

**HLIB Research**

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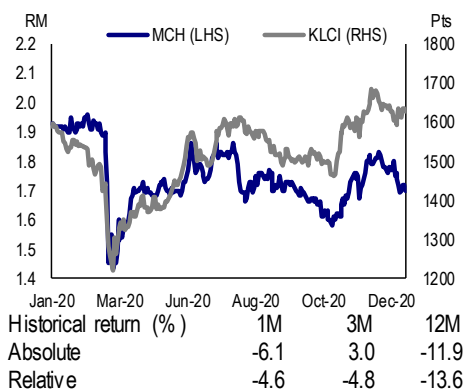
**BUY** (Maintain)

**Target Price:** **RM2.11**
**Previously:** **RM2.11**
**Current Price:** **RM1.70**

Capital upside	24.1%
Dividend yield	6.6%
Expected total return	30.7%

**Sector coverage:** Property

**Company description:** Matrix involves in property development and construction businesses primarily focus in Negeri Sembilan and Johor.

**Share price**

**Stock information**

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	834
Market cap (RM m)	1,418
3-mth avg. volume ('000)	451
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

**Major shareholders**

Lee Tian Hock	15.1%
Shining Term Sdn Bhd	12.7%
EPF	10.0%

**Earnings summary**

	FY20	FY21f	FY22f
FYE (Mar)			
PATMI - core (RM m)	237.2	205.2	252.4
EPS - core (sen)	28.6	24.7	30.4
P/E (x)	5.9	6.9	5.6

# Matrix Concepts Holdings

## It's BAU in BSS

Matrix shared that their sales is still on course to hit RM1.1bn target, with RM762m sales achieved as of Nov 2020 (1HFY21: RM602m). Since N.Sembilan is not under MCO2.0's effective states, management shared that construction activity in BSS will not be impacted by MCO2.0 but there could be some productivity lost from tighter SOP. For BSS sales gallery, we gathered that it was still be open as usual, however, we do not discount the possibility that their sales might be affected as inter-district and inter-state travel are not allowed during MCO. Management guides that no sales revision will be done yet, as numbers are on track for FY21. Maintain forecasts and BUY rating with an unchanged TP of RM2.11 based on 35% discount to RNAV of RM3.25.

We hosted a dial-in session with Matrix's management. Below are the key takeaways.

**Sales updates.** Matrix shared that their sales is still on course to hit RM1.1bn target. Note that throughout 1HFY21, the company has sold c.RM602m worth of properties and they have added another c.RM160m of sales till Nov 2020. Meanwhile, booking to sales conversion continues to be at healthy range of 50-60% rate PTD.

**Bandar Sri Sendayan (BSS).** The BSS township remains the bread and butter of Matrix which contributes to bulk of its earnings. During 1HFY21, Matrix has launched 3 projects namely (i) Hijayu Residence Parcel 1, (ii) Laman Sendayan 1, and (iii) Tiara Sendayan 6 (Precint 8). Tiara and Laman Sendayan have shown encouraging sales with close to 100% take up rate PTD whereas Hijayu has a take up rate close to 50% as of late Dec 2020. These 3 projects collectively make up an average take up rate of 89%. Recently, management also did a soft launch on Tiara Sendayan 6 (the new phase) and has achieved just above 40% take up rate. Management is confident on this development and will try to push up take up rate to 90% when the official launch is done. After all, Tiara and Laman Sendayan have been the best-sellers for Matrix and is known for its affordability yet luxurious like lifestyle.

**Other projects.** Matrix's first Klang Valley high-rise development has been well received with take up rate of 82% recently, an increase of 3.4ppt from 1HFY21. Meanwhile its Australia's project, M Greenvale enjoyed take up rate of 81% just prior Christmas (it was 62% in 1HFY21). Management assured that the rest can be sold by end-2021. Nonetheless, the lockdown in Australia has caused a delay in the completion of M Greenvale which has been extended by another 3 months to March 2022. Meanwhile, Matrix's other Australia project, M.St.Kilda was supposed to be launched in 2021, but now management has decided to delay the launch to Feb 2022. Still, management is looking to do pre sales in few Asian countries like Malaysia, Singapore, HK, and Macau as early as end-2021. In Indonesia, construction works for the Menara Syariah have stopped since April and only resumed in Dec 2020, causing a potential delay of c.12 months. To recap, the initial completion date was targeted for end 2021.

