

**Matrix Concepts (BUY ↔, EPS ↔)**

 INDUSTRY: NEUTRAL  
 EARNINGS EVALUATION

August 26, 2016

Price Target: RM2.91 (↔)

Share price: RM2.50

**Targeting RM1bn new sales**
**Results**

- **Inline with Expectations:** Matrix's 1QFY17 PATAMI surged by 74% YoY and 25% QoQ to RM52m, accounting for 21% and 23% of our and consensus full year earnings forecast respectively. We expect stronger earnings in subsequent quarters due to higher billings of ongoing projects.

**Dividends**

- Declared first interim dividend of 3.25 sen/share, representing about 35% payout, in line with our assumption.

**Highlights**

- **YoY:** PATAMI increased by 70% due to higher billings of ongoing projects coupled with sales of a parcel of land worth RM11.7m.
- **QoQ:** Despite revenue falling by 7%, PATAMI increased by 25% due to lower selling, marketing and administrative expenses.
- 1QFY17 new sales hit a record high of RM256m (+52% QoQ), on track to achieve full year sales target of RM1bn (versus our conservative estimate of RM800m). We attribute the record high sales to the focus on affordable mass market with pricing range below RM600k.
- Latest Suriman 2B (RM608k, 22x80) has secured good take up rate of 65% after launched a month ago while Hijayu 3 (RM628k onwards) also experienced healthy take up rate of 63%. Total new launches in 1QFY16 reached RM315m with another RM400m to be launched in next few quarters.
- Investment properties comprise about 3% of revenue but are expected to more than triple to 10% in FY19. Matrix Global Schools will increase its total student from 650 to 1,000 in Jan 17 after entering into collaboration with China's Shanghai Zhangjiang Specialized colleague for student enrolments.

**Forecasts**
**Rating**

- Unchanged.

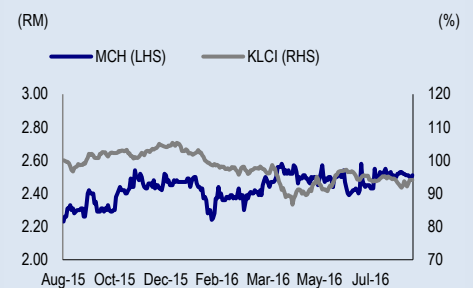
**BUY (↔)**

- **Positives:** 1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; and (3) Still attractive FY16E DY of 7.2%.
- **Negatives:** (1) Lack of landbank diversification means the company's fate is completely tied to that of Seremban.
- Our **TP** is maintained at **RM2.91** (unchanged 20% discount to RNAV). Maintain **BUY**. Dividend yield is one of the highest in the sector at 6%.

**Valuation**
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KLCI	1,680.3
Expected share price return	16.4%
Expected dividend return	6.0%
Expected total return	22.4%

**Share price**

**Information**

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	565
Market cap (RMm)	1,413
3-mth avg volume ('000)	298
SC Syariah-compliant	Yes

<b>Price Performance</b>	1M	3M	12M
Absolute %	-2.0	0.8	12.1
Relative %	-2.7	-2.2	4.3

**Major shareholders (%)**

Lee Tian Hock	16.4
Shining Term Sdn Bhd	15.8
Supreme Interest Sdn Bhd	5.0

**Summary Earnings Table**

FYE 31 Mar (RM m)	2014A	2016*	2017E	2018E
Revenue	599	912	791	836
EBITDA	247	358	329	327
Norm. net profit	182	255	243	243
Norm. EPS (sen)	40.0	45.1	43.1	43.0
Norm. PER (x)	6.3	5.5	5.8	5.8
BVPS (RM)	1.46	1.45	1.73	2.01
P/B (x)	1.72	1.72	1.44	1.24
ROA (%)	42.1	61.3	38.0	31.4
ROE (%)	27.5	31.1	24.9	21.4
Yield (%)	5.9	7.5	6.0	6.0

