

Mitrajaya Holdings Bhd

Below Expectations

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1H17 CNP of RM32.1m was below expectations, accounting for 31% of both our and consensus estimates. Negative deviation was caused by unexpected losses from their RAPID project due to cost overruns and lower-than-expected construction margins from other jobs. No dividends declared as expected. Cut FY17-18E CNPs by 31-18%. Downgrade to UNDERPERFORM with lower SoP-derived TP of RM1.20.

Below expectations. 1H17 CNP of RM32.1m was below expectations accounting for 31% of both our and consensus estimates. The negative deviation was caused by unexpected losses from their RAPID project due to cost overruns and lower-than-expected construction margins from other jobs. No dividends declared as expected.

Results Highlight. 2Q17 CNP was down 30% QoQ despite revenue rising 4% mainly due to lower construction EBIT margins (-7ppt) stemming from losses amounting to RM6.5m incurred from their RAPID project Package 14-0304 worth RM186m (effective stake 49%) which was secured back in Nov 2015. We believe the losses were due to cost overruns from additional safety requirements imposed by the client, leading them to spend on additional machineries and labour. 1H17 CNP was down 32% YoY also due to lower construction margins (-8ppt) on the reasons stated above and also higher effective tax rates (+4ppt). That said, we note that property EBIT contributions increased 173% on the back of higher billings from advance works at Wangsa 9 project.

Outlook. Currently, MITRA's outstanding order-book stands at c.RM1.42b, providing earnings visibility for another c.1.5-2.0 years. Jobs secured YTD at RM434m, which accounts for 54% of our RM800m target with a remainder of RM366m to be achieved. We note that our replenishment RM800m target is slightly more conservative against management's target guidance of RM1.0b given the slower property market where MITRA has a strong track record in high rise residential projects. Meanwhile, we note that the abrupt rise in steel prices since July 2017 could potentially compress margins further for the rest of the year. For their property arm, unbilled sales stood at RM233m (mostly from Wangsa 9 residency and Puchong PRIMA affordable homes) which is expected to provide c.2.0 year visibility to the group. Meanwhile, its South Africa division will see unbilled sales of Rand45m (RM14.8m) recognised progressively upon completion of the transfer of ownership in FY17 and early FY18.

Slashing FY17-18E earnings. Post result, we cut our FY17-18E earnings by 31-18% after factoring c.RM18m losses for their on-going RAPID project (Package 14-0304) and reduce our construction margin assumptions (-2ppt) for other on-going projects given the abrupt rise in steel prices since July 2017 (+20% YTD).

Downgrade to UP with lower TP of RM1.20. Post reduction in earnings, we downgrade MITRA to UP (from MP) with a lower SoP-derived TP of RM1.20 (from RM1.49). We believe our downgrade is justifiable given that: (i) MITRA has potential earnings risks from their two on-going RAPID projects where outstanding contract value from the remainder 2 RAPID projects stand at c.RM100m-RM150m, and (ii) existing high steel prices could lead to further margin compression. Our TP implies 11.2x FY18E FD PER, which we believe is fair given that it is in line with small-mid cap contractors' targeted Fwd. PER range of 9-13x. **Risks to our call** include higher-than-expected margins, higher-than-expected order book replenishment and higher-than-expected property sales.

UNDERPERFORM ↓

Price : RM1.33
Target Price : RM1.20 ↓

Share Price Performance



KLCI	1,769.49
YTD KLCI chg	7.8%
YTD stock price chg	5.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MHB MK Equity
Market Cap (RM m)	916.1
Issued shares	688.8
52-week range (H)	1.46
52-week range (L)	1.15
3-mth avg daily vol:	1,142,389
Free Float	51%
Beta	1.1

Major Shareholders

Eng Piow Tan	40.9%
Employees Provident Fund	5.9%
CIMB-Principal Asset	2.2%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	964.1	1,110.6	1,054.7
EBIT	162.9	86.2	116.3
PBT	155.3	72.6	100.8
Net Profit (NP)	117.8	70.5	80.5
Core NP	97.3	70.5	80.5
Consensus (CNP)	-	101.0	118.0
Earnings Revision	0%	-31%	-18%
Basic EPS (sen)	14.6	10.6	12.1
FD EPS (sen)	12.9	9.4	10.7
EPS growth (%)	11%	-28%	14%
NDPS (sen)	5.0	3.0	3.0
NTA/Share (RM)	0.76	0.87	0.94
Basic PER (x)	9.1	12.6	11.0
FD PER (x)	10.3	14.2	12.4
BVPS (RM)	0.82	0.87	0.94
Net Gearing (x)	0.3	0.6	0.5
Dividend Yield (%)	3.8%	2.3%	2.3%



