

23 Feb 2022

## Buy

**Price**  
 RM2.33

**Target Price**  
 RM2.60

### Market Data

Bloomberg Code	MCH MK
No. of shares (m)	834.3
Market cap (RMm)	1,943.8
52-week high/low (RM)	2.36 / 1.73
Avg daily turnover (RMm)	0.8
KLCI (pts)	1,586.1

Source: Bloomberg, KAF

### Major Shareholder (%)

Dato' Lee Tian Hock	(34.7%)
EPF	(10.0%)
Ambang Kuasa	(3.9%)
Free Float	435.8

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	5.9	10.4	32.4
Rel Market (%)	1.7	6.2	31.0

Source: Bloomberg, KAF

# Matrix Concepts

## Dividend smoothing to make up for earnings shortfall

We maintain our Buy recommendation on Matrix Concepts (MCH) with an unchanged TP of RM2.60 based on 30% discount to our RNAV of RM3.74. The group managed to rake in sales of RM998m in 9MFY22, ahead of its year-end sales target of RM1.2b. Earnings were below market expectations due to lower revenue recognition from its industrial and commercial products. Despite of shortfall in yoy earnings, the management declared higher dividend payout in 9MFY22 at c.51% (historically c.40%) of its earnings. This translates to a DPS of 8.8 sen in the 9-month period (9MFY21: 9.0 sen).

### Financial Highlights

FYE Mar	2019	2020	2021	2022F	2023F
Revenue (RMm)	1,045.5	1,283.4	1,127.7	1,045.8	1,287.2
Core net profit (RMm)	218.4	237.4	259.9	219.6	260.0
Core EPS (Sen)	26.2	28.5	31.2	26.3	31.2
EPS growth (%)	2.4	8.7	9.5	(15.5)	18.4
DPS (Sen)	11.6	11.4	12.0	13.2	15.6
Core PE (x)	8.9	8.2	7.5	8.9	7.5
Div yield (%)	5.0	4.9	5.1	5.6	6.7
ROE (%)	16.4	14.8	14.5	10.7	12.0
Net Gearing (%)	7.4	7.0	5.9	5.6	7.9
PBV(x)	1.5	1.2	1.1	1.0	0.9

Source: Company, KAF

**Ahead of presales target.** In 9MFY22, the group managed to rake in sales of c.RM998m (83% of presales target), ahead of its the year-end presales target of RM1.2b. Most of its sales were secured from its key townships — i.e., The Sendayans. For FY22F, management maintains its sales target at RM1.2b. Our sales target for MCH's in FY22F is slightly higher than management at RM1.3b.

**9MFY22 results review.** MCH reported net profit of RM144m, -21% yoy. Earnings fell short of ours and market expectations, making up c.60% (consensus: 60%) of our initial full-year net profit forecast of RM240m. Earnings contraction was a result of lower revenue recognition by 14% yoy from lower contribution from its industrial and commercial products.

**Stronger 4QFY22.** Management is confident on its ability to ramp up its construction progress significantly in 2HFY22 as the restrictions on construction activities had been lifted. As the group's 9MFY22 earnings was below our initial forecast, we cut our revenue forecast by 11%. This resulted to an earnings cut by 8% to RM220m.

**Declared 3.8 sen DPS.** A DPS of 3.8 sen was declared in 3QFY22. For 9MFY22, total accumulated DPS was 8.8 sen (9MFY21: 9.0 sen) or c.51% (9MFY21: c.41%) payout of its earnings. Historically, MCH has had a payout of more than 39% of its earnings as dividend. Despite the shortfall in earnings, the group almost able to maintain its dividend (in absolute term) by declaring higher dividend payout ratio.

We estimate a DPS of 13.2 sen for FY22F (based on 50% payout ratio), which translates into a yield of c.6% at the current price.

**Outlook.** The management remains positive on the property outlook particularly on the affordable owners-occupier products in the near-term. We believe that momentum for this market segment would remain robust as stamp duty waiver for properties up to RM500k a unit is applicable until end-2025.

