

Matrix Concepts (BUY ↔, EPS ↑)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION/ NEWSBREAK

May 17, 2017

Price Target: RM2.98 (↑)

Share price: RM2.68

FY17 Results cum Bonus Issue
Results

- Matrix's FY17 revenue surged to RM780.4m (+31.2%) while core earnings grew to RM208.4m (+43.0%), accounting for 92.8% of ours and 96.9% of consensus full year earnings forecasts, respectively.

Deviation

- Blended margin was slightly lower than expected due to recognition of lower margin products in this quarter.

Dividends

- Declared interim dividend of 3.75 sen (going ex on 2 Jun 17), bringing FY17 DPS to 13.8 sen, representing about 38% payout, in line with our assumption.

Newsbreak

- In a separate announcement, Matrix has proposed bonus issue on the basis of one (1) bonus share for every four (4) existing shares, subject to approvals from shareholders and is expected to complete in 2QFY18.

Highlights

- QoQ:** Both revenue (-18.5%) and core PATAMI (-18%) fell due to lower revenue recognition from property development.
- YoY:** 4QFY17 core PATAMI (excluding RM10.6m ESOS expenses) increased by 3.4% despite a 23.6% drop in revenue on the back of improved gross profit margin from 53% to 59% resulting from recognition of higher margin products.
- New property sales in 4QFY17 achieved RM193.1m (vs RM168.7m 5QFY16), bringing FY17 sales exceeding RM1bn. Sales were mainly derived from its flagship Bandar Sri Sendayan (BSS) in Seremban and Bandar Seri Impian in Kluang.
- Matrix had launched RM60.6m worth of projects in 4QFY17 namely Suriaman 2A and Hijayu 3 at BSS, with strong take-up rate >80% for all ongoing projects. Total targeted new launches in FY18 amount to RM1.4bn.
- Total unbilled sales stands at RM859.5m down from a historical high of RM900m last quarter, representing 1.1x over FY17 property development revenue.

Forecasts

- We impute the latest FY17 balance sheet figures and fine tune our model. In turn, this has led to revisions in our FY18 and FY19 earnings forecasts by +2% and -4% respectively.

Rating
BUY (↔)

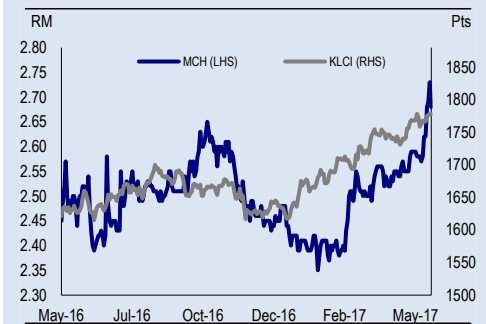
- We continue to like Matrix as it is well-positioned to ride on affordable housing theme (majority products are below RM600k) within its successful township. HSR is a long-term catalyst and its dividend yield is one of the highest in the sector at circa 6%.

Valuation

- Maintain **BUY** with higher TP of **RM2.98** (from RM2.89) (based on unchanged 20% discount to RNAV of RM3.72).

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KLCI	1778.2
Expected share price return	11.2%
Expected dividend return	5.7%
Expected total return	16.9%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	574
Market cap (RMm)	1,539
3-mth avg volume ('000)	628
SC Syariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	5.5	12.1	9.4
Relative %	2.7	7.7	-0.3

Major shareholders (%)

Lee Tian Hock	17.6
Shining Term Sdn Bhd	14.7
Supreme Interest Sdn Bhd	5.4

Summary Earnings Table

FYE 31 Mar (RM m)	2016A*	2017A	2018F	2019F
Revenue	912	780	914	1,111
EBITDA	360	275	357	434
Norm. net profit	261	208	250	305
Norm. EPS (sen)	46.3	36.4	43.8	53.2
Norm. PER (x)	5.8	7.4	6.1	5.0
BVPS (RM)	1.57	1.79	2.08	2.42
P/B (x)	1.71	1.50	1.29	1.11
ROA (%)	31.0	18.5	20.3	22.1
ROE (%)	29.5	20.3	21.1	22.0
Yield (%)	7.0	4.8	5.7	7.0

