

# Result Snapshot

## Mudajaya Group

Bloomberg: MDJ MK| Reuters: MJYA.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 Aug 2014

**HOLD RM2.44** KLCI : 1,861.82

Price Target :12-Month RM2.35 (Prev RM2.80)

Shariah Compliant :Yes

### Analyst

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### Result Summary

FY Dec (RM m)	2Q 2014	2Q 2013	1Q 2014	yoy % chg	qoq % chg
<b>P&amp;L Items</b>					
Turnover	279.0	432.1	366.4	(35.4)	(23.9)
Opg Profit	7.4	55.1	32.8	(86.6)	(77.4)
EBITDA	15.4	61.4	38.0	(74.9)	(59.5)
Net Profit	3.3	46.1	25.1	(92.7)	(86.6)
Core Net Profit	5.7	44.7	25.2	(87.3)	(77.5)
<b>Other Data</b>					
Opg Margin (%)	2.7	12.7	8.9		
Net Margin (%)	1.2	10.7	6.8		
Core Margin (%)	2.0	10.3	6.9		

### Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	1,536	1,009	1,050	1,172
Operating Profit	195	68	89	116
EBITDA	204	76	127	182
Net Pft (Pre Ex.)	151	55	99	149
EPS (sen)	27.9	10.1	18.4	27.5
EPS Pre Ex. (sen)	27.9	10.1	18.4	27.5
EPS Gth (%)	(36)	(64)	81	50
EPS Gth Pre Ex (%)	(36)	(64)	81	50
Net DPS (sen)	9.0	2.5	4.6	6.9
BV Per Share (sen)	223.4	231.0	244.7	265.3
PE (X)	8.7	24.1	13.3	8.9
PE Pre Ex. (X)	8.7	24.1	13.3	8.9
EV/EBITDA (X)	6.2	14.4	8.4	5.4
Net Div Yield (%)	3.7	1.0	1.9	2.8
P/Book Value (X)	1.1	1.1	1.0	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.0	4.5	7.7	10.8

### At A Glance

Issued Capital (m shrs)	539
Mkt. Cap (RMm/US\$m)	1,315 / 416
Avg. Daily Vol.('000)	849

### Price Relative



Source: Company, AllianceDBS

## Major slump

- **1H core earnings down 65% y-o-y - below expectations**
- **Weak earnings due to variation orders and thinning orderbook**
- **Job flow prospects are however looking better**
- **Maintain HOLD, TP cut to RM2.35 as we lower FY14-16F earnings**

### Highlights

**Steep earnings decline.** Mudajaya reported 2QFY14 revenue of RM279m (-35% y-o-y, -24% q-o-q) and core earnings of RM5.7m (-87% y-o-y, -78% q-o-q). With the steep plunge in 2Q earnings, 1H core earnings only amounted to RM30.9m (-65% y-o-y). This was below expectations, at 29% of both our and consensus full year forecast.

**Variation orders the culprit.** Apart from declining revenue as a result of its thinning orderbook, Mudajaya was also faced with variation orders (VO) for some jobs such as the Manjung power plant and MRT. This resulted in additional cost of works being booked without any corresponding revenues as the final accounts have yet to be closed.

### Our View

**Thinning orderbook is a concern...** Management guided that its outstanding orderbook balance stands at RM750m, implying a thin cover of only 0.6x FY13 construction revenue. This was a result of no new contracts secured in FY13 and 1H14.

**...but outlook appears brighter.** Management indicated that a slew of contracts could be forthcoming in the next 6 months from its RM10bn worth of tenders. These include civil works subcontract for Project 3A (RM700m), civil works for Project 4A (RM400-500m), Ikano Mall (RM700m) where it is one of the finalist, and highways such as SUKE (RM4.2bn) and DASH (RM4.3bn) where it has been shortlisted.

**Secures new contract.** Mudajaya also announced that it was awarded a US\$119m (RM375m) equipment procurement (EP) contract for a 62MW wind farm in Cebu. Apart from the EP contract, Mudajaya will hold a 40% stake in the wind farm.

### Recommendation

**Maintain HOLD, cut TP to RM2.35.** Given the weak results, we cut our FY14-16F earnings by 37%/13%/5%, respectively as we impute lower margins to account for the VOs. We also roll forward our valuation from FY14 to mid-CY15. Accordingly, our TP is reduced from RM2.80 to RM2.35, based on SOP valuation, implying FY14-15F PEs of 23.2x and 12.8x, respectively. While job prospects are starting to look better, weak earnings in subsequent quarters may continue to be a drag on share price.

**Mudajaya Group**

**SOP valuation for Mudajaya**

SOP Component	RM/m	Multiplier / WACC	Value to Mudajaya	Per Share
Mid CY15 earnings	63	10	631	1.17
Chattisgarh IPP 4 x 360MW - FCFE (ke: 16%)	1,824	16%	474	0.88
Gebeng solar farm 2 x 5MW - FCFE (ke: 8%)	163	8%	98	0.18
Sulawesi IPP 2 x 7MW - FCFE (ke: 12%)	134	12%	76	0.14
<b>SOP Value</b>			<b>1,279</b>	<b>2.35</b>

Source: AllianceDBS

**Target Price & Ratings History**



S.No.	Date	Closing Price	Target Price	Rating
1:	28 May 14	2.50	2.80	Hold
2:	03 Jul 14	2.47	2.80	Hold

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

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**DISCLOSURE**

**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**Commonly used abbreviations**

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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