

27 May 2021

Property | Real Estate

## Matrix Concepts (MCH MK)

**Buy** (Maintained)

Maintains MYR1.2bn Sales Target For FY22; BUY

Target Price (Return):	MYR2.36 (+20%)
Price:	MYR1.96
Market Cap:	USD395m
Avg Daily Turnover (MYR/USD)	1.46m/0.35m

- **Maintain BUY with new MYR2.36 TP from MYR2.22, 20% upside and c.6% yield.** Matrix Concepts' 4QFY21 (Mar) results beat expectations despite the impact of Malaysian Financial Reporting Standards (MFRS) 123. Full-year property sales achieved MYR1.2bn as expected, and management maintains its FY22 sales target. Balance sheet remains solid with only 0.06x net gearing, while FY21 DPS of 12 sen offers investors an attractive dividend yield of c.6%.

- **4QFY21 results.** Sequential growth in turnover was largely driven by higher progress billings and sale of industrial properties worth MYR33.3m during the quarter. Meanwhile, interest expense was much higher in 4QFY21, mainly due to the adoption of MFRS 123, whereby borrowing costs after a project is launched are charged out as interest expense instead of cost of sales. The quarter also saw MYR8.4m impairment of assets associated with the acquisition of land parcels that has yet to be completed. A 4 sen single-tier fourth interim dividend was declared, bringing full year DPS to 12 sen (vs 11.5 sen in FY20).

- **MYR1.2bn property sales in FY21.** 4QFY21 property sales hit MYR342.2m vs MYR263.2m in 3QFY21. Full-year new sales amounted to MYR1.21bn when compared to MYR1.04bn in FY20. Many recently launched projects saw encouraging demand, as take-up rates for Laman Sendayan 2 achieved 53% from 18% in 3QFY21, while Nasuri Bayu 2 and Tiara Sendayan 8 were 43% and 39% sold. The company's M Greenvale project (GDV: AUD27.8m) in Melbourne – featuring residential land lots – was fully sold as at 31 Mar. The next project in St Kilda (a mixed development worth AUD80m) is slated for launch this year.

- **Maintain MYR1.2bn sales target for FY22.** Management aims to achieve another MYR1.2bn in property sales in FY22. This is on the back of MYR1.6bn worth of new launches. Pipeline projects include different new phases in existing townships, eg Laman Sendayan, Hijayu Residence, Tiara Sendayan, and Bayu Sutera. The Cheras project that has a GDV of MYR375m may also be launched towards end FY22.

- **Forecasts.** We make minor adjustments to our FY22F-23F earnings after we update the latest financial numbers. Management also guided that construction progress will unlikely be affected in this MCO 3.0, as the density of workers at construction sites is quite low, given that the company's projects are predominantly township developments. Unbilled sales inched up slightly to MYR1.02bn from MYR963m as at 3QFY21.

- **Higher TP.** Our TP is based on an unchanged 35% discount to RNAV, after we update our RNAV estimate to reflect the latest financial numbers.

### Analyst

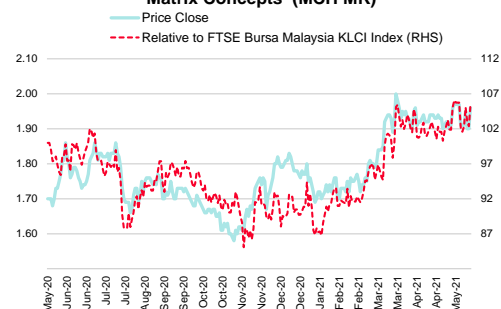
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.7	1.6	8.9	12.6	15.3
Relative	13.7	3.5	9.1	13.8	5.5
52-wk Price low/high (MYR)					1.58 – 2.00

### Matrix Concepts (MCH MK)



Source: Bloomberg

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

#### E: Good

Matrix Concepts adopts various environmentally-sustainable initiatives, including recycling office and household waste and consuming renewal energy from Tenaga Nasional's solar photovoltaic system.

