

26 February 2021

Property | Real Estate

## Matrix Concepts (MCH MK)

**Buy** (Maintained)

**Growth Prospect Remained Intact; Keep BUY**

Target Price (Return): MYR2.22 (23.3%)  
 Price: MYR1.80  
 Market Cap: USD372m  
 Avg Daily Turnover (MYR/USD) 0.77m/0.19m

- Maintain BUY and MYR2.22 TP, with 23% upside and c.6% yield.** Matrix Concepts' 3QFY21 (Mar) results beat expectations. Construction activities for all property projects have already normalised. We expect the company to hit its MYR1.0bn sales target as 9M new sales already reached MYR865.3m. Supported by a healthy balance sheet, Matrix has consistently been keeping its 40% dividend payout. We like the company for its stable cash flow, consistent earnings delivery, and >6% dividend yield.

- 3QFY21 results.** Sequential turnover continued to grow as construction works for all property projects have normalised since the lockdown in 2Q20. The quarter saw a MYR4.0m share of JV income, due to the interest income from the unutilised fund in Matrix's JV company in Indonesia. EBIT margin has also expanded roughly by 2% as construction for selective township projects has passed the initial stage and new phases in some townships are now selling slightly higher-priced products. A 3 sen single-tier third interim dividend was declared.

- Sales momentum continues.** Property sales momentum remained encouraging as Matrix relied more on virtual platforms and social media to engage with potential property buyers. New sales achieved MYR263.2m vs MYR251.8m in 2QFY21. 9M new sales of MYR865.3m is on track to meet management's MYR1.0bn sales target for the year. Affordably-priced products are in demand, with newly launched Tiara Sendayan 4 (precinct 3) hitting 82% take-up. Other projects such as Ara Sendayan Phase 2 (Precinct 2) is now 78% sold (vs 67% in 2Q). New phase Laman Sendayan 2 is now 18% sold, and we expect the take-up rate to increase more significantly in the coming quarter.

- More affordable housing products in the pipeline.** In 4QFY21, the company has lined up MYR250m worth of new projects. These include Tiara Sendayan 7 (GDV: MYR129m) and Nusari Bayu 2 (GDV: MYR96m), which feature low to mid-ranged property products.

- Forecasts.** In view of the better profit margins and 9M results, we raise our FY21-23 earnings forecasts by 6-8%. We are upbeat with the company's performance as earnings growth remained intact despite the COVID-19 pandemic and lockdown, thanks to its versatile township products. As construction activities accelerated, unbilled sales declined to MYR963m vs MYR1.07bn as at 2QFY21.

- Maintain TP.** Our TP is based on an unchanged 35% discount to RNAV.

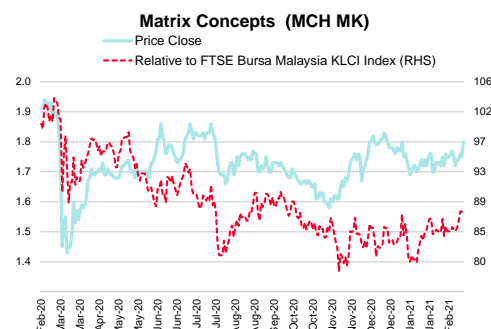
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### Share Performance (%)

|                            | YTD | 1m  | 3m  | 6m   | 12m    |
|----------------------------|-----|-----|-----|------|--------|
| Absolute                   | 1.7 | 4.7 | 3.4 | 2.9  | (5.8)  |
| Relative                   | 6.0 | 5.9 | 5.9 | 2.7  | (9.6)  |
| 52-wk Price low/high (MYR) |     |     |     | 1.43 | – 1.94 |



Source: Bloomberg

### Overall ESG Score: 3.2 (out of 4)

#### E: Good

Matrix adopts various environmentally-sustainable initiatives, including recycling office and household waste and consuming renewable energy from TNB's solar PV system.

