

Stock Digest

Results Note – Mitrajaya Holdings Bhd

Wednesday, 30 Aug, 2017



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Slight Margin Compression, But Prospects Stay Firm

Results Highlights

- Mitrajaya's 2Q2017 net profit sank 55.4% Y.o.Y to RM13.2 mln, dragged down by the weaker earnings contribution from its construction segment. Revenue for the quarter, however, added 24.0% Y.o.Y to RM304.5 mln.
- For 1H2017, cumulative net profit fell 12.8% Y.o.Y to RM41.9 mln. Revenue for the period, however, expanded 35.1% Y.o.Y to RM595.9 mln. Although the reported earnings only amounted to 40.1% of our previous 2017 earnings forecast of RM104.5 mln, we deem it to be within expectations on seasonal factors. Over the past three years, Mitrajaya's 1H2017 earnings amounted to an average of 42.8% of its full year earnings. Revenue for the period, however, came above our expectations, accounting to 58.9% of our RM1.01 bln forecast.
- Segmentally, the group's 1H2017 construction segment pretax profit slipped 54.1% Y.o.Y to RM21.9 mln on additional cost incurred for safety and working procedure compliance. The property development's pretax profit, however, soared 5.0x Y.o.Y to RM22.2 mln on higher recognition from the Wangsa 9 Residency project that is at the advanced stage of construction, coupled with a one-off land disposal gain in Johor. For the South Africa property development segment, pretax profit decreased 30.7% Y.o.Y to RM4.0 mln on slower sales.

Financial Highlights					
FY Dec (RM mln)	2014A	2015A	2016A	2017F	2018F
Revenue	520.2	890.7	964.1	1187.8	1103.8
EBITDA	87.4	147.4	186.4	167.6	175.8
Net Profit	53.8	86.8	117.8	94.2	97.1
Revenue Growth (%)	53.7	71.2	8.2	23.2	-7.1
EBITDA Growth (%)	64.2	68.6	26.5	-10.1	4.9
Net Profit Growth (%)	92.1	61.5	35.7	-20.0	3.0
EPS (sen)	7.8	12.6	17.1	13.7	14.1
Diluted EPS (sen) #	N/A	N/A	N/A	12.4	12.8
P/E (x)	17.0	10.6	7.8	9.7	9.4
Diluted P/E (x) #	N/A	N/A	N/A	10.7	10.4
DPS (sen)	2.9	5.0	5.0	5.0	5.0
Dividend Yield (%)	2.2	3.8	3.8	3.8	4.2
P/BV (x)	2.3	1.8	1.5	N/A	N/A
ROE (%)	13.6	17.3	19.1	N/A	N/A
# Based on enlarged share capital of 748.4 mln outstanding shares (After adjusting for warrants-D conversion in 2017)					

Source: Company Data, MSSB Research

BUY

Share Price: RM1.33
Target Price: RM1.65

Key Statistics

Stock Information: Engaged in construction, property development and overseas investment.

Sector: Infrastructure construction.

Sector: Civil Engineering and Property Development

Industry: Construction

Listing: Main Market

Stock Code: 9571

Share Issued (mln): 689.3

Market Capital (RM mln): 916.8

Par Value (RM): N/A

Major Shareholders:
Tan Eng Piow 40.9%
Employees Provident Fund 5.9%
CIMB Principal 2.2%
Asset Management

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Prospects

Mitrajaya has secured two major projects, collectively worth RM433.9 mln in 2Q2017. This brings its construction orderbook replenishment to RM617.3 mln YTD (see Appendix 1) – amounting to 77.2% of our orderbook replenishment target of RM800.0 mln for 2017. We are positive on the group's prospects and to achieve the aforementioned target, based on the group's tenderbook of approximately RM3.00 bln, comprising of 90.0% for building projects and the remainder 10.0% for infrastructure works.

Moving forward, we think that the construction segment will continue to anchor the group's earnings, backed by a relatively strong unbilled construction orderbook of RM1.42 bln. This translates to an orderbook-to-cover ratio of 1.7x to 2016 construction earnings of RM843.5 mln that provides earnings visibility over the next three years. Although the construction segment earnings pretax margins has tapered to 4.3% in 1H2017 (vs. 12.6% in 2016), we think that it should normalise as the group adjust to the one-off expenses in certain projects that saw cost overrun in 2Q2017.

On the property development segment, the group's unbilled sales of approximately RM2232.6 mln from the Wangsa 9 Residency and Puchong Prima affordable housing project will sustain its property earnings over the next 2-3 years. Meanwhile, the South Africa property project is already near its tail-end with estimated unbilled sales of about RM14.8 mln that will be recognised progressively in the remainder of 2017. We note that Mitrajaya has also earmarked approximately RM20.0 mln as CAPEX for 2017.

