

26 August 2016

Property | Real Estate

Matrix Concepts Holdings

Buy (Maintained)

On Track To Hit Sales Target

We expect Matrix to hit management's sales target of MYR900m-1bn, given the positive sales momentum in existing projects in addition to pipeline launches. A 3.25 sen dividend was declared, which is 35% of 1Q EPS, lower than the >50% payout in the past. This is in line with management's guidance. With no changes in fundamentals and outlook, we maintain our BUY rating and MYR2.80 TP (12% upside).

Affordable projects selling well. Despite the challenging market environment, Matrix managed to rake in MYR256m new sales in 1Q (vs MYR168.7m in 5QFY16) on the back of MYR315m worth of new launches. Given the sales momentum and pipeline projects of MYR400m for the remaining FY17 (Mar), we are confident that management's target of MYR900m-1bn can be achieved. Upcoming projects include Suriaman 1, 2A and Biz in Bandar Sri Sendayan, as well as Impiana Indah, Impiana 2 and Impiana Damai 1 in Kluang.

Take-up rate improved for ongoing projects. The take-up rate for ongoing projects showed decent improvement, with Sendayan Merchant Square 1 hitting 80% in 1QFY17 from 67% in 5QFY17, Hijayu Resorts Homes' 88% – from 61%, and for Suriaman, 92% vs 73%.

Encouraging growth in student numbers. Student enrolment numbers have achieved 650 students, and management expects to reach 1,000 students in early 2017, a level enough for breakeven. As the properties mature, the segment will likely contribute 10% to total revenue in FY19 from the current 3%.

Valuations. We make no changes to our earnings forecasts. Unbilled sales increased to MYR690.6bn from MYR621.4m in 5QFY16. We maintain our BUY rating and TP of MYR2.80, based on 25% discount to RNAV.

1QFY17 (Mar) earnings: above expectations (FYE changed to Mar, from Dec)

| (MYRm) | 1QFY17 (Apr-Jun 16) | 5QFY16 (Jan-Mar 16) | QoQ | 2Q15 (Apr-Jun 15) | YoY | Comments |
|----------|------------------------|------------------------|-------|----------------------|-------|---------------------|
| Revenue | 196 | 211 | -7.1% | 120 | 62.9% | |
| EBIT | 71 | 71 | -0.3% | 43 | 65.7% | |
| EBIT (%) | 36.3% | 33.8% | | 35.7% | | |
| NI | 52 | 48 | 8.2% | 30 | 73.9% | Within expectations |
| NI (%) | 26.5% | 22.7% | | 24.8% | | |

Source: Company data, RHB

1QFY17 results in line. Higher QoQ and YoY earnings growth mainly reflected the strong sales secured in the past. Net gearing crept up to 16% from 14% in the previous quarter, due to the financing commitment for the acquisition of new land, such as Puchong, Techpark and Australia. As guided by management in the last quarter, with a 40% cap on its dividend payout, Matrix declared a single-tier dividend of 3.25 sen. This is marginally lower than the 3.5 sen (pre bonus issue) declared during the same quarter last year.

| Forecasts and Valuations | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
|-------------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 631 | 732 | 736 | 824 | 839 |
| Reported net profit (MYRm) | 189 | 210 | 220 | 239 | 259 |
| Recurring net profit (MYRm) | 189 | 210 | 220 | 239 | 259 |
| Recurring net profit growth (%) | 18.0 | 10.8 | 4.8 | 9.0 | 8.3 |
| Recurring EPS (MYR) | 0.39 | 0.38 | 0.38 | 0.41 | 0.43 |
| DPS (MYR) | 0.17 | 0.16 | 0.15 | 0.16 | 0.17 |
| Recurring P/E (x) | 6.35 | 6.64 | 6.51 | 6.15 | 5.85 |
| P/B (x) | 1.65 | 1.57 | 1.39 | 1.24 | 1.11 |
| Dividend Yield (%) | 6.8 | 6.2 | 6.0 | 6.4 | 6.8 |
| Return on average equity (%) | 29.0 | 26.7 | 23.0 | 21.6 | 20.3 |
| Return on average assets (%) | 19.2 | 18.3 | 16.2 | 15.9 | 15.6 |
| Net debt to equity (%) | 1.4 | 14.3 | 5.0 | 2.0 | 1.0 |
| Our vs consensus EPS (adjusted) (%) | | | (4.0) | 4.2 | (0.7) |

