

Mitrajaya Holdings (BUY ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT

5 May 2016

Price Target: RM1.88 (↓)

Share price: RM1.22

Growing from strength to strength

Highlights

- **Management meet up.** We recently met up with Mitrajaya's Managing Director, Mr Tan Eng Piow and Group Finance Manager, Ms Cho Wai Ling.
- **Off to a good start.** While Mitrajaya's job wins were tepid in FY15 at RM469m, the momentum has picked up this year with the YTD sum at RM450m. Management guides that some of the FY15 tenders only came to fruition early this year. Its orderbook currently stands at RM1.8bn, implying a decent 2.4x cover on FY15 construction revenue.
- **Out to grab more.** Mitrajaya has submitted RM2.5bn worth of tenders comprising RM1.7bn in building works and RM800m infra based. It is also preparing for another RM2.5bn worth of tenders to be submitted. Management is targeting for another RM1bn in new job wins which would bring the full year sum to RM1.45bn if achieved. Our full year target is more conservative at RM800m.
- **What's next?** We understand that Mitrajaya is in the running for private sector building job potentially worth RM400m which could be awarded by mid-year. Apart from that, it is also bidding for some affordable housing jobs.
- **Tilting to infra.** Mitrajaya is placing a greater emphasis on infra bids in view of the softening property market. It tendered for 2 packages of the SUKE and DASH highways. Apart from that, it has also been prequalified for the Sarawak Pan Borneo Highway where there are 8 remaining packages to be awarded. RAPID is another area that Mitrajaya will be focusing via subcontracts from the main EPCC contractors.
- **Station opportunities.** For MRT2 and LRT3, Mitrajaya is looking to participate in the station works. We reckon that Mitrajaya has a good chance for these jobs given its experience with the stations for the LRT extension.
- **Backed by unbilled sales.** While incremental take up rates for Wangsa 9 has been slow at a blended 55%, we draw comfort in its overall unbilled sales of RM228m which implies a healthy cover of 2.4x on FY15 property revenue.

Risks

- Lower than expected orderbook replenishment and weak property sales are key risks to watch out for.

Forecasts

- We tweak FY16-17 earnings by -1.6% and +0.4% as we update our model following its annual report release.

Rating

Maintain BUY, TP: RM1.88 (+54% upside)

- Mitrajaya offers decent earnings growth prospects with a 3-year CAGR of 11.2% at an inexpensive FY16-17 P/E of 7.9x and 7.2x respectively.

Valuation

- We lower our P/E target from 12x to 10x to reflect the softer broader market conditions. This is partially offset by the rolling of our valuation period from mid-CY16 to FY16. All in all, our SOP based TP is cut slightly from RM1.98 to RM1.88 which implies FY16-17 P/E of 12.2x and 11.1x respectively.

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KLCI	1657.6
Expected share price return	54.1%
Expected dividend return	4.5%
Expected total return	58.6%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	642
Market cap (RM m)	784
3-mth avg. volume ('000)	1,784
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	0.0	8.9	-1.1
Relative	3.6	9.2	9.1

Major shareholders

Tan Eng Piow	40.4%
Employees Provident Fund	2.62%
KWAP	2.51%

Summary Earnings Table

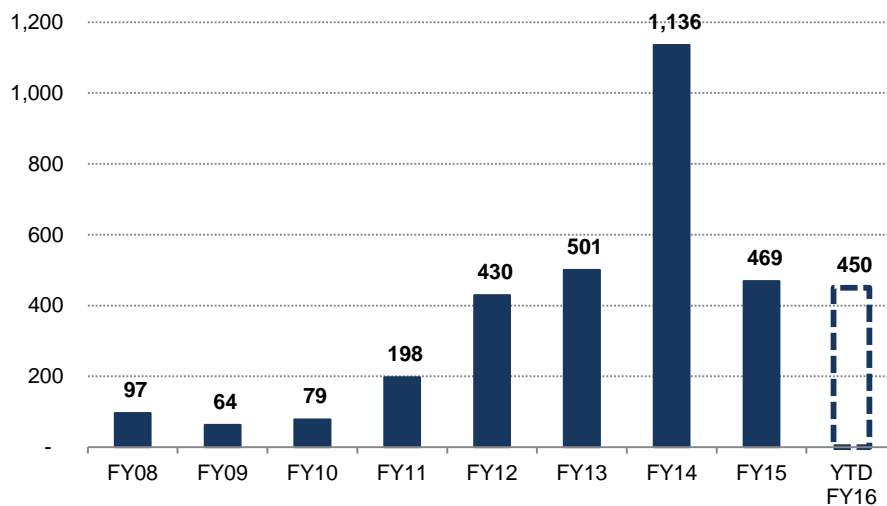
FYE Dec (RM m)	FY15	FY16F	FY17F	FY18F
Revenue	891	953	1,029	1,081
EBITDA	148	162	175	188
EBIT	130	143	157	170
Profit Before Tax	125	137	150	164
Core PATAMI	87	99	109	119
vs Consensus (%)		1	(2)	n.a.
Core EPS (sen)	13.5	15.5	17.0	18.6
P/E (x)	9.0	7.9	7.2	6.6
Net DPS (sen)	5.0	5.5	6.0	6.5
Net DY (%)	4.1	4.5	4.9	5.3
BV per share	0.78	0.88	0.99	1.11
P/B (x)	1.6	1.4	1.2	1.1
ROE (%)	19.3	18.6	18.2	17.7
Net Gearing (%)	24.5	16.7	12.0	6.4