#### S: Excellent

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

#### G: Good

56% of Matrix's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. Matrix has both in-house and external investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

| Forecasts and Valuation         | Mar-19 | Mar-20 | Mar-21F | Mar-22F | Mar-23F  |
|---------------------------------|--------|--------|---------|---------|----------|
| Total turnover (MYRm)           | 1,048  | 1,282  | 1,163   | 1,174   | 1,243    |
| Recurring net profit (MYRm)     | 218    | 232    | 248     | 253     | 261      |
| Recurring net profit growth (%) | 2.7    | 6.5    | 7.3     | 2.0     | 3.0      |
| Recurring EPS (MYR)             | 0.29   | 0.29   | 0.30    | 0.30    | 0.31     |
| DPS (MYR)                       | 0.13   | 0.12   | 0.11    | 0.12    | 0.12     |
| Recurring P/E (x)               | 6.24   | 6.24   | 5.99    | 5.96    | 5.85     |
| P/B (x)                         | 1.02   | 0.90   | 0.84    | 0.78    | 0.73     |
| Dividend Yield (%)              | 7.1    | 6.4    | 6.1     | 6.4     | 6.7      |
| Return on average equity (%)    | 17.2   | 15.8   | 14.7    | 13.7    | 13.0     |
| Net debt to equity (%)          | 8.0    | 7.3    | 1.7     | 2.4     | net cash |

Source: Company data, RHB

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## Financial Exhibits

| Asia   | Financial summary (MYR)             | Mar-19        | Mar-20        | Mar-21F        | Mar-22F        | Mar-23F        |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Malaysia   | Recurring EPS                       | 0.29          | 0.29          | 0.30           | 0.30           | 0.31           |
| Property   | EPS                                 | 0.29          | 0.29          | 0.30           | 0.30           | 0.31           |
| <b>Matrix Concepts</b>   | DPS                                 | 0.13          | 0.12          | 0.11           | 0.12           | 0.12           |
| MCH MK   | BVPS                                | 1.76          | 2.01          | 2.14           | 2.30           | 2.46           |
| Buy  | Return on average equity (%)        | 17.2          | 15.8          | 14.7           | 13.7           | 13.0           |
|  | Return on average assets (%)        | 11.6          | 10.5          | 10.1           | 9.7            | 9.3            |
| <b>Valuation basis</b>   |                                     |               |               |                |                |                |
| 35% discount to RNAV   |                                     |               |               |                |                |                |
| <b>Key drivers</b>   | <b>Valuation metrics</b>            | <b>Mar-19</b> | <b>Mar-20</b> | <b>Mar-21F</b> | <b>Mar-22F</b> | <b>Mar-23F</b> |
| New property and industrial land sales, landbank acquisitions  | Recurring P/E (x)                   | 6.24          | 6.24          | 5.99           | 5.96           | 5.85           |
|  | P/B (x)                             | 1.0           | 0.9           | 0.8            | 0.8            | 0.7            |
|  | Dividend Yield (%)                  | 7.1           | 6.4           | 6.1            | 6.4            | 6.7            |
|  | EV/EBITDA (x)                       | 1.55          | 1.57          | 1.32           | 1.23           | 1.10           |
| <b>Key risks</b>   | <b>Income statement (MYRm)</b>      | <b>Mar-19</b> | <b>Mar-20</b> | <b>Mar-21F</b> | <b>Mar-22F</b> | <b>Mar-23F</b> |
| Weaker-than-expected market conditions   | Total turnover                      | 1,048         | 1,282         | 1,163          | 1,174          | 1,243          |
|  | Gross profit                        | 508           | 590           | 572            | 580            | 601            |
|  | EBITDA                              | 299           | 341           | 348            | 355            | 366            |
|  | Operating profit                    | 299           | 341           | 348            | 355            | 366            |
|  | Net interest                        | (2)           | (2)           | (8)            | (8)            | (8)            |
|  | Pre-tax profit                      | 298           | 339           | 340            | 347            | 358            |
|  | Taxation                            | (80)          | (107)         | (92)           | (94)           | (97)           |
|  | Reported net profit                 | 218           | 232           | 248            | 253            | 261            |
|  | Recurring net profit                | 218           | 232           | 248            | 253            | 261            |
| <b>Company Profile</b>   | <b>Cash flow (MYRm)</b>             | <b>Mar-19</b> | <b>Mar-20</b> | <b>Mar-21F</b> | <b>Mar-22F</b> | <b>Mar-23F</b> |
| 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 concentrates mainly in developing residential and commercial properties, as well as industrial land sale | Change in working capital           | (3)           | (132)         | 43             | (5)            | (16)           |
|  | Cash flow from operations           | 255           | 141           | 334            | 291            | 289            |
|  | Capex                               | (166)         | (20)          | (380)          | (150)          | (50)           |
|  | Cash flow from investing activities | (184)         | (17)          | (406)          | (175)          | (74)           |
|  | Dividends paid                      | (86)          | (96)          | (92)           | (91)           | (97)           |
|  | Cash flow from financing activities | (74)          | 52            | (129)          | (127)          | (131)          |
|  | Cash at beginning of period         | 277           | 257           | 281            | 369            | 353            |
|  | Net change in cash                  | (3)           | 176           | (201)          | (10)           | 84             |
|  | Ending balance cash                 | 274           | 433           | 80             | 359            | 437            |
|  | <b>Balance sheet (MYRm)</b>         | <b>Mar-19</b> | <b>Mar-20</b> | <b>Mar-21F</b> | <b>Mar-22F</b> | <b>Mar-23F</b> |
|  | Total cash and equivalents          | 257           | 281           | 369            | 353            | 440            |
|  | Total investments                   | 977           | 1,147         | 1,260          | 1,427          | 1,494          |
|  | Total other assets                  | 23            | 19            | 19             | 19             | 19             |
|  | Total assets                        | 2,021         | 2,402         | 2,541          | 2,701          | 2,889          |
|  | Short-term debt                     | 161           | 135           | 145            | 155            | 165            |
|  | Total long-term debt                | 202           | 263           | 253            | 243            | 243            |
|  | Total liabilities                   | 694           | 789           | 770            | 773            | 802            |
|  | Shareholders' equity                | 1,326         | 1,615         | 1,772          | 1,929          | 2,089          |
|  | Minority interests                  | 1             | (2)           | (2)            | (2)            | (2)            |
|  | Total equity                        | 1,327         | 1,613         | 1,771          | 1,928          | 2,087          |
|  | Total liabilities & equity          | 2,021         | 2,402         | 2,541          | 2,701          | 2,889          |
|  | <b>Key metrics</b>                  | <b>Mar-19</b> | <b>Mar-20</b> | <b>Mar-21F</b> | <b>Mar-22F</b> | <b>Mar-23F</b> |
|  | Revenue growth (%)                  | 29.0          | 22.4          | (9.3)          | 1.0            | 5.8            |
|  | Recurring net profit growth (%)     | 2.7           | 6.5           | 7.3            | 2.0            | 3.0            |
|  | Recurrent EPS growth (%)            | (9.3)         | 0.0           | 4.1            | 0.5            | 2.0            |
|  | Gross margin (%)                    | 48.4          | 46.0          | 49.1           | 49.4           | 48.3           |
|  | Recurring net profit margin (%)     | 20.8          | 18.1          | 21.4           | 21.6           | 21.0           |
|  | Dividend payout ratio (%)           | 44.2          | 39.9          | 36.6           | 38.1           | 39.0           |

