

**Matrix Concepts (BUY ↔, EPS ↓)**

 INDUSTRY: NEUTRAL  
 EARNINGS EVALUATION

November 16, 2016

Price Target: RM2.89 (↓)

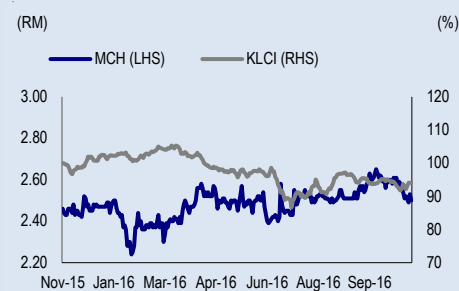
Share price: RM2.48

**On track to achieve sales target**

<b>Results</b>	<ul style="list-style-type: none"> <li>▪ <b>Slightly Below Expectations:</b> Matrix's 2QFY17 PATAMI surged by 50% YoY, bringing 1HFY17 earnings to RM98.4m, accounting for 40% of our and consensus full year earnings forecast.</li> </ul>
<b>Deviation</b>	<ul style="list-style-type: none"> <li>▪ Mainly due to lower margin of project mix.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>▪ Declared second interim dividend of 3.25 sen/share, bringing 1HFY17 DPS to 6.5sen/share, representing about 37% payout, in line with our assumption.</li> </ul>
<b>Highlights</b>	<ul style="list-style-type: none"> <li>▪ <b>YoY:</b> PATAMI increased by 50% due to higher billings of ongoing projects coupled with industrial land sales of RM18.9m.</li> <li>▪ <b>QoQ:</b> Despite revenue increasing by 15%, PATAMI fell by 10% due to lower margin of project mix as the company launched more affordably-priced projects.</li> <li>▪ Sales momentum was sustained into 2QFY17 with new sales reaching RM250m (1QFY17: RM256m), bringing 1HFY17 total sales to RM506m or 50% of full year sales target of RM1bn (versus our conservative estimate of RM800m). We expect sales to be sustained given its focus on affordable mass market with pricing range below RM600k.</li> <li>▪ We understand the company had sold 2 pieces of industrial land. Total industrial land sales in 1HFY17 amounted to RM31m versus company full year target of RM50m.</li> <li>▪ Matrix had launched RM270m worth of projects in 2QFY17. The launch of Suriaman 3 @ BSS in 1QFY17 had received well response with take up rate of 76% while Hijayu 3 (RM628k onwards) also experienced healthy take up rate above 65%. Total new launches in 1HFY17 reached RM810m with another RM550m to be launched in next few quarters.</li> </ul>
<b>Forecasts</b>	<ul style="list-style-type: none"> <li>▪ We reduce our FY17 earnings by 7% after factoring in lower margin for the projects.</li> </ul>
<b>Rating</b>	<b>BUY (↔)</b> <ul style="list-style-type: none"> <li>▪ Well positioned to riding on the affordable housing theme (majority products are below RM600k). HSR is a long-term catalyst. Dividend yield is one of the highest in the sector at 6%.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>▪ Our <b>TP</b> is adjusted slightly from <b>RM2.91 to RM2.89</b> (based on unchanged 20% discount to RNAV of RM3.61). Maintain <b>BUY</b>. Dividend yield is one of the highest in the sector at 6%.</li> </ul>

**Jason Tan**
[yttan@hlib.hongleong.com.my](mailto:yttan@hlib.hongleong.com.my)
**(603) 2168 2751**

KLCI	1,630.6
Expected share price return	16.5%
Expected dividend return	6.1%
Expected total return	22.6%

**Share price**

**Information**

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	565
Market cap (RMm)	1,417
3-mth avg volume ('000)	460
SC Syariah-compliant	Yes

<b>Price Performance</b>	1M	3M	12M
Absolute %	-4.6	-1.2	0.8
Relative %	-3.0	3.0	2.4

