

24 August 2022

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Dividend Payout Ratio Still Intact; BUY

Target Price (Return): MYR2.66 (+16%)
 Price (Market Cap): MYR2.29 (USD426m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.18m/0.27m

- Maintain BUY and MYR2.66 TP, 16% upside with c.6% yield.** Matrix Concepts' 1QFY23 (Mar) results missed expectations, due to lingering labour shortage issues that slowed down construction progress. Nevertheless, property sales remained healthy at MYR309.2m vs management's target of MYR1.3bn by end-FY23. Despite the weaker earnings, its dividend payout remained intact - being supported by a robust balance sheet.
- 1QFY23 results.** The industry-wide labour shortage issue has slowed down construction works and, as such, the company's progress billings during the quarter. In addition, the quarter also saw lower sales of industrial properties – at only MYR17.5m, compared with MYR65.6m in the previous quarter. As a result, its EBIT margin shrank to 28%, vs 34% in 4QFY22. Despite the weaker earnings, a first interim single tier DPS of 3 sen was declared, representing a payout ratio of 53%.
- 1QFY23 sales remained healthy.** New property sales amounted to MYR309.2m vs MYR346.4m in 4QFY22. As expected, the affordable mid-range houses remained the key sales contributors. Bayu Sutera 1 Precinct 2A is now 75%-sold, vs 29% in the previous quarter. Hijayu Residence Phase 1 (Parcel 2) has achieved a take-up rate of 75%, from 67% in 4QFY22. New projects Nusari Aman 3 and Bayu Sutera 3 (Precinct 1B) are 35%- and 65%-sold. Management remains committed to achieving its MYR1.3bn sales target by end-FY23.
- More cautious on launches.** Given the labour shortage issue, we understand Matrix will now roll out a smaller number of units in a property launch, so that it will be able to deliver vacant possession on time. In line with other sector peers, management is not sure when the labour shortage issue can be resolved.
- Forecasts.** We think the delay in labour supply will likely pose downside risks to earnings growth in the coming quarters. Premised on this, we trim FY23-25 earnings by 2-9%. Unbilled sales remained steady at MYR1.3bn, vs MYR1.27bn as at 4QFY22.
- Maintain TP.** Our TP is based on a 30% discount to RNAV, as well as 4% ESG premium applied – in view of our ESG score of 3.2 for this stock, using our in-house proprietary methodology.

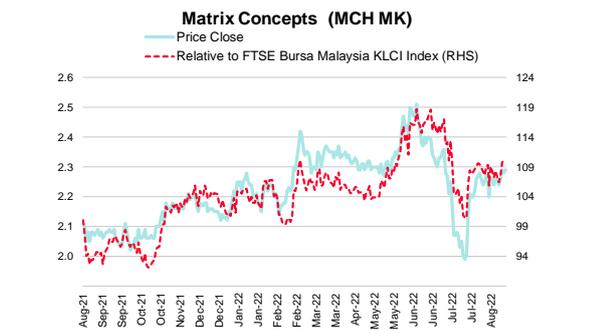
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.1	3.6	(3.0)	(1.7)	8.5
Relative	9.2	2.1	0.6	4.5	10.8
52-wk Price low/high (MYR)	1.99 – 2.51				



Source: Bloomberg

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (MYRm)	1,128	887	1,095	1,138	1,207
Recurring net profit (MYRm)	260	205	216	247	258
Recurring net profit growth (%)	12.2	(21.1)	5.6	14.1	4.6
Recurring EPS (MYR)	0.31	0.25	0.26	0.29	0.30
DPS (MYR)	0.12	0.13	0.13	0.15	0.16
Recurring P/E (x)	7.29	9.32	8.91	7.89	7.62
P/B (x)	1.05	1.00	0.96	0.91	0.87
Dividend Yield (%)	5.2	5.5	5.7	6.6	7.0
Return on average equity (%)	15.2	11.0	11.0	11.9	11.8
Net debt to equity (%)	5.9	4.6	7.3	6.8	7.7

Source: Company data, RHB

Overall ESG Score: 3.20 (out of 4)

E: GOOD

Matrix adopts various environmentally sustainable initiatives, including recycling office and household waste and consuming renewable energy from TNB's solar photovoltaic system.

S: EXCELLENT

It has built three public schools and numerous houses of worship for various religions. It is also a premier sponsor of Negeri Sembilan's sports associations. The company is also involved in various CSR initiatives for cultural activities, education and community enrichment.

