

COMPANY RESULTS

Matrix Concepts Holdings (MCH MK)

2QFY22: Earnings Improve Sequentially: Expect A Strong 2HFY22

Matrix's earnings grew 63% qoq to RM51.8m despite the lockdown. Yoy weaker earnings were due to lower margins secured from the early phase of its project. While 1HFY22 earnings accounts for 34% of our full-year forecast, we deem this in line as 2HFY22 earnings are expected to catch up with its expedited construction activities and strong sales achieved. 1HFY21 dividend represents a 50% earnings payout, above estimates, and translates to 5-6% yield for FY22-24. Maintain BUY. Target: RM2.50.

2QFY22 RESULTS

	2QFY22	qoq	yoy	1HFY22	yoy
Year to 31 Mar	(RMm)	% chg	% chg	(RMm)	% chg
Total revenue	239.5	46.4	(8.6)	403.0	(5.0)
Gross Profit	113.9	41.3	(20.6)	194.5	(14.9)
EBIT	70.5	64.8	(31.3)	113.3	(22.2)
PBT	70.4	64.9	(31.4)	113.1	(22.2)
Net profit	51.8	63.4	(31.0)	83.5	(21.3)
Core net profit	51.8	63.4	(31.0)	83.5	(21.3)
Margins	%	+/- ppt	+/- ppt	%	+/- ppt
Gross Profit	47.6	-1.7	-7.2	48.3	(5.6)
EBIT	29.4	3.3	-9.7	28.1	(6.2)
PBT	29.4	3.3	-9.8	28.1	(6.2)
Core net profit	21.6	2.2	-7.0	20.7	(4.3)

Source: Matrix Concepts, UOB Kay Hian

RESULTS

- Results within expectations.** Matrix Concepts Holdings (Matrix) delivered a sequentially stronger core net profit of RM51.8m (+63% qoq) despite the lockdown that was implemented in 3Q21. This came as Negeri Sembilan state, one of the early movers, entered into Phase 4 of the National Recovery Plan in early-Sep 21, and the group has expedited its construction activities since then. Yoy, earnings were 31% lower in 2QFY22 due to lower revenue recognition and lower margin secured (as most of the revenue is recognised from the early phases of its projects).
- Expect strong earnings recovery in 2HFY22.** 1HFY22 earnings (-18% yoy) account for 34% of our full-year forecast. We deemed the results within expectations as most of the developers that have reported earnings so far were loss-making, and we believe Matrix's earnings will recover strongly in 2HFY22 with strong sales achieved and the resumption of construction activities. This will also be supported by unbilled sales of RM1.126b (+6% yoy, +8% qoq) as of 30 Sep 21, or 0.94x FY22 revenue.

KEY FINANCIALS

Year to 31 Mar (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,283	1,128	1,200	1,228	1,339
EBITDA	351	367	347	374	394
Operating profit	340	355	334	361	381
Net profit (rep./act.)	237	260	248	275	291
Net profit (adj.)	237	280	248	275	291
EPS (sen)	28.5	33.6	29.8	33.0	34.9
PE (x)	7.7	6.5	7.4	6.6	6.3
P/B (x)	1.1	1.0	0.9	0.9	0.8
EV/EBITDA (x)	5.5	5.2	5.5	5.1	4.9
Dividend yield (%)	5.3	5.5	5.4	6.0	6.4
Net margin (%)	18.5	23.0	20.7	22.4	21.8
Net debt/(cash) to equity (%)	6.9	5.9	(1.3)	(7.9)	(11.0)
Interest cover (x)	163.4	14.9	22.1	24.1	28.1
ROE (%)	16.2	15.2	13.2	13.5	13.2
Consensus net profit	-	-	246	266	278
UOBKH/Consensus (x)	-	-	1.01	1.04	1.05

Source: Matrix Concepts, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.20
Target Price	RM2.50
Upside	+13.6%

COMPANY DESCRIPTION

A pure township developer based in Negeri Sembilan.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MCH MK
Shares issued (m):	834.2
Market cap (RMm):	1,827.0
Market cap (US\$m):	435.1
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

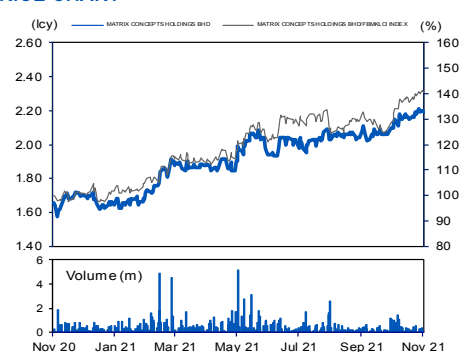
52-week high/low	RM2.21/RM1.67			
1mth	3mth	6mth	1yr	YTD
6.8	3.8	15.3	25.1	23.7

Major Shareholders

Lee Tian Hock	13.9
Shi Ning Term Sdn Bhd	12.7
Employees Provident Fund	9.8

FY22 NAV/Share (RM)	2.34
FY22 Net Cash/Share (RM)	0.03

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **1HFY22 dividend represents 50% earnings payout.** The group declared its second interim dividend of 3 sen/share (representing 48% of earnings payout). 1HFY22 dividend of 5 sen/share (50% earnings payout) is above our estimates. Our assumption of 12 sen/share for FY22 (40% payout) will translate to a dividend yield of 5.5% for FY22.

