

Matrix Concepts (HOLD ↓, EPS ↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

May 13, 2015

Price Target: RM3.30 (↔)

Share price: RM2.90

1QFY15 Results Above Expectations
Results

- **Above Expectations:** Matrix's 1QFY15 reported PATAMI of RM115.4m came in above expectations, accounting for 60.7% and 58.7% of ours and consensus' full year earnings, respectively.

Deviations

- Higher-than-expected revenue recognition from industrial properties.

Dividends

- Declared first interim dividend of 4.25 sen/share, representing dividend payout and yield of 16.9% and 1.3%, respectively.

Highlights

- **Qoq:** Revenue and PATAMI grew significantly by 110.3% and 104.2% respectively on the back of higher revenue recognition from the group's sales of development properties as a result of accelerated project completion of its launched residential projects. Besides, sales in industrial properties have boosted 1QFY15's performance as well.

- **Yoy:** Apart from similar reasons to the yoy growth mentioned above, the tremendous improvement of 135.8% and 199.5% were also contributed by 2 new revenue segments, education segment and clubhouse operations, which totalled RM2.2m.

- We understand that the significant jump in industrial properties were attributable to payments being brought forward from 2Q and 3Q due to GST. These advance payments is said to amount to approximately RM60m, totalling the industrial properties sales to RM95m in 1QFY15 alone. As such, we expect revenue recognition in 2Q and 3Q to weaken following this.

- We gathered that total new sales for FY15 were RM156.8m while unbilled sales stood at RM392.0m, representing 0.66x of FY14's property development revenue.

- Matrix remained unchanged on its sales target for the year with approximately RM700m, whereby residential properties makes up RM600m while the remaining would be from industrial land sales. However, we would not be surprised if the group were able to clock in higher industrial land sales given its track record.

Forecasts

- Unchanged as we expect 2Q and 3Q to weaken as most industrial properties sales have been recognised in 1QFY15.

Rating
HOLD ↓

- **Positive:** 1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; and (3) Still attractive FY15E DY of 5.6%, based on 40% payout ratio.

- **Negatives:** (1) Lack of landbank diversification means the company's fate is completely tied to that of Seremban.

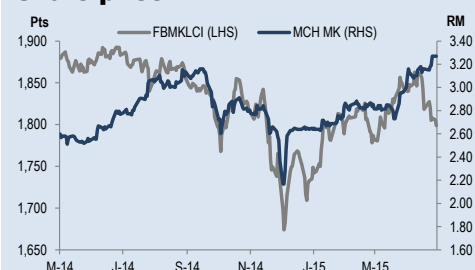
Valuation

- Target price remained unchanged at **RM3.30** based on 30% discount to RNAV. We downgrade Matrix to **HOLD** from BUY as we believe share price has fully reflected its fundamentals after the recent run-up.

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KLCI	1,798.6
Expected share price return	0.9%
Expected dividend return	5.8%
Expected total return	6.7%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	461.7
Market cap (RMm)	1,509.7
3-mth avg volume ('000)	783.1
SC Syariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute %	9.0	12.1	20.2
Relative %	11.4	12.2	23.8

Major shareholders (%)

Lee Tian Hock	16.4
Shining Term Sdn Bhd	15.8
Supreme Interest Sdn Bhd	5.0

Summary Earnings Table

FYE 31 Dec (RM m)	2013A	2014A	2015E	2016E
Revenue	574.7	598.3	689.3	955.3
Rep net profit	152.9	182.6	190.4	255.0
Norm. net profit	152.9	182.6	190.4	255.0
Norm. EPS (sen)	50.8	48.9	41.6	55.8
EPS growth (%)	16.5	-3.7	-6.5	34.0
Norm. PER (x)	5.7	5.9	6.9	5.2
FD PER (x)	5.7	6.2	6.9	5.2
Net DPS (sen)	20.6	17.3	16.7	22.3
Div yield (%)	7.2	6.0	5.8	7.7
BVPS (RM)	1.8	1.8	1.7	2.0
P/B (x)	1.6	1.6	1.7	1.4

