Mitrajaya Holdings (BUY←→; EPS←→)

INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION

26 May 2015
Price Target: RM2.92 (←→)
Share price: RM1.88

Decent start, momentum to pick up

Results

- Mitrajaya posted 1QFY15 results with revenue of RM161.6m (+55% YoY, +19% QoQ) and earnings of RM13.4m (+23% YoY, -17% QoQ).

Deviation

- 1Q earnings made up 17% of our full year forecast which we regard as inline. Traditionally, 1Q tends to be the weakest quarter given slow construction progress due to the Lunar New Year festivities. To illustrate, in the past 3 years, 1Q only made up 16%, 12% and 20% of full year earnings.

Dividends

- None. Usually declared in 4Q.

Highlights

- **Strong orderbook support.** Construction work appears to be progressing well with division revenue up +82% YoY and +51% QoQ. Its orderbook currently stands at RM1.8bn, translating to a superior cover of 4.7x FY14 construction revenue (peers average: 2.1x). Momentum is expected to further accelerate in the coming quarters as newer jobs such as the PP1AM housing (RM230m), BNM complex (RM187m), MK22 (RM402m) and Raffels School (RM270m) gain traction.
- **Gunning for more.** YTD job wins currently amount to RM230m vs. management's full year target of RM1bn and our more conservative assumption of RM500m. Total tenders currently stand at RM1.9bn comprising buildings in the Klang Valley (RM1.4bn) as well as buildings (RM350m) and infra works (RM180m) in Johor. Aside that, Mitrajaya is also a strong contender for the LRT3 station works (RM750-1,000m) which should take off in 1Q16.
- **Efforts to boost sales.** While take up rate for Phase 1 (RM185m) of Wangsa 9 has hit 70%, it has been much slower for Phase 2 (RM195m) at only 17%. In efforts to boost sales, last weekend, Mitrajaya conducted an official launch for Wangsa 9. It is also mulling to engage property agents and advertising to shore up sales.

Risks

- Delays in construction execution and softening property market.

Forecasts

- No changes to estimates as the results were inline.
- We maintain our earnings projections and believe that FY15 will be another record earnings year (+49% YoY) for Mitrajaya.

Rating

BUY, TP: RM2.92 (+55% upside)

- Mitrajaya remains our top pick amongst the small cap contractors as it offers robust growth prospects (3 year CAGR: 24%) at inexpensive valuations of 9.4x and 7.8x FY15-16 P/E.
- Dividend yield is also decent at 3.7-4.5% for FY15-16, respectively.

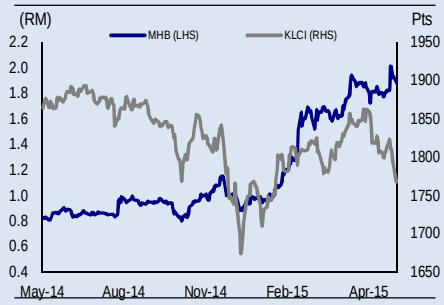
Valuation

Our SOP based TP of RM2.92 implies FY15-16 P/E of 14.7x and 12.2x respectively.

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KLCI	1,767.4
Expected share price return	55.3%
Expected dividend return	3.7%
Expected total return	59.0%

Share price



Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	403
Market cap (RM m)	757
3-mth avg. volume ('000)	2,455
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.6	13.3	125.1
Relative	7.1	16.7	137.3

Major shareholders

Tan Eng Piow	40.4%
Soon Aw Eng	2.1%

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	520	764	931	984
EBITDA	86	122	145	153
EBIT	76	112	134	142
Profit Before Tax	72	108	130	138
Core PATAMI	54	80	96	102
vs Consensus (%)		-	-	-
Core EPS (sen)	13.4	19.9	24.0	25.5
P/E (x)	14.1	9.4	7.8	7.4
Net DPS (sen)	5.0	7.0	8.4	8.9
Net DY (%)	2.7	3.7	4.5	4.7
BV per share	0.98	1.11	1.27	1.43
P/B (x)	1.9	1.7	1.5	1.3
ROE (%)	14.5	19.1	20.2	18.9
Net Gearing (%)	19.8	16.9	15.4	8.1

