

26 February 2015

Mitrajaya Holdings Bhd

Entering Into Higher Earnings Base

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INVESTMENT MERIT

- **Share prices climbed 80% since our last recommendation.** So far, MITRA's stock price has appreciated by 80% since our previous TRADING BUY piece on 5th June 2014 titled "On Track To Deliver High Double-Digit Profit Growth". In fact, so far, MITRA is the best performer in the construction space in 2015, gaining 63% YTD as compared to that of KL Construction Index's 1.7% gain. We believe the stock has started gaining investors' recognition after: (i) the group delivered higher-than-expected earnings (FY14 surpassed our forecast by 38%), and (ii) it achieved higher-than-expected job flows (FY14: RM949.1m vs RM500m forecast).
- **Orderbook at all-time high of RM1.9b.** MITRA's orderbook currently is at its all-time high, standing at RM1.9b vis-à-vis its historical average of RM300-500m. The orderbook will last another 3 years. To recap, in 2014, the group secured RM949.1m worth of new orders and so far in 2015, MITRA has replenished another RM416.7m worth of contracts. These new orders came in above our earlier expectations of RM500-300m in FY14-15.
- **Aiming to secure RM1.0b new jobs in FY15.** As for the rest of FY15, management is expecting to secure another RM600m new jobs making up a total of RM1.0b target for FY15. We would not be surprised if the group could achieve the target judging from the group's momentum of jobs replenishment i.e. in less than two months, they have already secured RM416.7m.
- **Wangsa 9 Phase 1 achieved take-up rates of 69%.** As expected, Wangsa 9 Phase 1 (GDV: RM185m), which was launched in July 2014 has achieved strong take-up rates of 69%. (Refer overleaf)
- **RM1.5b Puchong Prima mixed development the next catalyst?** Note that MITRA has another piece of land (15 acres) in Puchong Prima. (Refer overleaf)
- **Entering into a new and higher earnings base.** FY14 net profit of RM53.7m (+83.3% YoY) came in way above our expectations, at 138% of our full-year forecasts, driven by strong orderbook, property sales and strong margins. Moving forward, in FY15 MITRA is expected to enter a new and even higher earnings base contributed by stronger orderbook and property sales. We expect the group to approach the RM1.0b revenue mark in FY15 and organically grow from there. All in, we expect the group's earnings to grow at a superb **3-year CAGR of 37% between FY14-16E**.
- **Revising higher earnings forecasts.** As we had previously underestimated the group's orderbook recognition rate, construction margins and property segment contribution, we revised higher by 31%-71% our FY14-15E earnings. Our forecasts is based on the: (i) assumption of orderbook recognition rate of 33%-43% % in FY14-15E, (ii) FY15 orderbook replenishment assumption of RM700m (30% lower than management's target), (iii) construction margins assumption of 9.5% in FY15 (slightly lower than 9M14's 9.9%), (iv) unbilled property sales of RM212.8m, and (v) new property sales of RM30m driven by Wangsa 9 Phase 2.
- **Maintain TRADING BUY with higher FV of RM1.94.** We reckon that this under-researched stock is one of the small-cap stocks that have strong earnings growth visibility coupled with compelling prospects. Despite the share price strong gain, we believe Mitrajaya is still relatively "cheap", trading at FY15 PER of 7.7x against its small-cap peers' fwd-PER range of 8.0x-10.0x. Post-earnings upgrade, we raise our Fair Value to RM1.94 from RM1.13 previously. We value MITRA based on unchanged ascribed FY15 PER of 9.0x. Therefore, **Maintain TRADING BUY, as the stock still offers another 17.6% potential upside.**

	Rating	Fair Value
Last Price		RM1.65
Kenanga	Trading Buy	RM1.94
Consensus	Buy	RM1.97

Stock Information

Stock Name	MITRAJAYA HOLDINGS BHD
CAT Code	9571
Industry	Engineering&Construction
Industry Sub-sector	Building-Heavy Construct
YTD stock price chg	68.37%
Market Cap (RM m)	650.26
Issued shares (m)	394.10
52-week range (Hi)	1.71
52-week range (Low)	0.48
3-mth avg daily vol:	3171813
Free Float	48%
Beta	1.70
Altman's Z-score	2.99

Major Shareholders

Eng Piow Tan	41.05%
Hong Leong Asset Man	3.74%
Aw Eng Soon	2.11%

Financials

FYE Dec (RM'm)	2014A	2015E	2016E
Revenue	520.2	953.5	1,072.5
EBIT	76.0	115.4	128.0
Net Profit (NP)	53.7	85.4	95.0
EPS (sen)	13.5	21.5	23.9
BV/Share (RM)	0.97	1.12	1.28
PER	12.2	7.7	6.9
Price/BV (x)	1.7	1.5	1.3
Net Gearing (x)	0.2	0.2	0.2
DPS (sen)	5.0	6.0	6.0
Dividend Yield (%)	3.0%	3.6%	3.6%

