

Mitrajaya Holdings Bhd

Below Expectations

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1H17 CNP of RM32.1m was below expectations, accounting for 31% of both our and consensus estimates. Negative deviation was caused by unexpected losses from their RAPID project due to cost overruns and lower-than-expected construction margins from other jobs. No dividends declared as expected. Cut FY17-18E CNPs by 31-18%. Downgrade to **UNDERPERFORM** with lower SoP-derived TP of RM1.20.

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Results Highlight. 2Q17 CNP was down 30% **QoQ** despite revenue rising 4% mainly due to lower construction EBIT margins (-7ppt) stemming from losses amounting to RM6.5m incurred from their RAPID project Package 14-0304 worth RM186m (effective stake 49%) which was secured back in Nov 2015. We believe the losses were due to cost overruns from additional safety requirements imposed by the client, leading them to spend on additional machineries and labour. 1H17 CNP was down 32% **YoY** also due to lower construction margins (-8ppt) on the reasons stated above and also higher effective tax rates (+4ppt). That said, we note that property EBIT contributions increased 173% on the back of higher billings from advance works at Wangsa 9 project.

Outlook. Currently, MITRA's outstanding order-book stands at c.RM1.42b, providing earnings visibility for another c.1.5-2.0 years. Jobs secured YTD at RM434m, which accounts for 54% of our RM800m target with a remainder of RM366m to be achieved. We note that our replenishment RM800m target is slightly more conservative against management's target guidance of RM1.0b given the slower property market where MITRA has a strong track record in high rise residential projects. Meanwhile, we note that the abrupt rise in steel prices since July 2017 could potentially compress margins further for the rest of the year. For their property arm, unbilled sales stood at RM233m (mostly from Wangsa 9 residency and Puchong PRIMA affordable homes) which is expected to provide c.2.0 year visibility to the group. Meanwhile, its South Africa division will see unbilled sales of Rand45m (RM14.8m) recognised progressively upon completion of the transfer of ownership in FY17 and early FY18.

Slashing FY17-18E earnings. Post result, we cut our FY17-18E earnings by 31-18% after factoring c.RM18m losses for their on-going RAPID project (Package 14-0304) and reduce our construction margin assumptions (-2ppt) for other on-going projects given the abrupt rise in steel prices since July 2017 (+20% YTD).

Downgrade to UP with lower TP of RM1.20. Post reduction in earnings, we downgrade MITRA to UP (from MP) with a lower SoP-derived TP of RM1.20 (from RM1.49). We believe our downgrade is justifiable given that: (i) MITRA has potential earnings risks from their two on-going RAPID projects where outstanding contract value from the remainder 2 RAPID projects stand at c.RM100m-RM150m, and (ii) existing high steel prices could lead to further margin compression. Our TP implies 11.2x FY18E FD PER, which we believe is fair given that it is in line with small-mid cap contractors' targeted Fwd. PER range of 9-13x. **Risks to our call** include higher-than-expected margins, higher-than-expected order book replenishment and higher-than-expected property sales.

UNDERPERFORM ↓

Price : RM1.33
Target Price : RM1.20 ↓

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,769.49 |
| YTD KLCI chg | 7.8% |
| YTD stock price chg | 5.6% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | MHB MK Equity |
| Market Cap (RM m) | 916.1 |
| Issued shares | 688.8 |
| 52-week range (H) | 1.46 |
| 52-week range (L) | 1.15 |
| 3-mth avg daily vol: | 1,142,389 |
| Free Float | 51% |
| Beta | 1.1 |

Major Shareholders

| | |
|--------------------------|-------|
| Eng Piow Tan | 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 | 100.8 |
| Net Profit (NP) | 117.8 | 70.5 | 80.5 |
| Core NP | 97.3 | 70.5 | 80.5 |
| Consensus (CNP) | - | 101.0 | 118.0 |
| Earnings Revision | 0% | -31% | -18% |
| Basic EPS (sen) | 14.6 | 10.6 | 12.1 |
| FD EPS (sen) | 12.9 | 9.4 | 10.7 |
| EPS growth (%) | 11% | -28% | 14% |
| NDPS (sen) | 5.0 | 3.0 | 3.0 |
| NTA/Share (RM) | 0.76 | 0.87 | 0.94 |
| Basic PER (x) | 9.1 | 12.6 | 11.0 |
| FD PER (x) | 10.3 | 14.2 | 12.4 |
| BVPS (RM) | 0.82 | 0.87 | 0.94 |
| Net Gearing (x) | 0.3 | 0.6 | 0.5 |
| Dividend Yield (%) | 3.8% | 2.3% | 2.3% |