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY15	1QFY14	4QFY14	YoY	QoQ	Comments
Revenue	161.6	104.2	135.8	*55.1*	*19.0*	Supported by projects such as the LRT stations, MACC HQ and Symphony Hills condo.
EBIT	19.8	15.1	23.7	*31.2*	*(16.3)*	
Finance cost	(1.3)	(0.8)	(1.0)	*73.7*	*34.1*	
Associates & JVs	(0.0)	-	-	*n.m.*	*n.m.*	
PBT	18.5	14.4	22.7	*28.9*	*(18.5)*	
PAT	13.8	10.9	15.9	*26.1*	*(13.4)*	
PATMI - core	13.4	10.9	16.1	*22.6*	*(16.9)*	Within expectations. Subsequent quarters to be stronger as 1Q is traditionally the weakest.
PATMI - reported	13.4	10.9	16.1	*22.6*	*(16.9)*	
EPS - core	3.3	2.7	4.0			
EBIT margin	12.3	14.5	17.5			Margins lower YoY and QoQ due to contract mix during the quarter. Expect to improve as newer jobs kick in.
PBT margin	11.4	13.8	16.7			

Mitrajaya, HLIB

Figure #2 SOP based valuation for Mitrajaya

Sum of Parts (SOP)	Amount (RM m)	PE (x) / Discount	Value (RM m)	Basis
Mid CY16 earnings	88	12	1,060	12x P/E target
Net land value	739	50%	370	50% discount to market value less debt
Cash from warrants conversion			131	Full exercise of Warrants C&D
SOP Value			**1,561**	
Fully diluted share base (mil)			534	
Target price (RM/ share)			**2.92**	

HLIB estimates

Financial Projections for Mitrajaya Holdings

Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	19	24	25	19	48
Receivables	130	204	271	326	343
Inventories	125	94	169	208	220
PPE	38	41	41	40	39
Others	249	277	312	343	367
Assets	**560**	**640**	**817**	**936**	**1,018**
	-	-	-	-	-
Debts	82	102	100	97	95
Payables	124	136	264	323	341
Others	4	6	6	6	6
Liabilities	**209**	**245**	**370**	**426**	**442**
	-	-	-	-	-
Shareholder's equity	350	394	447	509	576
Minority interest	1	1	1	1	1
Equity	**351**	**395**	**447**	**510**	**577**

Cash Flow Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Profit before taxation	36	72	108	130	138
Depreciation & amortisation	10	10	10	11	11
Changes in working capital	31	(23)	(15)	(35)	(11)
Taxation	(12)	(19)	(28)	(34)	(36)
Others	(43)	(32)	(43)	(37)	(26)
CFO	**23**	**7**	**33**	**35**	**76**
Net capex	(8)	(11)	(10)	(10)	(10)
Others	13	6	-	-	-
CFI	**5**	**(4)**	**(10)**	**(10)**	**(10)**
Changes in borrowings	1	20	(2)	(3)	(3)
Issuance of shares	(0)	(0)	-	-	-
Dividends paid	(8)	(8)	(20)	(28)	(34)
Others	(19)	2	-	-	-
CFF	**(26)**	**14**	**(22)**	**(31)**	**(36)**
Net cash flow	**2**	**17**	**1**	**(6)**	**29**
Forex	(0)	(0)	-	-	-
Others	14	(12)	-	-	-
Beginning cash	3	19	24	25	19
Ending cash	19	24	25	19	48

Income Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	**338**	**520**	**764**	**931**	**984**
EBITDA	49	86	122	145	153
EBIT	39	76	112	134	142
Finance cost	(3)	(4)	(4)	(4)	(4)
Associates & JV	-	-	-	-	-
Profit before tax	**36**	**72**	**108**	**130**	**138**
Tax	(12)	(19)	(28)	(34)	(36)
Net profit	**24**	**53**	**80**	**96**	**102**
Minority interest	1	0	-	-	-
PATMI (core)	**25**	**54**	**80**	**96**	**102**
Exceptionals	4	-	-	-	-
PATMI (reported)	29	54	80	96	102

Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	6.2	13.4	19.9	24.0	25.5
P/E (x)	30.1	14.1	9.4	7.8	7.4
EV/EBITDA (x)	16.9	9.8	6.8	5.8	5.5
DPS (sen)	2.0	5.0	7.0	8.4	8.9
Dividend yield	1.0%	2.7%	3.7%	4.5%	4.7%
BVPS (RM)	0.87	0.98	1.11	1.27	1.43
P/B (x)	2.2	1.9	1.7	1.5	1.3
EBITDA margin	14.6%	16.5%	16.0%	15.6%	15.5%
EBIT margin	11.7%	14.6%	14.7%	14.4%	14.4%
PBT margin	10.7%	13.9%	14.2%	14.0%	14.1%
Net margin	7.4%	10.3%	10.5%	10.4%	10.4%
ROE	7.4%	14.5%	19.1%	20.2%	18.9%
ROA	4.5%	9.0%	11.0%	11.0%	10.5%
Net gearing	17.9%	19.8%	16.9%	15.4%	8.1%

Assumptions

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Contracts secured	501	1,136	500	500	500

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Published & Printed by
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Equity rating definitions

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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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.