

1 March 2023

Property | Real Estate

# Matrix Concepts (MCH MK)

**Buy** (Maintained)

## Labour Issue Remains a Drag; Keep BUY

Target Price (Return): MYR1.75 (+17%)  
 Price (Market Cap): MYR1.49 (USD416m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (MYR/USD) 1.92m/0.44m

- Maintain BUY and MYR1.75 TP, 17% upside and c.7% FY24 (Mar) yield.** 3QFY23 results met expectations. With foreign labour coming in at a slower-than-expected pace, construction progress has not picked up as planned. Management guided that the balance workers should come in by end 1QFY24. We believe the share price will rangebound over the near term until the labour issue is fully resolved, but the stock remains our sector Top Pick given its solid balance sheet, consistent sales and high dividend yield.
- 3QFY23 results.** Sequential revenue was higher given the completion of Matrix Concepts' first high-rise project in KL, The Chambers, as well as M Greenvale in Australia. However, progress billings for local projects remained slow, as first batch of foreign workers have just arrived in early CY23, and need to undergo relevant training. EBIT margin during the quarter was weaker at 21% vs 30% in the previous quarter, largely due to the lower profitability of The Chambers and M Greenvale. The higher administrative expenses (+4% YoY) was due to a bonus payment to staff in Dec 2022. A third interim single tier dividend of 2 sen was declared. This is same as the previous quarter's DPS.
- Keeping sales momentum in 3QFY23.** Property sales remained healthy and should hit its MYR1.3bn full-year sales target. New property sales reached MYR340.3m (excluding property sales in Australia) vs MYR352.7m in 2QFY23. Many of the newly launched projects were well received, including the shop lots at Irama Sendayan Biz which was 87% sold, while Hijayu Residence Phase 2 Parcel 2 and Bayu Sutera 5 were 29% and 22% taken up. Meanwhile, M333 St Kilda in Melbourne, which was launched in May 2022, is now >30% sold.
- Labour shortage issue to be resolved in three months.** Foreign workers came in slower than expected. We understand that only about half of them have arrived in Jan 2023 as planned, and management is hopeful that the remaining workers will reach by May 2023. This may mean that progress billings of the local projects can only pick up in 2QFY24. To avoid incurring liquidated ascertained damages (LAD), MCH is now launching smaller phases, and has already applied for extension of time for some of the projects.
- Forecasts.** We maintain our earnings forecasts. Unbilled sales rose to MYR1.51bn vs MYR1.42bn as at 2QFY23.
- Maintain TP.** Our TP is based on 35% discount to RNAV, as well as 4% ESG premium given our ESG score of 3.20 for MCH using our in-house proprietary methodology.

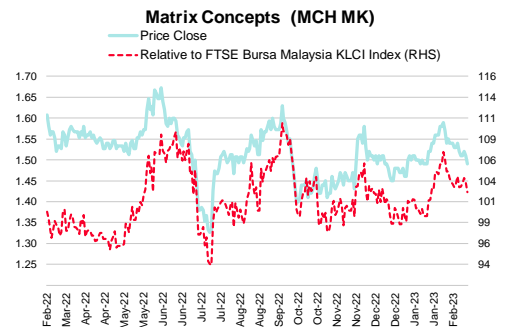
### Analyst

Loong Kok Wen CFA  
 +603 9280 8861  
[loong.kok.wen@rhbgroup.com](mailto:loong.kok.wen@rhbgroup.com)



### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.4	(3.3)	(4.5)	(2.8)	(7.3)
Relative	4.2	(0.4)	(2.3)	0.3	2.3
52-wk Price low/high (MYR)	1.33 – 1.67				



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 PV 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 programs for cultural activities, education and community enrichment activities.