HLIB

\*15M of financial result

**Quarterly results comparison**

FYE March	1Q16	4Q16	1Q17	Qoq (%)	Yoy (%)	Comments
<b>Revenue</b>	<b>120.4</b>	<b>211.3</b>	<b>196.2</b>	<b>(7.1)</b>	<b>62.9</b>	<b>YoY:</b> Higher billings of ongoing projects coupled with sales of parcel of land worth RM11.7m. <b>QoQ:</b> Due to lower recognition from sale of commercial and industrial properties.
Cost of Sales	(57.4)	(99.9)	(90.6)	(9.3)	57.8	
<b>Gross profit</b>	<b>63.0</b>	<b>111.4</b>	<b>105.6</b>	<b>(5.2)</b>	<b>67.6</b>	
Selling and marketing expenses	(4.1)	(7.7)	(5.6)	(26.7)	36.7	
Administrative expenses	(16.9)	(40.6)	(29.6)	(27.0)	75.1	
Other Income	0.2	0.9	0.4	(57.6)	117.8	
<b>Operating Profit</b>	<b>42.1</b>	<b>64.0</b>	<b>70.8</b>	<b>10.5</b>	<b>67.9</b>	QoQ: Due to lower selling, marketing and administrative expenses.
Interest Income	0.8	7.4	0.4	(94.2)	(47.3)	Higher interest income in 4Q16 is due to adjustment of present value of schedule of payment to creditors, as required by auditors.
Finance costs	(1.6)	(0.6)	(0.7)	34.3	(53.7)	
Net Interest	(0.8)	6.8	(0.3)	(104.6)	(60.2)	
<b>JV</b>						
<b>Profit before taxation (PBT)</b>	<b>41.4</b>	<b>70.8</b>	<b>70.4</b>	<b>(0.6)</b>	<b>70.3</b>	Filtered down from EBIT.
Income tax expense	(11.5)	(22.9)	(18.5)	(19.0)	61.0	
MI						
<b>PATAMI</b>	<b>29.9</b>	<b>48.0</b>	<b>51.9</b>	<b>8.2</b>	<b>73.9</b>	Filtered down from PBT.
EI		6.5	-			One off higher interest income in 4Q16 as mentioned above.
<b>Core PATAMI</b>	<b>29.9</b>	<b>41.4</b>	<b>51.9</b>	<b>25.4</b>	<b>73.9</b>	

Company; HLIB

**Figure #1 RNAV table**

Projects	Stake (%)	NPV (RM m)
<b>Ongoing</b>		
BSS	100%	10.4
TSI	100%	6.7
STV 1 and 2	100%	111.0
Unbilled Sales	100%	83.5
<b>Future</b>		
BSS	100%	780.0
TSI	100%	141.7
STP	100%	59.8
STV 3	100%	38.7
Residency SIGC	100%	36.4
Kota Gadong Perdana	100%	54.2
KL High Rise Mixed Development	100%	57.9
Lobak Commercial Centre	100%	4.6
NPV		1,385.0
Shareholder Funds as of 1Q15		758.3
Net cash/(debt) as of 1Q15		(31.6)
RNAV		2,111.7
Wa proceed		185.6
Total RNAV		2,297.3
Total Diluted Shares		631.5
RNAV/share		3.6
Discount		20%
Discounted RNAV		1,837.8
<b>Discounted RNAV/Share</b>		<b>2.91</b>

Company, HLIB

**Figure #2 HLIB vs. Consensus**

RMm	2017E			2018E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	791.1	787.3	0.5	836.0	811.0	3.1
EPS (sen)	243.3	220.7	10.2	242.8	229.5	5.8

HLIB; Bloomberg

**Figure #3 Peer Comparison**

Company	Current Px	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
							CY16	CY17	CY16	CY17	CY16	CY17
IOI PROPERTIES	2.50	Buy	2.77	11%	11,028.0	(41.3)	16.4	14.7	0.7	0.7	3.2	3.2
UEM SUNRISE BHD	1.09	Hold	0.91	-16%	4,945.8	(64.2)	22.5	15.8	0.7	0.7	1.3	1.9
SP SETIA BHD	3.23	Hold	3.11	-4%	9,100.9	(32.4)	13.1	13.3	1.3	1.2	3.8	3.8
MAH SING GROUP	1.61	Hold	1.53	-5%	3,879.2	(31.5)	10.1	8.9	1.1	1.1	4.0	4.5
SUNWAY BHD	3.01	Buy	3.72	24%	6,119.7		9.7	8.8	0.8	0.8	4.0	4.0
MATRIX CONCEPTS	2.50	Buy	2.91	16%	1,413.3	(31.3)	6.0	5.8	1.6	1.3	6.0	6.0
TAMBUN	1.50	Hold	1.40	-7%	639.8	(35.6)	6.6	6.8	1.2	1.1	5.8	5.6
GLOMAC BHD	0.79	Hold	0.80	1%	571.5	(55.5)	6.6	6.5	0.6	0.5	5.1	5.6
ECO WORLD DEVELO	1.32	NR			3,120.8	(42.6)	29.8	15.4	0.9	0.9	-	-
<b>Average</b>						<b>(41.8)</b>	<b>13.4</b>	<b>10.7</b>	<b>1.0</b>	<b>0.9</b>	<b>3.7</b>	<b>3.8</b>

