

25 May 2023

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Expect Progress Billings To Pick Up In FY24

Target Price (Return): MYR1.75 (+21%)
 Price (Market Cap): MYR1.44 (USD394m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.16m/0.25m

- Maintain BUY and TP of MYR1.75, 21% upside with c.6% FY24F (Mar) yield.** Matrix Concepts' 4QFY23 (Mar) results meets expectations. Its full-year property sales of MYR1.2bn is very much in line with management's target. We expect earnings growth to strengthen, as construction activities – and, as such, progress billings – should accelerate, since it has largely fulfilled its manpower requirement at construction sites.
- 4QFY23 results review.** Revenue fell by 17% QoQ, as The Chambers and M Greenvale were completed and handed over in 3QFY23. Progress billings improved as its first batch of foreign workers arrived in early 2023. Administrative expenses rose by 6% YoY, on the following: i) MYR2.6m project write-off (related to the land in Damansara Perdana); ii) asset impairment of MYR7m (on a land acquisition in Sendayan); and iii) write-off of receivables of MYR3m (from the healthcare unit). Its finance cost also rose compared to the last few quarters, given interest expenses charged out for new projects. A fourth interim single-tier dividend of 2.25 sen was declared (vs 2.5 sen in 4QFY22), bringing full-year DPS to 8.25 sen, ie level with that of FY22.
- Decent sales in 4QFY23.** 4QFY23 and full-year property sales totalled MYR202.2m (3QFY23: MYR340.3m) and MYR1.2bn (FY22: MYR1.34bn). Projects launched in 3QFY23 saw very positive take-up rates – including Hijayu Residence Phase 2 Parcel 2 (100% sold, from 29% in 3QFY23), Bayu Sutera 5 (89% sold, from 22% in 3QFY23) and Irama Sendayan Biz (82% sold). Some projects that were launched during the quarter also saw strong demand, such as Bayu Sutera 6 Precinct 4A2 (76% sold) and Tiara Sendayan 15 (P14 Balance) which is 95% sold.
- Construction activities to ramp up.** MCH has very much fulfilled its manpower requirements at construction sites, as foreign workers have started coming in progressively since early 2023. Therefore, progress billings of the local projects should pick up gradually in 1QFY24, and more materially from 2QFY24 onwards.
- Slight delay in the completion of the Jakarta project.** The completion of the Menara Syariah project in Jakarta is now delayed by 1-2 quarters to 3QFY24. Management should be able to provide some clarification during its analyst briefing today. The talks on an *en bloc* disposal are still ongoing.
- Forecasts.** We fine-tune FY24-25F earnings slightly, as MCH's unbilled sales dropped to MYR1.44bn for 4QFY23, from MYR1.51bn in 3QFY23.
- We maintain our TP at MYR1.75,** based on a 35% discount to RNAV. Our TP also builds in a 2% ESG premium, as our ESG score of 3.10 for the company is a notch above the country median.

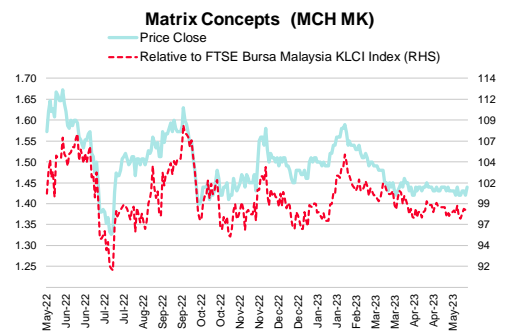
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.1)	0.0	(5.3)	(7.1)	(8.5)
Relative	3.5	0.8	(2.2)	(1.1)	(0.7)
52-wk Price low/high (MYR)				1.33	1.67



Source: Bloomberg

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover (MYRm)	887	1,118	1,153	1,252	1,370
Recurring net profit (MYRm)	205	209	230	238	255
Recurring net profit growth (%)	(21.1)	1.7	10.1	3.6	7.1
Recurring EPS (MYR)	0.25	0.17	0.18	0.19	0.20
DPS (MYR)	0.08	0.08	0.09	0.09	0.10
Recurring P/E (x)	5.86	8.64	7.93	7.73	7.29
P/B (x)	0.63	0.90	0.86	0.82	0.78
Dividend Yield (%)	5.8	5.7	6.3	6.4	6.9
Return on average equity (%)	11.0	10.7	11.1	10.9	11.1
Net debt to equity (%)	4.6	net cash	9.1	5.7	2.3

Source: Company data, RHB

Overall ESG Score: 3.10 (out of 4)

E: GOOD

MCH has implemented various environmentally-sustainable initiatives that include recycling office and household waste, and consuming renewable energy from Tenaga Nasional's solar photovoltaic system.

