

06 November 2017

Mitrajaya Holdings Bhd

Renewed Confidence

By Lum Joe Shen | lumjs@kenanga.com.my; Adrian Ng | adrian.ng@kenanga.com.my

We met up with MITRA's management and came away feeling more assured on its prospects given better clarity over the proposed cash call and cost overruns at RAPID. Post meeting, we reinstate our confidence on MITRA over its execution track record despite the last two waves of unfortunate news which had hammered its share prices. **Maintain FY17 CNP but increase FY18E CNP by 15%. Upgrade to OP with higher cum/ex TP of RM1.09/RM0.94.**

Clearing the air over their cash call. In line with the growing construction revenue since FY13, their 100%-owned construction subsidiary – Pembinaan Mitrajaya S/B's (PMSB)'s borrowings has increased due to: (i) new CAPEX totalling RM155m since FY13, and (ii) retention sum* ballooning to RM112m. Hence, the cash call is to pare down debts parked under PMSB whereby its gross gearing was at 0.8x as of 2Q17. The move was necessary as they were at a disadvantage in securing jobs with value of >RM100m due to the high gross gearing in PMSB as clients' emphasises on financial strength at the company level i.e. PMSB. It is preferable for PMSB's gross gearing to be under 0.5x. Post rights, PMSB's gross gearing level will ease to more comfortable levels of 0.30x. Therefore, we believe MITRA is poised to grow their construction order-book further moving forward. (*refer back*)

RAPID-ly flushing out earnings risks by FY17. Recall that MITRA had reported weaker-than-expected earnings in 2Q17 due to cost overruns from their RAPID project (contract sum of RM186m; outstanding of RM46m). Given that most critical areas of the RAPID job will be completed by FY17E, **we think FY18 earnings risks is less severe than what we have built-in** earlier, at RM12m losses before tax from this project. While risks for further cost overruns persist for the rest of FY17, we note that we had imputed in a cumulative loss of RM35m for the RAPID project in FY17E (incurred loss of RM13m in 2Q17) which we feel is conservative enough for the remainder of project given that it is currently at c.75% progress mark. (*refer back*)

Strong property billings in FY18. Currently, MITRA's property unbilled sales stand at RM233m where the bulk is from Wangsa 9 Phase 1 and 2 accounting for 70% or RM164m. Given that Wangsa 9 Phase 1 and 2 is bound for delivery in FY18, we believe they would be ripe for advance billings stage in FY18. Also, Wangsa 9 Phase 3 (GDV RM300) will be launched in Jan 2017 and construction of the foundation is currently underway (at c.80%). Since Wangsa 9 Phase 3 construction is already in progress, we note that billings from this project can be recognised immediately once the project is launched.

FY18E earnings upgrade. Post meeting, we maintain FY17E earnings but upgrade our FY18E CNP by 15% after: (i) reversing out expected losses before tax of RM10m from RAPID project (vs previous expected loss of RM12m), and (ii) expedite billings progress from Wangsa 9 Phase 1 and Phase 2 in FY18 given that unbilled sales ripe for advance billing stage, and (iii) higher billings from Wangsa 9 Phase 3 given that construction is already underway prior to launch. (*refer back*)

Upgrade to OP from MP. Post earnings adjustment, we increase MITRA's SoP derived cum/ex TP to RM1.09/RM0.94 (from RM0.95/RM0.84). We believe our upgrade is fair as: (i) majority of earnings risks stemming from RAPID project will be flushed out by FY17, (ii) there is more clarity over the rights exercise, and (iii) PMSB's balance sheet strength post rights is in a much better footing for future order-book growth. Also, since 2Q17 results release, MITRA's share price has fallen 30% and we note that MITRA is currently trading at 7.4x Fwd PER based on our new FY18E estimates which is at an appealing level.

