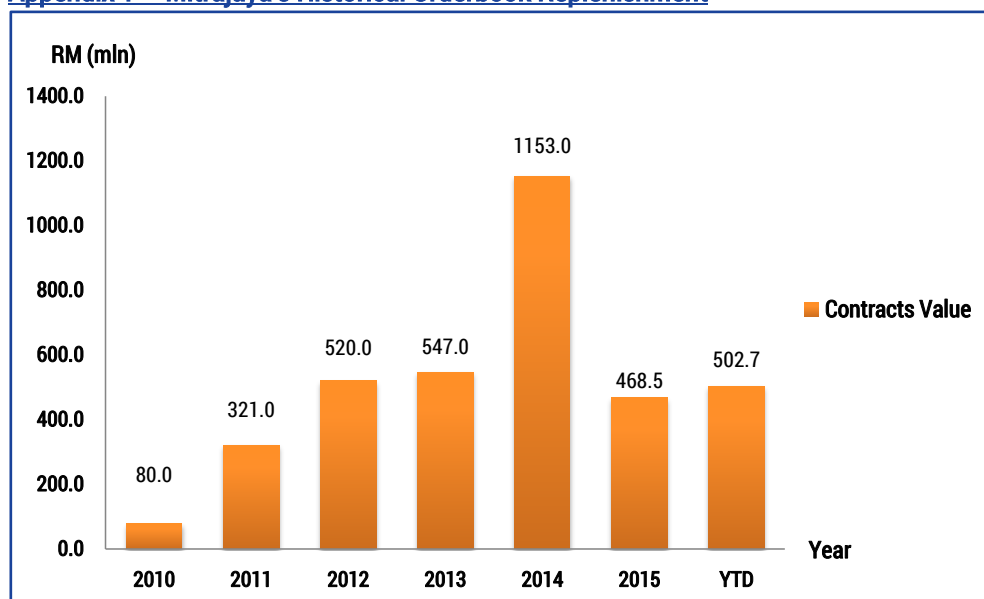
| Quarterly Performance | | | | | |
|--------------------------------|--------|--------|----------|--------|----------|
| FY Dec (RM mln) | 3Q2016 | 3Q2015 | % Change | | % Change |
| | | | Y.o.Y | 2Q2016 | Q.o.Q |
| Revenue | 251.4 | 224.7 | 11.9% | 245.6 | 2.4% |
| EBITDA | 42.8 | 40.3 | 6.1% | 39.3 | 8.8% |
| Depreciation & Amotization | 6.2 | 4.9 | 25.1% | 0.1 | 4657.7% |
| Net Interest Income/ (Expense) | -2.0 | -1.7 | 20.0% | -0.7 | 183.3% |
| Profit before Tax | 34.6 | 33.7 | 2.6% | 38.7 | -10.8% |
| Net Profit | 26.9 | 25.8 | 4.2% | 29.6 | -9.2% |
| Basic EPS (Sen) | 4.0 | 3.9 | 4.2% | 4.4 | -9.2% |

Source: Company Data, MSSB Research

| Income Statement | | | | | |
|-----------------------------|-------|-------|-------|-------|--------|
| FYE Dec (RM mln) | 2013A | 2014A | 2015A | 2016F | 2017F |
| Revenue | 338.4 | 520.2 | 890.7 | 972.5 | 1018.8 |
| EBITDA | 53.2 | 85.0 | 147.9 | 164.8 | 172.4 |
| Depreciation & Amortisation | -10.0 | -9.5 | -18.3 | -20.7 | -22.0 |
| Net Interest Expense | -2.9 | -3.0 | -4.5 | -4.4 | -3.7 |
| Pre-tax Profit | 40.3 | 72.5 | 124.9 | 139.4 | 146.4 |
| Effective Tax Rate | 28.9% | 26.5% | 30.4% | 25.0% | 25.0% |
| Net Profit | 28.0 | 53.8 | 86.8 | 103.6 | 108.8 |
| EBITDA Margin | 15.7% | 16.3% | 16.6% | 16.9% | 16.9% |
| PreTax Margin | 11.9% | 13.9% | 14.0% | 14.3% | 14.4% |
| Net Margin | 8.3% | 10.3% | 9.8% | 10.6% | 10.7% |

Source: Company Data, MSSB Research

Appendix 1 – Mitrajaya's Historical Orderbook Replenishment



Source: Company Data, MSSB Research

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