#### G: GOOD

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

#### Note:

Small cap stocks are defined as companies with a market capitalisation 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	217	244	257
Recurring net profit growth (%)	12.2	(21.1)	5.7	12.6	5.3
Recurring EPS (MYR)	0.31	0.25	0.17	0.19	0.20
DPS (MYR)	0.08	0.08	0.09	0.10	0.11
Recurring P/E (x)	4.74	6.06	8.61	7.72	7.40
P/B (x)	0.68	0.65	0.93	0.88	0.85
Dividend Yield (%)	5.3	5.6	6.0	6.7	7.4
Return on average equity (%)	15.2	11.0	11.0	11.8	11.7
Net debt to equity (%)	5.9	4.6	4.2	15.6	11.6

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	0.17	0.19	0.20
Property	EPS	0.31	0.25	0.17	0.19	0.20
<b>Matrix Concepts</b>	DPS	0.08	0.08	0.09	0.10	0.11
MCH MK	BVPS	2.18	2.29	1.61	1.69	1.76
Buy	Return on average equity (%)	15.2	11.0	11.0	11.8	11.7
	Return on average assets (%)	10.6	8.1	8.1	8.3	8.1
<b>Valuation basis</b>						
35% 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)	4.74	6.06	8.61	7.72	7.40
	P/B (x)	0.7	0.7	0.9	0.9	0.8
	Dividend Yield (%)	5.3	5.6	6.0	6.7	7.4
	EV/EBITDA (x)	1.67	2.21	3.12	2.73	2.50
<b>Key drivers</b>						
i. New property and industrial land sales;						
ii. Landbank 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 in developing residential and commercial properties, as well as industrial land sale						
	<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	618
	EBITDA	355	281	307	346	368
	Operating profit	355	281	307	346	368
	Net interest	(25)	(13)	(14)	(17)	(21)
	Pre-tax profit	335	271	293	330	347
	Taxation	(84)	(70)	(76)	(86)	(90)
	Reported net profit	260	205	217	244	257
	Recurring net profit	260	205	217	244	257
	<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)	(134)	(3)	(25)
	Cash flow from operations	121	163	127	286	278
	Capex	0	(1)	0	(400)	(50)
	Cash flow from investing activities	1	(4)	6	(393)	(42)
	Dividends paid	(92)	(66)	(70)	(113)	(126)
	Cash flow from financing activities	(202)	(181)	(104)	(146)	(159)
	Cash at beginning of period	281	224	194	208	220
	Net change in cash	(80)	(21)	29	(253)	77
	Ending balance cash	202	202	222	(45)	296
	<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	208	220	251
	Total investments	1,118	1,116	1,101	1,484	1,514
	Total other assets	74	85	65	45	35
	Total assets	2,520	2,572	2,751	3,138	3,228
	Short-term debt	115	160	170	180	190
	Total long-term debt	215	121	121	371	321
	Total liabilities	726	673	748	1,017	992
	Shareholders' equity	1,805	1,910	2,014	2,132	2,248
	Minority interests	(11)	(12)	(12)	(12)	(12)
	Total equity	1,794	1,898	2,003	2,120	2,237
	Total liabilities & equity	2,520	2,572	2,751	3,138	3,228
	<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)	5.7	12.6	5.3
	Recurrent EPS growth (%)	8.9	(21.8)	(29.5)	11.5	4.3
	Gross margin (%)	51.7	55.9	49.9	52.8	51.2
	Recurring net profit margin (%)	23.0	23.1	19.8	21.4	21.3
	Dividend payout ratio (%)	25.2	33.9	52.0	51.8	54.6

