

26 August 2021

Property | Real Estate

# Matrix Concepts (MCH MK)

**Buy** (Maintained)

## Higher Payout From Solid Balance Sheet; Still BUY

Target Price (Return): MYR2.36 (+15%)  
 Price: MYR2.05  
 Market Cap: USD405m  
 Avg Daily Turnover (MYR/USD) 1.50m/0.35m

- **Maintain BUY and MYR2.36 TP, 15% upside and c.6% yield.** Matrix Concepts' 1QFY22 (Mar) results missed expectations. Revenue and earnings were mainly affected by the full lockdown starting June. With MYR300m new sales in 1Q and about MYR400m worth of bookings in hand, management's MYR1.2bn sales target looks achievable. Despite the weak earnings, a 2 sen dividend was declared, largely supported by its solid balance sheet, with only 4% net gearing and healthy cash flow.
- **1QFY22 results.** Turnover was largely flat YoY, mainly because of the impact of full lockdown since June this year. Billings were affected due to the temporary halt in construction activities. Meanwhile, administrative, selling and marketing expenses fell 12% collectively, as the company broadened its sales channel through more active use of various digital platforms for its marketing activities. As such, PBT margin remained healthy, hovering around 26%. Despite the weak results, a 2 sen single-tier first interim dividend was declared (same as 1QFY21), representing a payout ratio of 53%
- **Healthy property sales in 1QFY22.** New property sales reached MYR300.9m vs MYR342.2m in 4QFY21. Demand for landed mid-range housing remained encouraging, with Tiara Sendayan 8 achieving 95% take-up (from 39% in the previous quarter). New phases such as Laman Sendayan 2 and Nasuri Bayu 2 are already 92% and 95% sold (vs 53% and 43% in 4QFY21). Meanwhile, the M. Greenvale project (GDV: MYR79m) in Melbourne, featuring residential land lots, were fully sold as at 31 Mar 2021 and will be handed over by Feb-Mar next year.
- **Maintain MYR1.2bn sales target.** As some launches were delayed, management plans to ramp up its launches in the remaining quarters worth MYR1.6bn. These are mainly the new phases in existing townships in Sendayan and Kluang, as well as the maiden launch of the Cheras project with a GDV of MYR375m. As for the Islamic Financial Towers project in Jakarta, construction progress has reached 25% and is on track for completion in 4QFY23F.
- **Forecasts.** We cut our FY22F-23F earnings by 3-6%, due to the delay in launches as well as expected slow resumption of construction activities at the initial stages – Negeri Sembilan will move to Phase 2 of the National Recovery Plan tomorrow. We understand that about 80% and 95% of Matrix's construction workers and office staff are fully vaccinated currently. Unbilled sales remained relatively unchanged at MYR1.04bn (vs MYR1.02bn as at 4QFY21).
- **Maintain TP.** Our TP is based on an unchanged 35% discount to RNAV.

### Analyst

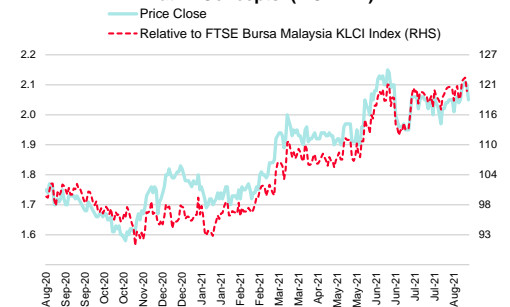
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.8	0.0	4.6	13.9	17.1
Relative	20.3	(2.0)	6.2	15.7	17.2
52-wk Price low/high (MYR)					1.58 – 2.15

### Matrix Concepts (MCH MK)



Source: Bloomberg

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

#### E: Good

MCH adopts various environmentally sustainable initiatives, including recycling office and household waste and consuming renewable energy from Tenaga Nasional's solar PV system.

#### S: Excellent

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

#### G: Good

56% of its board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. MCH has an in-house as well as 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 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	1,090	1,095	1,138
Recurring net profit (MYRm)	232	260	234	248	264
Recurring net profit growth (%)	6.5	12.2	(10.1)	6.0	6.4
Recurring EPS (MYR)	0.29	0.31	0.28	0.29	0.31
DPS (MYR)	0.12	0.12	0.12	0.13	0.13
Recurring P/E (x)	7.11	6.52	7.37	7.01	6.66
P/B (x)	1.02	0.94	0.89	0.84	0.79
Dividend Yield (%)	5.6	5.9	5.9	6.1	6.3
Return on average equity (%)	15.8	15.2	12.5	12.3	12.2
Net debt to equity (%)	7.3	5.9	4.2	net cash	net cash

