

16 November 2016

Property | Real Estate

Matrix Concepts Holdings

Buy (Maintained)

Target Price: MYR2.80
 Price: MYR2.46
 Market Cap: USD324m
 Bloomberg Ticker: MCH MK

Margin Contraction Kicked In But Dividends Intact

While 2QFY17 earnings saw some mild pressure due to margin contraction, Matrix' dividend payout should be intact as it had cut its payout policy earlier, while net gearing has eased slightly. As Matrix moves to the more affordably-priced product segment, its new sales remained resilient, with 1HFY17 new sales reaching MYR506.4m. We maintain our BUY call and TP of MYR2.80 (14% upside).

Affordable projects selling well. Matrix Concepts Holdings (Matrix) should be on track to meet its FY17 sales target of MYR900m-1bn. In 2QFY17, it had secured MYR250.4m in sales, on MYR810m worth of new launches. This brought 1HFY17 new sales to MYR506.4m. Property development sales made up a large portion of the total, while industrial land sales remained lacklustre.

Commercial projects more popular. Despite the weak market sentiment, take-up rates for most of Matrix' projects have been quite encouraging, particularly for commercial properties. Suriaman Biz, which was launched in 1QFY17, is now 95% sold. Other residential properties generally saw take-up rates of 56-77%. In 2HFY17, the company plans to roll out MYR550m worth of new launches, mainly from its existing two township projects.

Forecasts. While sales remain resilient, we expect margins to narrow slightly as Matrix changes its product mix to suit current market demand. We therefore cut our FY17-19 earnings forecast slightly by 5-7%. Meanwhile, sales momentum remains on track, with unbilled sales rising to MYR765.3m as at 2QFY17, from MYR690.6m as at 1QFY17.

Valuations. We maintain our BUY rating with unchanged TP of MYR2.80, which is based on a 25% discount to our RNAV estimate.

2QFY17 (Mar) earnings – Below expectations (FYE changed from Dec to Mar)

(MYRm)	2QFY17 (Jul-Sep 16)	1QFY17 (Apr-Jun 16)	QoQ	3Q15 (Jul-Sep 15)	YoY	Comments
Revenue	225	196	14.6%	121	85.3%	
EBIT	64	71	-10.5%	40	58.8%	
EBIT (%)	28.3%	36.3%		33.1%		Lower due to change in product mix
NI	46	52	-10.5%	31	49.5%	Below expectations
NI (%)	20.7%	26.5%		25.6%		

Source: Company data, RHB

2QFY17 results below expectations. While top line saw QoQ growth, EBIT margin was significantly lower, largely due to the sale of more affordably-priced products to suit current market conditions. We expect EBIT margin to hover around 30-33% going forward. Net gearing eased to 11% vs 16% in 1QFY17. Same as last quarter, Matrix declared a single-tier interim dividend of 3.25 sen.

Forecasts and Valuations	Mar-15	Mar-16	Mar-17F	Mar-18F	Mar-19F
Total turnover (MYRm)	631	732	791	859	929
Reported net profit (MYRm)	189	210	210	225	246
Recurring net profit (MYRm)	189	210	210	225	246
Recurring net profit growth (%)	18.0	10.8	0.4	6.7	9.6
Recurring EPS (MYR)	0.39	0.38	0.37	0.38	0.41
DPS (MYR)	0.17	0.16	0.14	0.15	0.16
Recurring P/E (x)	6.25	6.53	6.69	6.45	6.06
P/B (x)	1.62	1.55	1.37	1.23	1.11
Dividend Yield (%)	6.9	6.3	5.5	6.1	6.5
Return on average equity (%)	29.0	26.7	22.0	20.4	19.5
Return on average assets (%)	19.2	18.3	15.4	14.9	14.9
Net debt to equity (%)	1.4	14.3	10.3	5.8	8.8
Our vs consensus EPS (adjusted) (%)			(8.7)	(2.2)	0.7

Source: Company data, RHB

Share Data

Avg Daily Turnover (MYR/USD) 1.10m/0.27m
 52-wk Price low/high (MYR) 2.24 - 2.65
 Free Float (%) 43
 Shares outstanding (m) 571
 Estimated Return 14%

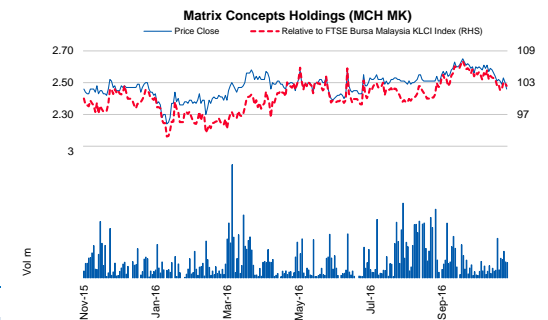
Shareholders (%)