Quarterly Financial Data

	2Q14	3Q14	4Q14
Revenue	134.7	145.6	135.8
PBT	18.4	17.0	22.7
Net Profit (NP)	13.6	13.1	16.1
EPS (sen)	3.4	3.3	4.1
EPS Growth (QoQ)	24.3%	-3.4%	+24.2%
Revenue Growth (QoQ)	29.3%	8.0%	-6.7%
PBT Margin	13.6%	11.7%	16.7%

	PER (FY15)	Div. Yld (%)	Mkt Cap (RM'm)
Peers Comparisons			
Naim	6.5	2.4	777.2
Kimlun	8.3	2.9	387.7
Eversendai	8.9	3.4	475.9
Gadang	3.4	7.8	333.2
Average	6.8	4.1	493.5
Mitrajaya	7.7	3.6	650.3
FBMKLCI	16.2	3.6	1.0T

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OTHER POINTS (Cont'd from 1st Page)

- **Wangsa 9 Phase 1 achieved take-up rates of 69%.** As expected, Wangsa 9 Phase 1 (GDV: RM185m), which was launched in July 2014 achieved strong take-up rates of 69%. Interestingly, management mentioned that it achieved such take up rates without aggressive marketing. Management updated it has started launching the Phase 2 in end-2014 and so far it has achieved 10.1% take up. We believe Phase 2 will be as successful as Phase 1 despite the slowdown in property market given the fact that it is in a strategic location (nearby LRT).
- **RM1.5b Puchong Prima mixed development will be the next catalyst?** Note that MITRA has another piece of land (15 acres) in Puchong Prima. The land is proposed to be developed into mixed development that comprises a shopping mall, service apartments and boutique hotel. This project could be the next catalyst for the group's property arms as the land is located only 150m away from a future LRT station.

Daily Charting – Mitrajaya Holdings Bhd



Comment: MITRA has been trading in a consolidation phase after its recent rally. It is well supported by all 3 SMAs. However, upside is capped by strong resistance level of RM1.70 (+2SD regression line which coincides with the 176.4% Fibonacci Projection level). Indicators-wise, both Stochastic and RSI are in overbought region; thus we believe that a short-term consolidation is imminent. All in, we advocate to investors a "buy on weakness" strategy with strong support level at RM1.60.

About the stock:

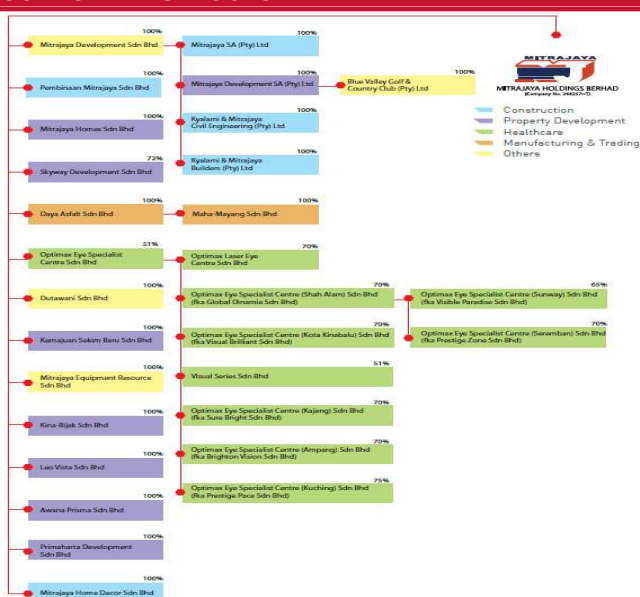
Name : Mitrajaya Holdings Bhd
Bursa Code : MITRA
CAT Code : 9571

Key Support & Resistance level

Resistance	: RM1.70 (R1)	RM1.82 (R2)	RM2.00 (R3)
Support	: RM1.60 (S1)	RM1.52 (S2)	RM1.44 (S3)
Outlook	: Neutral		

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- Incorporated since 1985, Mitrajaya is primarily involved in construction and civil engineering related fields. Mitrajaya has completed few major national projects such as: Kuala Lumpur International Airport (KLIA), KL's Light Rail Transit System, the CyberJaya Flagship Zone and numerous other projects. In addition, Mitrajaya is also involved in other businesses including property development, manufacturing as well as healthcare.

BUSINESS SEGMENTS

- **Construction.** Construction segment is the biggest contributor to Mitrajaya's revenue and pre-tax profits, accounts for 71% and 50% of its total revenue and pre-tax profits in FY14.
- **Property.** Second major contributor in Mitrajaya's earnings. The division accounted for 19% and 25% of its total revenue and pre-tax earnings in FY14. It has total undeveloped landbank of approximately 260 acres.
- **Healthcare.** Mitrajaya also has 51% stake in Optimax Eye Specialist Sdn Bhd since 2001. This division, in FY13, contributed RM27m and RM0.8m respectively to the Group's revenue and pre-tax earnings.
- **Overseas operation in South Africa.** Mitrajaya also has overseas operation which it owns the clubhouse, 18-hole golf course & admin office building in the 300-hectare Blue Valley Golf and Country Estate in South Africa since 1998. It also has about 152 acres of vacant lots in the country that ready to be sold.

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