STOCK IMPACT

- **Resilient sales with 86% average take-up rate.** Despite the lockdown, Matrix managed to secure RM340.3m worth of property sales in the quarter, increasing 35% yoy and 13% qoq. Notably, sales in Bandar Sri Sendayan (BSS) recorded the highest quarterly sales historically. This was supported by the company's ongoing digitalisation effort to drive sales via online platforms. This brought 1HFY22 sales to RM641.2m (+7% yoy), accounting for 53% of its full-year target of RM1.2b. This came as the average take-up rate of its products remained strong at 86.2% as of Sep-21, with take-up rates (including bookings) of recent projects launches (Laman Sendayan 3, Tiara Sendayan, and Bayu Sutera 1) coming in at almost 100%. Inventory level has eased 24% qoq to RM116m.
- **Sales likely to exceed RM1.2b target.** We expect sales to potentially exceed its full-year target of RM1.2b. This will be underpinned by: a) over RM1b worth of projects to be launched in 2HFY22 (1HFY22: RM306m), b) strong pipeline of bookings worth RM363m (as of mid-Nov-21), and c) reopening-fuelled pent-up demand that will benefit developers that focus on affordable landed properties.

EARNINGS REVISION/RISK

- **None.** We expect strong sales and the group's efforts to crank up construction productivity to beyond 100% to result in the company seeing a strong earnings recovery in 2HFY22. Management expects rising building material costs to have a minimal impact on its margin due to its strong bargaining power with the supply chain and vendors.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM2.50**, where the stock has surged 7% since our initiation on 20 Oct 21. Our target price is based on a 35% discount to its fully-diluted RNAV/share of RM3.84. The discount to RNAV is lower than the industry's average of 55-70%, which we believe this is justifiable given Matrix's: a) resilient earning base, b) sustainable dividend yield, c) ability to generate above-industry margins and ROE, and d) below-peers gearing level. Our target price also implies a 0.98x FY23F P/B (its 5-year mean P/B), and a 7.5x FY23F PE (1SD above its 5-year mean PE of 6.5x).
- **Attractive valuation.** We believe Matrix's resilient earnings base and strong balance sheet position will pave the way for the company to maintain its 40% dividend payout policy (5-6% net dividend yield for FY22-24). On a relative basis, the stock is trading at an undemanding valuation of 6x FY23F PE, a discount to the industry's normalised average FY22 PE of 14x. In terms of P/B, the stock is trading at 0.8x for FY23, higher than the industry's average of 0.6x. We believe the higher-than-average P/B is justifiable given Matrix's relatively efficient capital recycling model.

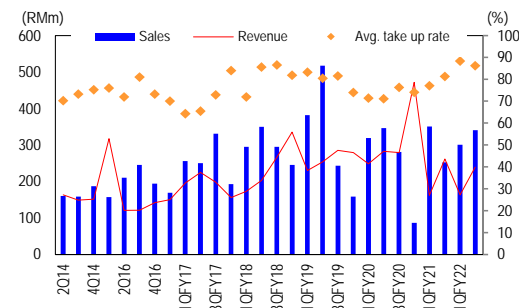
SHARE PRICE CATALYST

- **Key re-rating catalysts:** a) higher-than-expected dividend payout, b) expansion of its industrial landbanks, c) favourable government policies, and d) the success of Malaysia Vision Valley 2.0.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

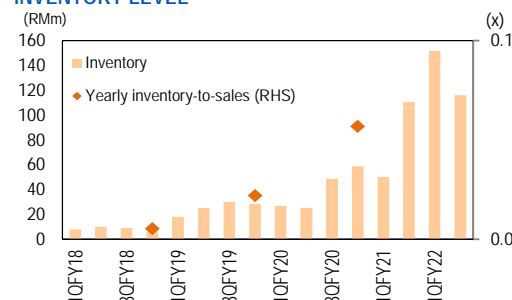
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - In FY21, Matrix's emissions from diesel and electricity fell 41.78% and 11.22% yoy. - Matrix plans to adopt renewable energy (RE) alternatives to reduce reliance on electricity from the national grid. Key initiatives include a maiden solar photovoltaic project at its 50,000-sf d'Tempat Country Club, where it generated 242,095kWh of clean energy between Nov 20-Mar 21. • Social <ul style="list-style-type: none"> - Matrix has initiated community and corporate social responsibility (CSR) projects, where it contributed RM8.4m and RM6.4m for CSR in FY20 and FY21 respectively, of which RM1m and RM325,000 were for the COVID-19 fund. - During FY21, 20,278 lunch packs were given to staff during the MCO and CMCO. • Governance <ul style="list-style-type: none"> - Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.
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HISTORICAL QUARTERLY SALES, REVENUE, TAKE-UP RATES



