

23 August 2024

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Temporary Hiccup In Earnings; BUY

Target Price (Return): MYR2.15 (+14%)
 Price (Market Cap): MYR1.89 (USD540m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.28m/0.70m

- **Maintain BUY and MYR2.15 TP, 14% upside with c.6% FY24F (Mar) yield.** Matrix Concepts' 1QFY25 results are slightly below estimates, mainly due to the timing of billings and, hence, revenue recognition. As its property sales and unbilled sales remain healthy, we expect earnings to pick up in the coming quarters. MCH is on track to meet its FY25 sales target of MYR1.3bn, as 1QFY25 property sales amounted to MYR321.4m. Long-term growth will be driven by developing/selling 2,382 acres of land in Malaysian Vision Valley (MVV 2.0), entrenching the company's presence in the Sendayan area.
- **1QFY25 results review.** The decline in revenue was primarily due to the timing of billings and revenue recognition (upon 20% work progress, instead of 10% at the down payment stage). However, the decrease in revenue was mitigated by a higher contribution from the education & hospitality, as well as the healthcare segments (+4% QoQ). Note: Mawar Medical Centre, which started contributing to total figures since 2HFY24, generated MYR4.3m in revenue during the quarter. Meanwhile, MCH's EBIT margin expanded to 29%, from 25% in the previous quarter, reflecting the effectiveness of ongoing cost management efforts as well as optimising sales and marketing expenses. The company is in a net cash position. Just like in 1QFY24, a 2.5 sen first interim DPS was declared.
- **Better sales in 1QFY25.** 1QFY25 property sales came up to MYR321.4m, vs MYR286.6m in 4QFY24. Projects that were launched in the previous quarters continued to see stronger sales. Eka Heights 3A is now 98%-sold (from 87% in 4QFY24), while Levia Residences in Cheras achieved a take-up rate of 61% (from 55%).
- **First land acquisition at MVV 2.0 to be completed in Oct 2024.** We expect the company's net gearing to increase to ~0.1x in 3QFY25, due to the additional borrowings (roughly MYR370m) to be undertaken for funding purposes. The impact on earnings is negligible, as interest expense will be capitalised. As management has plans to carve out about 300 acres in industrial land plots to sell, we believe the proceeds can be channelled to fund the subsequent acquisition of the 1,000-acre land (likely due in two years).
- **Forecasts.** We make no changes to our earnings forecasts. We expect earnings to pick up in the coming quarters as construction works surpass the 20% mark for most property projects. 2QFY25 should see the recognition of the disposal of an industrial property that may bring a gain of about MYR20m. Unbilled sales rose to MYR1.59bn, from MYR1.2bn as at 4QFY24.
- **Maintain TP.** Our TP is based on an unchanged 30% discount to RNAV, and with a 2% ESG premium applied, given our ESG score of 3.1 out of 4 for the company.

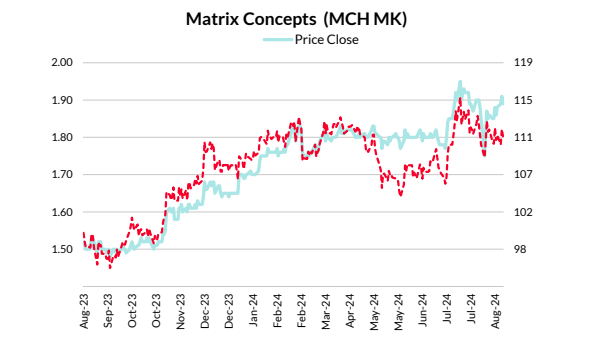
Analyst

Loong Kok Wen, CFA
 +603 2302 8116
loong.kok.wen@rhbgroup.com



Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|-----|-------|------|
| Absolute | 14.5 | (1.6) | 5.0 | 3.8 | 29.5 |
| Relative | 2.1 | (1.5) | 4.2 | (1.5) | 16.8 |
| 52-wk Price low/high (MYR) | 1.48 - 1.95 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
|---------------------------------|----------|----------|---------|---------|---------|
| Total turnover (MYRm) | 1,118 | 1,340 | 1,381 | 1,427 | 1,568 |
| Recurring net profit (MYRm) | 209 | 248 | 251 | 261 | 274 |
| Recurring net profit growth (%) | 1.7 | 19.0 | 1.3 | 3.9 | 4.9 |
| Recurring EPS (MYR) | 0.17 | 0.20 | 0.20 | 0.20 | 0.21 |
| DPS (MYR) | 0.08 | 0.10 | 0.11 | 0.11 | 0.12 |
| Recurring P/E (x) | 11.34 | 9.53 | 9.51 | 9.24 | 8.90 |
| P/B (x) | 1.18 | 1.11 | 1.06 | 1.02 | 0.98 |
| Dividend Yield (%) | 4.4 | 5.3 | 5.6 | 5.8 | 6.1 |
| Return on average equity (%) | 10.7 | 12.0 | 11.5 | 11.3 | 11.2 |
| Net debt to equity (%) | net cash | net cash | 4.5 | 3.9 | 13.3 |