**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)	2016A*	2017E	2018F	2019F
Revenue	912	791	836	1,159
EBITDA	358	305	327	417
Norm. net profit	255	225	243	312
Norm. EPS (sen)	45.1	39.9	43.0	55.3
Norm. PER (x)	5.5	6.2	5.8	4.5
BVPS (RM)	1.45	1.71	1.99	2.35
P/B (x)	1.71	1.45	1.25	1.06
ROA (%)	61.3	35.8	31.9	39.6
ROE (%)	31.1	23.3	21.6	23.5
Yield (%)	7.6	5.6	6.1	7.8

HLIB

\*15M of financial result

**Figure #1 Quarterly results comparison**

FYE March	2Q16 (June-Sept15)	1Q17 (Mar-June16)	2Q17 (June-Sept16)	Qoq (%)	Yoy (%)	Comments
<b>Revenue</b>	<b>121.4</b>	<b>196.2</b>	<b>224.9</b>	<b>14.6</b>	<b>85.3</b>	YoY & QoQ: Higher billings of ongoing projects coupled with industrial land sales of RM18.9m.
Cost of Sales	(53.1)	(90.6)	(130.5)	44.1	145.8	
<b>Gross profit</b>	<b>68.3</b>	<b>105.6</b>	<b>94.3</b>	<b>(10.7)</b>	<b>38.2</b>	QoQ: Fell due to lower margin of projects mix as the company launched more affordably-priced of projects.
Selling and marketing expenses	(2.7)	(5.6)	(4.4)	(21.6)	66.6	
Administrative expenses	(26.7)	(29.6)	(26.9)	(9.2)	0.9	
Other Income	0.3	0.4	0.3	(9.2)	5.2	
<b>Operating Profit</b>	<b>39.3</b>	<b>70.8</b>	<b>63.3</b>	<b>(10.5)</b>	<b>61.2</b>	
Interest Income	0.8	0.4	0.4	(9.4)	(54.7)	
Finance costs	0.1	(0.7)	(0.9)	20.7	(1,126.4)	
Net Interest	0.9	(0.3)	(0.5)	61.1	(154.5)	
<b>JV</b>						
<b>Profit before taxation (PBT)</b>	<b>40.2</b>	<b>70.4</b>	<b>62.8</b>	<b>(10.8)</b>	<b>56.2</b>	Filtered down from EBIT.
Income tax expense	(9.1)	(18.5)	(16.4)	(11.7)	79.2	
MI						
<b>PATAMI</b>	<b>31.1</b>	<b>51.9</b>	<b>46.5</b>	<b>(10.5)</b>	<b>49.5</b>	Filtered down from PBT.
EI		-	-			
<b>Core PATAMI</b>	<b>31.1</b>	<b>51.9</b>	<b>46.5</b>	<b>(10.5)</b>	<b>49.5</b>	

Company; HLIB

**Figure #2 Cummulative results comparison**

FYE Dec	6M16	6M17	Yoy (%)	Comments
<b>Revenue</b>	<b>241.8</b>	<b>421.1</b>	74.1	Due to increase from property development coupled With higher industrial and land sales.
Cost of Sales	(110.5)	(221.1)	100.1	
<b>Gross profit</b>	<b>131.3</b>	<b>199.9</b>	52.3	Better development margin.
Selling and marketing expenses	(6.8)	(10.1)	48.4	
Administrative expenses	(43.6)	(56.5)	29.7	
Other Income	0.5	0.7	44.3	
<b>Operating Profit</b>	<b>81.4</b>	<b>134.1</b>	64.7	
Interest Income	1.7	0.8	(51.1)	
Finance costs	(1.5)	(1.6)	8.1	
Net Interest	0.1	(0.8)	(685.1)	
<b>JV</b>	-	-		
<b>Profit before taxation (PBT)</b>	<b>81.6</b>	<b>133.3</b>	63.4	Filtered down from gross profit.
Income tax expense	(20.6)	(34.9)	69.1	
MI	-	-		
<b>PATAMI</b>	<b>60.9</b>	<b>98.4</b>	<b>61.5</b>	Filtered down from PBT.

