

Malaysia Company Update

Matrix Concepts Holdings Bhd

Bloomberg: MCH MK | Reuters: MATR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Nov 2020

HOLD

Last Traded Price (18 Nov 2020): RM1.69 (KLCI : 1,604.75)
Price Target 12-mth: RM1.65 (2% downside) (Prev RM1.65)

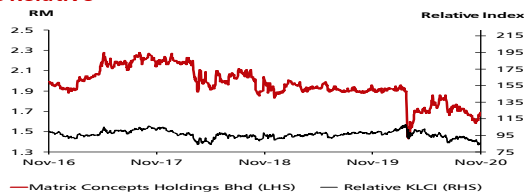
Analyst

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What's New

- 2QFY21 results met expectations
- Declared quarterly DPS of 3 sen, taking 1HFY21 DPS to 5 sen
- RM 1 bn unbilled sales to sustain near-term earnings visibility
- Maintain HOLD and RM1.65 TP

Price Relative



Forecasts and Valuation

FY Mar (RMm)	2020A	2021F	2022F	2023F
Revenue	1,282	1,171	1,148	1,053
EBITDA	352	307	297	285
Pre-tax Profit	339	289	278	269
Net Profit	234	202	197	191
Net Pft (Pre Ex.)	234	202	197	191
Net Pft Gth (Pre-ex) (%)	7.7	(13.8)	(2.3)	(3.3)
EPS (sen)	28.1	24.2	23.7	22.9
EPS Pre Ex. (sen)	28.1	24.2	23.7	22.9
EPS Gth Pre Ex (%)	(3)	(14)	(2)	(3)
Diluted EPS (sen)	28.1	24.2	23.7	22.9
Net DPS (sen)	11.5	9.93	9.70	9.38
BV Per Share (sen)	194	206	220	233
PE (X)	6.0	7.0	7.1	7.4
PE Pre Ex. (X)	6.0	7.0	7.1	7.4
P/Cash Flow (X)	22.9	5.1	9.9	19.5
EV/EBITDA (X)	4.3	4.6	4.7	5.2
Net Div Yield (%)	6.8	5.9	5.7	5.6
P/Book Value (X)	0.9	0.8	0.8	0.7
Net Debt/Equity (X)	0.1	CASH	CASH	0.0
ROAE (%)	15.9	12.1	11.1	10.1

Earnings Rev (%): -
Consensus EPS (sen): 24.5 28.0 28.5
Other Broker Recs: B: 3 S: 0 H: 1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Subdued outlook

Investment Thesis:

Challenging outlook. While Matrix Concepts Holdings Bhd (MCH) has outperformed its peers in recent years due to stellar property sales at its two flagship projects, Bandar Sri Sendayan (BSS) in Seremban and Bandar Sri Impian (BSI) in Kluang, we believe its growth prospects over the next two years may be more subdued in view of Malaysia's challenging property market outlook which has been exacerbated by the core issues of affordability and supply glut.

Slower growth ahead. We believe MCH's property sales have reached a sizeable scale. This will restrict its earnings growth momentum going forward despite a healthy pipeline of affordable homes in its township developments.

Downside risk. The elevated household debt to gross domestic product (GDP) of ~87% and slowing economic growth may also pose more downside risks to the property sector.

Valuation:

MCH is currently trading at a decent valuation of 7x FY21 price-to-earnings (PE) and decent dividend yield of ~6%. However, there is limited upside potential due to the stagnating property market which could persist for some time.

Where we differ:

Our HOLD rating is contrary to consensus' bullish calls as we believe its earnings growth momentum is likely to be subdued going forward.

Key Risks to Our View:

Weak property sales. Rising household debt and softer consumer sentiment may lead to lower property sales.

At A Glance

Issued Capital (m shrs)	834
Mkt. Cap (RMm/US\$m)	1,410 / 345
Major Shareholders (%)	
Hock Lee Tian	17.7
Shining Term Sdn Bhd	15.4
Free Float (%)	55.1
3m Avg. Daily Val (US\$m)	0.11

GIC Industry: Real Estate / Real Estate Management & Development



DBS
Live more, Bank less

WHAT'S NEW**Strong 2QFY21 performance**

Strong recovery: MCH's 2QFY21 headline net profit recovered strongly by 142% q-o-q and 28% y-o-y to RM75.1m, on the back of RM262m revenue (+62% q-o-q, -7% y-o-y). This takes 1HFY21 earnings to 53% of our full-year estimate, which is within our expectation. The group has expedited its construction progress during the quarter which has helped to restore its performance close to pre-pandemic levels.

