

26 Feb 2021

Buy

Price
 RM1.80

Target Price
 RM2.05

Market Data

Bloomberg Code	MCH MK
No. of shares (m)	834.3
Market cap (RMm)	1,501.7
52-week high/low (RM)	1.95 / 1.24
Avg daily turnover (RMm)	0.8
KLCI (pts)	1,581.5

Source: Bloomberg, KAF

Major Shareholder (%)

Dato' Lee Tian Hock	(34.7%)
EPF	(10.0%)
Asia Core Properties	(3.7%)
Free Float	425.4

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	3.4	3.4	(5.7)
Rel Market (%)	4.4	1.7	(11.1)

Source: Bloomberg, KAF

Analyst

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Matrix Concepts

Earnings beat estimates

We maintain our Buy recommendation on Matrix Concepts (MCH) with an unchanged TP of RM2.05 based on 20% discount to our RNAV of RM2.54. The group managed to rake in sales of RM865m in 9M21, ahead of its year-end target of RM1.1b. The management maintains its sales target at RM1.1b for FY21F. Earnings were ahead of expectations due to lower overall expenses. MCH is trading at a PBR of 0.8x FY21F and PRNAV of 0.7x FY21F, at a premium to the industry. We believe the premium is justifiable given its strong balance sheet and high dividend yields.

Financial Highlights

FYE Mar	2018	2019	2020	2021F	2022F
Revenue (RMm)	818.5	1,045.5	1,282.3	1,000.9	1,362.5
Core net profit (RMm)	213.3	218.4	234.3	232.2	305.7
Core EPS (Sen)	28.4	29.0	28.4	28.1	37.0
EPS growth (%)	(12.0)	2.1	(2.1)	(0.9)	31.7
DPS (Sen)	12.8	12.9	11.5	11.3	14.8
Core PE (x)	6.3	6.2	6.3	6.4	4.9
Div yield (%)	7.1	7.2	6.4	6.3	8.2
ROE (%)	17.7	16.5	14.5	12.5	15.0
Net Gearing (%)	2.9	7.4	7.3	8.1	8.7
PBV(x)	1.1	1.0	0.9	0.8	0.7

Source: Company, KAF

3Q21 results review. MCH reported net profit of RM181m, +2% yoy, in 3Q21. Earnings were ahead of expectations, making up 93% (consensus: 87%) of our initial net profit forecast of RM195m. Despite the contraction in revenue, earnings were lifted by lower OPEX and effective tax rate.

Lower overall expenses. MCH recorded a significant 27% yoy reduction in its sales and marketing expenses. This was as the group shifted its marketing initiatives to digital solutions. In addition, its administration and general expenses were also lower by a decent amount i.e., -13% yoy. 9M21's effective tax rate was also lower at 26% (9M20: 27%). As a result, the group's overall cost had contracted by 15% yoy in 9M21, steeper than the 9% yoy contraction in its revenue.

Earnings revision. From the above-mentioned development, we (1) cut our OPEX assumption by 13% and (2) lower our effective tax rate assumption to 26% (from 27%). As a result, we revise upward our earnings by 19% yoy for FY21F.

Sales are ahead. The group managed to rake in sales of RM865m in 9M21, making up c.79% of its year-end sales target of RM1.1b. Most of its sales (86% of total sales) were secured from its key townships i.e., The Sendayans (residential, commercial, and industrial plots). From strong sales performance, we revise upward our in-house sales target to RM1.1b in FY21F, in line with the management guidance of RM1.1b.

Healthy inventory level. MCH had unsold completed inventory worth RM142m or c.13% of its annual sales. MCH has, in fact, consistently recorded a healthier inventory level than its peers. The industry has a 5-year average inventory-to-sales ratio of c.28%. The healthy inventory-level trend is due to its price-point strategy.

Strong balance sheet. MCH's balance sheet remains strong with a net gearing of 4% in 9M21. MCH has consistently reported a low net gearing ratio (lower than the industry's average of >40%). We are of the view that being less geared makes a developer less vulnerable to market/economic uncertainty as it is less impacted by lower financing costs. Inversely, when the property market recovers, MCH looks set to exploit any opportunities for future expansion from its strong balance sheet position. We expect the group's net gearing to remain below 10% in FY21-22F.

Declared 3.0 sen DPS. A DPS of 3.0 sen was declared in 3Q21. For 9M21, the group had declared a total DPS of 8.0 sen or c.37% payout ratio. Historically, MCH had paid out more 40% of its earnings as dividend. We estimate a DPS of 11.3 sen for FY21F (based on 40% payout ratio). This translates into a dividend yield of more than 6% at current price.