HLIB

Figure #1 Quarterly results comparison

FYE Dec	1Q14	4Q14	1Q15	Qoq (%)	Yoy (%)	Comments
Revenue	134.7	151.0	317.6	110.3	135.8	Yoy & qoq: Due to revenue recognition of the group's sales of development properties resulted on the accelerated project completion, as well as substantial increase in sale of industrial properties.
Cost of Sales	-66.9	-53.5	-130.5	143.8	95.0	
Gross profit	67.8	97.5	187.1	91.9	176.1	Yoy & qoq: From sales of property developments, especially industrial properties, which commands higher margin.
Other income	0.7	1.5	0.8	-43.9	23.0	
Selling and marketing expenses	-3.4	-3.3	-9.1	171.6	169.6	
Administrative expenses	-10.7	-21.4	-22.9	6.9	113.8	
Operating Profit	54.4	74.2	156.0	110.2	186.8	
Finance costs	-0.4	-0.5	-0.6	42.3	46.5	
Profit before taxation (PBT)	54.0	73.8	155.4	110.6	188.0	Filtered down from gross profit.
Income tax expense	-15.4	-17.3	-39.9	131.3	159.2	
Net profit	38.6	56.5	115.4	104.2	199.5	
PATAMI	38.6	56.5	115.4	104.2	199.5	Filtered down from PBT.
Minority interest	0.0	0.0	0.0			
EPS (sen)	8.5	12.4	25.2			
DPS (sen)	3.3	6.5	4.3			

Company; HLIB

Figure #2 Cumulative results comparison

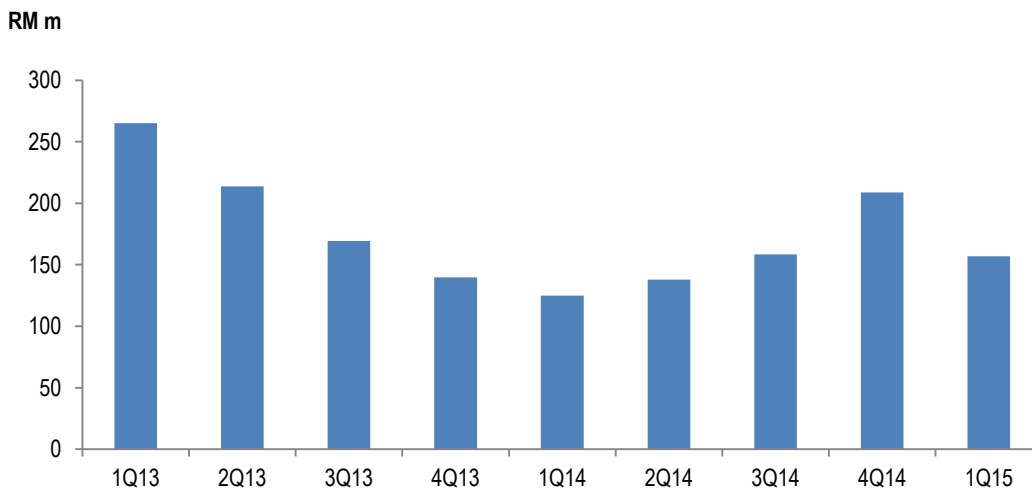
FYE Dec	3MFY14	3MFY15	YoY (%)	HLIB	% HLIB	Comments
Revenue	134.7	317.6	135.8	689.3	46.1	Above expectations.
Cost of Sales	-66.9	-130.5	95.0			
Gross profit	67.8	187.1	176.1			
Other income	0.7	0.8	23.0			
Selling and marketing expenses	-3.4	-9.1	169.6			
Administrative expenses	-10.7	-22.9	113.8			
Operating Profit	54.4	156.0	186.8			
Finance costs	-0.4	-0.6	46.5			
Profit before taxation	54.0	155.4	188.0	258.0	60.2	Above expectations.
Income tax expense	-15.4	-39.9	159.2			
Net profit	38.6	115.4	199.5			
PATAMI	38.6	115.4	199.5	190.4	60.7	Above expectations.
Minority interest	0.0	0.0	#DIV/0!			
EPS (sen)	8.5	25.2	196.5			
DPS (sen)	3.3	4.3	28.0			

Company; HLIB

Figure #3 RNAV table

Project profits - DCF				RMm
Sendayan				
- Residential				321.55
- Commercial				716.28
- On-going				8.90
Seremban (ex-Sendayan)				
- Residential				105.89
- Commercial				1.54
Johor				
- Residential				51.90
- Commercial				27.90
- On-going				4.75
Unbilled Sales				46.23
Landbank revaluation surplus				
	Acres	Mkt price (RM psf)	Book value (RM psf)	
Sendayan Tech Valley	200.00	45.00	9.00	313.63
Total Surplus				1,598.57
Total Equity				582.00
Total RNAV				2,180.57
Shares outstanding (m)				457.22
RNAV per share (RM)				4.77
ESOS proceeds *				35.46
Diluted share base (m)				469.82
Diluted RNAV per share (RM)				4.72
Discount to RNAV				30.0%
Target Price (RM)				3.30

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Figure #4 Matrix – Quarterly sales

Company: HLIB

Financial Projections for Matrix Concepts (TP: RM3.30)

