

Mitrajaya Holdings (BUY↔↔; EPS↔↔)

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT

14 November 2014

Price Target: RM1.52 (↔↔)

Share price: RM0.96

Robust prospects ahead

Highlights

- **Another contract by year end?** In our meeting with management yesterday, we were made to understand that it has RM1.5bn in outstanding tenders, mainly comprising building works in Klang Valley, Nusajaya and Putrajaya. There is a good chance that another contract (RM200-250m) could be secured by year end, bringing FY14 job wins to over RM1.1bn.
- **Record high job wins, orderbook.** YTD job wins have been stellar for Mitrajaya at RM949m (FY13: RM501m), pushing its orderbook to a record high RM1.7bn. This implies a very strong cover of 7.8x FY13 construction revenue (peers average: 2.1x), providing a high degree of earnings growth visibility. We understand that capacity is not an issue for an orderbook level of up to RM2bn.
- **Good take up for Wangsa 9.** Over the weekend, we paid a visit to Mitrajaya's Wangsa 9 (GDV: RM650m) sales gallery. Despite having launched only a week ago, take up rate for Phase 1 (RM200m) has hit 64%. If bookings (with down payment) were counted, take up rate has hit 80%. Given the encouraging response for Phase 1, Phase 2 (RM200m) will be launched sometime in Dec 14 and Phase 3 (RM250m) in early 2015. We envisage strong take up for Wangsa 9 given (i) strategic location behind Wangsa Walk Mall, (ii) LRT connectivity with the Sri Rampai station 150m away and (iii) close proximity to KL city (7km).

Risks

- Execution risk, rising material prices, project implementation delays, weak property market and political risks.

Forecasts

- 3QFY14 results announcement is scheduled for release on 26 Nov. We expect earnings to be at least equal to that of 2Q. This would bring 9M earnings to RM38m, making up 79% of our full year projection.
- There is upside to our earnings forecast as YTD job wins of RM949m has surpassed our full year target of RM600m.
- For now, we maintain our FY14 earnings forecast which is expected to almost double (+92% YoY). Earnings are projected to display a superior FY14-16 CAGR of 40%.

Rating

BUY, TP: RM1.52 (↔↔)

- Mitrajaya is an under researched hidden gem which offers superior earnings growth at cheap valuations of 7.9x and 6.3x FY14-15 P/E and decent yields of 3-5%. It is our top small cap construction pick.

Valuation

- Our TP is based on 10x FY15 earnings, inline with our target valuation parameter used for small cap contractors.
- For an alternate valuation perspective, at current market capitalisation, investors buying Mitrajaya would be getting its land at 49% discount to market value and all its core business of construction, property development and Optimax (not to mention a golf course in South Africa) for free!

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KLCI	1815.5
Expected share price return	58.3%
Expected dividend return	3.9%
Expected total return	62.2%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	394
Market cap (RM m)	378
3-mth avg. volume ('000)	3,090
SC Syariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	15.7	-3.0	113.3
Relative	14.5	-0.8	109.5

