

**Matrix Concepts (HOLD ↔, EPS ↔)**

 INDUSTRY: NEUTRAL  
 EARNINGS EVALUATION

November 18, 2015

Price Target: RM2.52 (↔)

Share price: RM2.44

**Healthy Demand for Affordable Housing**
**Results**

- **Above Expectations:** Matrix's 3QFY15 reported PATAMI of RM31m took 9MFY15 to RM176m, accounting for 92% and 90% of ours and consensus' full year earnings, respectively.

**Deviations**

- 1HFY15 PATAMI already accounting for 76% of our full year forecast mainly due to higher revenue recognition from industrial properties sales and we expected weaker 2HFY15 on absence of land sales. 3QFY15 result was better than expected due to sustain contribution from property development and additional industrial land sales.

**Dividends**

- Declared third interim dividend of 3.5 sen/share, bringing 9M15 total dividend to 11.25 sen/share (versus our full year forecast of 14 sen/share).

**Highlights**

- 9MFY15 revenue surged by 25% YoY mainly due to substantial increase in sales of industrial properties. Industrial property and land sales accounted for 22% of 9MFY15 total revenue.
- Education revenue doubles QoQ from RM1.2m to RM2.4m (2% of total revenue) with number of student enrolment also increased from 450 to 490.
- Despite challenging property market outlook, new sales for 3QFY15 remain strong and grew by 16% QoQ. This took 9MFY15 new sales to RM612m, accounted for 87% of RM700m full year sales target.
- Suriaman 1 Phase 1 (average selling price of RM560k onwards) which was launched in 3Q15 enjoy good take up rate of 65% and Hijaya 3B has increased from 37% to 83%. We continue to expect sustained demand for affordable houses especially those priced below RM600k which will continue to enjoy good take up rate.
- Unbilled sales also surged by 19% QoQ to RM640m representing 1.1x of FY14's property development revenue.
- Unchanged pending analyst briefing later today.

**Forecasts**
**Rating**
**HOLD (↔)**

- **Positives:** 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 6.3%, based on 40% payout ratio.

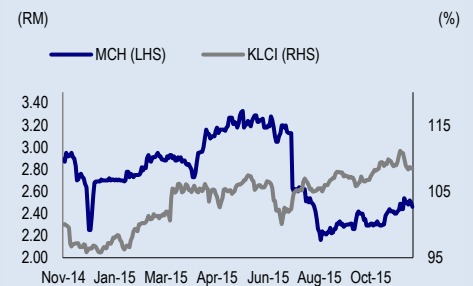
- **Negatives:** (1) Lack of landbank diversification means the company's fate is completely tied to that of Seremban.

**Valuation**

- Target price remained unchanged at RM2.52 based on unchanged 30% discount to RNAV. Maintain **HOLD** with dividend yield of 6.3%.

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KLCI	1,661.5
Expected share price return	3.3%
Expected dividend return	6.3%
Expected total return	9.6%

**Share price**

**Information**

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	461.7
Market cap (RMm)	1,343
3-mth avg volume ('000)	399
SC Syariah-compliant	Yes

<b>Price Performance</b>	1M	3M	12M
Absolute %	6.1	10.4	-1.1
Relative %	9.6	5.0	8.3

**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)	2014A	2015E	2016E	2017E
Revenue	599	633	689	821
EBITDA	247	261	280	313
Norm. net profit	182	191	210	235
Norm. EPS (sen)	40	35	39	43
Norm. PER (x)	5.6	6.3	5.7	5.1
BVPS (RM)	1.46	1.44	1.67	1.93
P/B (x)	1.52	1.54	1.33	1.15
ROA (%)	42.1	36.2	33.6	33.9
ROE (%)	27.5	24.6	23.2	22.5
Yield (%)	6.6	6.3	6.9	7.7

HLIB

**Quarterly results comparison**

FYE Dec	3Q14	2Q15	3Q15	Qoq (%)	Yoy (%)	Comments
<b>Revenue</b>	<b>148.8</b>	<b>120.4</b>	<b>121.4</b>	<b>0.8</b>	<b>(18.4)</b>	<b>YoY:</b> Due to lower revenue recognition from property sales. <b>QoQ:</b> Slight increase due to sustain contribution from property development and additional industrial land sales.
Cost of Sales	(65.1)	(57.4)	(53.1)	(7.5)	(18.4)	
<b>Gross profit</b>	<b>83.8</b>	<b>63.0</b>	<b>68.3</b>	<b>8.3</b>	<b>(18.5)</b>	
Selling and marketing expenses	(3.2)	(4.1)	(2.7)	(35.6)	(18.2)	
Administrative expenses	(22.2)	(16.9)	(26.7)	57.6	19.8	
Other Income	0.4	0.2	0.3	87.9	(11.1)	
<b>Operating Profit</b>	<b>58.6</b>	<b>42.1</b>	<b>39.3</b>	<b>(6.8)</b>	<b>(33.0)</b>	Fell mainly due to lower margin from property development.
Interest Income	0.3	0.8	0.8	5.2	199.3	
Finance costs	(0.5)	(1.6)	0.1	(105.4)	(118.6)	
Net Interest	(0.2)	(0.8)	0.9	(217.8)	(607.6)	
<b>JV</b>						
<b>Profit before taxation (PBT)</b>	<b>58.5</b>	<b>41.4</b>	<b>40.2</b>	<b>(2.8)</b>	<b>(31.2)</b>	Filtered down from gross profit.
Income tax expense	(13.4)	(11.5)	(9.1)	(20.7)	(31.7)	
MI						
<b>PATAMI</b>	<b>45.1</b>	<b>29.9</b>	<b>31.1</b>	<b>4.1</b>	<b>(31.1)</b>	Filtered down from PBT.