Source: Company data, RHB

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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	0.28	0.29	0.31
Property	EPS	0.29	0.31	0.28	0.29	0.31
<b>Matrix Concepts</b>	DPS	0.12	0.12	0.12	0.13	0.13
MCH MK	BVPS	2.01	2.18	2.31	2.45	2.61
Buy	Return on average equity (%)	15.8	15.2	12.5	12.3	12.2
	Return on average assets (%)	10.5	10.6	9.1	9.2	9.3
<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)	7.11	6.52	7.37	7.01	6.66
	P/B (x)	1.0	0.9	0.9	0.8	0.8
	Dividend Yield (%)	5.6	5.9	5.9	6.1	6.3
	EV/EBITDA (x)	1.65	2.01	2.06	1.77	1.57
<b>Key drivers</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>
i. New property and industrial land sales;	Total turnover	1,282	1,128	1,090	1,095	1,138
ii. Landbank acquisitions	Gross profit	590	583	549	564	593
	EBITDA	341	355	332	351	372
	Operating profit	341	355	332	351	372
	Net interest	(2)	(25)	(17)	(16)	(16)
	Pre-tax profit	339	335	316	335	356
	Taxation	(107)	(84)	(82)	(87)	(93)
	Reported net profit	232	260	234	248	264
	Recurring net profit	232	260	234	248	264
<b>Key risks</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>
Weaker-than-expected market conditions	Change in working capital	(132)	(167)	(9)	12	(14)
	Cash flow from operations	141	121	268	305	294
	Capex	(304)	0	(80)	(50)	(80)
	Cash flow from investing activities	(301)	1	(105)	(74)	(103)
	Dividends paid	(96)	(92)	(99)	(101)	(106)
	Cash flow from financing activities	52	(168)	(135)	(135)	(140)
	Cash at beginning of period	257	281	224	250	347
	Net change in cash	(108)	(46)	28	95	52
	Ending balance cash	148	235	252	345	399
<b>Company Profile</b>	<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>
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	Total cash and equivalents	281	224	250	347	398
	Total investments	1,147	1,118	1,216	1,284	1,380
	Total other assets	19	74	74	74	74
	Total assets	2,402	2,520	2,607	2,761	2,935
	Short-term debt	135	115	125	135	145
	Total long-term debt	263	215	205	205	205
	Total liabilities	789	726	681	692	714
	Shareholders' equity	1,615	1,805	1,938	2,080	2,232
	Minority interests	(2)	(11)	(11)	(11)	(11)
	Total equity	1,613	1,794	1,927	2,068	2,221
	Total liabilities & equity	2,402	2,520	2,607	2,761	2,935
	<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)	(3.3)	0.4	4.0
	Recurring net profit growth (%)	6.5	12.2	(10.1)	6.0	6.4
	Recurrent EPS growth (%)	0.0	8.9	(11.4)	5.0	5.3
	Gross margin (%)	46.0	51.7	50.4	51.5	52.1
	Recurring net profit margin (%)	18.1	23.0	21.4	22.6	23.2
	Dividend payout ratio (%)	39.9	38.2	43.1	42.8	42.2

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)	Comments
<b>Turnover</b>	<b>162.0</b>	<b>388.2</b>	<b>163.4</b>	<b>(57.9)</b>	<b>0.9</b>	89.5% of the revenue was derived from the residential segment, while the balance is from industrial properties and investment properties.
EBIT	42.9	119.1	42.8	(64.1)	(0.2)	
EBIT margin (%)	26.5	30.7	26.2			
Net interest	(0.2)	(24.4)	(0.8)	n.m.	n.m.	The higher interest expense in 4QFY21 was due to the adoption of MFRS 123, as financing costs for launched projects can no longer be capitalised.
<b>Pretax profit</b>	<b>42.7</b>	<b>95.2</b>	<b>42.7</b>	<b>(55.2)</b>	<b>(0.1)</b>	PBT in 4QFY21 was affected by MYR8.4m impairment of assets arising from land acquisitions that have yet to be completed.
Pretax margin (%)	26.4	24.5	26.1			
Taxation	(12.8)	(21.8)	(12.2)	(43.9)	(4.9)	
Tax rate (%)	30.0	22.9	28.6			
Minority interest	1.2	5.0	1.2	n.m.	n.m.	
<b>Net profit</b>	<b>31.1</b>	<b>78.5</b>	<b>31.7</b>	<b>(59.6)</b>	<b>2.0</b>	Below expectations
Net margin (%)	19.2	20.2	19.4			
EPS (sen)	3.7	9.4	3.8			
Gross DPS (sen)	2.0	4.0	2.0			
NTA/share (MYR)	2.0	2.2	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 (exercise 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
2021-05-26	Buy	2.36	1.96
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
2018-11-15	Buy	2.40	2.04

Source: RHB, Bloomberg

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