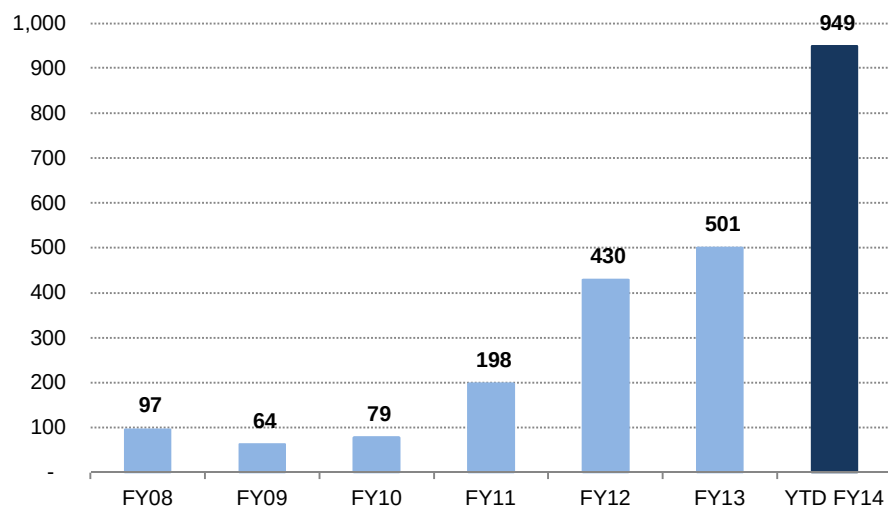
Major shareholders

Tan Eng Piow	41.1%
Soon Aw Eng	2.1%
Hong Leong Asset Mgt	2.0%

Summary Earnings Table

FYE Dec (RM m)	FY13	FY14F	FY15F	FY16F
Revenue	338	496	641	690
EBITDA	49	80	98	110
EBIT	39	70	87	99
Profit Before Tax	36	67	83	94
Core PATAMI	25	48	60	68
vs Consensus (%)	-	-	-	-
Core EPS (sen)	6.4	12.2	15.2	17.4
P/E (x)	15.1	7.9	6.3	5.5
Net DPS (sen)	2.0	3.7	4.6	5.2
Net DY (%)	2.1	3.8	4.7	5.4
BV per share	0.89	0.97	1.08	1.20
P/B (x)	1.1	1.0	0.9	0.8
ROE (%)	7.4	13.1	14.8	15.2
Net Gearing (%)	17.9	18.5	22.0	16.2

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Figure #1 Orderbook replenishment for Mitrajaya (RM m)

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Figure #2 Mitrajaya's orderbook balance (RM m)

Contract	Client	Value	Balance
Ampang LRT ext - stations 3, 4, 5, 8 & 9	Prasarana	146	120
Kelana LRT ext - stations 11 & 12	Prasarana	47	33
MACC Headquarters, Precint 7, Putrajaya	Putrajaya Holdings	428	419
Main building works for Housing Block 5, Symphony Hills, Cyberjaya	UEM Sunrise	227	273
Raffles American School, Nusajaya, Johor	Raffles	270	270
2 building blocks for MK22 condos, Mont Kiara	UEM Sunrise	402	402
Other jobs			175
Orderbook balance as at end June 2014			1,692

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Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Cash	3	19	18	22	56
Receivables	126	130	181	232	250
Inventories	160	125	191	253	270
PPE	41	38	38	38	37
Others	214	249	270	283	298
Assets	544	560	698	828	910
	-	-	-	-	-
Debts	80	82	89	116	132
Payables	126	124	217	279	296
Others	3	4	8	8	8
Liabilities	210	209	314	402	436
	-	-	-	-	-
Shareholder's equity	332	350	383	425	473
Minority interest	2	1	1	1	1
Equity	334	351	384	426	474

Cash Flow Statement

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Profit before taxation	28	36	67	83	94
Depreciation & amortisation	8	10	10	10	11
Changes in working capital	(144)	31	(47)	(51)	(18)
Taxation	(9)	(12)	(19)	(23)	(25)
Others	143	(43)	(1)	(17)	(17)
CFO	25	23	10	2	45
Net capex	(11)	(8)	(10)	(10)	(10)
Others	3	13	-	-	-
CFI	(8)	5	(10)	(10)	(10)
Changes in borrowings	23	1	7	27	17
Issuance of shares	(0)	(0)	(0)	-	-
Dividends paid	(20)	(8)	(8)	(14)	(18)
Others	(30)	(19)	-	-	-
CFF	(26)	(26)	(0)	12	(1)
Net cash flow	(9)	2	(1)	4	33
Forex	(2)	(0)	-	-	-
Others	11	14	-	-	-
Beginning cash	4	3	19	18	22
Ending cash	3	19	18	22	56

Income Statement

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	251	338	496	641	690
EBITDA	39	49	80	98	110
EBIT	31	39	70	87	99
Finance cost	(3)	(3)	(4)	(4)	(5)
Associates & JV	(0)	-	-	-	-
Profit before tax	28	36	67	83	94
Tax	(9)	(12)	(19)	(23)	(25)
Net profit	19	24	48	60	68
Minority interest	(1)	1	-	-	-
PATMI (core)	18	25	48	60	68
Exceptionals	-	4	-	-	-
PATMI (reported)	18	29	48	60	68

Valuation & Ratios

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Core EPS (sen)	4.5	6.4	12.2	15.2	17.4
P/E (x)	21.1	15.1	7.9	6.3	5.5
EV/EBITDA (x)	11.2	8.8	5.4	4.4	4.0
DPS (sen)	2.0	2.0	3.7	4.6	5.2
Dividend yield	2.1%	2.1%	3.8%	4.7%	5.4%
BVPS (RM)	0.84	0.89	0.97	1.08	1.20
P/B (x)	1.1	1.1	1.0	0.9	0.8
EBITDA margin	15.5%	14.6%	16.1%	15.3%	15.9%
EBIT margin	12.5%	11.7%	14.2%	13.6%	14.3%
PBT margin	11.1%	10.7%	13.5%	13.0%	13.6%
Net margin	7.2%	7.4%	9.7%	9.3%	9.9%
ROE	5.4%	7.4%	13.1%	14.8%	15.2%
ROA	3.5%	4.5%	7.6%	7.8%	7.9%
Net gearing	23.2%	17.9%	18.5%	22.0%	16.2%

Assumptions

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Contracts secured	430	501	600	500	500

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Equity rating definitions

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.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

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.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.