Source: Company data, RHB

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## Results At a Glance

Figure 1: Quarterly results

| FYE Mar (MYRm)    | 3QFY20 | 2QFY21 | 3QFY21 | QoQ (%) | YoY (%) | 9MFY20 | 9MFY21 | YoY (%) | Comments   |
|-------------------|--------|--------|--------|---------|---------|--------|--------|---------|--|
| Turnover          | 279.0  | 262.0  | 315.4  | 20.4    | 13.1    | 810.2  | 739.4  | (8.7)   | The sequential increase in revenue was largely due to the normalisation of construction activities post lock down in 2Q20. |
| EBIT              | 91.9   | 102.6  | 90.6   | (11.7)  | (1.4)   | 245.2  | 236.1  |         |  |
| EBIT margin (%)   | 32.9   | 39.2   | 28.7   |         |         | 30.3   | 31.9   |         |  |
| Net interest      | (0.5)  | (0.0)  | (0.1)  | 115.0   | (82.6)  | (1.4)  | (0.3)  | (80.6)  |  |
| Pretax profit     | 91.4   | 102.6  | 94.5   | (7.9)   | 3.5     | 243.8  | 239.8  | (1.6)   |  |
| Pretax margin (%) | 32.7   | 39.2   | 30.0   |         |         | 30.1   | 32.4   |         |  |
| Taxation          | (26.0) | (29.1) | (20.5) | (29.5)  | (21.1)  | (65.2) | (62.5) | (4.1)   |  |
| Tax rate (%)      | 28.5   | 28.4   | 21.7   |         |         | 26.7   | 26.1   |         |  |
| Minority interest | 0.0    | 1.6    | 1.4    | n.m.    | n.m.    | 0.0    | 4.1    |         |  |
| Net profit        | 65.3   | 75.1   | 75.3   | 0.4     | 15.3    | 178.6  | 181.5  | 1.6     | Above expectations   |
| Net margin (%)    | 23.4   | 28.6   | 23.9   |         |         | 22.0   | 24.5   |         |  |
| EPS (sen)         | 7.9    | 9.0    | 9.0    |         |         | 22.4   | 21.8   |         |  |
| Gross DPS (sen)   | 3.0    | 3.0    | 3.0    |         |         | 9.0    | 8.0    |         |  |
| NTA/share (MYR)   | 1.9    | 2.0    | 2.1    |         |         | 1.9    | 2.1    |         |  |