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

MCH adopts various environmentally-sustainable initiatives, including recycling office and household waste and consuming renewable energy from the national power company's solar PV system.

S: EXCELLENT

It has built three public schools and numerous houses of worship for various religions. It is also a premier sponsor of the state's sports associations. MCH is also involved in various CSR programmes for cultural activities, education and community enrichment activities.

G: GOOD

56% of the Board members are independent directors, with full disclosure on remuneration, which includes salaries and bonuses on a named basis. MCH has in-house and external investor relations teams, and holds investor meetings regularly, embodying good transparency and disclosure practices.

Financial Exhibits

| | | | | | | |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (MYR) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| Malaysia | Recurring EPS | 0.17 | 0.20 | 0.20 | 0.20 | 0.21 |
| Property | EPS | 0.17 | 0.20 | 0.20 | 0.20 | 0.21 |
| Matrix Concepts | DPS | 0.08 | 0.10 | 0.11 | 0.11 | 0.12 |
| MCH MK | BVPS | 1.60 | 1.70 | 1.78 | 1.86 | 1.94 |
| Buy | Return on average equity (%) | 10.7 | 12.0 | 11.5 | 11.3 | 11.2 |
| | Return on average assets (%) | 8.0 | 9.2 | 8.5 | 8.0 | 7.9 |
| Valuation basis | | | | | | |
| 30% discount to RNAV | Valuation metrics | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Recurring P/E (x) | 11.34 | 9.53 | 9.51 | 9.24 | 8.90 |
| Key drivers | P/B (x) | 1.2 | 1.1 | 1.1 | 1.0 | 1.0 |
| i. New property and industrial land sales; | Dividend Yield (%) | 4.4 | 5.3 | 5.6 | 5.8 | 6.1 |
| ii. Landbank acquisitions | EV/EBITDA (x) | 3.43 | 3.12 | 2.79 | 2.64 | 2.54 |
| Key risks | | | | | | |
| i. Weaker-than-expected market conditions | Income statement (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Total turnover | 1,118 | 1,340 | 1,381 | 1,427 | 1,568 |
| | Gross profit | 518 | 644 | 666 | 687 | 769 |
| | EBITDA | 279 | 339 | 344 | 354 | 371 |
| | Operating profit | 279 | 339 | 344 | 354 | 371 |
| | Net interest | (7) | (5) | (5) | (1) | (1) |
| | Pre-tax profit | 273 | 334 | 340 | 353 | 370 |
| | Taxation | (69) | (86) | (88) | (92) | (96) |
| | Reported net profit | 209 | 248 | 251 | 261 | 274 |
| | Recurring net profit | 209 | 248 | 251 | 261 | 274 |
| Company Profile | | | | | | |
| 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's main focus is in developing residential and commercial properties, as well as selling industrial land. | Cash flow (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Change in working capital | 49 | (125) | 16 | (21) | (45) |
| | Cash flow from operations | 296 | 169 | 313 | 288 | 277 |
| | Capex | (2) | 0 | (450) | (120) | (350) |
| | Cash flow from investing activities | (66) | 7 | (442) | (111) | (340) |
| | Dividends paid | (70) | (103) | (125) | (133) | (140) |
| | Cash flow from financing activities | (155) | (228) | (158) | (164) | (171) |
| | Cash at beginning of period | 194 | 246 | 335 | 354 | 363 |
| | Net change in cash | 74 | (52) | (287) | 12 | (234) |
| | Ending balance cash | 268 | 193 | 49 | 367 | 129 |
| | Balance sheet (MYRm) | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Total cash and equivalents | 246 | 335 | 354 | 363 | 225 |
| | Total investments | 1,178 | 992 | 1,427 | 1,528 | 1,856 |
| | Total other assets | 71 | 79 | 69 | 59 | 49 |
| | Total assets | 2,637 | 2,743 | 3,198 | 3,335 | 3,613 |
| | Short-term debt | 123 | 60 | 70 | 70 | 70 |
| | Total long-term debt | 117 | 86 | 386 | 386 | 486 |
| | Total liabilities | 648 | 627 | 963 | 979 | 1,131 |
| | Shareholders' equity | 2,005 | 2,131 | 2,249 | 2,370 | 2,495 |
| | Minority interests | (16) | (14) | (14) | (14) | (14) |
| | Total equity | 1,989 | 2,117 | 2,235 | 2,356 | 2,481 |
| | Total liabilities & equity | 2,637 | 2,743 | 3,198 | 3,335 | 3,613 |
| | Key metrics | Mar-23 | Mar-24 | Mar-25F | Mar-26F | Mar-27F |
| | Revenue growth (%) | 26.0 | 19.9 | 3.1 | 3.3 | 9.9 |
| | Recurring net profit growth (%) | 1.7 | 19.0 | 1.3 | 3.9 | 4.9 |
| | Recurrent EPS growth (%) | (32.2) | 18.9 | 0.3 | 2.8 | 3.8 |
| | Gross margin (%) | 46.3 | 48.1 | 48.2 | 48.2 | 49.0 |
| | Recurring net profit margin (%) | 18.7 | 18.5 | 18.2 | 18.3 | 17.4 |
| | Dividend payout ratio (%) | 49.5 | 50.4 | 52.8 | 53.8 | 54.2 |

