

# 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.

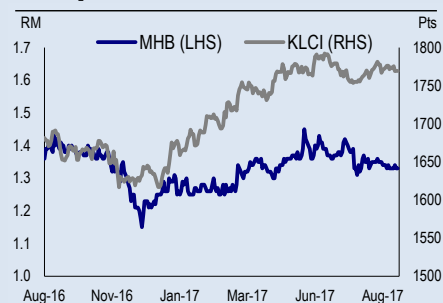
Jeremy Goh, CFA

[pwgoh@hlib.hongleong.com.my](mailto: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
<b>SOP Value</b>			<b>1,143</b>	
Fully diluted share base (mil)			755	
<b>Target price (RM/ share)</b>			<b>1.51</b>	

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
<b>Assets</b>	<b>1,021</b>	<b>1,237</b>	<b>1,277</b>	<b>1,377</b>	<b>1,454</b>
Debt	162	255	265	275	285
Payables	343	347	320	358	368
Others	13	18	9	9	9
<b>Liabilities</b>	<b>519</b>	<b>620</b>	<b>594</b>	<b>643</b>	<b>663</b>
Shareholder's equity	501	619	683	734	791
Minority interest	1	(1)	-	-	-
<b>Equity</b>	<b>502</b>	<b>617</b>	<b>683</b>	<b>734</b>	<b>791</b>

**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)
<b>CFO</b>	<b>15</b>	<b>44</b>	<b>62</b>	<b>38</b>	<b>40</b>
Net capex	(52)	(35)	(20)	(15)	(10)
Others	17	6	-	-	-
<b>CFI</b>	<b>(35)</b>	<b>(29)</b>	<b>(20)</b>	<b>(15)</b>	<b>(10)</b>
Changes in borrowings	60	92	10	10	10
Issuance of shares	-	14	24	-	-
Dividends paid	(21)	(33)	(33)	(27)	(28)
Others	(29)	(60)	-	-	-
<b>CFF</b>	<b>10</b>	<b>13</b>	<b>1</b>	<b>(17)</b>	<b>(18)</b>
<b>Net cash flow</b>	<b>(9)</b>	<b>28</b>	<b>42</b>	<b>6</b>	<b>12</b>
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
<b>Revenue</b>	<b>891</b>	<b>947</b>	<b>983</b>	<b>1,105</b>	<b>1,146</b>
EBITDA	148	175	127	145	157
EBIT	130	150	102	119	132
Finance cost	(5)	(8)	(10)	(11)	(11)
Associates & JV	0	0	-	-	-
<b>Profit before tax</b>	<b>125</b>	<b>143</b>	<b>92</b>	<b>108</b>	<b>121</b>
Tax	(38)	(40)	(25)	(29)	(33)
<b>Net profit</b>	<b>87</b>	<b>104</b>	<b>67</b>	<b>79</b>	<b>88</b>
Minority interest	(0)	(3)	-	-	-
<b>PATMI (core)</b>	<b>87</b>	<b>101</b>	<b>67</b>	<b>79</b>	<b>88</b>
Exceptionals	-	18	10	-	-
<b>PATMI (reported)</b>	<b>87</b>	<b>119</b>	<b>77</b>	<b>79</b>	<b>88</b>

**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

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 29 August 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 29 August 2017, the analyst, Jeremy Goh, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.