Source: Company data, RHB

| | |
|-------------------|---------|
| Target Price: | MYR2.80 |
| Price: | MYR2.50 |
| Market Cap: | USD350m |
| Bloomberg Ticker: | MCH MK |

Share Data

| | |
|------------------------------|-------------|
| Avg Daily Turnover (MYR/USD) | 0.71m/0.18m |
| 52-wk Price low/high (MYR) | 2.24 - 2.58 |
| Free Float (%) | 43 |
| Shares outstanding (m) | 565 |
| Estimated Return | 12% |

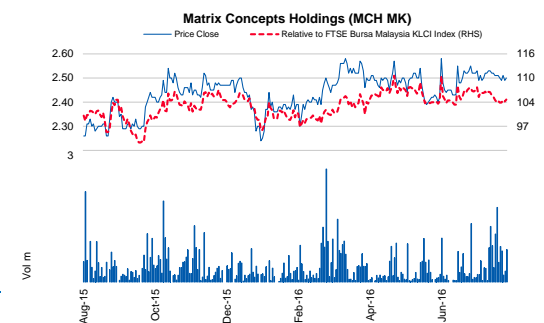
Shareholders (%)

| | |
|--------------------|------|
| Dato' Lee & Family | 60.0 |
|--------------------|------|

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------|-----|-------|-------|-----|------|
| Absolute | 0.4 | (1.2) | 0.4 | 5.5 | 12.6 |
| Relative | 1.0 | (2.7) | (3.1) | 4.4 | 2.8 |

Source: Bloomberg



Source: Bloomberg

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Figure 1: Matrix's quarterly results

| FYE Mar (MYRm) | 2Q15 | 5QFY16 | 1QFY17 | QoQ (%) | YoY (%) | Comments |
|-------------------|--------|--------|--------|---------|---------|---|
| Turnover | 120.4 | 211.3 | 196.2 | (7.1) | 62.9 | 1QFY17 revenue breakdown: MYR152.3m from residential properties, MYR25.8m from commercial properties, MYR11.7m from land sale and MYR6.4m from investment properties. |
| EBIT | 43.0 | 71.4 | 71.2 | (0.3) | 65.7 | |
| EBIT margin (%) | 35.7 | 33.8 | 36.3 | | | |
| Net interest | (1.6) | (0.6) | (0.7) | 34.3 | (53.7) | |
| Pretax profit | 41.4 | 70.8 | 70.4 | (0.6) | 70.3 | |
| Pretax margin (%) | 34.3 | 33.5 | 35.9 | | | |
| Taxation | (11.5) | (22.9) | (18.5) | (19.0) | 61.0 | |
| Tax rate (%) | 27.8 | 32.3 | 26.3 | | | |
| Minority interest | 0.0 | 0.0 | 0.0 | n.m. | n.m. | |
| Net profit | 29.9 | 48.0 | 51.9 | 8.2 | 73.9 | Within expectations. |
| Net margin (%) | 24.8 | 22.7 | 26.5 | | | |
| EPS (sen) | 6.5 | 8.6 | 9.2 | | | |
| Gross DPS (sen) | 3.5 | 4.4 | 3.3 | | | |
| NTA/share (MYR) | 1.7 | 1.6 | 1.6 | | | |

Source: RHB

Figure 2: Matrix's RNAV estimate

| Projects | Remaining landbank (acres) | GDV (MYR m) | Stake | NPV @ 13% |
|---|----------------------------|-------------|-------|-----------|
| <i>Bandar Sri Sendayan, Negeri Sembilan</i> | | | | |
| Ongoing & future developments | 1,069.6 | 4,380.9 | 100% | 335.9 |
| Taman Seri Impian, Kluang, Johor | 279.2 | 1,514.2 | 100% | 161.4 |
| KL land | 1.1 | 400 | 100% | 25.5 |
| Kota Gadong Perdana | 227.1 | 1428 | 100% | 116.2 |
| Residensi SIGC (Third 9 Residence) | 41.8 | 229 | 100% | 19.2 |
| Lobak Commercial Centre | 7.3 | 29.3 | 100% | 2.6 |
| Labu land | 236.9 | 760 | 100% | 66.4 |
| Rasah Kemayan land | 194.4 | 800 | 100% | 72.9 |
| Puchong | 5.8 | 500 | 100% | 32.7 |
| Australia | n.a. | 94.5 | 100% | 7.1 |