S: EXCELLENT

MCH 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 programmes for cultural activities, education and community enrichment activities.

G: GOOD

56% of the Board comprise independent directors, and there is full disclosure on director remuneration which includes salaries and bonuses on a named basis. MCH has an in-house as well as an 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 capitalization of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Malaysia	Recurring EPS	0.25	0.17	0.18	0.19	0.20
Property	EPS	0.25	0.17	0.18	0.19	0.20
Matrix Concepts	DPS	0.08	0.08	0.09	0.09	0.10
MCH MK	BVPS	2.29	1.60	1.68	1.76	1.84
Buy	Return on average equity (%)	11.0	10.7	11.1	10.9	11.1
	Return on average assets (%)	8.1	8.0	8.2	7.8	8.0
Valuation basis						
35% discount to RNAV						
Key drivers	Valuation metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
i. Increase in property and industrial land sales;	Recurring P/E (x)	5.86	8.64	7.93	7.73	7.29
ii. Land acquisitions.	P/B (x)	0.6	0.9	0.9	0.8	0.8
	Dividend Yield (%)	5.8	5.7	6.3	6.4	6.9
	EV/EBITDA (x)	2.05	2.59	2.03	1.92	1.74
Key risks	Income statement (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Weaker-than-expected market conditions	Total turnover	887	1,118	1,153	1,252	1,370
	Gross profit	496	518	580	606	649
	EBITDA	281	279	323	337	360
	Operating profit	281	279	323	337	360
	Net interest	(13)	(7)	(13)	(16)	(15)
	Pre-tax profit	271	273	310	321	344
	Taxation	(70)	(69)	(81)	(84)	(89)
	Reported net profit	205	209	230	238	255
	Recurring net profit	205	209	230	238	255
Company Profile	Cash flow (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
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 focuses mainly on developing residential and commercial properties, as well as selling industrial land.	Change in working capital	(78)	49	49	(37)	(33)
	Cash flow from operations	163	296	323	248	269
	Capex	(1)	0	(400)	(50)	(50)
	Cash flow from investing activities	(4)	(64)	(393)	(42)	(41)
	Dividends paid	(66)	(70)	(103)	(114)	(118)
	Cash flow from financing activities	(181)	(155)	(137)	(146)	(150)
	Cash at beginning of period	224	194	246	229	252
	Net change in cash	(21)	76	(207)	59	78
	Ending balance cash	202	270	39	288	330
	Balance sheet (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Total cash and equivalents	194	246	229	252	335
	Total investments	1,116	1,178	1,559	1,589	1,618
	Total other assets	85	71	51	41	31
	Total assets	2,572	2,637	2,983	3,087	3,263
	Short-term debt	160	123	133	143	153
	Total long-term debt	121	117	287	237	237
	Total liabilities	673	648	877	862	912
	Shareholders' equity	1,910	2,005	2,121	2,241	2,367
	Minority interests	(12)	(16)	(16)	(16)	(16)
	Total equity	1,899	1,989	2,105	2,225	2,351
	Total liabilities & equity	2,572	2,637	2,983	3,087	3,263
	Key metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Revenue growth (%)	(21.4)	26.0	3.2	8.6	9.4
	Recurring net profit growth (%)	(21.1)	1.7	10.1	3.6	7.1
	Recurrent EPS growth (%)	(21.8)	(32.2)	9.0	2.6	6.0
	Gross margin (%)	55.9	46.3	50.3	48.4	47.4
	Recurring net profit margin (%)	23.1	18.7	19.9	19.0	18.6
	Dividend payout ratio (%)	33.9	49.5	49.5	49.6	50.6