#### S: Excellent

Matrix Concepts 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 programmes for cultural activities, education, and community enrichment activities.

#### G: Good

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

#### Note:

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

Forecasts and Valuation	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Total turnover (MYRm)	1,282	1,128	1,174	1,203	1,310
Recurring net profit (MYRm)	232	260	264	266	284
Recurring net profit growth (%)	6.5	12.2	1.6	0.9	6.5
Recurring EPS (MYR)	0.29	0.31	0.31	0.31	0.33
DPS (MYR)	0.12	0.12	0.13	0.13	0.13
Recurring P/E (x)	6.80	6.24	6.23	6.24	5.91
P/B (x)	0.97	0.90	0.84	0.78	0.73
Dividend Yield (%)	5.9	6.1	6.4	6.4	6.6
Return on average equity (%)	15.8	15.2	14.0	13.0	12.8
Net debt to equity (%)	7.3	5.9	5.9	1.2	0.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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## Financial Exhibits

Asia	Financial summary (MYR)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Malaysia	Recurring EPS	0.29	0.31	0.31	0.31	0.33
Property	EPS	0.29	0.31	0.31	0.31	0.33
<b>Matrix Concepts</b>	DPS	0.12	0.12	0.13	0.13	0.13
MCH MK	BVPS	2.01	2.18	2.34	2.51	2.68
Buy	Return on average equity (%)	15.8	15.2	14.0	13.0	12.8
	Return on average assets (%)	10.5	10.6	10.2	9.7	9.7
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
35% discount to RNAV	Recurring P/E (x)	6.80	6.24	6.23	6.24	5.91
	P/B (x)	1.0	0.9	0.8	0.8	0.7
<b>Key drivers</b>	Dividend Yield (%)	5.9	6.1	6.4	6.4	6.6
i. New property and industrial land sales;	EV/EBITDA (x)	1.68	2.00	1.95	1.78	1.66
ii. Landbank acquisitions.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Weaker-than-expected market conditions.	Total turnover	1,282	1,128	1,174	1,203	1,310
	Gross profit	590	583	596	601	642
	EBITDA	341	355	373	376	400
	Operating profit	341	355	373	376	400
	Net interest	(2)	(25)	(17)	(16)	(16)
	Pre-tax profit	339	335	357	360	384
	Taxation	(107)	(84)	(93)	(94)	(100)
	Reported net profit	232	260	264	266	284
	Recurring net profit	232	260	264	266	284
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</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 sales.	Change in working capital	(132)	(167)	(68)	(3)	(56)
	Cash flow from operations	141	121	239	308	273
	Capex	(304)	0	(80)	(50)	(80)
	Cash flow from investing activities	(301)	1	(105)	(74)	(103)
	Dividends paid	(96)	(92)	(99)	(105)	(106)
	Cash flow from financing activities	52	(168)	(135)	(140)	(140)
	Cash at beginning of period	257	281	224	216	315
	Net change in cash	(108)	(46)	(1)	94	30
	Ending balance cash	148	235	223	310	345
	<b>Balance sheet (MYRm)</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
	Total cash and equivalents	281	224	216	315	344
	Total investments	1,147	1,118	1,217	1,286	1,384
	Total other assets	19	74	74	74	74
	Total assets	2,402	2,520	2,657	2,835	3,047
	Short-term debt	135	115	125	135	145
	Total long-term debt	263	215	205	205	205
	Total liabilities	789	726	704	722	761
	Shareholders' equity	1,615	1,805	1,964	2,124	2,297
	Minority interests	(2)	(11)	(11)	(11)	(11)
	Total equity	1,613	1,794	1,953	2,113	2,286
	Total liabilities & equity	2,402	2,520	2,657	2,835	3,047
	<b>Key metrics</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
	Revenue growth (%)	22.4	(12.1)	4.1	2.4	8.9
	Recurring net profit growth (%)	6.5	12.2	1.6	0.9	6.5
	Recurrent EPS growth (%)	0.0	8.9	0.1	(0.1)	5.5
	Gross margin (%)	46.0	51.7	50.7	50.0	49.0
	Recurring net profit margin (%)	18.1	23.0	22.5	22.2	21.7
	Dividend payout ratio (%)	39.9	38.2	39.7	39.8	39.2