Improved margin. MCH's 2QFY21 EBIT margin was much stronger at 39%, compared to 27% in 1QFY21 and 28% in 2QFY20. This is due to a better product mix as well as lower operating expenses due to its digital initiatives and the absence of physical marketing events in compliance with social distancing restrictions.

Consistent quarterly dividend payout. MCH declared its second interim DPS of 3 sen for the quarter, taking 1HFY21 DPS to 5 sen (vs. 6 sen in 1HFY20). This implies a 39% payout that is in line with our forecast. Meanwhile, its balance sheet stayed healthy with a minimal net gearing of 6% as at end-Sep 2020.

Decent property sales. It secured RM252m property sales in 2QFY21 (-28% q-o-q, -27% y-o-y), taking 1HFY21 sales to RM602m (-10% y-o-y). The lower property sales were mainly due to the challenging property market, which has been exacerbated by the COVID-19 pandemic which resulted in fewer launches. Correspondingly, its unbilled sales also declined to RM1.07bn which will provide earnings visibility over the next 12 months.

Investment properties: Its investment properties – Matrix Global Schools, d'Sora Business Boutique Hotel and d'Tempat Country Club – remained loss-making with an operating loss of RM1m in 2QFY21 due to the losses from its education arm.

RM1.04bn launch pipeline in FY21. MCH has earmarked RM1.94bn worth of launches in FY21 to replenish its unbilled sales. We believe that its flagship projects in Bandar Sri Sendayan will continue to enjoy decent sales momentum. Nevertheless, we believe its growth prospects over the next two years may be more subdued in view of Malaysia's challenging property market outlook which has been exacerbated by the core issues of affordability and supply glut. The elevated household debt and slowing economic growth may also pose more downside risks to the property sector.

Maintain HOLD. We reiterate our TP of RM1.65, based on an unchanged 50% discount to our RNAV. We continue to like MCH for its impeccable track record in township developments, but there is limited upside potential due to the stagnating property market that could persist for some time.

Company Background

MCH is one of the largest township developers in Negeri Sembilan, focusing on its flagship township development Bandar Sri Sendayan.

Matrix Concepts Holdings Bhd

Quarterly / Interim Income Statement (RMm)

FY Mar	2Q2020	1Q2021	2Q2021	% chg yoy	% chg qoq
Revenue	283	162	262	(7.3)	61.7
Cost of Goods Sold	(144)	(77.0)	(118)	(17.6)	53.9
Gross Profit	139	85.0	144	3.3	68.8
Other Oper. (Exp)/Inc	(59.6)	(42.2)	(40.9)	(31.4)	(3.0)
Operating Profit	79.4	42.9	103	29.3	139.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	0.10	(0.2)	0.0	nm	73.3
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	79.5	42.7	103	29.1	140.1
Tax	(20.7)	(12.8)	(29.1)	40.6	127.1
Minority Interest	0.0	1.15	1.59	nm	37.3
Net Profit	58.7	31.1	75.1	27.8	141.7
Net profit bef Except.	58.7	31.1	75.1	27.8	141.7
EBITDA	82.0	45.7	106	28.7	131.2
Margins (%)					
Gross Margins	49.1	52.5	54.8		
Opg Profit Margins	28.1	26.5	39.2		
Net Profit Margins	20.8	19.2	28.6		

Historical PE and PB band



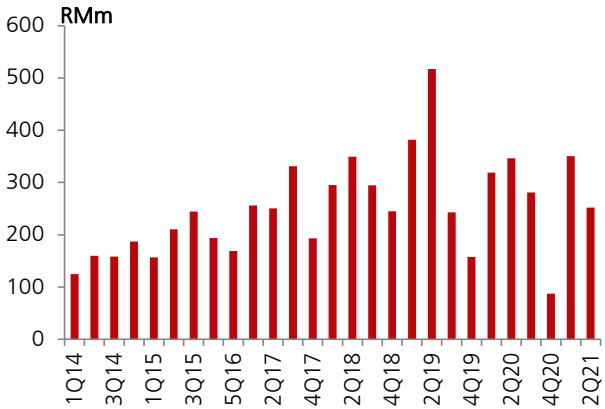
Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates



Quarterly property sales



Source: Company

Matrix Concepts Holdings Bhd

Key Assumptions

FY Mar	2019A	2020A	2021F	2022F	2023F
Property sales	1,248	910	950	1,005	885
Industrial land sales	51.4	126	50.0	60.0	60.0
Revenue	1,048	1,282	1,171	1,148	1,053
Pretax profit	298	339	289	278	269
Pretax margin	28.4	26.4	24.7	24.2	25.5