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

| FYE Mar (MYRm) | 1QFY24 | 4QFY24 | 1QFY25 | QoQ (%) | YoY (%) | Comments |
|-------------------|--------|--------|--------|---------|---------|--|
| Turnover | 331.4 | 353.1 | 279.7 | (20.8) | (15.6) | QoQ decline was mainly due to the timing of billings and, as such, the projects' revenue recognition (upon 20% work progress). |
| EBIT | 88.2 | 86.7 | 82.3 | (5.1) | (6.7) | The improvement in EBIT margin reflected the positive results from ongoing cost management efforts. |
| EBIT margin (%) | 26.6 | 24.5 | 29.4 | | | |
| Net interest | (1.3) | (0.1) | (1.0) | n.m. | n.m. | |
| Pretax profit | 87.2 | 86.9 | 81.1 | (6.7) | (7.0) | |
| Pretax margin (%) | 26.3 | 24.6 | 29.0 | | | |
| Taxation | (23.5) | (22.3) | (19.6) | (12.0) | (16.7) | |
| Tax rate (%) | 27.0 | 25.6 | 24.2 | | | |
| Minority interest | 0.9 | (4.0) | (0.8) | n.m. | n.m. | |
| Net profit | 64.6 | 60.6 | 60.7 | 0.1 | (6.1) | Within expectations. |
| Net margin (%) | 19.5 | 17.2 | 21.7 | | | |
| EPS (sen) | 5.2 | 4.8 | 4.9 | | | |
| Gross DPS (sen) | 2.5 | 2.5 | 2.5 | | | |
| NTA/share (MYR) | 1.6 | 1.7 | 1.7 | | | |

Source: Company data, RHB

Figure 2: RNAV estimate

| Projects | Remaining landbank (acres) | GDV (MYR m) | Stake | NPV @ 10% |
|---|-------------------------------|----------------|-------|-----------|
| Bandar Sri Sendayan, Negeri Sembilan | 1,724.2 | 5,866.1 | 100% | 489.0 |
| New land in Labu | 1,382.2 | 7,000.0 | 85% | 603.2 |
| MVV Parcel B | 1,000.0 | 5,000.0 | 85% | 152.2 |
| Taman Seri Impian, Kluang, Johor | 465.7 | 2,217.9 | 100% | 269.4 |
| Others | 27.7 | 156.8 | 100% | 7.3 |
| Damansara Perdana | 5.5 | 400.0 | 100% | 27.1 |
| Puchong | 5.8 | 400.0 | 100% | 28.5 |
| Cheras | 5.2 | 532.0 | 100% | 45.2 |
| St Kilda, Melbourne | 0.6 | 240.0 | 100% | 21.5 |
| Islamic Financial District, Jakarta | 8.9 | 2,044.0 | 30% | 47.1 |
| Total | | | | 1,690.7 |
| Shareholders' fund | | | | 2,107.7 |
| Warrants conversion | | | | 123.6 |
| ESOS proceeds | | | | 57.7 |
| Total RNAV | | | | 3,979.7 |
| Share base (incl. warrants and placement) | | | | 1,324.4 |
| RNAV/share | | | | 3.00 |
| Discount to RNAV | | | | 30% |
| Intrinsic value | | | | 2.10 |
| ESG premium | | | | 2% |
| Target price | | | | 2.15 |

Source: RHB

Emissions And ESG

Trend analysis

The company's Scope 3 emissions are calculated from the commute of its employees to work, the disclosure on ESG KPIs and targets, as well as from specifications from the Taskforce on Climate Related Disclosures framework.