| | Remaining landbank (acres) | Market price (MYR psf) | BV (MYR psf) | Net surplus |
|---|----------------------------|------------------------|--------------|-------------|
| Sendayan TechValley 1 & 2 | 112 | 45 | 10 | 128.1 |
| Sendayan TechPark | 123 | 33 | 13 | 48.2 |
| Sendayan TechValley 3 | 85 | 45 | 15 | 83.3 |
| Unbilled sales | | | | 149.0 |
| Total | | | | 1,248.8 |
| Shareholders' fund | | | | 885.7 |
| Warrants conversion (exercice price at MYR2.40) | | | | 186.8 |
| Total RNAV | | | | 2,321.2 |
| Share base (incl. warrants) | | | | 622.7 |
| RNAV/share | | | | 3.73 |
| Discount | | | | 25% |
| Target price | | | | 2.80 |

Source: RHB

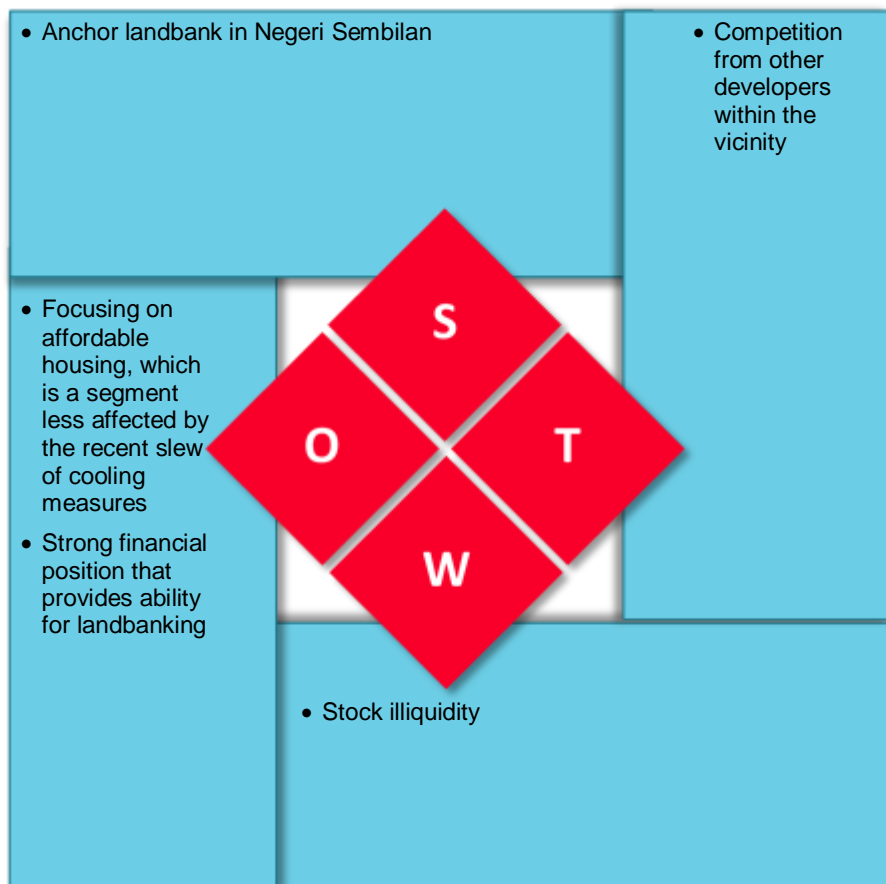
Financial Exhibits

Financial model updated on : 2016-08-25.