OUTPERFORM ↑

Cum/Ex-Price : RM0.94/RM0.83

Cum/Ex-Target Price : RM1.09/RM0.94 ↑

Share Price Performance



KLCI	1,740.93
YTD KLCI chg	6.0%
YTD stock price chg	-25.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MHB MK Equity
Market Cap (RM m)	647.6
Issued shares	688.9
52-week range (H)	1.46
52-week range (L)	0.90
3-mth avg daily vol:	1,779,423
Free Float	51%
Beta	0.8

Major Shareholders

Tan EngPiow	40.9%
Employees Provident Fund	6.1%
CIMB-Principal Asset	2.2%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	964.1	1,109.1	1,110.1
EBIT	162.9	85.8	137.4
PBT	155.3	72.3	128.3
Net Profit (NP)	117.8	70.3	98.3
Core net profit	97.3	70.3	98.3
Consensus (NP)	n.a.	69.0	52.0
Earnings Revision	0%	0%	15%
*Core EPS (sen)	10.9	7.8	11.0
EPS growth (%)	11%	-28%	41%
DPS (sen)	5.0	2.0	2.0
NTA/Share (RM)	0.64	0.76	0.94
*Core PER (x)	7.6	10.6	7.5
BVPS (RM)	0.69	0.76	0.94
Net Gearing (x)	0.32	0.30	0.16
Dividend Yield (%)	6.0%	2.4%	2.4%

*post rights



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OTHER POINTS

Clearing the air over their cash call. Since FY13, its construction revenue has quadrupled to RM850m in FY16. In line with the growth in revenue, their 100%-owned construction subsidiary – Pembinaan Mitrajaya S/B's (PMSB)'s borrowings has also increased due to: (i) new CAPEX totalling RM155m along the years, and (ii) retention sum* ballooning to RM112m (from RM22m in FY13). Hence, the cash call is to pare down debts parked under PMSB whereby its gross gearing was at 0.8x as of 2Q17 (total borrowings under PMSB at RM191.6m accounting for 71% of total group borrowings). The move was necessary as they were at a disadvantage in securing jobs with value of >RM100m due to the high gross gearing in PMSB as clients' emphasises on financial strength at the company level i.e. PMSB instead of the group level despite the lower group net gearing of 0.34x. Hence, management stressed that it is preferable for PMSB's gross gearing to be under 0.5x. Post rights, PMSB's gross gearing level will come down to more comfortable levels of 0.30x. Therefore, we believe MITRA is poised to grow their construction order-book further moving forward. That said, we keep our FY18E replenishment target of RM1.0b unchanged for now.

RAPID-ly flushing out earnings risks by FY17. Recall that MITRA had reported weaker-than-expected earnings in 2Q17 due to cost overruns from their RAPID project (contract sum of RM186m; outstanding of RM46m). Given that most critical areas of the RAPID job will be completed by FY17E, **we think FY18 earnings risks is less severe than what we have built-in** earlier, at RM12m losses before tax (effective LBT of RM6m given that the project is a 49:51 JV) from this project. While risks for further cost overruns persist for the rest of FY17, we note that we had imputed in a cumulative loss of RM35m for the RAPID project in FY17E (incurred loss of RM13m in 2Q17) which we feel is conservative enough for the remainder of project given that it is currently at c.75% progress mark.

FY18E earnings upgrade. Post meeting, we maintain FY17E earnings but upgrade our FY18E CNP by 15% to RM98.3m after: (i) reversing out expected losses before tax of RM10m from RAPID project (vs previous expected loss of RM12m), and (ii) expedite billings progress from Wangsa 9 Phase 1 and Phase 2 in FY18 given that unbilled sales from these projects are ripe for advance billing stage, and (iii) higher billings from Wangsa 9 Phase 3 given that construction is already underway prior to launch. All in, at PATAMI levels; (i) we reverse out RM4.0m of Rapid losses, and (ii) impute Wangsa 9 projects to contribute an additional RM9.0m to arrive at our new FY18E CNP. We note that we have already incorporated interest savings of RM4.9m from the cash call in our previous note.

Risks associated with our call are: (i) higher-than-anticipated losses from RAPID project, and (ii) lower-than-expected replenishment, and (iii) lower-than-expected margins.

***Retention sum:** For any construction project, the client will collect a retention sum of 5% of the total Project Value. The retention sum will be collected through deduction of 10% for the first progress payments and subsequent progress payments until 5% of the total contract value retained.

Example: If total project value is at RM100m, total retention would be 5% (or RM5m). At the first progress payment of RM5m, there will be a deduction RM500k. Client will not collect any more retention sum if progress payment touches RM50m/50% as total retention sum of RM5m is now collected. Within the contractors' balance sheet, this retention sum will be parked under trade receivables. Contractors will get to collect back 50% of their retention sum (RM2.5m in this case) upon VP and the 50% remainder (the remainder RM2.5m) retention sum collect when defect liability period over.