29 August 2017

| Result Highlight | | | | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| FYE: Dec (RM'm) | 2Q17 | 1Q17 | QoQ | 2Q16 | YoY | 1H17 | 1H16 | YoY |
| Revenue | 304.5 | 291.4 | 4% | 245.6 | 24% | 595.9 | 441.0 | 35% |
| EBIT | 15.2 | 40.1 | -62% | 40.1 | -62% | 55.3 | 65.5 | -16% |
| PBT | 12.7 | 37.7 | -66% | 38.7 | -67% | 50.4 | 62.7 | -20% |
| Taxation | -6.0 | -8.6 | -30% | -10.0 | -40% | -14.6 | -15.5 | -6% |
| Net Profit (NP) | 13.2 | 28.7 | -54% | 29.6 | -55% | 41.9 | 48.1 | -13% |
| Core Net Profit (CNP) | 13.2 | 18.9 | -30% | 28.4 | -54% | 32.1 | 46.9 | -32% |
| FD EPS (sen) | 1.8 | 2.5 | -30% | 3.8 | -54% | 4.3 | 6.2 | -32% |
| EBIT margin (%) | 5% | 14% | | 16% | | 9% | 15% | |
| PBT margin (%) | 4% | 13% | | 16% | | 8% | 14% | |
| Effective tax rate (%) | 47% | 23% | | 26% | | 29% | 25% | |
| NP margin (%) | 4% | 10% | | 12% | | 7% | 11% | |
| CNP margin (%) | 4% | 6% | | 12% | | 5% | 11% | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | | | |
|----------------------------|--------------|--------------|------------|--------------|------------|--------------|--------------|------------|
| FYE: Dec (RM'm) | 2Q17 | 1Q17 | QoQ | 2Q16 | YoY | 1H17 | 1H16 | YoY |
| Revenue | | | | | | | | |
| Construction | 264.1 | 245.8 | 7% | 224.9 | 60% | 509.9 | 390.1 | 31% |
| Property | 34.9 | 42.0 | -17% | 14.2 | 36% | 76.9 | 39.9 | 93% |
| South Africa Investment | 5.3 | 3.6 | 46% | 6.4 | 11% | 8.9 | 11.1 | -20% |
| | 304.3 | 291.4 | | 245.6 | | 595.7 | 441.0 | |
| Segmental EBIT | | | | | | | | |
| Construction | 4.5 | 21.8 | -79% | 34.4 | -72% | 26.3 | 50.6 | -48% |
| Property | 8.3 | 16.0 | -48% | 2.7 | 34% | 24.4 | 8.9 | 173% |
| South Africa Investment | 2.3 | 1.7 | 33% | 3.1 | -16% | 4.0 | 5.8 | -31% |
| Others | 0.9 | 1.0 | n.m. | 4.6 | n.m. | 1.9 | 4.6 | -59% |
| Eliminations | (0.8) | (0.5) | 78% | (4.7) | -404% | -1.3 | -4.5 | -71% |
| | 15.2 | 40.1 | | 40.1 | | 55.3 | 65.5 | |
| EBIT margin | | | | | | | | |
| Construction | 2% | 9% | | 10% | | 5% | 13% | |
| Property | 24% | 38% | | 24% | | 32% | 22% | |
| South Africa Investment | 43% | 47% | | 57% | | 45% | 52% | |
| Total | 5% | 14% | | 13% | | 9% | 15% | |

Source: Company, Kenanga Research

| Sum-of-parts valuation | | | |
|-----------------------------------|--------------|-------------------|---------------------|
| Segment | Stake | Method | Value (RM m) |
| Construction | 100% | FY18 PE of 12x | 593.2 |
| Property Division | 100% | FY18 PE of 7x | 126.9 |
| South Africa | 100% | RNAV 60% discount | 45.2 |
| Sub Total | | | 765.3 |
| Proceeds from Warrant C and D | | | 123.2 |
| Proceeds from disposal of Optimax | | | 5.1 |
| Total | | | 893.6 |
| No of FD shares | | | 746 |
| SOP/Share | | | 1.20 |
| Target Price | | | 1.20 |
| FD FY18 EPS | | | 0.11 |
| Implied FD FY18 PER | | | 11.2 |