Company; HLIB

**Figure #1 Cumulative results comparison**

FYE Dec	9M14	9M15	Yoy (%)	Comments
<b>Revenue</b>	<b>447.3</b>	<b>559.4</b>	25.1	Due to revenue recognition of the group's sales of development properties as well as substantial increase in sale of industrial properties.
Cost of Sales	(221.2)	(241.0)	9.0	
<b>Gross profit</b>	<b>226.1</b>	<b>318.4</b>	40.8	From sales of property developments, especially industrial properties, which commands higher margin.
Selling and marketing expenses	(9.2)	(15.9)	73.1	
Administrative expenses	(46.8)	(66.4)	41.8	
Other Income	0.9	0.8	(13.6)	
<b>Operating Profit</b>	<b>171.0</b>	<b>236.9</b>	38.5	
Interest Income	1.2	2.2	81.8	
Finance costs	(1.3)	(2.2)	71.0	
Net Interest	(0.0)	0.0	(204.2)	
<b>JV</b>				
<b>Profit before taxation (PBT)</b>	<b>171.0</b>	<b>236.9</b>	38.6	Filtered down from gross profit.
Income tax expense	(44.9)	(60.6)	34.9	
MI				
<b>PATAMI</b>	<b>126.1</b>	<b>176.4</b>	<b>39.9</b>	Filtered down from PBT.

Company; HLIB

**Figure #2 RNAV table**

Projects	Stake (%)	NPV (RM m)
<b>Ongoing</b>		
BSS	100%	10.4
TSI	100%	6.7
STV 1 and 2	100%	111.0
Unbilled Sales	100%	80.5
<b>Future</b>		
BSS	100%	769.6
TSI	100%	141.6
STP	100%	59.8
STV 3	100%	27.7
Residency SIGC	100%	36.4
Kota Gadong Perdana	100%	54.2
KL High Rise Mixed Development	100%	57.9
Lobak Commercial Centre	100%	4.6
NPV		1,360.4
Shareholder Funds as of 1Q15		758.3
Net cash/(debt) as of 1Q15		(31.6)
RNAV		2,087.1
Wa proceed		185.6
Total RNAV		2,272.7
Total Diluted Shares		631.5
RNAV/share		3.3
Discount		30%
Discounted RNAV		1,590.9
<b>Discounted RNAV/Share</b>		<b>2.52</b>

Company, HLIB

**Figure #3 HLIB vs. Consensus**

RMm	2015E			2016E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	633.2	667.2	-5.1	688.8	743.2	-7.3
EPS (sen)	191.4	196.0	-2.4	209.7	211.2	-0.7

HLIB; Bloomberg

**Figure #4 Peer Comparison**

Company	Price	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield		Sales Target	Unbilled Sales Coverage (x)
							CY15	CY16	CY15	CY16	CY15	CY16		
IOI PROPERTIES	2.13	Buy	2.77	30%	8,022.7	(50.0)	15.5	12.4	0.59	0.57	1.9	2.4	1,700.0	1.0
UEM SUNRISE BHD	1.25	Hold	0.97	-22%	5,671.8	(61.4)	15.1	12.5	0.86	0.82	2.0	2.4	2,000.0	2.2
SP SETIA BHD	3.20	Hold	3.47	9%	8,410.6	(35.5)	11.2	11.7	1.29	1.21	3.6	3.4	4,000.0	2.8
MAH SING GROUP	1.37	Hold	1.44	5%	3,300.9	(38.1)	9.0	8.3	1.06	0.98	4.5	4.8	2,300.0	1.8
SUNWAY BHD	3.06	Buy	3.49	14%	5,473.7	0.0	9.4	9.4	0.87	0.82	15.7	3.9	1,000.0	0.8
MATRIX CONCEPTS	2.44	Hold	2.52	3%	1,343.2	(32.2)	6.9	6.3	1.70	1.46	-	-	700.0	1.1
TAMBUN	1.40	Buy	1.65	18%	593.7	(40.9)	5.5	4.9	1.28	1.11	7.3	8.1	400.0	1.0
YNH PROPERTY BHC	1.89	Sell	1.49	-21%	759.9	(49.3)	28.8	15.8	0.87	0.65	0.7	1.3	-	-
GLOMAC BHD	0.92	Hold	0.89	-2%	663.9	(48.7)	8.0	7.0	0.68	0.64	4.8	5.1	600.0	1.6
ECO WORLD DEVELC	1.35	NR			3,191.8	(41.3)	58.7	22.5	0.89	0.87	-	-	3,000.0	2.9
<b>Average</b>						<b>(39.7)</b>	<b>16.8</b>	<b>11.1</b>	<b>1.01</b>	<b>0.91</b>	<b>4.0</b>	<b>3.1</b>		<b>1.5</b>