Valuation. MCH is trading at a PBR of 0.8x FY21F and PRNAV of 0.7x FY21F, at a premium to the industry. We believe the premium is justifiable given its strong balance sheet with significantly lower net gearing compared to peers. Maintain Buy.

Exhibit 1: Quarterly trend (before update)

Year to 31 December	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	% chg		Cumulative			KAF	
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	qoq	yoy	9M20	9M10	% chg	2021F	9M/F
RM m													
Revenue	283	279	472	162	262	315	(66)	(35)	810	739	(9)	1,001	74%
Cost of sales	(144)	(123)	(303)	(77)	(118)	(166)	(75)	(37)	(390)	(362)	(7)	(501)	72%
Gross profit	139	156	169	85	144	149	(50)	(32)	421	378	(10)	500	76%
Other income	1	1	0	1	2	2	769	(58)	4	5	19	4	116%
OPEX	(59)	(64)	(72)	(41)	(41)	(59)	(42)	(22)	(176)	(141)	(20)	(219)	64%
EBITDA	80	93	98	45	105	92	(54)	(41)	248	241	(3)	285	85%
Depreciation	(3)	(3)	(3)	(3)	(3)	(3)	(2)	8	(8)	(8)	7	(8)	101%
Amortisation	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBIT	78	90	95	42	102	90	(56)	(42)	240	233	(3)	276	84%
Interest income	2	2	1	1	1	1	54	(18)	5	3	(34)	6	49%
Finance costs	0	(0)	(0)	(0)	(0)	(0)	(69)	(85)	(1)	(0)	(81)	(2)	14%
Associates	-	-	-	-	-	4	nm	nm	0	4	nm	0	nm
EBT	79	91	95	43	103	95	(55)	(41)	244	240	(2)	281	85%
Taxation	(21)	(26)	(42)	(13)	(29)	(21)	(70)	(30)	(65)	(62)	(4)	(89)	70%
Profit (before MI)	59	65	53	30	73	74	(43)	(45)	179	177	(1)	192	92%
EI	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	-	-	(3)	(1)	(2)	(1)	(57)	#DIV/0!	0	(4)	nm	(3)	154%
Net profit	59	65	56	31	75	75	(44)	(43)	179	181	2	195	93%
Distribution to perp sukuk	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Core net profit	59	65	56	31	75	75	(44)	(43)	179	181	2	195	93%

Source: Company, KAF

Exhibit 2: Quarterly trend (after update)

Year to 31 December	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	% chg		Cumulative			KAF	
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	qoq	yoy	9M20	9M10	% chg	2021F	9M/F
RM m													
Revenue	283	279	472	162	262	315	(66)	(35)	810	739	(9)	1,001	74%
Cost of sales	(144)	(123)	(303)	(77)	(118)	(166)	(75)	(37)	(390)	(362)	(7)	(501)	72%
Gross profit	139	156	169	85	144	149	(50)	(32)	421	378	(10)	500	76%
Other income	1	1	0	1	2	2	769	(58)	4	5	19	4	116%
OPEX	(59)	(64)	(72)	(41)	(41)	(59)	(42)	(22)	(176)	(141)	(20)	(190)	74%
EBITDA	80	93	98	45	105	92	(54)	(41)	248	241	(3)	314	77%
Depreciation	(3)	(3)	(3)	(3)	(3)	(3)	(2)	8	(8)	(8)	7	(8)	101%
Amortisation	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBIT	78	90	95	42	102	90	(56)	(42)	240	233	(3)	306	76%
Interest income	2	2	1	1	1	1	54	(18)	5	3	(34)	7	47%
Finance costs	0	(0)	(0)	(0)	(0)	(0)	(69)	(85)	(1)	(0)	(81)	(2)	14%
Associates	-	-	-	-	-	4	nm	nm	0	4	nm	0	nm
EBT	79	91	95	43	103	95	(55)	(41)	244	240	(2)	310	77%
Taxation	(21)	(26)	(42)	(13)	(29)	(21)	(70)	(30)	(65)	(62)	(4)	(81)	77%
Profit (before MI)	59	65	53	30	73	74	(43)	(45)	179	177	(1)	230	77%
EI	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	-	-	(3)	(1)	(2)	(1)	(57)	#DIV/0!	0	(4)	nm	(3)	154%
Net profit	59	65	56	31	75	75	(44)	(43)	179	181	2	232	78%
Distribution to perp sukuk	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Core net profit	59	65	56	31	75	75	(44)	(43)	179	181	2	232	78%

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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