

HLIB Research

PP 9484/12/2012 (031413)

Tan Kai Shuen, CFA

kstan@hlib.hongleong.com.my

(603) 2083 1714

BUY (Maintain)

Target Price: RM2.73

Previously: RM2.54

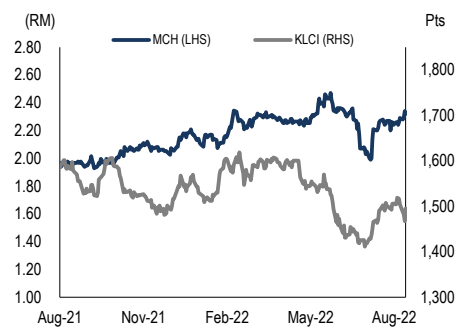
Current Price: RM2.32

Capital upside	17.7%
Dividend yield	5.8%
Expected total return	23.5%

Sector coverage: Property

Company description: Matrix involves in property development and construction businesses primarily focus in Negeri Sembilan and Johor.

Share price



Historical return (%)	1M	3M	12M
Absolute	5.5	-6.1	11.5
Relative	3.2	-3.2	18.3

Stock information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	834
Market cap (RM m)	1,935
3-mth avg. volume ('000)	532
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Lee Tian Hock	13.9%
Shining Term Sdn Bhd	12.7%
EPF	8.2%

Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PATMI - core (RM m)	205.2	220.7	250.4
EPS - core (sen)	24.6	26.5	30.0
P/E (x)	9.3	8.7	7.6

Matrix Concepts Holdings

Acquisition of 1.38k acres land in NS

Matrix through its JV with NS Corp has acquired 1.38k acres of land in Negeri Sembilan for a RM7bn GDV township development. The new lands are located 3km away from its Bandar Sri Sendayan township. The land acquisition cost is lower than the group's recent years land acquisition in Bandar Sri Sendayan. We are positive on the acquisition due to (i) land bank replenishment; (ii) strategic location close to Klang Valley; and (iii) lower execution risk due to familiarity of the area. We lowered our FY23/24/25 forecasts by -5.5%/ -5.8%/ -5.6% as we account for higher financing cost. Maintain BUY with a higher TP of RM2.73 based on a higher 35% discount (from 25%) to revised RNAV of RM4.20.

NEWSBREAK

Purchasing 1.38k acres of land. Matrix through its wholly-owned subsidiary has entered in to a JV with NS Corporation (NS Corp), a state owned body of Negeri Sembilan on 24 Aug 2022 to form a JV named N9 Matrix (Matrix: 85%, NS Corp: 15%) (see Figure #1 for the corporate structure). The JV in turn entered into a Sale and Purchase agreement to acquire a land measuring 1,382 acres in Mukim Labu, Negeri Sembilan from Sime Darby for RM460m. The purpose of the JV is for Matrix and NS Corp to collaborate in developing the lands into a township with GDV value of RM7bn. Under the agreement, the JV will distribute to the respective JV partners at least 10% of its profits in the first 5 years, and 20% of the profits in the subsequent 5 years. The first phase of the township will be launched tentatively 3 years from now.

Details on the land purchase. The lands are located approximately 3km from Matrix Bandar Sri Sendayan township. The pricing of the land translates to RM7.64 psf, which is lower compared to Matrix's recent years land acquisition in Bandar Sri Sendayan township at c.RM10psf. The land cost to GDV is at 6.6%, excluding land conversion and infrastructure cost. We estimate that the land conversion cost to be in the range of 1-1.5% of GDV and as such, the converted land cost to GDV is estimated to be 7.5-9%. The infrastructure cost on the hand is estimated to be around 7.5-10% of GDV. We deem the land acquisition cost to be fair.

Funding of the land purchase. The land purchase will be fully funded and developed by Matrix. The payment for the land purchase will be 10% of the purchase price (RM46m) on 24 Aug and the balance (RM414m) within 4.5 months from the conditional date (which is the date after the fulfilment of several conditions including obtaining Matrix shareholders' approval). Post-acquisition, the group's net gearing will increase to 0.38x (from 0.14x as at 31 Mar 2022).

HLIB'S VIEW

We are **positive on the development** as this will alleviate investor's concern on the depleting land bank in Bandar Sri Sendayan which currently has a remaining 848 acres of land and remaining GDV of RM3.3bn. With the assumption of a land depletion of 150 acres p.a., the new lands will provide Matrix with earnings visibility of around 8-9 years. As the new township is adjacent to Bandar Sri Sendayan, Matrix is already familiar with the demographic, dynamics and regulations of the area and as such presents lower execution risk. Furthermore, the new lands are more strategic compared to Bandar Sri Sendayan as it is closer to the Klang Valley and thus, is poised to benefit from the spill over demand from Klang Valley homebuyers. Nonetheless, we note that Matrix will only enjoy 85% of the profits from the development due to the JV structure (compared to 100% in its Bandar Sri Sendayan development).

Forecast. We have included the land development in our RNAV calculation. As the first phase of the launch is 3 years from now, the earnings contribution from the land development is outside of our forecast horizon of FY23-25. Nevertheless, we have included the finance cost of the purchase and as such our FY23/24/25 forecast are lowered by -5.5%/-5.8%/-5.6%.