Segmental Breakdown

FY Mar	2019A	2020A	2021F	2022F	2023F
Revenues (RMm)					
Industrial land sales	54.1	89.9	50.0	60.0	60.0
Property development	956	1,155	1,081	1,046	950
Education	21.6	20.5	23.2	24.3	25.5
Clubhouse	15.8	17.4	16.8	17.6	18.5
Total	1,048	1,282	1,171	1,148	1,053

Lower than management's target

Underpinned by unbilled sales

EBIT (RMm)					
Industrial land sales	27.1	40.5	20.0	24.0	24.0
Property development	281	301	291	278	251
Education	(11.3)	(3.4)	(10.8)	(11.8)	(7.0)
Clubhouse	2.47	3.40	(4.4)	(4.4)	5.00
Total	299	341	296	286	273

EBIT Margins (%)					
Industrial land sales	50.0	45.0	40.0	40.0	40.0
Property development	29.4	26.0	26.9	26.6	26.4
Education	(52.3)	(16.7)	(46.4)	(48.3)	(27.4)
Clubhouse	15.7	19.6	(26.2)	(24.9)	27.1
Total	28.6	26.6	25.3	24.9	25.9

Income Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Revenue	1,048	1,282	1,171	1,148	1,053
Cost of Goods Sold	(540)	(692)	(604)	(578)	(481)
Gross Profit	508	590	567	570	572
Other Opng (Exp)/Inc	(208)	(249)	(272)	(285)	(299)
Operating Profit	299	341	296	285	273
Other Non Opq (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.7)	(1.9)	(7.2)	(7.2)	(4.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	298	339	289	278	269
Tax	(80.1)	(107)	(86.6)	(80.6)	(77.9)
Minority Interest	0.0	2.66	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	218	234	202	197	191
Net Profit before Except.	218	234	202	197	191
EBITDA	310	352	307	297	285

Growth					
Revenue Gth (%)	28.0	22.4	(8.7)	(2.0)	(8.2)
EBITDA Gth (%)	0.0	13.5	(12.7)	(3.3)	(4.0)
Opq Profit Gth (%)	(0.3)	13.9	(13.3)	(3.6)	(4.3)
Net Profit Gth (Pre-ex) (%)	2.0	7.7	(13.8)	(2.3)	(3.3)

Margins & Ratio					
Gross Margins (%)	48.4	46.0	48.5	49.7	54.3
Opg Profit Margin (%)	28.6	26.6	25.3	24.8	25.9
Net Profit Margin (%)	20.8	18.3	17.3	17.2	18.1
ROAE (%)	17.2	15.9	12.1	11.1	10.1
ROA (%)	11.6	10.6	8.2	7.6	7.1
ROCE (%)	13.6	12.6	10.0	9.3	8.5
Div Payout Ratio (%)	44.1	41.0	41.0	41.0	41.0
Net Interest Cover (x)	173.5	178.8	41.2	39.7	68.4

Source: Company, AllianceDBS

Matrix Concepts Holdings Bhd

Quarterly Income Statement (RMm)

FY Mar	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021
Revenue	283	279	472	162	262
Cost of Goods Sold	(144)	(123)	(303)	(77.0)	(118)
Gross Profit	139	156	169	85.0	144
Other Oper. (Exp)/Inc	(59.6)	(63.9)	(73.6)	(42.2)	(40.9)
Operating Profit	79.4	91.9	95.7	42.9	103
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.10	(0.5)	(0.5)	(0.2)	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	79.5	91.4	95.2	42.7	103
Tax	(20.7)	(26.0)	(42.3)	(12.8)	(29.1)
Minority Interest	0.0	0.0	0.0	1.15	1.59
Net Profit	58.7	65.3	52.9	31.1	75.1
Net profit bef Except.	58.7	65.3	52.9	31.1	75.1
EBITDA	82.0	94.5	98.5	45.7	106

Construction progress expedited after easing of lockdown

Growth

Revenue Gth (%)	13.8	(1.3)	69.2	(65.7)	61.7
EBITDA Gth (%)	7.1	15.3	4.2	(53.7)	131.2
Opg Profit Gth (%)	7.3	15.7	4.2	(55.2)	139.4
Net Profit Gth (Pre-ex) (%)	7.7	11.2	(19.0)	(41.3)	141.7

Margins

Gross Margins (%)	49.1	55.8	35.9	52.5	54.8
Opg Profit Margins (%)	28.1	32.9	20.3	26.5	39.2
Net Profit Margins (%)	20.8	23.4	11.2	19.2	28.6