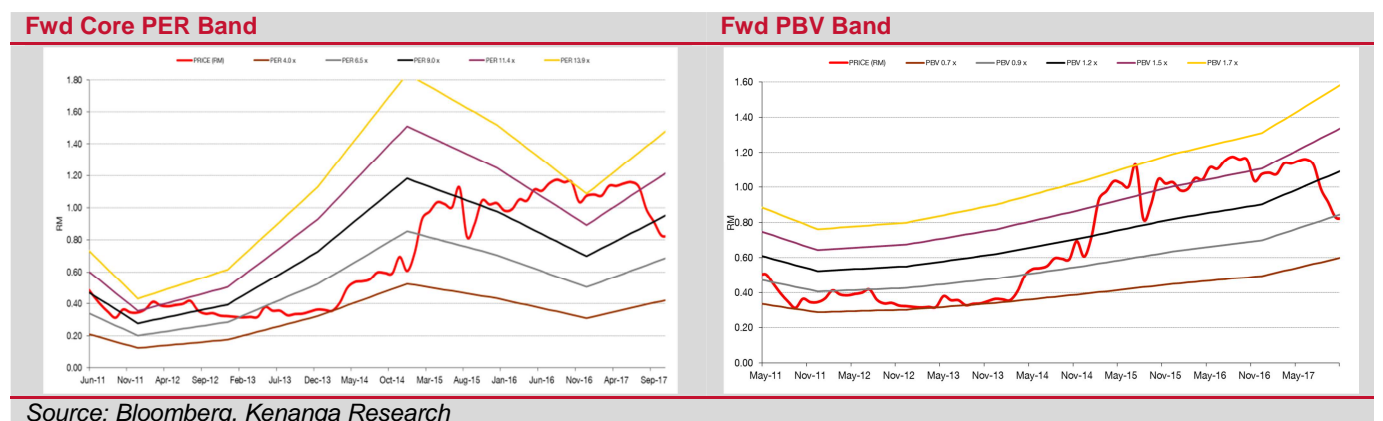
Sum-of-parts valuation			
Segment	Stake	Method	Value (RM m)
Construction	100%	FY18 PE of 10x	570.5
Property Division	100%	FY18 PE of 7x	225.9
South Africa	100%	RNAV 60% discount	46.7
Sub Total			843.1
Total			843.1
No of shares			896
SOP/Share			0.94
Target Price			0.94
FD FY18 EPS			11.1
Implied FD FY18 PER			9

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	520	891	964	1109	1110	Growth (%)					
EBITDA	86	149	188	104	156	Revenue	54%	71%	8%	15%	0%
Depreciation	-10	-18	-18	-19	-19	EBITDA	59%	74%	27%	-45%	50%
EBIT	76	130	163	86	137	EBIT	74%	71%	25%	-47%	60%
Net Interest Exp	-4	-5	-12	-14	-9	Pre-tax Income	80%	72%	24%	-53%	77%
Investing	0	0	0	0	0	Net Income	83%	63%	34%	-40%	40%
Associate/JCE	0	0	0	0	0	Core Net Income	83%	63%	11%	-28%	40%
Exceptionals/FV	0	0	1	0	0						
PBT	72	125	155	72	128	Profitability (%)					
Taxation	-19	-37	-31	-20	-31	EBITDA Margin	16%	17%	20%	9%	14%
Minority Interest	0	0	2	-18	-1	EBIT Margin	15%	15%	17%	8%	12%
Net Profit	54	88	118	70	98	PBT Margin	14%	14%	16%	7%	12%
Core Net Profit	54	88	97	70	98	Net Margin	10%	10%	12%	6%	9%
						Effective Tax Rate	-26%	-30%	-20%	-28%	-24%
						ROE				14%	15%
						ROA	8%	9%	8%	6%	7%
						DuPont Analysis					
						Net margin (%)	10%	10%	12%	6%	9%
						Assets Turnover (x)	0.8	0.9	0.8	0.9	0.8
						Leverage Factor (x)	1.6	1.7	2.0	1.8	1.6
						ROE (%)	14%	15%	19%	10%	12%
						Leverage					
						Debt/Asset (x)	0.16	0.16	0.21	0.18	0.12
						Debt/Equity (x)	0.26	0.28	0.41	0.32	0.19
						Net Debt/(Cash)	3	3	3	12	5
						Net Debt/Equity (x)	0.20	0.21	0.32	0.30	0.16
						Valuations					
						Core EPS (sen)	6.0	9.8	10.9	7.8	11.0
						NDPS (sen)	0.9	2.1	5.0	2.0	2.0
						BV/share (RM)	0.44	0.55	0.69	0.76	0.94
						Core PER (x)	13.8	8.5	7.6	10.6	7.6
						Net Div. Yield (%)	1.1%	2.6%	6.0%	2.4%	2.4%
						PBV (x)	1.9	1.5	1.2	1.1	0.9
						EV/EBITDA (x)	6.4	3.6	2.8	5.7	3.8