**Deserves a premium valuation.** We believe that MCH deserves a premium valuation to its peers due to its: 1) strong sales performance relative to their landbanks; 2) quality earnings

### Analyst

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(>20% profit margin consistently); 3) strong balance sheet (net gearing c.5%-6%); and 4) generous dividend payout (c.5-6% at current price). Maintain Buy.

**Exhibit 1: Quarterly trend (before revision)**

Year to 31 March	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	% chg		Cumulative			KAF	
	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	qoq	yoy	9M21	9M22	% chg	2022F	9M/F
<b>RM m</b>														
Revenue	162	262	315	388	163	239	233	(3)	(26)	739	636	(14)	1,169	54%
Cost of sales	(77)	(118)	(166)	(183)	(83)	(126)	(97)	(23)	(42)	(362)	(305)	(16)	(584)	52%
<b>Gross profit</b>	<b>85</b>	<b>144</b>	<b>149</b>	<b>206</b>	<b>81</b>	<b>114</b>	<b>136</b>	<b>20</b>	<b>(9)</b>	<b>378</b>	<b>331</b>	<b>(12)</b>	<b>584</b>	<b>57%</b>
Other income	1	2	2	1	1	2	3	24	5	5	6	16	6	93%
OPEX	(41)	(41)	(59)	(85)	(36)	(44)	(55)	27	(7)	(141)	(135)	(4)	(245)	55%
<b>EBITDA</b>	<b>45</b>	<b>105</b>	<b>92</b>	<b>122</b>	<b>45</b>	<b>72</b>	<b>84</b>	<b>15</b>	<b>(10)</b>	<b>241</b>	<b>201</b>	<b>(17)</b>	<b>345</b>	<b>58%</b>
Depreciation	(3)	(3)	(3)	(4)	(3)	(3)	(3)	9	0	(8)	(8)	(2)	(13)	62%
Amortisation	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
<b>EBIT</b>	<b>42</b>	<b>102</b>	<b>90</b>	<b>118</b>	<b>43</b>	<b>70</b>	<b>81</b>	<b>16</b>	<b>(10)</b>	<b>233</b>	<b>193</b>	<b>(17)</b>	<b>332</b>	<b>58%</b>
Interest income	1	1	1	1	0	1	1	67	9	3	2	(36)	4	57%
Finance costs	(0)	(0)	(0)	(24)	(1)	(1)	(0)	(62)	187	(0)	(2)	501	(17)	10%
Associates	-	-	4	1	1	1	1	76	(77)	4	2	(47)	0	nm
<b>EBT</b>	<b>43</b>	<b>103</b>	<b>95</b>	<b>95</b>	<b>43</b>	<b>70</b>	<b>83</b>	<b>17</b>	<b>(13)</b>	<b>240</b>	<b>196</b>	<b>(18)</b>	<b>318</b>	<b>62%</b>
Taxation	(13)	(29)	(21)	(22)	(12)	(20)	(23)	18	14	(62)	(56)	(11)	(87)	64%
<b>Profit (before MI)</b>	<b>30</b>	<b>73</b>	<b>74</b>	<b>73</b>	<b>30</b>	<b>50</b>	<b>59</b>	<b>17</b>	<b>(20)</b>	<b>177</b>	<b>140</b>	<b>(21)</b>	<b>231</b>	<b>61%</b>
El	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	(1)	(2)	(1)	(5)	(1)	(1)	(1)	(1)	1	(4)	(4)	(3)	(9)	43%
<b>Net profit</b>	<b>31</b>	<b>75</b>	<b>75</b>	<b>78</b>	<b>32</b>	<b>52</b>	<b>60</b>	<b>17</b>	<b>(20)</b>	<b>181</b>	<b>144</b>	<b>(21)</b>	<b>240</b>	<b>60%</b>
Distribution to perp sukuk	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
<b>Core net profit</b>	<b>31</b>	<b>75</b>	<b>75</b>	<b>78</b>	<b>32</b>	<b>52</b>	<b>60</b>	<b>17</b>	<b>(20)</b>	<b>181</b>	<b>144</b>	<b>(21)</b>	<b>240</b>	<b>60%</b>

