

26 August 2022

Property | Real Estate

# Matrix Concepts (MCH MK)

**Buy** (Maintained)

## New Land To Widen Foothold In Negeri Sembilan

Target Price (Return): MYR2.75 (+19%)  
 Price (Market Cap): MYR2.32 (USD431m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (MYR/USD) 1.18m/0.27m

- Maintain BUY, new TP of MYR2.75 from MYR2.66, 19% upside with 6% yield.** We are positive on Matrix Concepts' latest land deal, which should further bolster its presence in Negeri Sembilan's Sendayan area. The new land will also boost its remaining landbank by 62% to 3,617 acres, and lift its portfolio GDV to almost MYR17bn. Given the company's balance sheet, the acquisition will be funded by internal resources and borrowings.
- Details of the transaction.** MCH's JV company, N9 Matrix Development (85%-owned by MCH and 15%-owned by NS Corp), has entered into a sale and purchase agreement with Sime Darby (SIME MK, BUY, TP: MYR2.75) to acquire 1,382 acres of freehold agriculture land in Labu for MYR460m. The land forms part of Malaysia Vision Valley 2.0 (MVV 2.0), while NS Corp is a state body that promotes and coordinates investments with economic sectors in Negeri Sembilan. It also owns the master blueprint of MVV 2.0. 10% of the consideration has already been paid, while the remaining 90% is to be paid in late 2023 or early 2024.
- Reasonable land cost.** Based on the price, the cost of MYR7.64 psf is very much in line with the rate that Sime Darby Property (SDPR MK, NEUTRAL, TP: MYR0.53) paid (MYR8.46 psf), when it exercised the option to buy 760 acres of land in Labu in Oct 2021. NS Corp is also entitled to receive MYR14m as facilitation fees, as well as an allocation of 350 units of Rumah Mampu Milik, seven units of double-storey shops to be developed by the JV, and an additional entitlement of MYR16.76m payable in five equal yearly instalments (MYR3.35m pa). All these amount to c.MYR60m.
- Expect similar profit margins.** GDV of this new land is estimated at MYR7bn. After accounting for the estimated conversion premium and infrastructure cost of about MYR1psf and MYR10 psf, we believe MCH would still be able to generate development margins comparable to that of its existing developments in Sendayan, ie 40-50% at the gross level. We also understand that these upfront costs will only be incurred on a staggered basis according to launching phases – so this should be manageable for MCH to handle its cash flow for this greenfield development.
- Forecasts.** The maiden launch of new projects on this land will be in 3-4 years. We maintain our earnings forecasts, since the interest expense associated with the new borrowings to be undertaken to fund the acquisition will be capitalised. The new borrowings will likely lift MCH's net gearing to around 27-28% in FY24-25, based on our estimate. Nevertheless, management remains committed to its 50% dividend payout ratio.
- New TP.** Our TP is based on an unchanged 30% discount to our revised RNAV and 4% ESG premium, given our ESG score of 3.20 for the company.

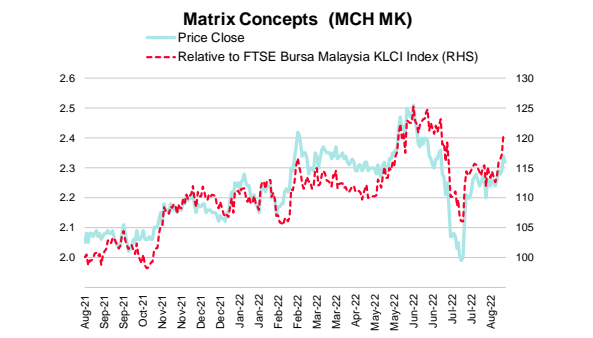
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	5.5	(4.5)	(4.1)	13.2
Relative	11.9	5.6	0.0	3.7	19.7
52-wk Price low/high (MYR)	1.99 – 2.51				



Source: Bloomberg

### Overall ESG Score: 3.20 (out of 4)

#### E: GOOD

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

#### S: EXCELLENT

MCH has constructed three public schools and numerous houses of worship for various religions. It is also a premier sponsor of the state's sports associations. The company is also involved in various CSR programmes for cultural activities, education and community enrichment activities.

#### 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. Matrix 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.