Source: Kenanga Research
Core earnings excludes one-offs including remeasurement gains, impairments/provisions/write-backs, translation FOREX, one-off disposals



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Peer Comparison

CORE COVERAGE																
NAME	Price (03/11/17)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 YrFwd NP Growth	2 YrFwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 YrFwd d	2 YrFwd d	(%)	(%)	(x)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.98	760	-5.4	12.8	11.9	2%	6%	0.8	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	69.6
GAMUDA BHD	5.08	12472	20.5	19.3	16.2	2%	10%	1.6	700.6	741.7	885.4	6%	19%	5.45	Market Perform	6.3
IJM CORP BHD	3.17	11502	21.3	19.6	17.4	2%	6%	1.2	539.1	585.8	656.1	9%	12%	3.48	Market Perform	-0.9
KIMLUN CORP BHD	2.32	742	8.8	10.2	9.2	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	11.5
MUHIKBAH ENGINEERING (M) BHD	2.84	1364	16.8	14.5	13.9	2%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	27.4
HOCK SENG LEE BERHAD	1.55	852	15.0	17.2	12.4	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-3.1
WCT HOLDINGS BHD	1.63	2293	32.0	18.3	16.1	0%	5%	0.9	84.8	149	169.4	76%	14%	1.83	Market Perform	-5.2
MITRAJAYA HOLDINGS BHD	0.83	648	7.6	10.6	7.5	2%	12%	1.1	97.3	70.3	98.3	-28%	40%	0.94	Outperform	-25.4
SUNWAY CONSTRUCTION GROUP	2.34	3024	25.7	20.9	17.5	2%	25%	5.2	117.7	145.2	173.1	23%	19%	2.29	Market Perform	37.6
KERJAYA PROSPEK GROUP BHD	4.08	2298	23.1	18.2	15.6	1%	15%	2.8	100	126.7	148.1	27%	17%	3.30	Underperform	88.0
Average			16.7	16.0	13.7											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 YrFwd NP Growth	2 YrFwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 YrFwd d	2 YrFwd d	(%)	(%)	(x)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)		
MUDAJAYA	1.16	686	-2.4	16.3	11.8	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	27.5
PROTASCO	1.14	484	9.3	8.2	8.0	5%	15%	1.2	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	0.9
PINTARAS JAYA	4.02	664	37.0	15.6	13.0	4%	12%	1.9	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	14.2
GABUNGAN AQRS	2.00	870	34.6	21.0	10.0	1%	12%	2.4	22.6	37.2	77.9	65%	109%	1.6	Not Rated	121.0
GADANG HOLDINGS	1.22	803	4.2	4.6	4.4	2%	27%	1.2	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	16.2
AZRB	1.14	606	20.3	9.6	7.6	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	79.5
TRC SYNERGY	0.77	368	12.3	11.2	14.0	3%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	101.3
BINA PURI	0.37	99	88.2	5.9	5.9	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-14.9
PESONA	0.56	386	18.2	10.3	7.5	4%	22%	2.3	20	35.3	48.5	77%	37%	0.49	Take Profit	-8.3
JAKS	1.49	734	0.9	10.5	7.6	0%	12%	1.2	736	61.9	85.4	-92%	38%	1.54	Not Rated	46.1
Average			22.3	11.3	9.0											

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