## Financial Projections for Matrix Concepts (TP: RM2.91)

### Income statement

FYE 31 Mar (RM m)	2013A	2014A	2016A*	2017E	2018E
<b>Revenue</b>	<b>574</b>	<b>599</b>	<b>912</b>	<b>791</b>	<b>836</b>
Operating cost	-369	-352	-555	-462	-509
<b>EBITDA</b>	<b>206</b>	<b>247</b>	<b>358</b>	<b>329</b>	<b>327</b>
D&A	-3	-3	-7	-7	-7
Net Interest	2	0	7	-2	-1
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
<b>Pretax profit</b>	<b>205</b>	<b>245</b>	<b>357</b>	<b>320</b>	<b>319</b>
Taxation	(53)	(62)	(96)	(77)	(77)
Minority Interest	-	-	-	-	-
PATAMI	152	182	261	243	243
<b>Core Earning</b>	<b>152</b>	<b>182</b>	<b>255</b>	<b>243</b>	<b>243</b>
Basic shares (m)	456	456	564	564	564
<b>Basic EPS (sen)</b>	<b>33.3</b>	<b>40.0</b>	<b>45.1</b>	<b>43.1</b>	<b>43.0</b>

### Balance sheet

FYE 31 Mar (RM m)	2013A	2014A	2016A*	2017E	2018E
Fixed assets	80	192	184	178	171
Other long-term assets	22	7	7	7	7
Other short-term assets	0	0	0	0	0
<b>Working capital</b>	<b>425</b>	<b>411</b>	<b>627</b>	<b>544</b>	<b>574</b>
Receivables	147	135	206	179	189
Payables	277	274	417	362	383
Inventory	1	2	3	3	3
<b>Net cash / (debt)</b>	<b>50</b>	<b>19</b>	<b>-64</b>	<b>196</b>	<b>325</b>
Cash	101	97	15	274	404
ST debt	40	50	50	50	50
LT debt	11	28	28	28	28
<b>Shareholders' funds</b>	<b>529</b>	<b>664</b>	<b>819</b>	<b>977</b>	<b>1,135</b>
Share capital	301	457	457	457	457
Reserves	228	207	362	520	678
Minorities	-	-	-	-	-
Other liabilities	47	-35	-64	-53	-57

### Summary Earnings Table

<b>Revenue</b>	574	599	912	791	836
EBITDA	206	247	358	329	327
Net profit	152	182	255	243	243
P/E (x)	7.5	6.3	5.5	5.8	5.8
BV / share	1.2	1.5	1.5	1.7	2.0
P/BV (x)	2.0	1.7	1.7	1.4	1.2
ROA (%)	43.3	42.1	61.3	38.0	31.4
ROE (%)	28.6	27.5	31.1	24.9	21.4

\*15M of financial result as financial year end change from Dec to Mar

### Cashflow

FYE 31 Mar (RM m)	2013A	2014A	2016A*	2017E	2018E
EBIT	203	244	350	322	321
D&A	3	3	7	7	7
Working capital changes	(120)	(56)	(244)	94	(35)
Taxation	(53)	(62)	(96)	(77)	(77)
Others	4	8	(4)	(3)	(3)
<b>Operating cashflow</b>	<b>40</b>	<b>136</b>	<b>14</b>	<b>343</b>	<b>212</b>
Capex & acquisitions	-69	-116	0	0	0
<b>Free cashflow</b>	<b>-30</b>	<b>20</b>	<b>14</b>	<b>343</b>	<b>212</b>
Others	-15	17	10	1	2
<b>Investing cashflow</b>	<b>-84</b>	<b>-100</b>	<b>10</b>	<b>1</b>	<b>2</b>
Equity Raised	140	10	0	0	0
Others	0	0	0	0	0
Net Borrowing	-3	21	0	0	0
<b>Financing cashflow</b>	<b>83</b>	<b>-47</b>	<b>-106</b>	<b>-85</b>	<b>-85</b>
<b>Net cashflow</b>	<b>38</b>	<b>(10)</b>	<b>(82)</b>	<b>259</b>	<b>129</b>

### Valuation ratios

Net DPS (sen)	0.00	14.85	18.79	15.09	15.06
FCF/ share (sen)	-6.49	4.35	2.40	60.82	37.62
FCF yield (%)	-2.6%	1.7%	1.0%	24.3%	15.0%
Market capitalization (m)	1,139	1,139	1,410	1,410	1,410
Net cash (m)	50	19	-64	196	325
Enterprise value	1,089	1,121	1,474	1,215	1,085
EV/ EBITDA (x)	5.3	4.5	4.1	3.7	3.3

### Growth margins ratios

Growth (%)					
Sales Growth		4.3	52.3	-13.3	5.7
Operating expenses		-4.5	57.6	-16.7	10.0
EBITDA Growth		20.2	44.8	-8.1	-0.5
PBT Growth		19.3	46.1	-10.4	-0.2
PATMI		20.2	39.7	-4.5	-0.2
Basic EPS Growth		20.2	12.9	-4.5	-0.2

### Margins (%)

EBITDA Margin	35.8	41.2	39.2	41.6	39.1
PBT Margin	35.7	40.8	39.2	40.5	38.2
PATMI	26.4	30.4	27.9	30.8	29.0

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<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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