Valuation and Recommendation

Although the reported earnings came broadly within our expectations, we trimmed our earnings forecast for 2017 and 2018 by 9.8% and 5.0% to RM94.2 mln and RM97.1 mln respectively to account for the additional construction cost. We, however, maintain our **BUY** recommendation on Mitrajaya with a lower target price of RM1.65 (from RM1.85).

We rolled over our valuation metrics to 2018 as we ascribed an unchanged target PER of 13.0x to its 2018 (fully diluted) construction earnings, while its local and overseas property development units are valued at an unchanged 0.8x their respective book values. At the target price of RM1.65, Mitrajaya will be trading at prospective PERs of 13.3x and 12.8x in 2017 and 2018 respectively, near its industry peer averages.

Risks to our forecast and target price include the group failing to reach the orderbook replenishment target that could dent its future earnings and a spike in input cost affecting both its construction and property development margins. Further tightening of credit facilities from financial services providers will continue to negatively affect the general property market and the sale of its properties.

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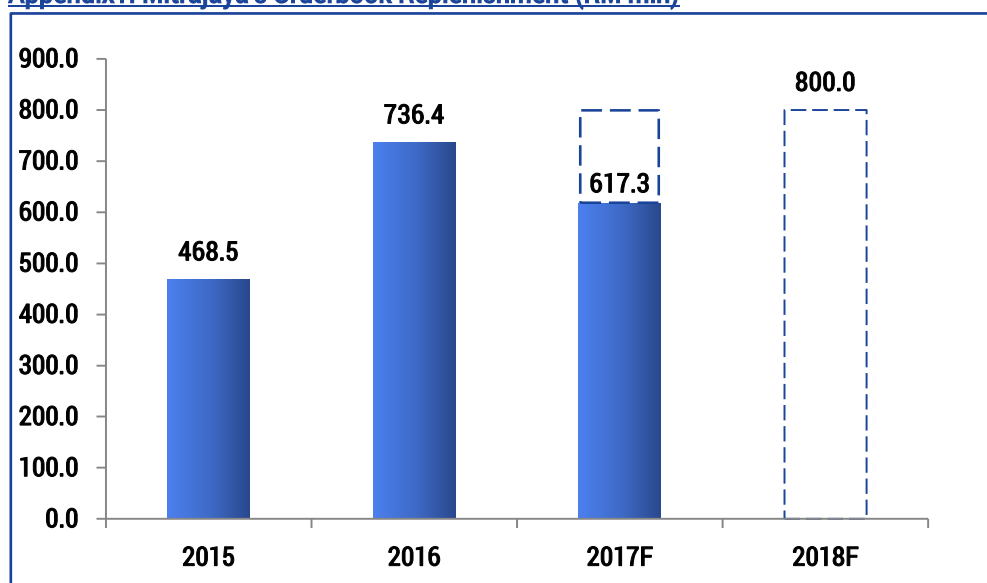
Quarterly Performance					
FY Dec (RM mln)	2Q2017	2Q2016	% Change		% Change
			Y.o.Y	1Q2017	Q.o.Q
Revenue	304.5	245.6	24.0%	291.4	4.5%
EBITDA	17.3	40.3	-57.1%	41.5	-58.4%
Depreciation & Amotization	-2.1	-1.1	96.0%	-1.8	18.6%
Net Interest Income/ (Expense)	-2.4	-0.7	235.6%	-2.0	20.2%
Profit before Tax	12.7	38.7	-67.2%	37.7	-66.2%
Net Profit	13.2	29.6	-55.4%	28.7	-54.0%
Basic EPS (Sen)	1.9	4.3	-55.4%	4.2	-54.0%

Source: Company Data, MSSB Research

Income Statement					
FYE Dec (RM mln)	2014A	2015A	2016A	2017F	2018F
Revenue	520.2	890.7	964.1	1187.8	1103.8
EBITDA	87.4	147.4	186.4	167.6	175.8
Depreciation & Amortisation	-11.9	-18.3	-24.5	-26.3	-30.5
Net Interest Expense	-3.0	-3.9	-6.8	-9.1	-9.1
Pre-tax Profit	72.5	124.9	155.3	132.0	136.0
Effective Tax Rate	26.5%	30.4%	24.8%	27.5%	27.5%
Net Profit	53.8	86.8	117.8	94.2	97.1
EBITDA Margin	16.8%	16.5%	19.3%	14.1%	15.9%
PreTax Margin	13.9%	14.0%	16.1%	11.1%	12.3%
Net Margin	10.3%	9.8%	12.2%	7.9%	8.8%

Source: Company Data, MSSB Research

Appendix1: Mitrajaya's Orderbook Replenishment (RM mln)



Source: Company Data, MSSB Research

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