Dato' Lee & family 60.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	(5.4)	(2.4)	(1.2)	(1.6)
Relative	3.3	(2.8)	1.6	(0.5)	1.0

Source: Bloomberg



Source: Bloomberg

Analyst

Loong Kok Wen, CFA
 +603 9207 7614

loong.kok.wen@rhbgroup.com



Financial Exhibits

Financial model updated on: 2016-11-15.

Asia	Financial summary	Mar-15	Mar-16	Mar-17F	Mar-18F	Mar-19F
Malaysia	Recurring EPS (MYR)	0.39	0.38	0.37	0.38	0.41
Property	EPS (MYR)	0.39	0.38	0.37	0.38	0.41
Matrix Concepts Holdings	DPS (MYR)	0.17	0.16	0.14	0.15	0.16
Bloomberg MCH MK	BVPS (MYR)	1.52	1.59	1.80	2.00	2.22
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)	6.25	6.53	6.69	6.45	6.06
Key drivers	P/E (x)	6.25	6.53	6.69	6.45	6.06
New property and industrial land sales, landbank acquisitions	P/B (x)	1.62	1.55	1.37	1.23	1.11
Key risks	FCF Yield (%)	1.3	(1.3)	9.0	10.2	6.5
Weaker-than-expected market conditions	Dividend Yield (%)	6.9	6.3	5.5	6.1	6.5
	EV/EBITDA (x)	3.03	3.73	3.38	3.19	2.87
	EV/EBIT (x)	3.03	3.73	3.38	3.19	2.87
Company Profile	Income statement (MYRm)	Mar-15	Mar-16	Mar-17F	Mar-18F	Mar-19F
Matrix Concepts Holdings (Matrix) 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 in developing residential and commercial properties, as well as industrial land sales.	Total turnover	631	732	791	859	929
	Gross profit	344	407	414	448	485
	EBITDA	257	290	291	307	335
	Operating profit	257	290	291	307	335
	Net interest	(2)	(3)	(8)	(8)	(7)
	Pre-tax profit	255	287	283	300	328
	Taxation	(66)	(77)	(72)	(75)	(82)
	Recurring net profit	189	210	210	225	246
	Cash flow (MYRm)	Mar-15	Mar-16	Mar-17F	Mar-18F	Mar-19F
	Change in working capital	(159)	(257)	(2)	(67)	(69)
	Cash flow from operations	53	(17)	247	197	218
	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)	(77)	(88)
	Cash flow from financing activities	17	42	(149)	(117)	(127)
	Cash at beginning of period	112	97	78	99	117
	Net change in cash	20	(3)	(22)	31	(58)
	Ending balance cash	133	94	57	130	59
	Balance sheet (MYRm)	Mar-15	Mar-16	Mar-17F	Mar-18F	Mar-19F
	Total cash and equivalents	93	78	99	117	36
	Total investments	250	269	388	437	586
	Total other assets	6	7	7	7	7
	Total assets	1,055	1,292	1,435	1,582	1,734
	Short-term debt	50	79	79	59	59
	Total long-term debt	54	126	126	126	96
	Total liabilities	329	406	408	402	386
	Shareholders' equity	725	886	1,027	1,180	1,347
	Total equity	725	886	1,027	1,180	1,347
	Net debt	10	126	106	68	119
	Total liabilities & equity	1,055	1,292	1,435	1,582	1,734
	Key metrics	Mar-15	Mar-16	Mar-17F	Mar-18F	Mar-19F
	Revenue growth (%)	8.7	16.1	8.1	8.6	8.2
	Recurrent EPS growth (%)	12.3	(4.3)	(2.3)	3.6	6.5
	Gross margin (%)	54.5	55.7	52.3	52.1	52.2
	Operating EBITDA margin (%)	40.7	39.6	36.7	35.8	36.1
	Net profit margin (%)	30.0	28.6	26.6	26.2	26.5
	Dividend payout ratio (%)	42.8	41.4	36.7	39.3	39.4
	Capex/sales (%)	6.2	0.2	15.2	5.8	12.9
	Interest cover (x)	129	102	35	39	49