Maintain **BUY** with a higher TP of **RM2.73** based on a higher 35% discount (from 25%) to revised RNAV of RM4.20 (from RM3.39). Our higher RNAV discount is premised on the current industry-wide labour shortage condition impacting the group's revenue and earnings recognition, which in turn limits the upside to its dividend payout. Having said that, we are still positive on the land acquisition as it provides the group with sustainable growth and longer earnings visibility. We continue to like Matrix due to its proven track record as a township developer as well as its strategically located developments well positioned to capture the spill over demand from Klang Valley.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Cash	229.4	202.1	232.0	727.9	618.8
Receivables	620.6	714.4	424.3	463.0	561.3
Inventories	618.0	463.2	618.4	731.0	818.0
Others	1,142.2	1,239.7	1,988.0	1,743.8	1,885.5
Assets	2,610.2	2,619.4	3,262.7	3,665.7	3,883.5
Payables	456.0	412.3	489.6	771.7	863.5
Debt	325.5	282.9	742.9	742.9	742.9
Others	32.1	25.3	25.3	25.3	25.3
Liabilities	813.7	720.5	1,257.8	1,539.9	1,631.7
Shareholder's equity	1,807.7	1,910.4	2,020.7	2,145.9	2,276.3
Minority interest	(11.2)	(11.5)	(15.8)	(20.2)	(24.5)
Equity	1,796.5	1,898.9	2,004.9	2,125.8	2,251.8

Cash Flow Statement

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	340.8	268.4	249.0	288.8	342.6
D&A	12.3	11.9	11.9	10.8	10.3
Working capital	(133.3)	(100.5)	(516.8)	395.5	(244.2)
Taxation	(123.1)	(76.5)	(62.6)	(72.7)	(86.2)
Others	(5.6)	4.6	-	-	-
CFO	91.2	107.9	(318.5)	622.4	22.5
Capex	(2.3)	(1.3)	(1.3)	(1.3)	(1.3)
Others	(20.2)	(2.1)	-	-	-
CFI	(22.5)	(3.4)	(1.3)	(1.3)	(1.3)
Changes in debt	(61.7)	(43.8)	460.0	-	-
Shares issued	4.8	4.1	-	-	-
Dividends	(87.6)	(100.1)	(110.3)	(125.2)	(130.4)
Others	-	-	-	-	-
CCF	(144.5)	(139.8)	349.7	(125.2)	(130.4)
Net cash flow	(75.9)	(35.3)	29.8	495.9	(109.1)
Forex	20.0	0.0	-	-	-
Others	51.9	51.9	51.9	51.9	51.9
Beginning cash	241.5	185.6	150.3	180.1	676.0
Ending cash	229.4	202.1	232.0	727.9	618.8

Income statement

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1127.6	892.4	1191.3	1408.3	1575.9
Operating cost	(753.4)	(604.0)	(900.7)	(1075.3)	(1189.5)
EBITDA	374.2	288.4	290.6	333.0	386.4
D&A	(12.3)	(11.9)	(11.9)	(10.8)	(10.3)
Net Interest	(26.2)	(11.5)	(29.7)	(33.4)	(33.4)
JV & associates	5.2	3.4	30.0	30.0	0.0
Pretax profit	340.8	268.4	249.0	288.8	342.6
Taxation	(87.7)	(67.5)	(62.6)	(72.7)	(86.2)
Minority Interest	(9.1)	(4.3)	(4.3)	(4.3)	(4.3)
Core PATMI	262.2	205.2	220.7	250.4	260.7
Exceptionals	20.3	(5.0)	0.0	0.0	0.0
Reported PATMI	241.9	210.2	220.7	250.4	260.7
Basic shares (m)	834.2	834.2	834.2	834.2	834.2
Diluted shares (m)	834.2	834.2	834.2	834.2	834.2
Consensus core PATMI			250.0	263.0	280.0
HLIB/ Consensus			88%	95%	93%

Valuation ratios

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Net DPS (sen)	12.0	12.5	13.2	15.0	15.6
Yield (%)	5.2	5.5	5.8	6.6	6.8
Core EPS (sen)	31.4	24.6	26.5	30.0	31.3
Fully Diluted EPS (sen)	31.4	24.6	26.5	30.0	31.3
P/E (x)	7.3	9.3	8.7	7.6	7.3
FD P/E (x)	7.3	9.3	8.7	7.6	7.3
Market capitalization (m)	1910.4	1910.4	1910.4	1910.4	1910.4
Net cash (m)	(96.2)	(80.7)	(510.9)	(15.0)	(124.1)
Net gearing (%)	0.05	0.04	0.25	0.01	0.06
BV / share	2.2	2.3	2.4	2.6	2.7
P/BV (x)	1.1	1.0	0.9	0.9	0.8
ROA (%)	10.0	7.8	6.8	6.8	6.7
ROE (%)	14.6	10.8	11.0	11.8	11.6
Enterprise value	2006.5	1991.1	2421.3	1925.4	2034.5
EV/ EBITDA (x)	5.4	6.9	8.3	5.8	5.3

Figure #1 RNAV Table

Projects	Stake (%)	NPV (RM m)
Bandar Sri Sendayan		
BSS	100%	1,268.0
BSI	100%	232.2
Others	100%	175.4
Australia	100%	25.8
Indonesia	30%	27.6
Total NPV		1,729.1
Shareholders funds		2,020.7
RNAV		3,749.8
Share base		893.1
RNAV/share		4.20
Discount		35%
Discounted RNAV/share		2.73

Company, HLIB

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, are 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 represents 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, are 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 26 August 2022, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 26 August 2022, the analyst(s) whose name(s) appears on the front page, 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 28, Menara Hong Leong,

No. 6, Jalan Damanela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.