Source: Company data, RHB

25 May 2023

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Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Turnover	250.8	363.8	302.2	(16.9)	20.5	886.8	1117.6	26.0	Revenue fell by 17% QoQ due to the completion of The Chambers in KL and M Greenvale in Australia in 3QFY23.
EBIT	86.0	74.9	71.6	(4.3)	(16.7)	281.2	278.5		EBIT margin narrowed in 3QFY23 from the decreased profitability of The Chambers and M Greenvale.
EBIT margin (%)	34.3	20.6	23.7			31.7	24.9		
Net interest	(11.6)	(1.9)	(2.4)	n.m.	n.m.	(13.3)	(6.9)	(48.0)	Finance costs were higher in 4QFY23 and 4QFY22 due to interest expenses charged (related to new projects).
Pretax profit	75.1	73.5	69.5	(5.4)	(7.4)	270.7	273.3	1.0	
Pretax margin (%)	29.9	20.2	23.0			30.5	24.5		
Taxation	(14.4)	(19.8)	(14.9)	(24.8)	3.7	(70.0)	(69.2)	(1.2)	
Tax rate (%)	19.2	27.0	21.5			25.9	25.3		
Minority interest	0.4	0.7	2.0	n.m.	n.m.	4.4	4.4		
Net profit	61.1	54.4	56.6	4.0	(7.4)	205.0	208.5	1.7	Within expectations.
Net margin (%)	24.4	14.9	18.7			23.1	18.7		
EPS (sen)	7.3	4.3	4.5			24.6	18.5		
Gross DPS (sen)	3.8	2.0	2.3			12.5	9.3		
NTA/share (MYR)	1.5	1.6	1.6			1.5	1.6		

Source: Company data, RHB

Figure 2: RNAV estimate

Projects	Remaining landbank	GDV	Stake	NPV @ 10%
	(acres)	(MYR m)		
Bandar Sri Sendayan, Negeri Sembilan	1,724.2	5,866.1	100%	459.0
New land in Labu	1,382.2	7,000.0	85%	431.2
Taman Seri Impian, Kluang, Johor	465.7	2,217.9	100%	267.1
Others	27.7	156.8	100%	6.9
Damansara Perdana	5.5	400.0	100%	22.4
Puchong	5.8	400.0	100%	23.6
Cheras	5.2	375.0	100%	24.3
St Kilda, Melbourne	0.6	240.0	100%	19.7
Islamic Financial District, Jakarta	8.9	2,044.0	30%	46.6
Total				1,300.7
Shareholders' fund				2,005.2
Warrants conversion				123.6
ESOS proceeds				57.7
Total RNAV				3,487.3
Share base (incl. warrants and placement)				1,324.4
RNAV/share				2.63
Discount to RNAV				35%
Intrinsic value				1.71
ESG premium				2%
Target price				1.75

Source: RHB

Recommendation Chart

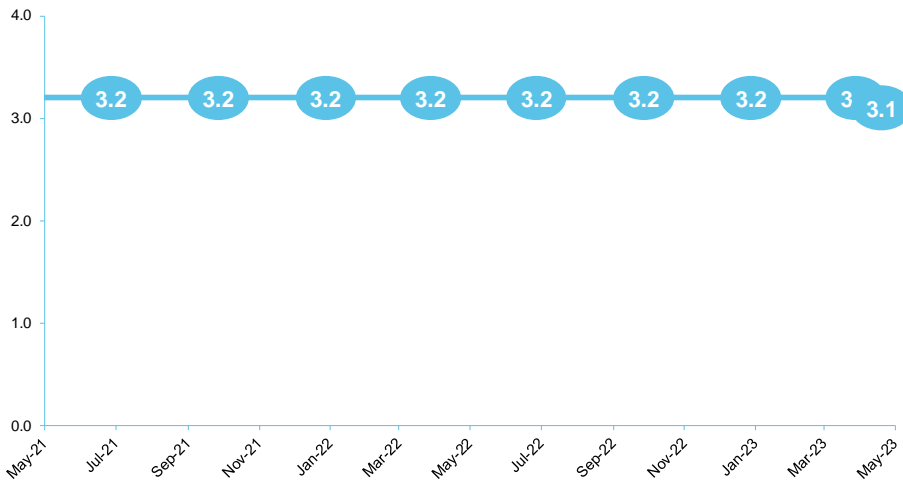


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-11	Buy	1.75	1.43
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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