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	456.1	574.7	598.3	689.3	955.3
COGS	-263.3	-305.0	-274.7	-352.0	-478.4
Gross profit	192.7	269.7	323.6	333.9	448.6
Opex	-46.6	-64.9	-74.2	-76.5	-105.0
Depreciation	-2.3	0.0	-3.0	-2.0	-2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Finance costs	-1.0	-1.4	-1.7	-0.9	-0.9
Associates	0.0	0.0	0.0	0.0	0.0
Pretax profit	142.8	207.2	244.8	258.0	345.6
Taxation	-39.3	-54.3	-62.1	-67.6	-90.6
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit	103.5	152.9	182.6	190.4	255.0
Basic shares (m)	237.5	301.2	373.3	457.2	457.2
Basic EPS (sen)	43.6	50.8	48.9	41.6	55.8

Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Inventories	2.4	1.6	2.1	0.6	0.8
Trade & other rec	101.0	140.8	79.5	82.0	113.6
Cash	168.2	115.9	96.9	93.3	170.4
Current Assets	679.4	702.1	744.7	619.7	728.6
PPE	11.5	11.9	183.9	204.9	299.8
Investment properties	1.4	67.7	1.1	67.7	67.7
Development props	30.3	111.9	60.4	111.9	111.9
Total assets	724.6	900.5	996.2	1,010.9	1,214.8
Shr Holder funds	479.4	552.4	686.0	767.8	920.8
Total Equity	479.4	552.4	686.0	767.8	920.8
Long-term borrowings	17.6	15.3	35.8	17.6	17.6
Short-term borrowings	3.9	35.2	42.3	0.0	0.0

Assumption metrics

FYE 31 Dec (RM m)	2015E	2016E
Gross margin	48.4	47.0
PBT margin	37.4	36.2
Net margin	27.6	26.7

Valuation ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Reported basic EPS (sen)	43.6	50.8	48.9	41.6	55.8
Norm. basic EPS (sen)	43.6	50.8	48.9	41.6	55.8
Norm. FD EPS (sen)	43.6	50.8	46.3	41.6	55.8
Price	2.9	2.9	2.9	2.9	2.9
PER (x)	6.6	5.7	5.9	6.9	5.2
Net DPS (sen)	0.0	20.6	17.3	16.7	22.3
Net DY (%)	0.0	7.2	6.0	5.8	7.7
NTA/ share (sen)	201.9	183.4	183.8	167.9	201.4
P/NTA (x)	1.4	1.6	1.6	1.7	1.4
Enterprise value	537.2	802.0	1,056.4	1,241.0	1,164.0
EV/ EBITDA (x)	3.7	3.8	4.2	4.8	3.4
ROE (%)	21.6	27.7	26.6	24.8	27.7
Net gearing (x)	-0.3	-0.1	0.0	-0.1	-0.2
BVPS (RM)	2.0	1.8	1.8	1.7	2.0

Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
PAT	103.5	152.9	182.6	190.4	255.0
Depreciation	2.3	0.0	-3.0	2.0	2.0
Amortisation	0.0	0.0	0.0	0.0	0.0
Working cap & others	-10.9	18.5	-49.6	3.1	19.0
Operating cashflow	94.9	171.4	130.0	195.5	276.1
Capex	-100.0	-100.0	-109.8	-98.0	-97.0
Investing Cashflow	-100.0	-100.0	-93.2	-98.0	-97.0
Issue of shares	0	0	0	0	0
Dividends	0	-94	-78	-76	-102
Others	0	0	31	0	0
Financing cashflow	0.0	-98.1	-46.9	-76.1	-102.0
Net cash flow	-5.1	-26.7	-10.1	21.3	77.1

Quarterly financial summary

FYE 31 Dec (RM m)	1Q14	2Q14	3Q14	4Q14	1Q15
Revenue	134.7	163.7	148.8	151.0	317.6
Cost of sales	-66.9	-89.2	-65.1	-53.5	-130.5
Gross profit	67.8	74.6	83.8	97.5	187.1
Selling and mktg expenses	-3.4	-2.6	-3.2	-3.3	-9.1
Administrative expenses	-10.7	-13.9	-22.2	-21.4	-22.9
Operating Profit	54.4	58.9	58.9	74.2	156.0
Pretax profit	54.0	58.6	58.5	73.8	155.4
Net profit	38.6	42.4	45.1	56.5	115.4
Basic shares (m)	301.8	303.5	428.4	457.0	458.6
Basic EPS (sen)	12.8	14.0	10.5	12.4	25.2
DPS (sen)	5.0	3.8	3.8	6.5	4.3
FCF/ share (sen)	28.4	-14.2	-2.7	7.7	-17.0
Net cash/ share (sen)	26.8	8.5	0.0	4.1	-6.9

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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