Source: Company data, RHB

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## Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Turnover	472.1	315.4	388.2	23.1	(17.8)	1282.3	1127.7	(12.1)	The increase in revenue was mainly due to higher progress billings from ongoing projects, as well as a MYR33m sale of industrial properties in 4QFY21.
EBIT	95.7	90.6	119.1	31.4	24.4	340.9	355.2		
EBIT margin (%)	20.3	28.7	30.7			26.6	31.5		
Net interest	(0.5)	(0.1)	(24.4)	n.m.	n.m.	(1.9)	(24.7)	1192.0	The higher interest expense is due to the adoption of MFRS 123, as financing costs for launched projects can no longer be capitalised.
Pretax profit	95.2	94.5	95.2	0.7	(0.0)	339.0	335.1	(1.2)	PBT was affected by MYR8.4m impairment of assets arising from land acquisitions that have yet to be completed.
Pretax margin (%)	20.2	30.0	24.5			26.4	29.7		
Taxation	(42.3)	(20.5)	(21.8)	6.0	(48.5)	(107.5)	(84.3)	(21.6)	
Tax rate (%)	44.4	21.7	22.9			31.7	25.1		
Minority interest	2.7	1.4	5.0	n.m.	n.m.	2.7	9.1		
Net profit	55.6	75.3	78.5	4.2	41.2	234.2	259.9	11.0	Above expectations.
Net margin (%)	11.8	23.9	20.2			18.3	23.0		
EPS (sen)	6.7	9.0	9.4			29.2	31.2		
Gross DPS (sen)	2.5	3.0	4.0			11.5	12.0		
NTA/share (MYR)	1.9	2.1	2.2			1.9	2.2		

Source: Company data, RHB

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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	375.0	100%	21.1
Greenvale, Melbourne	9.7	79.0	100%	7.2
St Kilda, Melbourne	0.6	240.0	100%	16.9
Islamic Financial District, Jakarta	8.9	2,044.0	30%	49.0

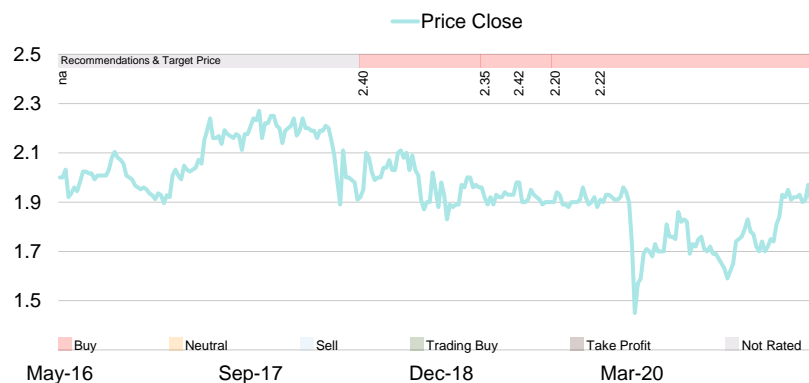
	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley 1 & 2	52	45	10	59.5
Sendayan TechValley 3	85	45	15	83.3

Total	1,167.9
Shareholders' fund	1,804.8
Warrants conversion (exercice price at MYR1.92)	123.6
ESOS proceeds	57.7
Placement proceeds	147.0
Total RNAV	3,301.1
Share base (incl. warrants and placement)	907.3
RNAV/share	3.64
Discount	35%
Target price	2.36

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

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
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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