Source: Company data, RHB

Figure 2: RNAV estimate

| Projects                             | Remaining landbank (acres) | GDV (MYR m) | Stake | NPV @ 9% |
|--------------------------------------|----------------------------|-------------|-------|----------|
| Bandar Sri Sendayan, Negeri Sembilan | 657.0                      | 4,233.4     | 100%  | 299.2    |
| Irama Sendayan                       | 65.8                       | 420.0       | 100%  | 41.9     |
| Kiara Sendayan                       | 237                        | 850.0       | 100%  | 80.4     |
| Tiara Sendayan (Kota Gadong Perdana) | 220.49                     | 1,223.0     | 100%  | 121.1    |
| Ara Sendayan (Rasah Kemayan land)    | 30.5                       | 85.1        | 100%  | 12.4     |
| Laman Sendayan                       | 95                         | 275.0       | 100%  | 38.3     |
| Taman Seri Impian, Kluang, Johor     | 465.7                      | 2,223.3     | 100%  | 254.9    |
| Others                               | 27.7                       | 156.8       | 100%  | 6.9      |
| Chambers KL                          | 1.1                        | 400.0       | 100%  | 32.3     |
| Damansara Perdana                    | 5.5                        | 400.0       | 100%  | 22.0     |
| Puchong                              | 5.8                        | 400.0       | 100%  | 21.7     |
| Cheras                               | 5.2                        | 400.0       | 100%  | 22.5     |
| Greenvale, Melbourne                 | n.a.                       | 94.5        | 100%  | 8.6      |
| Islamic Financial District, Jakarta  | 8.9                        | 2,044.0     | 30%   | 49.0     |

|   | Remaining landbank (acres) | Market price (MYR psf) | BV (MYR psf) | Net surplus |
|---|----------------------------|------------------------|--------------|-------------|
| Sendayan TechValley 1 & 2                       | 52                         | 45                     | 10           | 59.5        |
| Sendayan TechValley 3                           | 85                         | 45                     | 15           | 83.3        |
| Total   |                            |                        |              | 1,153.8     |
| Shareholders' fund                              |                            |                        |              | 1,615.0     |
| Warrants conversion (exercice price at MYR1.92) |                            |                        |              | 123.6       |
| ESOS proceeds                                   |                            |                        |              | 57.7        |
| Placement proceeds                              |                            |                        |              | 147.0       |
| Total RNAV                                      |                            |                        |              | 3,097.1     |
| Share base (incl. warrants and placement)       |                            |                        |              | 907.3       |
| RNAV/share                                      |                            |                        |              | 3.41        |
| Discount  |                            |                        |              | 35%         |
| Target price                                    |                            |                        |              | 2.22        |

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2019-12-16 | Buy            | 2.22         | 1.92  |
| 2019-08-30 | Buy            | 2.20         | 1.90  |
| 2019-06-03 | Buy            | 2.42         | 1.97  |
| 2019-03-13 | Buy            | 2.35         | 1.95  |
| 2018-08-28 | Buy            | 2.40         | 2.10  |
| 2018-05-24 | Buy            | na           | 1.93  |

Source: RHB, Bloomberg

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|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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