Source: Company data, RHB

Figure 1: Matrix's quarterly results

FYE Mar (MYRm)	3Q15 (Jul-Sep 2015)	1QFY17 (Apr-Jun 2016)	2QFY17 (Jul-Sep 2016)	QoQ (%)	YoY (%)	1H16 (Apr-Sep 2015)	1HFY17 (Apr-Sep 2016)	YoY (%)	Comments
Turnover	121.4	196.2	224.9	14.6	85.3	241.8	421.1	74.1	Industrial land sales contributed MYR18.9m to 2QFY17 revenue
EBIT	40.1	71.2	63.7	(10.5)	58.8	83.1	134.9	62.4	
EBIT margin (%)	33.1	36.3	28.3			34.4	32.0		Margin contraction on change in product mix
Net interest	0.1	(0.7)	(0.9)	20.7	(1126.4)	(1.5)	(1.6)	8.1	
Pretax profit	40.2	70.4	62.8	(10.8)	56.2	81.6	133.3	63.4	
Pretax margin (%)	33.1	35.9	27.9			33.7	31.6		
Taxation	(9.1)	(18.5)	(16.4)	(11.7)	79.2	(20.6)	(34.9)	69.1	
Tax rate (%)	22.7	26.3	26.0			25.3	26.2		
Minority interest	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Net profit	31.1	51.9	46.5	(10.5)	49.5	60.9	98.4	61.5	Below expectations
Net margin (%)	25.6	26.5	20.7			25.2	23.4		
EPS (sen)	5.9	9.2	8.2			12.4	17.4		
Gross DPS (sen)	3.5	3.3	3.3			7.0	6.5		
NTA/share (MYR)	1.5	1.6	1.7			1.5	1.7		

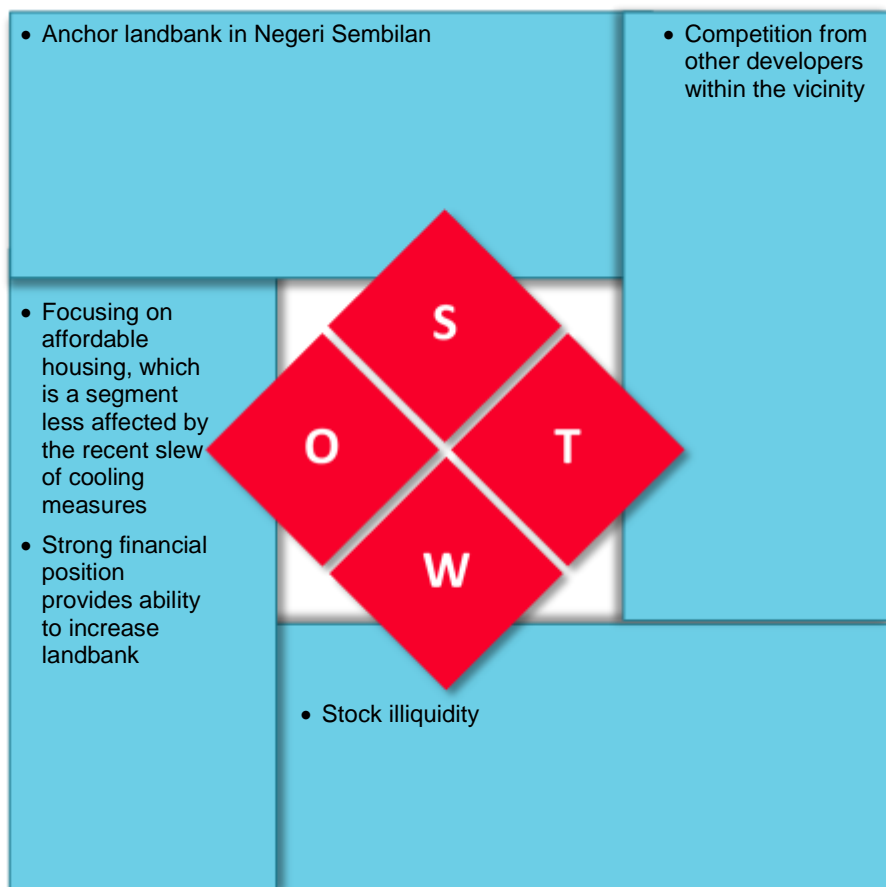
Source: RHB

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

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-08-25	Buy	2.80	2.50
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

Source: RHB, Bloomberg

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Kuala Lumpur	Hong Kong	Singapore
<p>RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693</p>	<p>RHB Securities Hong Kong Ltd. 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p>RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Bangkok
<p>PT RHB Securities Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777</p>	<p>RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax : +(66) 2 862 9799</p>