G: GOOD

56% of Matrix's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. It has both in-house and external investor relations teams and holds investor meetings regularly, embodying good transparency and disclosure practices.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	Recurring EPS	0.31	0.25	0.26	0.29	0.30
Property	EPS	0.31	0.25	0.26	0.29	0.30
Matrix Concepts	DPS	0.12	0.13	0.13	0.15	0.16
MCH MK	BVPS	2.18	2.29	2.39	2.51	2.63
Buy	Return on average equity (%)	15.2	11.0	11.0	11.9	11.8
	Return on average assets (%)	10.6	8.1	8.1	8.8	8.8
Valuation basis						
30% discount to RNAV						
Key drivers	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
i. New property and industrial land sales;	Recurring P/E (x)	7.29	9.32	8.91	7.89	7.62
ii. Landbank expansion.	P/B (x)	1.0	1.0	1.0	0.9	0.9
	Dividend Yield (%)	5.2	5.5	5.7	6.6	7.0
	EV/EBITDA (x)	2.30	3.10	3.20	2.85	2.78
Key risks	Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Weaker-than-expected market conditions.	Total turnover	1,128	887	1,095	1,138	1,207
	Gross profit	583	496	546	601	610
	EBITDA	355	281	307	348	364
	Operating profit	355	281	307	348	364
	Net interest	(25)	(13)	(14)	(15)	(15)
	Pre-tax profit	335	271	293	334	349
	Taxation	(84)	(70)	(76)	(87)	(91)
	Reported net profit	260	205	216	247	258
	Recurring net profit	260	205	216	247	258
Company Profile	Cash flow (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Matrix Concepts is a Negeri Sembilan-based developer that currently has 2,732 acres of land with a total portfolio GDV of MYR8.2bn. The group is mainly focused on developing residential and commercial properties, as well as selling industrial land.	Change in working capital	(167)	(78)	(170)	(53)	(65)
	Cash flow from operations	121	163	90	239	240
	Capex	0	(1)	(30)	(80)	(100)
	Cash flow from investing activities	1	(4)	(24)	(73)	(92)
	Dividends paid	(92)	(99)	(104)	(110)	(128)
	Cash flow from financing activities	(168)	(179)	(139)	(143)	(160)
	Cash at beginning of period	281	224	194	145	156
	Net change in cash	(46)	(20)	(73)	23	(13)
	Ending balance cash	235	203	121	167	143
	Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Total cash and equivalents	224	194	145	156	138
	Total investments	1,118	1,116	1,131	1,196	1,280
	Total other assets	74	85	65	65	65
	Total assets	2,520	2,572	2,748	2,867	3,014
	Short-term debt	115	160	170	180	190
	Total long-term debt	215	121	121	121	121
	Total liabilities	726	673	742	743	768
	Shareholders' equity	1,805	1,910	2,017	2,136	2,257
	Minority interests	(11)	(12)	(12)	(12)	(12)
	Total equity	1,794	1,899	2,006	2,125	2,246
	Total liabilities & equity	2,520	2,572	2,748	2,867	3,014
	Key metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Revenue growth (%)	(12.1)	(21.4)	23.4	4.0	6.0
	Recurring net profit growth (%)	12.2	(21.1)	5.6	14.1	4.6
	Recurrent EPS growth (%)	8.9	(21.8)	4.5	12.9	3.6
	Gross margin (%)	51.7	55.9	49.9	52.8	50.6
	Recurring net profit margin (%)	23.0	23.1	19.8	21.7	21.4
	Dividend payout ratio (%)	38.2	50.9	50.6	51.7	53.2

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results review

FYE Mar (MYRm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
Turnover	163.4	250.8	229.3	(8.6)	40.3	The slower revenue growth YoY and QoQ was attributed to slower construction progress as a result of labour shortage, as well as lower industrial land sales from last quarter.
EBIT	42.8	86.0	64.6	(24.9)	51.1	EBIT margin was wider in the previous quarter, due to the higher amount of industrial property sales.
EBIT margin (%)	26.2	34.3	28.2			
Net interest	(0.8)	(11.6)	(1.3)	n.m.	n.m.	
Pretax profit	42.7	75.1	63.8	(15.0)	49.5	
Pretax margin (%)	26.1	29.9	27.8			
Taxation	(12.2)	(14.4)	(17.6)	22.6	44.4	
Tax rate (%)	28.6	19.2	27.6			
Minority interest	1.2	0.4	0.8	n.m.	n.m.	
Net profit	31.7	61.1	47.0	(23.0)	48.4	Below expectations.
Net margin (%)	19.4	24.4	20.5			
EPS (sen)	3.8	7.3	5.6			
Gross DPS (sen)	2.0	3.8	3.0			
NTA/share (MYR)	2.2	2.3	2.3			