HLIB

*15M of financial result

Figure #1 Quarterly results comparison

FYE March	5Q16 (Jan- Mac16)	3Q17 (Oct- Dec16)	4Q17 (Jan- Mac17)	QoQ (%)	YoY (%)	Comments
Revenue	211.3	198.0	161.3	(18.5)	(23.6)	QoQ: Fell due to higher revenue recognition from increased sales of industrial properties during last quarter. YoY: Fell due to lower revenue from property development.
Cost of Sales	(99.9)	(78.7)	(66.6)	(15.4)	(33.4)	
Gross profit	111.4	119.3	94.8	(20.6)	(14.9)	High base effect due to higher margin from industrial land sales.
Selling and marketing expenses	(7.7)	(4.6)	(4.4)	(4.0)	(42.3)	
Administrative expenses	(40.6)	(41.2)	(32.1)	(22.1)	(20.9)	
Other Income	0.9	0.1	0.5	887.0	(40.3)	
Operating Profit	64.0	73.5	58.8	(20.1)	(8.2)	
Interest Income	7.4	0.8	0.4	(41.2)	(93.9)	Due to reversal of previous unrealised interest income.
Finance costs	(0.6)	(1.4)	(4.1)	203.1	645.4	
Net Interest	6.8	(0.6)	(3.7)	514.3	(153.7)	
JV						
Profit before taxation (PBT)	70.8	72.9	55.1	(24.4)	(22.2)	Filtered down from EBIT.
Income tax expense	(22.9)	(22.5)	(16.1)	(28.3)	(29.5)	
MI						
PATAMI	48.0	50.4	39.0	(22.7)	(18.7)	Filtered down from PBT.
EI	0.0	(10.0)	(10.6)	6.0	NM	ESOS expenses.
Core PATAMI	48.0	60.4	49.6	(18.0)	3.4	

Company; HLIB

*Note: FY16 consists of 15m results due to change of financial year end from Dec to Mac.

Figure #2 Cumulative results comparison

FYE Dec	FY16 (Apr15- Mac16)	FY17 (Apr16- Mac17)	Yoy (%)	Comments
Revenue	594.6	780.4	31.2	Due to increase from property development coupled with higher industrial and land sales.
Cost of Sales	(274.1)	(366.4)	33.7	
Gross profit	320.6	414.0	29.2	
Selling and marketing expenses	(17.0)	(19.1)	12.2	
Administrative expenses	(110.4)	(129.8)	17.6	
Other Income	1.8	1.8	(4.6)	
Operating Profit	195.0	266.8	36.8	
Interest Income	9.8	1.6	(84.1)	Due to reversal of previous unrealised interest income.
Finance costs	(2.9)	(7.1)	145.8	
Net Interest	7.0	(5.5)	(179.5)	
JV	-	-		
Profit before taxation (PBT)	201.9	261.3	29.4	Filtered down from gross profit.
Income tax expense	(56.2)	(73.5)	30.8	
MI	-	-		
PATAMI	145.7	187.8	28.9	Filtered down from PBT.
EI		(20.6)		ESOS expenses.
Core PATAMI	145.7	208.4	43.0	

Company; HLIB

*Note: FY16 number consists of four quarters results from Apr 15 to Mac 16.

Figure #3 FY17 Results vs. HLIB's Estimates and Consensus

	Actual FY17	HLIB FY17	Actual vs. HLIB (%)	Consensus FY17	Actual vs. Consensus (%)	Comments
Revenue	780.4	797.6	97.8	806.667	96.7	In line.
Normalised PAT	208.4	224.6	92.8	215	96.9	Below.

Company Data, HLIB, Bloomberg

Figure #4 HLIB vs. Consensus

RMm	2018F			2019F		
	HLIB	Consensus	%	HLIB	Consensus	%
Revenue	913.9	889.7	2.7	1110.7	1023.0	8.6
Normalised PAT	248.3	232.3	6.9	304.6	270.0	12.8

HLIB; Bloomberg

Figure #5 RNAV table

Projects	Stake (%)	NPV (RM m)
Ongoing		
BSS	100%	4.3
TSI	100%	2.8
STV 1 and 2	100%	73.0
Unbilled Sales	100%	135.4
Future		
BSS	100%	688.8
TSI	100%	148.4
STP	100%	63.4
STV 3	100%	41.0
Residency SIGC	100%	27.3
Kota Gadong Perdana	100%	171.6
KL High Rise Mixed Development	100%	-
Lobak Commercial Centre	100%	5.0
Carnegie, Australia	100%	19.1
NPV		1,380.0
Shareholder Funds as of 4Q17		1,025.6
Net cash/(debt) as of 4Q17		(156.4)
RNAV		2,249.1
Wa proceed		185.6
Total RNAV		2,434.7
Total Diluted Shares		654.0
RNAV/share		3.72
Discount		20%
Discounted RNAV		1,947.7
Discounted RNAV/Share		2.98