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE (MYRm)	Mar	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)	Comments
Turnover		233.1	222.4	363.8	63.6	56.1	636.0	815.4	28.2	Revenue was higher QoQ mainly due to the completion of The Chambers in KL and M Greenvale in Australia
EBIT		81.9	67.4	74.9	11.1	(8.5)	195.1	206.9		EBIT margin was lower in 3QFY23 due to lower profitability of The Chambers and M Greenvale
EBIT margin (%)		35.1	30.3	20.6			30.7	25.4		
Net interest		(0.2)	(1.2)	(1.9)	n.m.	n.m.	(1.7)	(4.5)	169.9	
Pretax profit		82.6	66.5	73.5	10.4	(11.0)	195.6	203.8	4.2	
Pretax margin (%)		35.4	29.9	20.2			30.8	25.0		
Taxation		(23.5)	(16.8)	(19.8)	18.0	(15.5)	(55.6)	(54.3)	(2.5)	
Tax rate (%)		28.4	25.3	27.0			28.4	26.6		
Minority interest		1.4	0.8	0.7	n.m.	n.m.	4.0	2.4		
Net profit		60.5	50.6	54.4	7.5	(10.1)	143.9	152.0	5.6	Within expectations
Net margin (%)		25.9	22.7	14.9			22.6	18.6		
EPS (sen)		7.3	4.0	4.3			17.3	14.0		
Gross DPS (sen)		3.8	2.0	2.0			8.8	7.0		
NTA/share (MYR)		1.5	1.6	1.6			1.5	1.6		

Source: Company data, RHB

1 March 2023

Property | Real Estate

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%	23.8
Puchong	5.8	400.0	100%	24.9
Cheras	5.2	375.0	100%	25.9
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
Total				1,441.7
Shareholders' fund				1,804.8
Warrants conversion				123.6
ESOS proceeds				57.7
Total RNAV				3,427.9
Share base (incl. warrants and placement)				1,324.4
RNAV/share				2.59
Discount to RNAV				35%
Intrinsic value				1.68
ESG premium				4%
Target price				1.75

Source: RHB

## Recommendation Chart

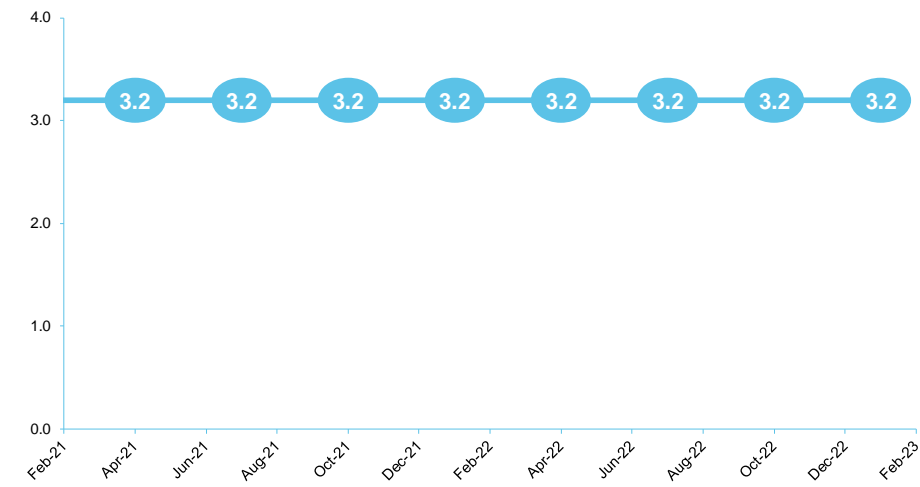


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-23	Buy	1.75	1.49
2022-10-30	Buy	1.88	1.41
2022-08-25	Buy	2.75	1.55
2022-08-23	Buy	2.66	1.53
2022-05-25	Buy	2.66	1.62
2022-02-23	Buy	2.66	1.55
2021-11-25	Buy	2.47	1.47
2021-08-25	Buy	2.36	1.37
2021-08-08	Buy	2.36	1.36
2021-05-26	Buy	2.36	1.31
2021-02-25	Buy	2.22	1.20
2020-11-18	Buy	2.22	1.13
2020-07-09	Buy	2.22	1.22
2020-02-21	Buy	2.22	1.31
2020-02-20	Buy	2.22	1.30

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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#### **KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### **JAKARTA**

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### **BANGKOK**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### **SINGAPORE**

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470