Sources: Matrix, UOB Kay Hian

INVENTORY LEVEL



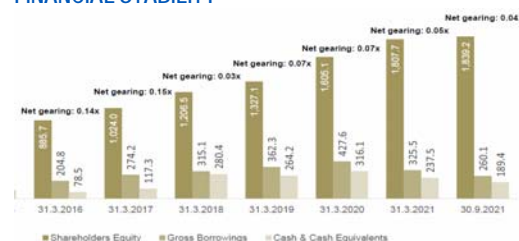
Sources: Matrix, UOB Kay Hian

RNAV CALCULATIONS FOR RM2.50/SHARE

	NPV @ avg 9% (RMm)
Seremban (BSS)	1,188
- Ongoing	26
- Future Development	606
Ongoing Acquisition	555.6
Johor (BSI)	318
- Ongoing	13
- Future Development	305
Klang Valley	152
- Ongoing	5
- Future Development	147
Others	21
Sub total	1,679
Australia	32
Jakarta	74
Total NPV	1,786
Shareholders' Funds	1,457
Proceed from Warrant Conversion	205
Total RNAV	3,447
Share Base (m)	834
Warrant (m)	64
Enlarge Share Base (m)	898
RNAV/share (RM)	3.84
Discount (%)	35%
FD Target Price (RM)	2.50

Source: Matrix, UOB Kay Hian

FINANCIAL STABILITY



Source: Matrix, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2021	2022F	2023F	2024F
Net turnover	1,128	1,200	1,228	1,339
EBITDA	367	347	374	394
Deprec. & amort.	12	13	13	13
EBIT	355	334	361	381
Associate contributions	5	6	15	15
Net interest income/(expense)	(25)	(16)	(16)	(14)
Pre-tax profit	335	324	360	382
Tax	(84)	(81)	(90)	(95)
Minorities	9	5	5	5
Net profit	260	248	275	291
Net profit (adj.)	280	248	275	291

CASH FLOW

Year to 31 Mar (RMm)	2021	2022F	2023F	2024F
Operating	84	259	281	229
Pre-tax profit	335	324	360	382
Tax	(84)	(81)	(90)	(95)
Deprec. & amort.	12	13	13	13
Associates	(5)	(6)	(15)	(15)
Working capital changes	(156)	(7)	(3)	(69)
Other operating cashflows	(19)	16	16	14
Investing	(8)	(12)	(12)	(13)
Capex (growth)	(2)	(12)	(12)	(13)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(6)	0	0	0
Financing	(137)	(113)	(123)	(128)
Dividend payments	(88)	(99)	(110)	(117)
Issue of shares	0	0	0	0
Loan repayment	(54)	2	2	3
Others/interest paid	5	(16)	(16)	(14)
Net cash inflow (outflow)	(61)	134	145	88
Beginning cash & cash equivalent	316	224	358	503
Changes due to forex impact	18	0	0	0
Ending cash & cash equivalent	224	358	503	591

BALANCE SHEET

Year to 31 Mar (RMm)	2021	2022F	2023F	2024F
Fixed assets	984	983	983	984
Other LT assets	209	215	230	245
Cash/ST investment	224	358	503	591
Other current assets	1,104	1,175	1,202	1,311
Total assets	2,520	2,730	2,917	3,129
ST debt	115	115	115	115
Other current liabilities	372	436	461	500
LT debt	215	217	220	222
Other LT liabilities	24	24	24	24
Shareholders' equity	1,805	1,954	2,119	2,294
Minority interest	(11)	(16)	(21)	(26)
Total liabilities & equity	2,520	2,730	2,917	3,129

KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	32.6	28.9	30.4	29.4
Pre-tax margin	29.7	27.0	29.4	28.5
Net margin	23.0	20.7	22.4	21.8
ROA	10.2	9.5	9.7	9.6
ROE	15.2	13.2	13.5	13.2
Net profit (adj.)	18.0	(11.4)	10.9	5.9
Leverage				
Debt to total capital	15.5	14.6	13.8	13.0
Debt to equity	18.3	17.0	15.8	14.7
Net debt/(cash) to equity	5.9	(1.3)	(7.9)	(11.0)
Interest cover (x)	14.9	22.1	24.1	28.1

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