Company; HLIB

**Figure #3 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%	68.7
<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		1,370.2
Shareholder Funds as of 1Q15		758.3
Net cash/(debt) as of 1Q15		(31.6)
RNAV		2,096.9
Wa proceed		185.6
Total RNAV		2,282.5
Total Diluted Shares		631.5
RNAV/share		3.61
Discount		20%
Discounted RNAV		1,826.0
<b>Discounted RNAV/Share</b>		<b>2.89</b>

Company, HLIB

**Figure #4 HLIB vs. Consensus**

RMm	2017E			2018F		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	791.1	799.5	-1.1	836.0	919.5	-9.1
EPS (sen)	225.3	222.0	1.5	242.7	243.5	-0.3

HLIB; Bloomberg

**Figure #5 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	2.31	Buy	2.77	20%	10,189.9	(45.8)	15.1	13.6	0.6	0.6	3.5	3.5
UEM SUNRISE BHD	1.05	Hold	1.06	1%	4,764.3	(65.5)	27.9	18.1	0.7	0.7	1.1	1.7
SP SETIA BHD	3.20	Hold	3.11	-3%	9,021.0	(33.1)	12.9	13.2	1.3	1.2	3.9	3.8
MAH SING GROUP	1.54	Hold	1.53	-1%	3,710.5	(34.5)	9.7	8.5	1.1	1.0	4.1	4.7
SUNWAY BHD	3.00	Buy	3.72	24%	6,096.0		9.7	8.8	0.8	0.8	4.0	4.0
MATRIX CONCEPTS	2.48	Buy	2.89	16%	1,416.6	(31.3)	6.4	6.1	1.6	1.3	5.6	6.1
TAMBUN	1.46	Hold	1.40	-4%	623.5	(37.3)	6.4	6.6	1.2	1.1	5.9	5.8
GLOMAC BHD	0.77	Hold	0.72	-6%	557.0	(52.0)	9.6	8.7	0.6	0.5	4.8	4.8
ECO WORLD DEVELO	1.33	NR			3,657.1	(42.2)	30.0	15.6	0.9	0.9	-	-
<b>Average</b>						<b>(42.7)</b>	<b>14.2</b>	<b>11.0</b>	<b>1.0</b>	<b>0.9</b>	<b>3.7</b>	<b>3.8</b>

## Financial Projections for Matrix Concepts (TP: RM2.89)

### Income statement

FYE 31 Mar (RM m)	2014A	2016A*	2017E	2018F	2019F
Revenue	599	912	791	836	1,159
Operating cost	-352	-555	-486	-509	-742
<b>EBITDA</b>	<b>247</b>	<b>358</b>	<b>305</b>	<b>327</b>	<b>417</b>
D&A	-3	-7	-7	-7	-6
Net Interest	0	7	-2	-1	0
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
<b>Pretax profit</b>	<b>245</b>	<b>357</b>	<b>296</b>	<b>319</b>	<b>410</b>
Taxation	(62)	(96)	(71)	(77)	(98)
Minority Interest	-	-	-	-	-
PATAMI	182	261	225	243	312
<b>Core Earning</b>	<b>182</b>	<b>255</b>	<b>225</b>	<b>243</b>	<b>312</b>
Basic shares (m)	456	564	564	564	564
<b>Basic EPS (sen)</b>	<b>40.0</b>	<b>45.1</b>	<b>39.9</b>	<b>43.0</b>	<b>55.3</b>