Thanks to lower operating expenses

Balance Sheet (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	255	249	297	346	393
Invs in Associates & JVs	0.0	131	131	131	131
Other LT Assets	745	787	787	787	787
Cash & ST Invs	257	281	401	400	332
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	315	373	340	334	351
Other Current Assets	449	582	573	636	722
Total Assets	2,021	2,402	2,530	2,633	2,716
ST Debt	161	135	135	135	135
Creditor	286	338	300	294	270
Other Current Liab	45.5	52.9	112	106	103
LT Debt	202	263	263	263	263
Other LT Liabilities	0.0	0.19	0.19	0.19	0.19
Shareholder's Equity	1,326	1,615	1,721	1,835	1,945
Minority Interests	0.99	(1.8)	(1.8)	(1.8)	(1.8)
Total Cap. & Liab.	2,021	2,402	2,530	2,633	2,716
Non-Cash Wkg. Capital	433	564	502	569	700
Net Cash/(Debt)	(106)	(117)	2.75	1.77	(66.9)
Debtors Turn (avg days)	81.7	97.9	111.2	107.2	118.7
Creditors Turn (avg days)	148.8	166.9	196.5	191.7	219.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.6	0.6	0.5	0.4	0.4
Current Ratio (x)	2.1	2.4	2.4	2.6	2.8
Quick Ratio (x)	1.2	1.2	1.4	1.4	1.3
Net Debt/Equity(X)	0.1	0.1	CASH	CASH	0.0
Net Debt/Equity ex MI (X)	0.1	0.1	CASH	CASH	0.0
Capex to Debt (%)	8.6	1.7	15.1	15.1	15.1
Z-Score (X)	3.0	3.0	2.9	2.9	2.9

Solid balance sheet

Source: Company, AllianceDBS

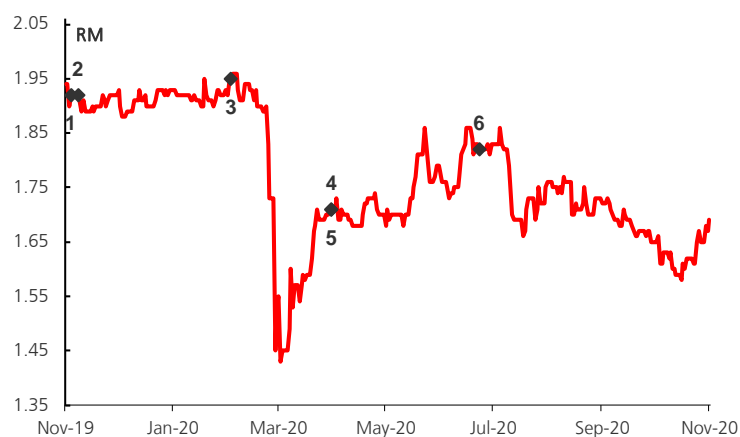
Matrix Concepts Holdings Bhd

Cash Flow Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	298	339	289	278	269
Dep. & Amort.	10.5	10.7	11.3	11.8	12.4
Tax Paid	(87.3)	(98.7)	(27.5)	(86.6)	(80.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkq. Cap.	(142)	(173)	3.57	(61.3)	(128)
Other Operating CF	(18.6)	(16.6)	0.0	0.0	0.0
Net Operating CF	60.1	61.6	276	142	72.3
Capital Exp.(net)	(31.3)	(6.9)	(60.0)	(60.0)	(60.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(131)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	27.2	24.9	0.0	0.0	0.0
Net Investing CF	(4.1)	(112)	(60.0)	(60.0)	(60.0)
Div Paid	(102)	(97.5)	(96.1)	(82.8)	(80.9)
Chg in Gross Debt	38.4	58.1	0.0	0.0	0.0
Capital Issues	3.52	161	0.0	0.0	0.0
Other Financing CF	0.17	(0.3)	0.0	0.0	0.0
Net Financing CF	(59.5)	121	(96.1)	(82.8)	(80.9)
Currency Adjustments	(17.0)	(46.0)	0.0	0.0	0.0
Chg in Cash	(20.5)	24.5	120	(1.0)	(68.6)
Opq CFPS (sen)	26.9	28.1	32.7	24.4	24.0
Free CFPS (sen)	3.82	6.57	25.9	9.81	1.47

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 Nov 19	1.92	2.40	BUY
2:	25 Nov 19	1.92	2.40	BUY
3:	20 Feb 20	1.95	2.40	BUY
4:	17 Apr 20	1.71	1.65	BUY
5:	17 Apr 20	1.71	1.65	HOLD
6:	10 Jul 20	1.82	1.65	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

AllianceDBS recommendations are based on an Absolute Total Return * Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 19 Nov 2020 07:27:50 (MYT)

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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