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	241	245
Recurring net profit growth (%)	12.2	(21.1)	5.6	11.3	1.5
Recurring EPS (MYR)	0.31	0.25	0.26	0.28	0.28
DPS (MYR)	0.12	0.13	0.13	0.15	0.15
Recurring P/E (x)	7.38	9.44	9.03	8.20	8.15
P/B (x)	1.06	1.01	0.97	0.92	0.89
Dividend Yield (%)	5.2	5.4	5.6	6.3	6.5
Return on average equity (%)	15.2	11.0	11.0	11.6	11.2
Net debt to equity (%)	5.9	4.6	7.3	26.6	26.4

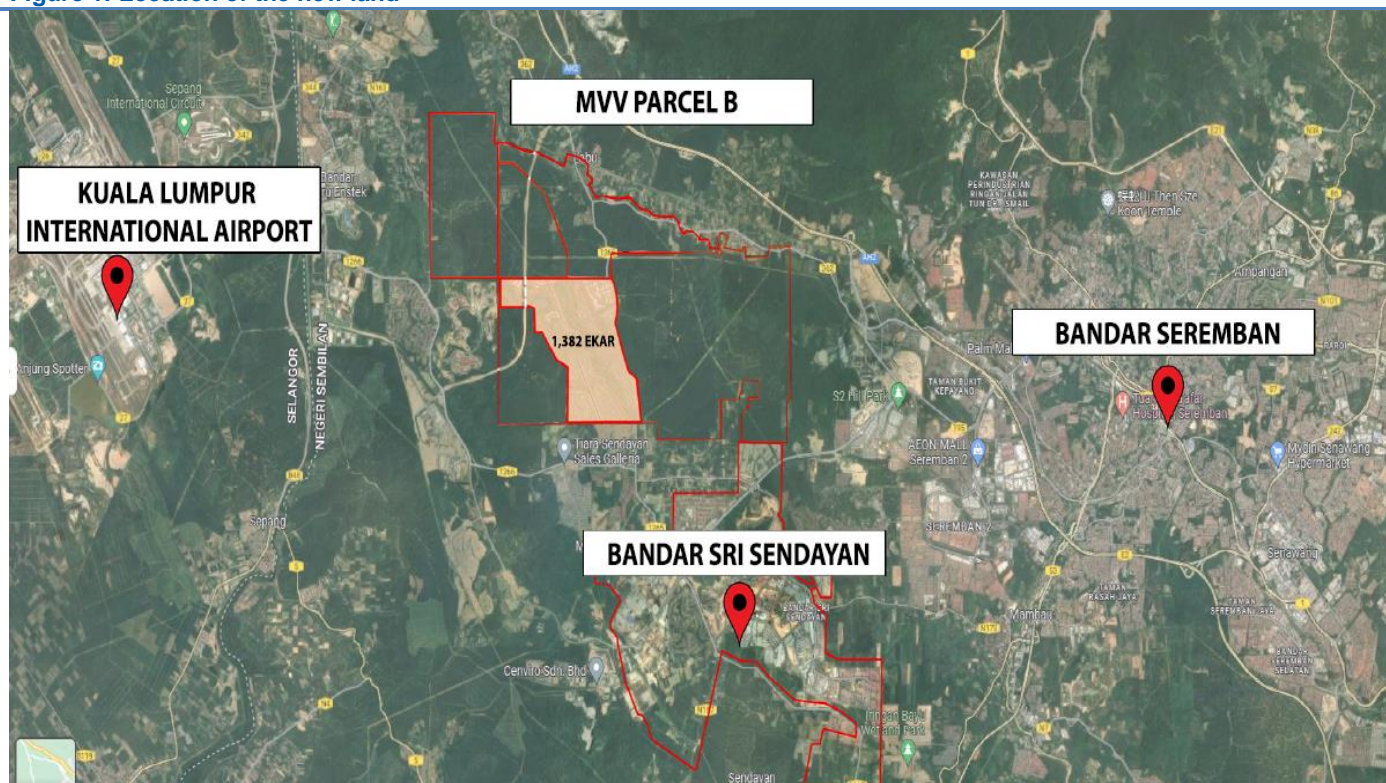
Source: Company data, RHB

## 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	0.28	0.28
Property	EPS	0.31	0.25	0.26	0.28	0.28
<b>Matrix Concepts</b>	DPS	0.12	0.13	0.13	0.15	0.15
MCH MK	BVPS	2.18	2.29	2.39	2.51	2.62
Buy	Return on average equity (%)	15.2	11.0	11.0	11.6	11.2
	Return on average assets (%)	10.6	8.1	8.1	8.0	7.3
<b>Valuation basis</b>						
30% discount to RNAV						
	<b>Valuation metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Recurring P/E (x)	7.38	9.44	9.03	8.20	8.15
	P/B (x)	1.1	1.0	1.0	0.9	0.9
	Dividend Yield (%)	5.2	5.4	5.6	6.3	6.5
	EV/EBITDA (x)	2.29	3.10	3.21	2.96	2.96
<b>Key drivers</b>						
i. New property and industrial land sales;						
ii. Land acquisitions.						
<b>Key risks</b>						
Weaker-than-expected market conditions.						
<b>Company Profile</b>						
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 concentrates mainly on developing residential and commercial properties, as well as selling industrial land.						
	<b>Income statement (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Total turnover	1,128	887	1,095	1,138	1,207
	Gross profit	583	496	546	601	610
	EBITDA	355	281	307	345	359
	Operating profit	355	281	307	345	359
	Net interest	(25)	(13)	(14)	(20)	(28)
	Pre-tax profit	335	271	293	326	330
	Taxation	(84)	(70)	(76)	(85)	(86)
	Reported net profit	260	205	216	241	245
	Recurring net profit	260	205	216	241	245
	<b>Cash flow (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Change in working capital	(167)	(78)	(170)	(53)	(65)
	Cash flow from operations	121	163	90	233	226
	Capex	0	(1)	(30)	(500)	(100)
	Cash flow from investing activities	1	(4)	(24)	(493)	(92)
	Dividends paid	(92)	(99)	(104)	(110)	(123)