| | | | | | | |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
| Malaysia | Recurring EPS (MYR) | 0.39 | 0.38 | 0.38 | 0.41 | 0.43 |
| Property | EPS (MYR) | 0.39 | 0.38 | 0.38 | 0.41 | 0.43 |
| Matrix Concepts Holdings | DPS (MYR) | 0.17 | 0.16 | 0.15 | 0.16 | 0.17 |
| Bloomberg MCH MK | BVPS (MYR) | 1.52 | 1.59 | 1.80 | 2.02 | 2.25 |
| Buy | Weighted avg adjusted shares (m) | 477 | 557 | 572 | 589 | 607 |
| Valuation basis | Valuation metrics | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
| 25% discount to RNAV. | Recurring P/E (x) | 6.35 | 6.64 | 6.51 | 6.15 | 5.85 |
| Key drivers | P/E (x) | 6.35 | 6.64 | 6.51 | 6.15 | 5.85 |
| New property and industrial land sales, landbank acquisitions. | P/B (x) | 1.65 | 1.57 | 1.39 | 1.24 | 1.11 |
| Key risks | FCF Yield (%) | 1.3 | (1.3) | 13.3 | 9.7 | 10.8 |
| Weaker-than-expected market conditions. | Dividend Yield (%) | 6.8 | 6.2 | 6.0 | 6.4 | 6.8 |
| Company Profile | EV/EBITDA (x) | 3.08 | 3.78 | 3.11 | 2.92 | 2.49 |
| 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 on developing residential and commercial properties, as well as industrial land sale. | EV/EBIT (x) | 3.08 | 3.78 | 3.11 | 2.92 | 2.49 |
| | Income statement (MYRm) | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
| | Total turnover | 631 | 732 | 736 | 824 | 839 |
| | Gross profit | 344 | 407 | 414 | 457 | 479 |
| | EBITDA | 257 | 290 | 303 | 327 | 352 |
| | Operating profit | 257 | 290 | 303 | 327 | 352 |
| | Net interest | (2) | (3) | (8) | (8) | (7) |
| | Pre-tax profit | 255 | 287 | 295 | 319 | 346 |
| | Taxation | (66) | (77) | (75) | (80) | (86) |
| | Recurring net profit | 189 | 210 | 220 | 239 | 259 |
| | Cash flow (MYRm) | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
| | Change in working capital | (159) | (257) | 52 | (86) | (15) |
| | Cash flow from operations | 53 | (17) | 310 | 193 | 285 |
| | Capex | (39) | (1) | (120) | (50) | (120) |
| | Cash flow from investing activities | (50) | (27) | (120) | (49) | (148) |
| | Proceeds from issue of shares | 32 | 37 | 0 | 0 | 0 |
| | Dividends paid | (69) | (64) | (108) | (86) | (94) |
| | Cash flow from financing activities | 17 | 42 | (149) | (126) | (133) |
| | Balance sheet (MYRm) | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
| | Total cash and equivalents | 93 | 78 | 153 | 161 | 141 |
| | Total investments | 250 | 269 | 388 | 437 | 586 |
| | Total other assets | 6 | 7 | 7 | 7 | 7 |
| | Total assets | 1,055 | 1,292 | 1,424 | 1,585 | 1,732 |
| | Short-term debt | 50 | 79 | 79 | 59 | 59 |
| | Total liabilities | 329 | 406 | 397 | 395 | 368 |
| | Shareholders' equity | 725 | 886 | 1,028 | 1,190 | 1,364 |
| | Total equity | 725 | 886 | 1,028 | 1,190 | 1,364 |
| | Net debt | 10 | 126 | 52 | 24 | 14 |
| | Total liabilities & equity | 1,055 | 1,292 | 1,424 | 1,585 | 1,732 |
| | Key metrics | Mar-15 | Mar-16 | Mar-17F | Mar-18F | Mar-19F |
| | Revenue growth (%) | 8.7 | 16.1 | 0.6 | 11.8 | 1.9 |
| | Recurrent EPS growth (%) | 12.3 | (4.3) | 2.0 | 5.8 | 5.1 |
| | Gross margin (%) | 54.5 | 55.7 | 56.2 | 55.5 | 57.1 |
| | Operating EBITDA margin (%) | 40.7 | 39.6 | 41.2 | 39.7 | 42.0 |
| | Net profit margin (%) | 30.0 | 28.6 | 29.8 | 29.1 | 30.9 |
| | Dividend payout ratio (%) | 42.8 | 41.4 | 39.1 | 39.4 | 39.8 |
| | Capex/sales (%) | 6.2 | 0.2 | 16.3 | 6.1 | 14.3 |
| | Interest cover (x) | 129 | 102 | 37 | 42 | 52 |

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2016-05-19 | Buy | 2.80 | 2.57 |
| 2016-02-24 | Buy | 2.73 | 2.37 |
| 2015-08-10 | Buy | 2.73 | 2.26 |
| 2015-05-13 | Buy | 3.65 | 2.75 |
| 2015-04-21 | Buy | 3.65 | 2.66 |
| 2015-04-15 | Buy | 3.60 | 2.71 |
| 2015-03-12 | Buy | 3.48 | 2.50 |
| 2015-02-12 | Buy | 3.36 | 2.49 |
| 2014-12-16 | Buy | 3.00 | 1.93 |
| 2014-11-18 | Buy | 3.93 | 2.48 |

Source: RHB, Bloomberg

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