

Mitrajaya Holdings (HOLD ↓; EPS ↓)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

29 August 2017

Price Target: RM1.51 (↓)

Share price: RM1.33

Hampered by cost overruns

Results

- Mitrajaya reported its 2QFY17 results with revenue coming in at RM302.4m (+8% QoQ, +23% YoY) and earnings of RM11.3m (-40% QoQ, -62% YoY). This brings cumulative 1H earnings to RM30.2m, decreasing 37% YoY.
- The abovementioned results have been adjusted to remove the impact of its compulsory land sale in Pengerang in which Mitrajaya has received payments of RM13m and corresponding profit of RM11.8m.

Deviation

- 1H core earnings only accounted for 30% of our full year estimate which is below expectations. Lower than expected construction margin was the key source of the results disappointment.

Dividends

- None declared.

Highlights

- Construction hit at RAPID.** Although 1H construction revenue was up 31% YoY, EBIT fell by 48%. Margin contracted YoY from 12.9% to 5.2% as a result of cost overruns for its projects at RAPID. Management shared that additional costs were needed to comply with the stringent requirements and different working procedures for the 2 RAPID jobs that it is undertaking. As a result of these additional costs, Mitrajaya recorded a loss on its RAPID jobs. It is estimated that the RAPID jobs make up slightly above 10% of its current orderbook of RM1.4bn with target completion date stretching to 2H18.
- Property driven by Wangsa9.** The property segment saw 1H revenue and EBIT increasing YoY by 60% and 41% respectively, driven mainly by Wangsa9. Its recently launched affordable housing in Puchong Prima has achieved a 97% take up rate. Overall unbilled sales of RM233m imply a healthy cover of 2.3x on FY16 property revenue.

Risks

- Continued losses for its RAPID projects would be the key risk. Management is in the midst of evaluating its cost structure for these jobs.

Forecasts

- With the lower than expected results, we cut our FY17-19 earnings forecast by 34%, 33% and 27% respectively as we impute lower construction margin dragged from the RAPID projects.

Rating

Downgrade to HOLD, TP: RM1.51

- Given the results disappointment, coupled with uncertainty on the potential continued drag from RAPID in the coming quarters, we downgrade our rating from Buy to HOLD.

Valuation

- Following the earnings cut, our SOP derived TP is reduced from RM1.89 to RM1.51 which implies FY17-18 P/E of 15.6x and 13.2x respectively.

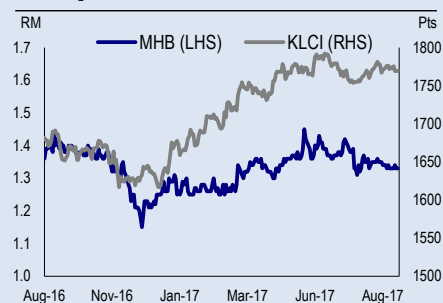
Jeremy Goh, CFA

pwgoh@hlib.hongleong.com.my

(603) 2168 1138

KLCI	1769.5
Expected share price return	13.5%
Expected dividend return	2.9%
Expected total return	16.5%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	689
Market cap (RM m)	916
3-mth avg. volume ('000)	1,069
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-2.2	-5.0	-2.2
Relative	-2.3	-5.2	-7.1

Major shareholders

Tan Eng Piow	40.9%
EPF	5.9%

Summary Earnings Table

FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	947	983	1,105	1,146
EBITDA	175	127	145	157
EBIT	150	102	119	132
Profit Before Tax	143	92	108	121
Core PATAMI	101	67	79	88
vs Consensus (%)	-	-	-	-
Core EPS (sen)	14.7	9.7	11.5	12.8
P/E (x)	9.1	13.7	11.6	10.4
Net DPS (sen)	4.9	3.9	4.0	4.5
Net DY (%)	3.7	2.9	3.0	3.4
BV per share	0.90	0.99	1.07	1.15
P/B (x)	1.5	1.3	1.2	1.2
ROE (%)	18.1	10.3	11.2	11.6
Net Gearing (%)	28.6	21.2	20.3	18.6

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY16	1QFY17	2QFY17	QoQ (%)	YoY (%)	Comments
Revenue	245.6	280.5	302.4	7.8	23.1	Higher for both construction (orderbook execution gains traction) and property (Wangsa 9)
EBIT	40.1	30.3	13.3	(56.0)	(66.8)	Dragged by construction margin.
Net finance income / (cost)	(1.6)	(2.5)	(2.6)	5.2	58.3	
Associates & JVs	0.3	0.0	0.1	428.6	(59.5)	
PBT	38.7	27.8	10.8	(61.1)	(72.1)	
PAT	28.8	19.2	4.8	(75.0)	(83.3)	
PATMI - core	29.6	18.9	11.3	(40.2)	(61.9)	
PATMI - reported	29.6	28.7	13.2	(54.0)	(55.4)	Includes Pengerang land sale.
EPS - core	4.3	2.7	1.6			
EBIT margin	16.3	10.8	4.4			Construction margin hit due to cost overruns at RAPID projects.
PBT margin	15.8	9.9	3.6			
Company						