HLIB

Figure #1 SOP based valuation for Mitrajaya

Sum of Parts (SOP)	Amount (RM m)	PE (x) / Discount	Value (RM m)	Basis
FY16 earnings	99	10	991	10x P/E target
Net land value	638	50%	319	50% discount to market value less debt
Cash from warrants conversion			109	Full exercise of Warrants C&D
SOP Value			1,419	
Fully diluted share base (mil)			753	
Target price (RM/ share)			1.88	

HLIB estimates

Figure #2 Orderbook replenishment for Mitrajaya (RM m)

HLIB estimates

Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Cash	24	40	59	74	102
Receivables	204	488	365	409	429
Inventories	94	131	166	179	188
PPE	41	75	76	73	70
Others	277	286	304	323	344
Assets	640	1,021	970	1,058	1,133
Debt	102	162	153	150	148
Payables	136	343	239	258	258
Others	6	13	13	13	13
Liabilities	245	519	405	421	419
Shareholder's equity	394	501	564	635	713
Minority interest	1	1	1	1	1
Equity	395	502	566	636	714

Cash Flow Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Profit before taxation	72	125	137	150	164
Depreciation & amortisation	10	18	19	19	18
Changes in working capital	(30)	(115)	(17)	(37)	(29)
Taxation	(19)	(38)	(38)	(41)	(45)
Others	(25)	25	(21)	(22)	(25)
CFO	7	15	81	68	83
Net capex	(11)	(52)	(20)	(15)	(15)
Others	5	17	-	-	-
CFI	(6)	(35)	(20)	(15)	(15)
Changes in borrowings	20	60	(10)	(2)	(2)
Issuance of shares	(0)	-	-	-	-
Dividends paid	(8)	(21)	(32)	(35)	(38)
Others	2	(29)	-	-	-
CFF	14	10	(42)	(38)	(41)
Net cash flow	16	16	19	15	28
Forex	(0)	(1)	-	-	-
Others	(11)	1	-	-	-
Beginning cash	19	24	40	59	74
Ending cash	24	40	59	74	102

Income Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	520	891	953	1,029	1,081
EBITDA	86	148	162	175	188
EBIT	76	130	143	157	170
Finance cost	(4)	(5)	(6)	(6)	(6)
Associates & JV	-	0	-	-	-
Profit before tax	72	125	137	150	164
Tax	(19)	(38)	(38)	(41)	(45)
Net profit	53	87	99	109	119
Minority interest	0	(0)	-	-	-
PATMI (core)	54	87	99	109	119
Exceptionals	-	-	1	-	-
PATMI (reported)	54	87	101	109	119

Valuation & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	8.4	13.5	15.5	17.0	18.6
P/E (x)	14.6	9.0	7.9	7.2	6.6
EV/EBITDA (x)	10.7	6.2	5.6	5.2	4.9
DPS (sen)	3.3	5.0	5.5	6.0	6.5
Dividend yield	2.7%	4.1%	4.5%	4.9%	5.3%
BVPS (RM)	0.61	0.78	0.88	0.99	1.11
P/B (x)	2.0	1.6	1.4	1.2	1.1
EBITDA margin	16.5%	16.6%	17.0%	17.0%	17.4%
EBIT margin	14.6%	14.6%	15.0%	15.2%	15.8%
PBT margin	13.9%	14.0%	14.4%	14.6%	15.2%
Net margin	10.3%	9.7%	10.4%	10.6%	11.0%
ROE	14.5%	19.3%	18.6%	18.2%	17.7%
ROA	9.0%	10.4%	10.0%	10.8%	10.9%
Net gearing	19.8%	24.5%	16.7%	12.0%	6.4%

Assumptions

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Contracts secured	1,136	469	800	1,000	1,000

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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.