

Stock Digest

Monday, 29 Feb, 2016

Recommendation:
BUY

Share Price: RM1.15
Target Price: RM1.70

Bursa Code: 9571

Stock Information: Engaged in construction, property development, overseas investment and operates eye specialist centre.

Sector: Infrastructure construction

Industry: Civil Engineering and Property Development

Listing: Main Market

Share Issued (mln): 642.1

Market Capital (RM mln): 783.4

Major Shareholders:

Tan Eng Piow	40.5%
Employees Provident Fund	2.6%
Kumpulan Wang Persaraan	2.5%



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Mitrajaya Holdings Bhd

Gaining Resilience

Results Highlights

- Mitrajaya's 4Q2015 net profit added 57.0% Y.o.Y to RM25.3 mln due to higher contributions from the construction and South African property development segments, which offset the weaker local property development business. Revenue for the quarter jumped 87.8% Y.o.Y to RM254.9 mln.
- For 2015, cumulative net profit gained 63.0% Y.o.Y to RM87.7 mln. Revenue for the year gained 71.3% Y.o.Y to RM891.0 mln. The reported earnings were above our estimates of RM78.0 mln, while the revenue came in broadly within of our full year forecast of RM868.1 mln.
- In 4Q2015, the construction segment's pretax profit soared 212.0% Y.o.Y to RM29.8 mln, mainly on recognition from projects secured over the past two years, which are at their tail end. Its domestic property development segment registered a pretax loss of RM8.3 mln vs. a pretax profit of RM4.2 mln as the Wangsa 9 Residency project has yet to achieve a certain completion stage for higher recognition. The South Africa property segment's pretax profit improved 59.3% Y.o.Y to RM7.3 mln, while the healthcare segment's pretax profit jumped 128.8% Y.o.Y to RM1.1 mln on improved sales performance.
- Meanwhile, the group continues to maintain a healthy balance sheet with a low net gearing at 0.3x, implying room to increase its financial leverage for business expansion. In conjunction with the quarterly results release, Mitrajaya has announced a 5.0 sen dividend per share (translating to a 4.3% dividend yield).

Financial Highlights

FY Dec (RM mln)	2013A	2014A	2015A	2016F	2017F
Revenue	338.4	520.2	891.0	972.5	1077.4
EBITDA	53.2	85.0	147.7	135.4	162.8
Net Profit	28.0	53.8	87.7	86.9	106.2
Revenue Growth (%)	35.1	53.7	71.3	9.1	10.8
EBITDA Growth (%)	37.9	59.7	73.7	-8.3	20.2
Net Profit Growth (%)	56.1	92.1	63.0	-0.9	22.3
EPS (sen)	4.4	8.4	13.7	13.5	16.5
Diluted EPS (sen) #	N/A	N/A	12.3	12.2	0.0
P/E (x)	26.3	13.7	8.4	8.5	7.0
Diluted P/E (x) #	N/A	N/A	N/A	9.5	0.0
Dividend Yield (%)	1.1	2.7	4.3	4.3	4.8
P/BV (x)	2.11	1.87	1.47	N/A	N/A
ROE (%)	8.0	13.6	17.4	N/A	N/A

Based on enlarged share capital of 748.4 mln outstanding shares (After adjusting for warrants-C & D conversion in 2015)

Source: Company data & MSSB Research

Your Gain, Our Aim

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Prospects

Despite not having secured any major contracts in 4Q2015, Mitrajaya's total orderbook replenishment current YTD stood at RM450.3 mln, accounting to 64.3% of our estimated orderbook replenishment rate of RM700.0 mln. Still, we remain sanguine on Mitrajaya's prospects, premised on a slew of mega infrastructure projects in the pipeline in 2016. We also note that the group is tendering for approximately RM3.30 bln worth of new contracts, coupled with additional RM1.50 bln tenders that are under preparation.

There will be minimal impact on the general construction sector despite the revised Budget 2016, given that most of the large scale infrastructure projects will proceed as planned. Hence, we think that Mitrajaya remains well positioned to capitalise on the upcoming LRT Line 3 construction, coupled with the affordable housing projects such as the PR1MA and PPA1M projects, having involved in the former.

Meanwhile, Mitrajaya's on-going property development project, the Wangsa 9 Residency is still at the initial stage of construction but we think that the contributions will pick up in 2H2016, after the aforementioned project has reached a certain stage of completion. On the South Africa property segment, we think that the earnings growth to be supported by a strong demand as we note that 80% of the properties on offer were booked on the day of launching.

Valuation and Recommendation

Despite the reported earnings coming in above our estimates, we leave our earnings forecast unchanged as we think that various factors, including the ever-increasing minimum wages, potential foreign workers levy hike and rising electricity tariff will pose a challenge to the group's operational margins, going forward. However, we maintain our **BUY** recommendation on Mitrajaya with an unchanged target price RM1.70. Our target price is derived from ascribing a target PER of 9.0x to its rolled-over 2017 (fully diluted) construction EPS of 9.4 sen, while the value of its property development units, both local and overseas, are valued at 0.8x of their respective book values.

We continue to like Mitrajaya for its strong outstanding orderbook of approximately RM1.81 bln that will help to sustain its earnings growth and for its exceptionally high construction cover ratio of 2.4x against 2015's construction revenue that will anchor the segment earnings over the next two years. At current price of RM1.15, we think Mitrajaya is attractive, trading at prospective single-digit PERs of 8.5x and 7.0x for 2016 and 2017 respectively, implying potential upsides.

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 1Malaysia People's Housing Scheme (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.

Your Gain, Our Aim

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Quarterly Performance					
FY Dec (RM mln)	4Q2015	4Q2014	% Change Y.o.Y	3Q2015	% Change Q.o.Q
Revenue	254.9	135.8	87.8%	231.3	10.2%
EBITDA	48.1	30.4	58.3%	40.4	19.1%
Depreciation & Amotization	6.4	7.2	-10.3%	4.9	30.1%
Net Interest Income/ (Expense)	-0.6	-0.5	19.5%	-1.7	-66.7%
Profit before Tax	41.2	22.8	81.0%	33.9	21.5%
Net Profit	25.3	16.1	57.0%	25.8	-1.8%
Basic EPS (Sen)	3.9	2.5	57.0%	4.0	-1.8%

Source: Company data & MSSB Research

Income Statement					
FYE Dec (RM mln)	2013A	2014A	2015A	2016F	2017F
Revenue	338.4	520.2	891.0	972.5	1077.4
EBITDA	53.2	85.0	147.7	135.4	162.8
Depreciation & Amortisation	-10.0	-9.5	-18.3	-13.0	-14.0
Net Interest Expense	-2.9	-3.0	-4.3	-3.6	-3.6
Pre-tax Profit	40.3	72.5	124.8	118.9	145.2
Effective Tax Rate	28.9%	26.5%	29.7%	26.5%	26.5%
Net Profit	28.0	53.8	87.7	86.9	106.2
EBITDA Margin	15.7%	16.3%	16.6%	13.9%	15.1%
PreTax Margin	11.9%	13.9%	14.0%	12.2%	13.5%
Net Margin	8.3%	10.3%	9.8%	8.9%	9.9%

Source: Company data & MSSB Research

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