## Financial Projections for Matrix Concepts (TP: RM2.52)

### Income statement

FYE 31 Dec (RM m)	2013A	2014A	2015E	2016E	2017E
<b>Revenue</b>	574	599	633	689	821
Operating cost	-369	-352	-373	-408	-507
<b>EBITDA</b>	206	247	261	280	313
D&A	-3	-3	-4	-4	-3
Net Interest	2	0	-2	-1	-1
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
<b>Pretax profit</b>	205	245	255	276	309
Taxation	(53)	(62)	(64)	(66)	(74)
Minority Interest	-	-	-	-	-
PATAMI	152	182	191	210	235
<b>Core Earning</b>	152	182	191	210	235
Basic shares (m)	456	456	541	541	541
<b>Basic EPS (sen)</b>	33.3	40.0	35.4	38.7	43.4

### Balance sheet

FYE 31 Dec (RM m)	2013A	2014A	2015E	2016E	2017E
Fixed assets	80	192	188	185	181
Other long-term assets	22	7	7	7	7
Other short-term assets	0	0	0	0	0
<b>Working capital</b>	425	411	435	473	564
Receivables	147	135	143	156	185
Payables	277	274	290	315	376
Inventory	1	2	2	2	3
<b>Net cash / (debt)</b>	50	19	110	196	238
Cash	101	97	188	274	316
ST debt	40	50	50	50	50
LT debt	11	28	28	28	28
<b>Shareholders' funds</b>	529	664	779	904	1,045
Share capital	301	457	457	457	457
Reserves	228	207	322	447	588
Minorities	-	-	-	-	-
Other liabilities	47	-35	-38	-43	-56

### Summary Earnings Table

Revenue	574	599	633	689	821
EBITDA	206	247	261	280	313
Net profit	152	182	191	210	235
P/E (x)	6.8	5.7	6.4	5.8	5.2
BV / share	1.2	1.5	1.4	1.7	1.9
P/BV (x)	1.8	1.6	1.6	1.4	1.2
ROA (%)	43.3	42.1	36.2	33.6	33.9
ROE (%)	28.6	27.5	24.6	23.2	22.5

### Cashflow

FYE 31 Dec (RM m)	2013A	2014A	2015E	2016E	2017E
EBIT	203	244	257	277	310
D&A	3	3	4	4	3
Working capital changes	(120)	(56)	(27)	(43)	(103)
Taxation	(53)	(62)	(64)	(66)	(74)
Others	4	8	(3)	(3)	(3)
<b>Operating cashflow</b>	40	136	167	168	133
Capex & acquisitions	-69	-116	0	0	0
<b>Free cashflow</b>	-30	20	167	168	133
Others	-15	17	1	2	3
<b>Investing cashflow</b>	-84	-100	1	2	3
Equity Raised	140	10	0	0	0
Others	0	0	0	0	0
Net Borrowing	-3	21	0	0	0
<b>Financing cashflow</b>	83	-47	-77	-84	-94
<b>Net cashflow</b>	38	(10)	92	86	42

### Valuation ratios

Net DPS (sen)	0.00	0.00	0.00	1.00	1.00
FCF / share (sen)	-6.49	4.35	30.81	30.95	24.56
FCF yield (%)	-2.9%	1.9%	13.6%	13.7%	10.9%
Market capitalization (m)	1,030	1,030	1,030	1,030	1,030
Net cash (m)	50	19	110	196	238
Enterprise value	980	1,012	920	834	792
EV / EBITDA (x)	4.8	4.1	3.5	3.0	2.5

### Growth margins ratios

Growth (%)					
Sales Growth		4.3	5.7	8.8	19.2
Operating expenses		-4.5	5.9	9.6	24.2
EBITDA Growth		20.2	5.5	7.6	11.7
PBT Growth		19.3	4.3	8.1	12.0
PATMI		20.2	5.0	9.5	12.0
Basic EPS Growth		20.2	-11.6	9.5	12.0

### Margins (%)

EBITDA Margin	35.8	41.2	41.2	40.7	38.2
PBT Margin	35.7	40.8	40.3	40.1	37.7
PATMI	26.4	30.4	30.2	30.4	28.6

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