Source: Company data, RHB

Figure 2: RNAV estimate

Projects	Remaining landbank (acres)	GDV (MYR m)	Stake	NPV @ 9%
Bandar Sri Sendayan, Negeri Sembilan	657.0	4,233.4	100%	344.6
Irama Sendayan	65.8	420.0	100%	43.9
Kiara Sendayan	237	850.0	100%	85.0
Tiara Sendayan (Kota Gadong Perdana)	220.49	1,223.0	100%	134.3
Ara Sendayan (Rasah Kemayan land)	30.5	85.1	100%	12.9
Laman Sendayan	95	275.0	100%	42.3
Taman Seri Impian, Kluang, Johor	465.7	2,223.3	100%	283.8
Others	27.7	156.8	100%	6.9
Chambers KL	1.1	400.0	100%	36.7
Damansara Perdana	5.5	400.0	100%	26.2
Puchong	5.8	400.0	100%	24.9
Cheras	5.2	375.0	100%	28.5
Greenvale, Melbourne	9.7	79.0	100%	7.6
St Kilda, Melbourne	0.6	240.0	100%	20.7
Islamic Financial District, Jakarta	8.9	2,044.0	30%	50.5

	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley 2	23	50	10	30.1
Total				1,178.8
Shareholders' fund				1,804.8
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
Placement proceeds				147.0
Total RNAV				3,312.0
Share base (incl. warrants and placement)				907.3
RNAV/share				3.65
Discount to RNAV				30%
Intrinsic value				2.56
ESG premium				4%
Target price				2.66

Source: RHB

Recommendation Chart

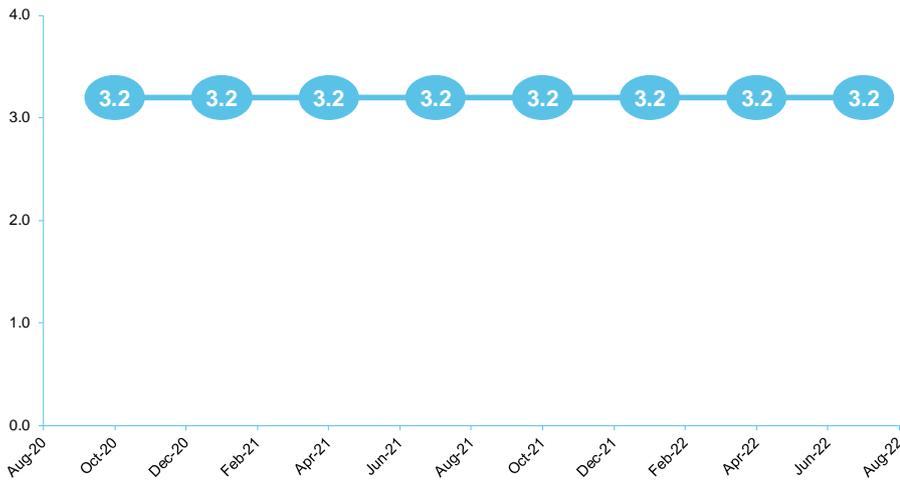


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-25	Buy	2.66	2.43
2022-02-23	Buy	2.66	2.33
2021-11-25	Buy	2.47	2.20
2021-08-25	Buy	2.36	2.05
2021-08-08	Buy	2.36	2.04
2021-05-26	Buy	2.36	1.96
2021-02-25	Buy	2.22	1.80
2020-11-18	Buy	2.22	1.69
2020-07-09	Buy	2.22	1.83
2020-02-21	Buy	2.22	1.96
2020-02-20	Buy	2.22	1.95
2019-12-16	Buy	2.22	1.92
2019-11-21	Buy	2.20	1.92
2019-08-30	Buy	2.20	1.90
2019-06-03	Buy	2.42	1.97

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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