	Cash flow from financing activities	(168)	(179)	(139)	(143)	(156)
	Cash at beginning of period	281	224	194	145	137
	Net change in cash	(46)	(20)	(73)	(403)	(22)
	Ending balance cash	235	203	121	(259)	115
	<b>Balance sheet (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Total cash and equivalents	224	194	145	137	120
	Total investments	1,118	1,116	1,131	1,613	1,691
	Total other assets	74	85	65	65	65
	Total assets	2,520	2,572	2,748	3,266	3,407
	Short-term debt	115	160	170	180	190
	Total long-term debt	215	121	121	521	521
	Total liabilities	726	673	742	1,143	1,168
	Shareholders' equity	1,805	1,910	2,017	2,135	2,250
	Minority interests	(11)	(12)	(12)	(12)	(12)
	Total equity	1,794	1,899	2,006	2,123	2,239
	Total liabilities & equity	2,520	2,572	2,748	3,266	3,407
	<b>Key metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Revenue growth (%)	(12.1)	(21.4)	23.4	4.0	6.0
	Recurring net profit growth (%)	12.2	(21.1)	5.6	11.3	1.5
	Recurrent EPS growth (%)	8.9	(21.8)	4.5	10.2	0.5
	Gross margin (%)	51.7	55.9	49.9	52.8	50.6
	Recurring net profit margin (%)	23.0	23.1	19.8	21.2	20.3
	Dividend payout ratio (%)	38.2	50.9	50.6	51.2	52.7

Source: Company data, RHB

Figure 1: Location of the new land



Source: Company

Figure 2: RNAV estimate

Projects	Remaining landbank (acres)	GDV (MYR m)	Stake	NPV @ 9%
Bandar Sri Sendayan, Negeri Sembilan	1,724.2	5,866.1	100%	477.5
New land in Labu	1,382.2	7,000.0	85%	484.2
Taman Seri Impian, Kluang, Johor	465.7	2,217.9	100%	283.1
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
<b>Total</b>				<b>1,446.7</b>
Shareholders' fund				1,804.8
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
<b>Total RNAV</b>				<b>3,432.9</b>
Share base (incl. warrants and placement)				907.3
RNAV/share				3.78
Discount to RNAV				30%
Intrinsic value				2.65
ESG premium				4%
<b>Target price</b>				<b>2.75</b>

Source: RHB

## Recommendation Chart

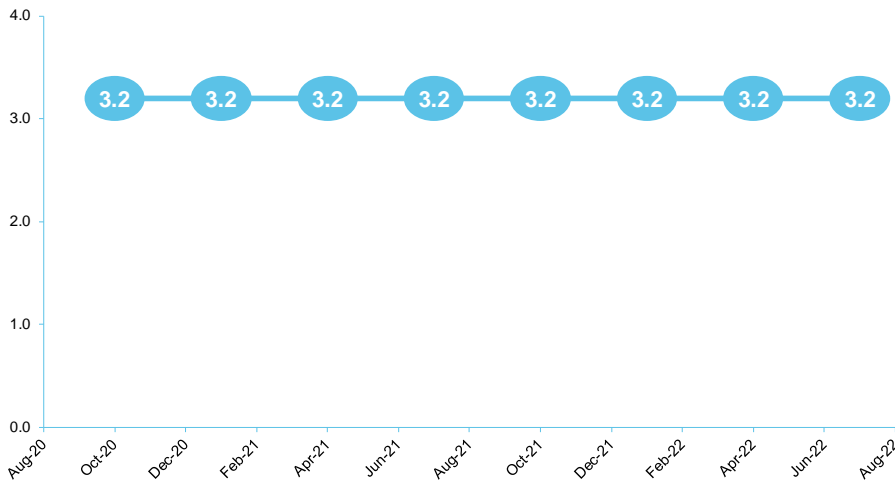


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-23	Buy	2.66	2.29
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB



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