**Other business divisions.** Matrix's healthcare division has been approved for reinstatement of license for Mawar specialist hospital, and management is currently in Phase 1 of its rejuvenation. Presently, the hospital consists of 30 beds, 44 dialysis chairs, and 11 specialist clinics. Matrix is looking to increase the bed capacity to 79 and add more specialist clinics over the next 12-18 months. For its hospitality division, their hotel was badly impacted by Covid-19 and occupancy was only 30% coming from an industrial company nearby. Nonetheless, we are not overly bothered by the performance since its hospitality segment is not a major contributor. Apart from that, Matrix's education segment from Matrix Global School continues to see improvements in overall cost and operational efficiency, attributed to its JV partner. Nonetheless, due to Covid-19, school enrolments have been affected moderately.

**MCO2.0.** Since Negeri Sembilan is not under MCO2.0's effective states, management shared that construction activity in BSS will not be impacted but there could be some productivity lost from tighter SOPs. Even so, if there were to be a lockdown in the area, we believe Matrix will be able to do a construction boost as what they did previously. To recap, after MCO1.0 was lifted, Matrix operated its construction works at 120% capacity (by working overtime) to catch up on its schedule. For BSS sales gallery, we gathered that it will still be open as usual, while Matrix's KL and Kluang's sales gallery are closed as they fall under MCO2.0's effective states. Although BSS's sales gallery are running as usual, we do not discount the possibility that their sales might be affected as inter-district and inter-state travel are not allowed during MCO2.0. To cushion this, management has made available an online platform (virtual gallery and conference call via Zoom). As for now, management guides that no sales revision will be done yet, as numbers still seem on track. As witnessed during MCO 1.0, Matrix shared that they still managed to record one of the best sales performance during that period boosted by additional discounts provided throughout the period.

**ESG updates: Leading on the "Social" aspect.** We applaud Matrix's efforts during the current Covid-19 pandemic. To mitigate Covid-19 infection risk among its workforce, the company discouraged their workers to go out and instead, provided food at site alongside with any other services that their worker need. From time to time, management will do random tests amongst workers at site. Thus far, no cases have been recorded at their sites or offices.

**Outlook.** We believe Matrix's FY21 sales target at RM1.1bn (+6% YoY of FY20 actual sales) is achievable (despite the pandemic) given the encouraging response in recent quarter. Earnings visibility will continue to be supported by new sales and unbilled sales of 0.9x cover (RM1.1bn). In terms of dividends, we projected Matrix to be able to pay at least 11.1 sen per share for FY21 (45% dividend payout ratio) which translates to a yield of 6.6%. Furthermore, Matrix's healthy balance sheet of 0.07x net gearing as of FY20 will provide the buffer to sustain through this challenging environment.

**Forecast.** Unchanged as the session yielded no major surprises.

**Transfer of coverage; maintain BUY.** With the transfer of coverage to our new property analyst, we maintain our BUY recommendation on the stock with unchanged TP of **RM2.11** based on 35% discount to RNAV of RM3.25. We continue to like Matrix as it is well-positioned to ride on affordable housing theme within its successful townships with cheap land cost and sustained property sales. This is supported by an attractive dividend yield of 6.6% for FY21 and 7.2% for FY22, being one of the highest in the sector.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Cash	264.2	281.0	811.6	603.8	681.0
Receivables	425.0	533.0	357.0	497.2	528.7
Inventories	671.4	624.1	510.1	710.3	755.3
Others	737.2	1,138.7	855.3	1,001.6	1,031.5
<b>Assets</b>	<b>2,097.9</b>	<b>2,576.9</b>	<b>2,534.0</b>	<b>2,812.9</b>	<b>2,996.4</b>
Payables	381.6	484.5	331.5	461.7	490.9
Debt	362.3	427.6	427.6	427.6	427.6
Others	26.0	61.8	61.8	61.8	61.8
<b>Liabilities</b>	<b>770.0</b>	<b>973.9</b>	<b>820.9</b>	<b>951.1</b>	<b>980.3</b>
Shareholder's equity	1,327.1	1,605.1	1,718.0	1,869.4	2,026.4
Minority interest	0.8	(2.1)	(4.8)	(7.6)	(10.3)
<b>Equity</b>	<b>1,327.9</b>	<b>1,603.0</b>	<b>1,713.2</b>	<b>1,861.8</b>	<b>2,016.1</b>