Source: Company, KAF

**Exhibit 2: Quarterly trend (after revision)**

Year to 31 March	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	% chg		Cumulative			KAF	
	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	qoq	yoy	9M21	9M22	% chg	2022F	9M/F
<b>RM m</b>														
Revenue	162	262	315	388	163	239	233	(3)	(26)	739	636	(14)	1,046	61%
Cost of sales	(77)	(118)	(166)	(183)	(83)	(126)	(97)	(23)	(42)	(362)	(305)	(16)	(512)	60%
<b>Gross profit</b>	<b>85</b>	<b>144</b>	<b>149</b>	<b>206</b>	<b>81</b>	<b>114</b>	<b>136</b>	<b>20</b>	<b>(9)</b>	<b>378</b>	<b>331</b>	<b>(12)</b>	<b>533</b>	<b>62%</b>
Other income	1	2	2	1	1	2	3	24	5	5	6	16	6	93%
OPEX	(41)	(41)	(59)	(85)	(36)	(44)	(55)	27	(7)	(141)	(135)	(4)	(220)	61%
<b>EBITDA</b>	<b>45</b>	<b>105</b>	<b>92</b>	<b>122</b>	<b>45</b>	<b>72</b>	<b>84</b>	<b>15</b>	<b>(10)</b>	<b>241</b>	<b>201</b>	<b>(17)</b>	<b>320</b>	<b>63%</b>
Depreciation	(3)	(3)	(3)	(4)	(3)	(3)	(3)	9	0	(8)	(8)	(2)	(13)	62%
Amortisation	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
<b>EBIT</b>	<b>42</b>	<b>102</b>	<b>90</b>	<b>118</b>	<b>43</b>	<b>70</b>	<b>81</b>	<b>16</b>	<b>(10)</b>	<b>233</b>	<b>193</b>	<b>(17)</b>	<b>306</b>	<b>63%</b>
Interest income	1	1	1	1	0	1	1	67	9	3	2	(36)	4	57%
Finance costs	(0)	(0)	(0)	(24)	(1)	(1)	(0)	(62)	187	(0)	(2)	501	(12)	14%
Associates	-	-	4	1	1	1	1	76	(77)	4	2	(47)	0	nm
<b>EBT</b>	<b>43</b>	<b>103</b>	<b>95</b>	<b>95</b>	<b>43</b>	<b>70</b>	<b>83</b>	<b>17</b>	<b>(13)</b>	<b>240</b>	<b>196</b>	<b>(18)</b>	<b>298</b>	<b>66%</b>
Taxation	(13)	(29)	(21)	(22)	(12)	(20)	(23)	18	14	(62)	(56)	(11)	(87)	64%
<b>Profit (before MI)</b>	<b>30</b>	<b>73</b>	<b>74</b>	<b>73</b>	<b>30</b>	<b>50</b>	<b>59</b>	<b>17</b>	<b>(20)</b>	<b>177</b>	<b>140</b>	<b>(21)</b>	<b>210</b>	<b>67%</b>
El	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	(1)	(2)	(1)	(5)	(1)	(1)	(1)	(1)	1	(4)	(4)	(3)	(9)	43%
<b>Net profit</b>	<b>31</b>	<b>75</b>	<b>75</b>	<b>78</b>	<b>32</b>	<b>52</b>	<b>60</b>	<b>17</b>	<b>(20)</b>	<b>181</b>	<b>144</b>	<b>(21)</b>	<b>220</b>	<b>66%</b>
Distribution to perp sukuk	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
<b>Core net profit</b>	<b>31</b>	<b>75</b>	<b>75</b>	<b>78</b>	<b>32</b>	<b>52</b>	<b>60</b>	<b>17</b>	<b>(20)</b>	<b>181</b>	<b>144</b>	<b>(21)</b>	<b>220</b>	<b>66%</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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