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Result Highlight								
FYE: Dec (RM'm)	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Revenue	304.5	291.4	4%	245.6	24%	595.9	441.0	35%
EBIT	15.2	40.1	-62%	40.1	-62%	55.3	65.5	-16%
PBT	12.7	37.7	-66%	38.7	-67%	50.4	62.7	-20%
Taxation	-6.0	-8.6	-30%	-10.0	-40%	-14.6	-15.5	-6%
Net Profit (NP)	13.2	28.7	-54%	29.6	-55%	41.9	48.1	-13%
Core Net Profit (CNP)	13.2	18.9	-30%	28.4	-54%	32.1	46.9	-32%
FD EPS (sen)	1.8	2.5	-30%	3.8	-54%	4.3	6.2	-32%
EBIT margin (%)	5%	14%		16%		9%	15%	
PBT margin (%)	4%	13%		16%		8%	14%	
Effective tax rate (%)	47%	23%		26%		29%	25%	
NP margin (%)	4%	10%		12%		7%	11%	
CNP margin (%)	4%	6%		12%		5%	11%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE: Dec (RM'm)	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Revenue								
Construction	264.1	245.8	7%	224.9	60%	509.9	390.1	31%
Property	34.9	42.0	-17%	14.2	36%	76.9	39.9	93%
South Africa Investment	5.3	3.6	46%	6.4	11%	8.9	11.1	-20%
	304.3	291.4		245.6		595.7	441.0	
Segmental EBIT								
Construction	4.5	21.8	-79%	34.4	-72%	26.3	50.6	-48%
Property	8.3	16.0	-48%	2.7	34%	24.4	8.9	173%
South Africa Investment	2.3	1.7	33%	3.1	-16%	4.0	5.8	-31%
Others	0.9	1.0	n.m.	4.6	n.m.	1.9	4.6	-59%
Eliminations	(0.8)	(0.5)	78%	(4.7)	-404%	-1.3	-4.5	-71%
	15.2	40.1		40.1		55.3	65.5	
EBIT margin								
Construction	2%	9%		10%		5%	13%	
Property	24%	38%		24%		32%	22%	
South Africa Investment	43%	47%		57%		45%	52%	
Total	5%	14%		13%		9%	15%	

Source: Company, Kenanga Research

Sum-of-parts valuation			
Segment	Stake	Method	Value (RM m)
Construction	100%	FY18 PE of 12x	593.2
Property Division	100%	FY18 PE of 7x	126.9
South Africa	100%	RNAV 60% discount	45.2
Sub Total			765.3
Proceeds from Warrant C and D			123.2
Proceeds from disposal of Optimax			5.1
Total			893.6
No of FD shares			746
SOP/Share			1.20
Target Price			1.20
FD FY18 EPS			0.11
Implied FD FY18 PER			11.2

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (28/8/17)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	1.13	875	-6.2	14.8	12.5	1%	6%	0.9	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	96.5
GAMUDA BHD	5.39	13221	30.4	21.4	20.5	2%	10%	1.8	499.3	709.5	741.7	42%	5%	5.45	Market Perform	12.8
IJM CORP BHD	3.40	12335	22.8	21.0	18.7	2%	6%	1.3	539.1	585.8	656.1	9%	12%	3.48	Market Perform	6.2
KIMLUN CORP BHD	2.20	703	8.3	9.7	8.7	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	5.8
MUHIKBAH ENGINEERING (M) BHD	2.86	1374	16.9	14.6	13.9	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	28.3
HOCK SENG LEE BERHAD	1.46	802	14.2	16.2	11.6	2%	7%	1.1	56.5	49.4	69.0	-13%	40%	1.40	Market Perform	-8.8
WCT HOLDINGS BHD	1.82	2557	35.9	20.7	18.4	2%	5%	1.1	84.8	146.9	165.3	73%	13%	1.83	Market Perform	5.8
MITRAJAYA HOLDINGS BHD	1.33	916	10.3	14.2	12.4	4%	10%	1.4	97.3	70.5	80.5	-28%	14%	1.20	Underperform	5.6
SUNWAY CONSTRUCTION GROUP	2.29	2959	25.2	20.4	20.2	2%	25%	5.1	117.7	145.2	146.9	23%	1%	2.00	Underperform	34.7
KERJAYA PROSPEK GROUP BHD	3.69	2068	20.8	16.4	14.1	1%	16%	2.6	100	126.7	148.1	27%	17%	3.30	Underperform	70.0
Average			17.9	17.0	15.1											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.06	571	-2.2	14.9	10.8	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	16.5
PROTASCO	1.02	433	8.3	7.4	7.2	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-9.7
PINTARAS JAYA	4.04	666	37.0	15.6	13.0	5%	13%	2.0	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	14.8
GABUNGAN AQRS	1.66	713	28.7	17.4	8.3	1%	11%	2.0	22.6	37.2	77.9	65%	109%	1.6	Not Rated	83.4
GADANG HOLDINGS	1.27	835	8.7	9.5	9.1	2%	14%	1.4	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	21.0
AZRB	1.08	574	19.2	9.1	7.2	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	70.1
TRC SYNERGY	0.79	380	12.7	11.5	14.4	3%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	107.9
BINA PURI	0.35	92	82.3	5.5	5.5	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-20.7
GKENT	2.77	1560	15.4	16.6	14.7	3%	21%	3.5	101.4	93.8	106	-7%	13%	2.8	Trading Buy	36.7
PESONA	0.59	394	19.3	10.9	8.0	4%	22%	2.5	20	35.3	48.5	77%	37%	0.485	Take Profit	-2.5
JAKS	1.34	646	0.8	9.5	6.9	0%	12%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	31.4
Average			20.9	11.6	9.6											

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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