Figure #2 Cumulative results comparison

FYE Dec (RM m)	6MFY16	6MFY17	YoY (%)	Comments
Revenue	441.0	582.9	32.2	Higher for both construction (orderbook execution gains traction) and property (Wangsa 9)
EBIT	65.5	43.6	(33.5)	Dragged by construction margin.
Finance cost	(3.1)	(5.1)	61.8	
Associates & JVs	0.4	0.1	(64.5)	
PBT	62.7	38.6	(38.4)	
PAT	47.2	24.1	(49.1)	
PATMI - core	48.1	30.2	(37.2)	Below expectations at 30% of full year forecast.
PATMI - reported	48.1	41.9	(12.8)	Includes Pengerang land sale.
EPS - core	7.0	4.4		
EBIT margin	14.9	7.5		Construction margin hit due to cost overruns at RAPID projects.
PBT margin	14.2	6.6		
Company				

Figure #3 SOP based valuation for Mitrajaya

Sum of Parts (SOP)	Amount (RM m)	PE (x) / Discount	Value (RM m)	Basis
Mid-FY18 earnings	73	10	731	10x P/E target
Net land value	638	50%	319	50% discount to market value less debt
Cash from warrants conversion			93	Full exercise of Warrants D
SOP Value			1,143	
Fully diluted share base (mil)			755	
Target price (RM/ share)			1.51	

HLIB estimates

Financial Projections for Mitrajaya Holdings**Balance Sheet**

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	41	78	120	126	138
Receivables	488	597	566	606	628
Inventories	131	192	183	205	211
PPE	75	121	117	106	91
Others	285	249	292	335	387
Assets	1,021	1,237	1,277	1,377	1,454
Debt	162	255	265	275	285
Payables	343	347	320	358	368
Others	13	18	9	9	9
Liabilities	519	620	594	643	663
Shareholder's equity	501	619	683	734	791
Minority interest	1	(1)	-	-	-
Equity	502	617	683	734	791

Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	125	143	92	108	121
Depreciation & amortisation	18	25	25	25	25
Changes in working capital	(115)	(166)	14	(23)	(18)
Taxation	(38)	(40)	(25)	(29)	(33)
Others	25	83	(43)	(44)	(56)
CFO	15	44	62	38	40
Net capex	(52)	(35)	(20)	(15)	(10)
Others	17	6	-	-	-
CFI	(35)	(29)	(20)	(15)	(10)
Changes in borrowings	60	92	10	10	10
Issuance of shares	-	14	24	-	-
Dividends paid	(21)	(33)	(33)	(27)	(28)
Others	(29)	(60)	-	-	-
CFF	10	13	1	(17)	(18)
Net cash flow	(9)	28	42	6	12
Forex	(1)	5	-	-	-
Others	27	3	-	-	-
Beginning cash	24	41	78	120	126
Ending cash	41	78	120	126	138

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	891	947	983	1,105	1,146
EBITDA	148	175	127	145	157
EBIT	130	150	102	119	132
Finance cost	(5)	(8)	(10)	(11)	(11)
Associates & JV	0	0	-	-	-
Profit before tax	125	143	92	108	121
Tax	(38)	(40)	(25)	(29)	(33)
Net profit	87	104	67	79	88
Minority interest	(0)	(3)	-	-	-
PATMI (core)	87	101	67	79	88
Exceptionals	-	18	10	-	-
PATMI (reported)	87	119	77	79	88

Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	12.6	14.7	9.7	11.5	12.8
P/E (x)	10.6	9.1	13.7	11.6	10.4
EV/EBITDA (x)	8.0	6.7	9.3	8.1	7.5
DPS (sen)	4.9	4.9	3.9	4.0	4.5
Dividend yield	3.6%	3.7%	2.9%	3.0%	3.4%
BVPS (RM)	0.73	0.90	0.99	1.07	1.15
P/B (x)	1.8	1.5	1.3	1.2	1.2
EBITDA margin	16.6%	18.5%	12.9%	13.1%	13.7%
EBIT margin	14.6%	15.9%	10.4%	10.8%	11.5%
PBT margin	14.0%	15.1%	9.3%	9.8%	10.5%
Net margin	9.7%	10.7%	6.8%	7.2%	7.7%
ROE	19.3%	18.1%	10.3%	11.2%	11.6%
ROA	10.4%	9.0%	5.3%	6.0%	6.2%
Net gearing	24.2%	28.6%	21.2%	20.3%	18.6%

Assumptions

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Contracts secured	469	920	800	1,000	1,000

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 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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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.
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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.