Source: Kenanga Research

29 August 2017

Peer Comparison

| CORE COVERAGE | | | | | | | | | | | | | | | | |
|------------------------------|--------------------|---------|---------|-------------|-------------|-------------------|----------|------|------------------|-------------|-------------|--------------------------|--------------------------|-----------------|----------------|---------|
| NAME | Price (28/8/17) | 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 | 1.13 | 875 | -6.2 | 14.8 | 12.5 | 1% | 6% | 0.9 | -140.3 | 58.9 | 70.0 | -142% | 19% | 0.75 | Underperform | 96.5 |
| GAMUDA BHD | 5.39 | 13221 | 30.4 | 21.4 | 20.5 | 2% | 10% | 1.8 | 499.3 | 709.5 | 741.7 | 42% | 5% | 5.45 | Market Perform | 12.8 |
| IJM CORP BHD | 3.40 | 12335 | 22.8 | 21.0 | 18.7 | 2% | 6% | 1.3 | 539.1 | 585.8 | 656.1 | 9% | 12% | 3.48 | Market Perform | 6.2 |
| KIMLUN CORP BHD | 2.20 | 703 | 8.3 | 9.7 | 8.7 | 3% | 12% | 1.2 | 81.9 | 70.7 | 78.3 | -14% | 11% | 2.27 | Market Perform | 5.8 |
| MUHIKBAH ENGINEERING (M) BHD | 2.86 | 1374 | 16.9 | 14.6 | 13.9 | 1% | 11% | 1.5 | 87.7 | 101.5 | 106.2 | 16% | 5% | 2.94 | Market Perform | 28.3 |
| HOCK SENG LEE BERHAD | 1.46 | 802 | 14.2 | 16.2 | 11.6 | 2% | 7% | 1.1 | 56.5 | 49.4 | 69.0 | -13% | 40% | 1.40 | Market Perform | -8.8 |
| WCT HOLDINGS BHD | 1.82 | 2557 | 35.9 | 20.7 | 18.4 | 2% | 5% | 1.1 | 84.8 | 146.9 | 165.3 | 73% | 13% | 1.83 | Market Perform | 5.8 |
| MITRAJAYA HOLDINGS BHD | 1.33 | 916 | 10.3 | 14.2 | 12.4 | 4% | 10% | 1.4 | 97.3 | 70.5 | 80.5 | -28% | 14% | 1.20 | Underperform | 5.6 |
| SUNWAY CONSTRUCTION GROUP | 2.29 | 2959 | 25.2 | 20.4 | 20.2 | 2% | 25% | 5.1 | 117.7 | 145.2 | 146.9 | 23% | 1% | 2.00 | Underperform | 34.7 |
| KERJAYA PROSPEK GROUP BHD | 3.69 | 2068 | 20.8 | 16.4 | 14.1 | 1% | 16% | 2.6 | 100 | 126.7 | 148.1 | 27% | 17% | 3.30 | Underperform | 70.0 |
| Average | | | 17.9 | 17.0 | 15.1 | | | | | | | | | | | |
| 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 | 1.06 | 571 | -2.2 | 14.9 | 10.8 | n.a. | n.a. | n.a. | -264.9 | 38.5 | 52.9 | -115% | 37% | n.a. | Not Rated | 16.5 |
| PROTASCO | 1.02 | 433 | 8.3 | 7.4 | 7.2 | 6% | 14% | 1.1 | 51.8 | 58.5 | 60.1 | 13% | 3% | 1.52 | Trading Buy | -9.7 |
| PINTARAS JAYA | 4.04 | 666 | 37.0 | 15.6 | 13.0 | 5% | 13% | 2.0 | 17.8 | 42.2 | 50.6 | 137% | 20% | 4.2 | Trading Buy | 14.8 |
| GABUNGAN AQRS | 1.66 | 713 | 28.7 | 17.4 | 8.3 | 1% | 11% | 2.0 | 22.6 | 37.2 | 77.9 | 65% | 109% | 1.6 | Not Rated | 83.4 |
| GADANG HOLDINGS | 1.27 | 835 | 8.7 | 9.5 | 9.1 | 2% | 14% | 1.4 | 94.2 | 86.8 | 90.8 | -8% | 5% | 2.44 | Not Rated | 21.0 |
| AZRB | 1.08 | 574 | 19.2 | 9.1 | 7.2 | n.a. | 15% | 1.4 | 27.2 | 57.4 | 73 | 111% | 27% | 1.35 | Trading Buy | 70.1 |
| 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 | 0.35 | 92 | 82.3 | 5.5 | 5.5 | n.a. | n.a. | n.a. | 1 | 14.9 | 14.9 | 1390% | 0% | n.a. | Not Rated | -20.7 |
| GKENT | 2.77 | 1560 | 15.4 | 16.6 | 14.7 | 3% | 21% | 3.5 | 101.4 | 93.8 | 106 | -7% | 13% | 2.8 | Trading Buy | 36.7 |
| PESONA | 0.59 | 394 | 19.3 | 10.9 | 8.0 | 4% | 22% | 2.5 | 20 | 35.3 | 48.5 | 77% | 37% | 0.485 | Take Profit | -2.5 |
| JAKS | 1.34 | 646 | 0.8 | 9.5 | 6.9 | 0% | 12% | 1.1 | 736 | 61.933 | 85.433 | -92% | 38% | 1.54 | Not Rated | 31.4 |
| Average | | | 20.9 | 11.6 | 9.6 | | | | | | | | | | | |

Source: Bloomberg, Kenanga Research

29 August 2017

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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