### Cash Flow Statement

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	297.8	337.6	276.2	340.6	353.3
D&A	10.5	11.7	11.1	10.9	10.7
Working capital	(148.4)	(165.5)	416.3	(360.5)	(80.9)
Taxation	(89.7)	(100.1)	(73.8)	(90.9)	(94.3)
Others	7.6	(31.3)	-	-	-
<b>CFO</b>	<b>77.9</b>	<b>52.4</b>	<b>629.9</b>	<b>(100.0)</b>	<b>188.8</b>
Capex	(32.1)	(7.0)	(7.0)	(7.0)	(7.0)
Others	19.4	(101.6)	-	-	-
<b>CFI</b>	<b>(12.8)</b>	<b>(108.5)</b>	<b>(7.0)</b>	<b>(7.0)</b>	<b>(7.0)</b>
Changes in debt	29.2	57.8	-	-	-
Shares issued	3.5	178.3	-	-	-
Dividends	(101.5)	(97.5)	(92.3)	(101.0)	(104.7)
Others	-	-	-	-	-
<b>CFF</b>	<b>(68.8)</b>	<b>138.5</b>	<b>(92.3)</b>	<b>(101.0)</b>	<b>(104.7)</b>
<b>Net cash flow</b>	<b>(3.7)</b>	<b>82.4</b>	<b>530.6</b>	<b>(207.9)</b>	<b>77.2</b>
Forex	-	14.9	-	-	-
Others	80.5	-	-	-	-
Beginning cash	187.4	183.7	281.0	811.6	603.8
Ending cash	264.2	281.0	811.6	603.8	681.0

### Income statement

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
<b>Revenue</b>	<b>1045.5</b>	<b>1283.4</b>	<b>930.8</b>	<b>1296.4</b>	<b>1378.4</b>
Operating cost	(733.9)	(931.9)	(652.2)	(957.0)	(1025.0)
<b>EBITDA</b>	<b>311.6</b>	<b>351.5</b>	<b>278.6</b>	<b>339.3</b>	<b>353.4</b>
D&A	(10.5)	(11.7)	(11.1)	(10.9)	(10.7)
Net Interest	(3.3)	(2.1)	8.7	12.2	10.6
<b>Pretax profit</b>	<b>297.8</b>	<b>337.6</b>	<b>276.2</b>	<b>340.6</b>	<b>353.3</b>
Taxation	(79.5)	(103.2)	(73.8)	(90.9)	(94.3)
Minority Interest	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
PATAMI	221.0	237.2	205.2	252.4	261.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Earning</b>	<b>221.0</b>	<b>237.2</b>	<b>205.2</b>	<b>252.4</b>	<b>261.7</b>
Basic shares (m)	829.2	829.2	829.2	829.2	829.2
Diluted shares (m)	893.1	893.1	893.1	893.1	893.1
Consensus core PATMI			207.0	244.0	236.5
HLIB/ Consensus			99%	103%	111%

### Valuation ratios

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Net DPS (sen)	12.8	12.9	11.1	12.2	12.6
Yield (%)	7.5	7.6	6.6	7.2	7.4
Core EPS (sen)	26.6	28.6	24.7	30.4	31.6
Fully Diluted EPS (sen)	24.7	26.6	23.0	28.3	29.3
P/E (x)	6.4	5.9	6.9	5.6	5.4
FD P/E (x)	6.9	6.4	7.4	6.0	5.8
Market capitalization (m)	1409.6	1409.6	1409.6	1409.6	1409.6
Net cash (m)	(98.1)	(146.5)	384.1	176.2	253.4
Net gearing (%)	0.07	0.09	CASH	CASH	CASH
BV / share	1.6	1.9	2.1	2.3	2.4
P/BV (x)	1.1	0.9	0.8	0.8	0.7
ROA (%)	10.5	9.2	8.1	9.0	8.7
ROE (%)	16.6	14.8	12.0	13.6	13.0
Enterprise value	1507.7	1556.1	1025.5	1233.4	1156.2
EV/ EBITDA (x)	4.8	4.4	3.7	3.6	3.3

### Margin ratios

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
EBITDA Margin	29.8	27.4	29.9	26.2	25.6
PBT Margin	28.5	26.3	29.7	26.3	25.6
PATMI	21.1	18.5	22.0	19.5	19.0

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**Figure #1 RNAV Table**

<b>Projects</b>	<b>Stake (%)</b>	<b>NPV (RM m)</b>
<b>Bandar Sri Sendayan</b>		
BSS	100%	855.9
BSI	100%	242.7
Others	100%	152.4
Australia	100%	22.4
Indonesia	30%	24.0
Total NPV		1,297.4
Shareholders funds		1,605.1
<b>RNAV</b>		<b>2,902.5</b>
Share base		893.1
RNAV/share		3.25
Discount		35%
<b>Discounted RNAV/share</b>		<b>2.11</b>

*Company, HLIB*

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
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