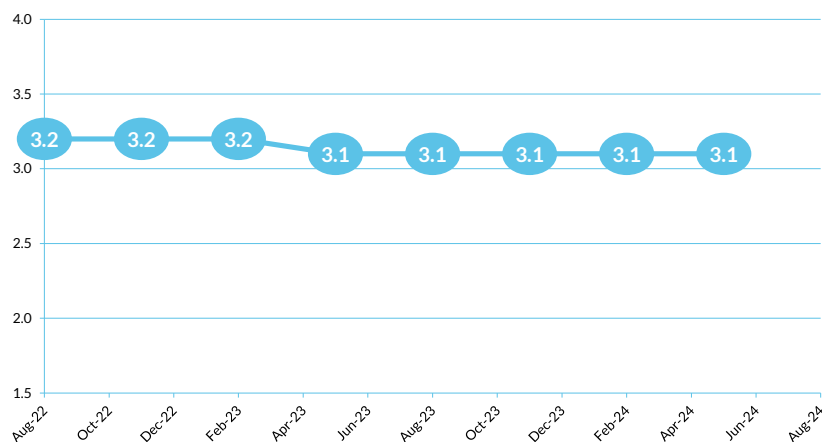
| Emissions (tCO2e) | Mar-22 | Mar-23 | Mar-24 |
|-------------------|--------|---------|--------|
| Scope 1 | 601 | 428 | na |
| Scope 2 | 4,210 | 4,373 | na |
| Scope 3 | na | 136,639 | na |
| Total emissions | 4,811 | 141,440 | na |

Source: Company data, RHB

Latest ESG-Related Developments

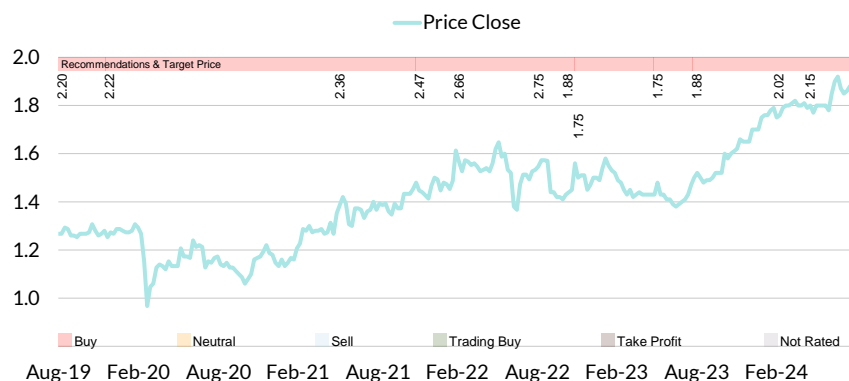
- The company has been upgraded to a 4-star rating by FTSE Russell - Top 25% ESG ratings amongst public-listed companies in FBM EMAS.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-06-19 | Buy | 2.15 | 1.81 |
| 2024-05-27 | Buy | 2.02 | 1.79 |
| 2024-02-25 | Buy | 2.02 | 1.79 |
| 2023-11-23 | Buy | 1.88 | 1.62 |
| 2023-08-22 | Buy | 1.88 | 1.49 |
| 2023-05-24 | Buy | 1.75 | 1.44 |
| 2023-05-11 | Buy | 1.75 | 1.43 |
| 2022-11-23 | Buy | 1.75 | 1.49 |
| 2022-10-30 | Buy | 1.88 | 1.41 |
| 2022-08-25 | Buy | 2.75 | 1.55 |
| 2022-08-23 | Buy | 2.66 | 1.53 |
| 2022-05-25 | Buy | 2.66 | 1.62 |
| 2022-02-23 | Buy | 2.66 | 1.55 |
| 2021-11-25 | Buy | 2.47 | 1.47 |
| 2021-08-25 | Buy | 2.36 | 1.37 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
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| Not Rated: | Stock is not within regular research coverage |

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470