

24 November 2022

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Labour Shortage Issue To Be Resolved Soon; Keep BUY

Target Price (Return):	MYR1.75 (22.4%)
Price (Market Cap):	MYR1.43 (USD391m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	0.71m/0.16m

- **Maintain BUY with lower TP of MYR1.75 from MYR1.88, 22% upside and c.6% yield.** Matrix Concepts' 2QFY23 (Mar) results came in below expectations, as labour shortage issue continued to affect construction progress. However, this is expected to be resolved in the coming couple of months. Meanwhile, the company is on track to hit its MYR1.3bn sales target given 1HFY23 sales of MYR661.9m. Due to the rising market risk post-15th general election, we lower our TP to MYR1.75.

- **2QFY23 results.** Results during the quarter continued to be affected by an industry-wide labour shortage issue and hence revenue was largely flat QoQ. In addition, the contribution from sale of industrial properties was also lower from last quarter, due to limited inventory available at Sendayan Tech Valley, which is almost reaching the tail-end of development. EBIT margin was, however, stronger at 30% vs 28% in the previous quarter, due to higher billings from higher-priced residential products of above MYR600,000/unit. A second interim single tier dividend of 2 sen was declared. Based on larger share base post bonus issue, this represents a payout of almost 50%, in line with its dividend policy.

- **2QFY23 sales momentum stays resilient.** New property sales achieved MYR352.7m vs MYR309.2m in 1QFY23. Projects in Sendayan and Bandar Seri Impian remained well-received despite multiple rounds of interest rate hikes this year. Take-up rates for new projects were encouraging, including Hijayu Residence Phase 2 Parcel 1 (47% sold), Bayu Sutera 4 Precinct 1A (39% sold), Tiara Sendayan 13 P14B (100% sold), and Iraman Sendayan 1 (76% sold).

- **Update on overseas projects.** Matrix has just launched its M333 St Kilda project (GDV: AUD80m) in May 2022. We understand that it is already 23% sold. Meanwhile, Menara Syariah project in Jakarta is on track to be completed in 4QFY23. The project was not affected by the recent earth quake in West Java province.

- **Forecasts.** We maintain our earnings forecast. Management expects about 400 construction workers to arrive in Dec 2022/Jan 2023, and hence construction works are expected to accelerate in 4QFY23. Unbilled sales rose to MYR1.42bn, vs MYR1.3bn as at 1QFY23.

- **Lower TP.** In view of the unstable political environment, which has dampened market sentiment, our TP is now based on a larger 35% discount to RNAV (from 30%). Our TP also incorporates a 4% ESG premium given our ESG score of 3.20 for Matrix, using our in-house proprietary methodology.

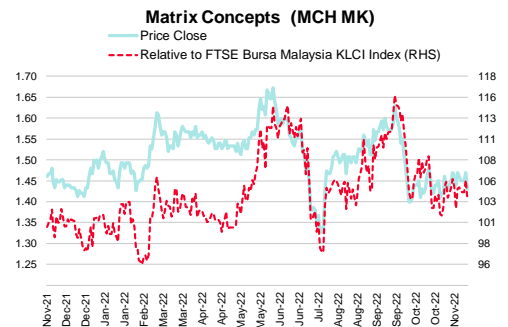
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.5)	0.7	(5.9)	(8.3)	(2.9)
Relative	5.6	1.1	(2.8)	(1.3)	2.7
52-wk Price low/high (MYR)	1.33 – 1.67				



Source: Bloomberg

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 PV system.

S: EXCELLENT

Matrix 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 Matrix'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 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	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)	4.55	5.82	8.26	7.41	7.10
P/B (x)	0.66	0.62	0.89	0.85	0.81
Dividend Yield (%)	5.5	5.8	6.3	7.0	7.7
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
Matrix Concepts	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
Valuation basis						
35% discount to RNAV						
Key drivers						
New property and industrial land sales, landbank acquisitions						
Key risks						
Weaker-than-expected market conditions						
Company Profile						
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						
	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Recurring P/E (x)	4.55	5.82	8.26	7.41	7.10
	P/B (x)	0.7	0.6	0.9	0.8	0.8
	Dividend Yield (%)	5.5	5.8	6.3	7.0	7.7
	EV/EBITDA (x)	1.53	2.03	2.88	2.51	2.29
	Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	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
	Cash flow (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	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
	Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	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	1,899	2,003	2,120	2,237
	Total liabilities & equity	2,520	2,572	2,751	3,138	3,228
	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)	5.7	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	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)	Comments
Turnover		239.5	229.3	222.4	(3.0)	(7.2)	402.9	451.6	12.1	Revenue growth was somewhat flat QoQ as construction works continued to be affected by labour shortage, while contribution from industrial properties was also lower due to limited inventory available.
EBIT		70.5	64.6	67.4	4.3	(4.4)	113.3	132.0		EBIT margin was stronger due to higher contribution from higher-priced residential products.
EBIT margin (%)		29.4	28.2	30.3			28.1	29.2		
Net interest		(0.7)	(1.3)	(1.2)	n.m.	n.m.	(1.4)	(2.6)	82.2	
Pretax profit		70.4	63.8	66.5	4.3	(5.4)	113.0	130.3	15.3	
Pretax margin (%)		29.4	27.8	29.9			28.1	28.9		
Taxation		(20.0)	(17.6)	(16.8)	(4.6)	(15.8)	(32.2)	(34.4)	7.1	
Tax rate (%)		28.4	27.6	25.3			28.4	26.4		
Minority interest		1.4	0.8	0.8	n.m.	n.m.	2.6	4.4		
Net profit		51.8	47.0	50.6	7.5	(2.4)	83.5	97.6	16.9	Below expectations.
Net margin (%)		21.6	20.5	22.7			20.7	21.6		
EPS (sen)		6.2	5.6	4.0			10.0	9.7		
Gross DPS (sen)		3.0	3.0	2.0			5.0	5.0		
NTA/share (MYR)		1.5	1.5	1.6			1.5	1.6		

Source: Company data, RHB

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

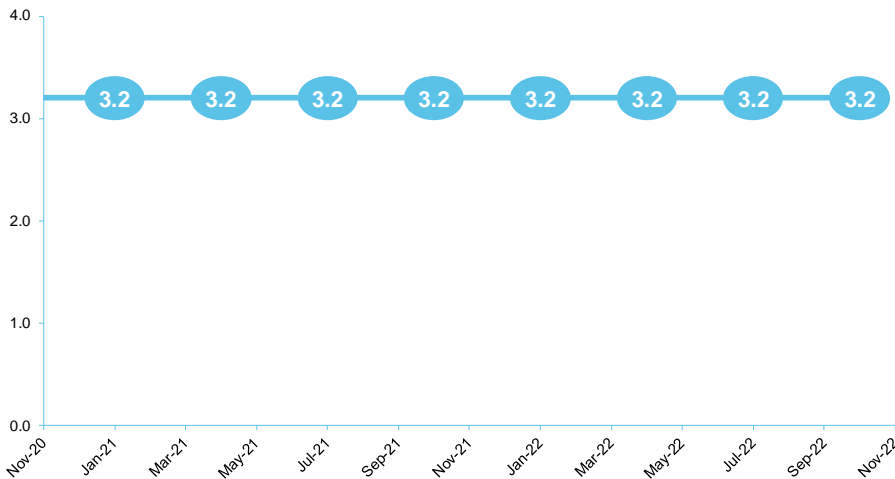


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-10-30	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
2019-12-16	Buy	2.22	1.28

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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