### Balance sheet

FYE 31 Mar (RM m)	2014A	2016A*	2017E	2018F	2019F
Fixed assets	192	184	178	171	165
Other long-term assets	7	7	7	7	7
Other short-term assets	0	0	0	0	0
<b>Working capital</b>	<b>411</b>	<b>627</b>	<b>544</b>	<b>574</b>	<b>796</b>
Receivables	135	206	179	189	262
Payables	274	417	362	383	530
Inventory	2	3	3	3	4
<b>Net cash / (debt)</b>	<b>19</b>	<b>-64</b>	<b>184</b>	<b>314</b>	<b>271</b>
Cash	97	15	263	392	349
ST debt	50	50	50	50	50
LT debt	28	28	28	28	28
<b>Shareholders' funds</b>	<b>664</b>	<b>819</b>	<b>965</b>	<b>1,123</b>	<b>1,326</b>
Share capital	457	457	457	457	457
Reserves	207	362	508	666	869
Minorities	-	-	-	-	-
Other liabilities	-35	-64	-53	-57	-87

### Summary Earnings Table

Revenue	599	912	791	836	1,159
EBITDA	247	358	305	327	417
Net profit	182	255	225	243	312
P/E (x)	6.2	5.5	6.2	5.8	4.5
BV / share	1.5	1.5	1.7	2.0	2.3
P/BV (x)	1.7	1.7	1.4	1.2	1.1
ROA (%)	42.1	61.3	35.8	31.9	39.6
ROE (%)	27.5	31.1	23.3	21.6	23.5

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

### Cashflow

FYE 31 Mar (RM m)	2014A	2016A*	2017E	2018F	2019F
EBIT	244	350	298	321	410
D&A	3	7	7	7	6
Working capital changes	(56)	(244)	94	(35)	(252)
Taxation	(62)	(96)	(71)	(77)	(98)
Others	8	(4)	(3)	(3)	(3)
<b>Operating cashflow</b>	<b>136</b>	<b>14</b>	<b>325</b>	<b>212</b>	<b>63</b>
Capex & acquisitions	-116	0	0	0	0
<b>Free cashflow</b>	<b>20</b>	<b>14</b>	<b>325</b>	<b>212</b>	<b>63</b>
Others	17	10	1	2	3
<b>Investing cashflow</b>	<b>-100</b>	<b>10</b>	<b>1</b>	<b>2</b>	<b>3</b>
Equity Raised	10	0	0	0	0
Others	0	0	0	0	0
Net Borrowing	21	0	0	0	0
<b>Financing cashflow</b>	<b>-47</b>	<b>-106</b>	<b>-79</b>	<b>-85</b>	<b>-109</b>
<b>Net cashflow</b>	<b>(10)</b>	<b>(82)</b>	<b>248</b>	<b>129</b>	<b>(43)</b>

### Valuation ratios

Net DPS (sen)	14.85	18.79	13.98	15.06	19.34
FCF/ share (sen)	4.35	2.40	57.66	37.63	11.19
FCF yield (%)	1.8%	1.0%	23.2%	15.2%	4.5%
Market capitalization (m)	1,130	1,399	1,399	1,399	1,399
Net cash (m)	19	-64	184	314	271
Enterprise value	1,112	1,463	1,215	1,086	1,128
EV/ EBITDA (x)	4.5	4.1	4.0	3.3	2.7

### Growth margins ratios

Growth (%)					
Sales Growth	4.3	52.3	-13.3	5.7	38.6
Operating expenses	-4.5	57.6	-12.4	4.7	45.9
EBITDA Growth	20.2	44.8	-14.6	7.2	27.4
PBT Growth	19.3	46.1	-17.0	7.7	28.4
PATMI	20.2	39.7	-11.5	7.7	28.4
Basic EPS Growth	20.2	12.9	-11.5	7.7	28.4

### Margins (%)

EBITDA Margin	41.2	39.2	38.6	39.1	36.0
PBT Margin	40.8	39.2	37.5	38.2	35.4
PATMI	30.4	27.9	28.5	29.0	26.9

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 16 November 2016, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 16 November 2016, the analyst, Jason Tan who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<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.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.