Company, HLIB

Figure #6 Peer Comparison

Company	Current Px	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield		DPS	
							CY17	CY18	CY17	CY18	CY17	CY18	CY16	CY17
IOI PROPERTIES	2.08	Hold	2.54	22%	11,452.8	(46.7)	15.3	14.8	0.6	0.7	3.8	1.9	8.0	4.0
SP SETIABHD	3.63	Buy	4.00	10%	10,361.0	(36.4)	13.6	10.0	1.2	1.1	4.8	5.0	17.3	18.1
SUNWAYBHD	3.53	Buy	3.75	6%	7,178.3		12.2	11.3	1.2	1.1	3.4	3.4	12.0	12.0
UEM SUNRISE BHD	1.29	Hold	1.18	-9%	5,853.3	(56.0)	26.3	23.5	0.9	0.9	0.8	0.8	1.0	1.0
MAH SING GROUP	1.54	Hold	1.52	-1%	3,710.5	(34.2)	10.2	10.1	1.1	1.0	4.2	4.0	6.5	6.1
MATRIX CONCEPTS	2.68	Buy	2.98	11%	1,539.5	(25.8)	6.1	5.0	1.3	1.1	5.7	6.9	15.3	18.6
TAMBUN	1.53	Hold	1.39	-9%	658.9	(34.1)	6.0	8.4	1.2	1.2	5.9	4.6	9.0	7.0
ECO WORLD DEVELO	1.52	NR			4,475.4	(33.9)	34.3	17.8	1.1	1.0	-	-	-	-
Average						(38.1)	15.5	12.6	1.1	1.0	3.6	3.3		

Financial Projections for Matrix Concepts (TP: RM2.98)

Income statement

FYE 31 Mar (RM m)	2014A	2016A*	2017A	2018F	2019F
Revenue	599	912	780	914	1,111
Operating cost	-352	-552	-505	-557	-676
EBITDA	247	360	275	357	434
D&A	-3	-10	-9	-11	-12
Net Interest	0	7	-5	-4	-7
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
Pretax profit	245	357	261	342	416
Taxation	(62)	(96)	(73)	(92)	(112)
Minority Interest	-	-	-	-	-
PATAMI	182	261	188	250	305
Core Earning	182	261	208	250	305
Basic shares (m)	456	564	572	572	572
Basic EPS (sen)	40.0	46.3	36.4	43.8	53.2

Balance sheet

FYE 31 Mar (RM m)	2014A	2016A*	2017A	2018F	2019F
Fixed assets	192	219	240	259	278
Other long-term assets	7	7	12	12	12
Other short-term assets	0	0	0	0	0
Working capital	586	704	927	1,069	1,299
Receivables	136	180	219	257	312
Payables	295	166	169	182	222
Inventory	155	358	538	630	765
Net cash / (debt)	19	-127	-156	-195	-264
Cash	97	78	117	79	10
ST debt	50	97	86	86	86
LT debt	28	108	188	188	188
Shareholders' funds	664	885	1,026	1,188	1,386
Share capital	457	564	577	577	577
Reserves	207	321	448	611	809
Minorities	-	-	-	-	-
Other liabilities	139	-82	-3	-43	-61

Summary Earnings Table

Revenue	599	912	780	914	1,111
EBITDA	247	360	275	357	434
Net profit	182	261	208	250	305
P/E (x)	6.7	5.8	7.4	6.1	5.0
BV / share	1.5	1.6	1.8	2.1	2.4
P/BV (x)	1.8	1.7	1.5	1.3	1.1
ROA (%)	31.1	31.0	18.5	20.3	22.1
ROE (%)	27.5	29.5	20.3	21.1	22.0

*15M of financial result as financial year end change from Dec to Mar

Cashflow

FYE 31 Mar (RM m)	2014A	2016A*	2017A	2018F	2019F
EBIT	244	350	266	346	423
D&A	3	10	9	11	12
Working capital changes	(56)	(334)	(148)	(182)	(248)
Taxation	(62)	(96)	(73)	(92)	(112)
Others	7	2	11	(7)	(8)
Operating cashflow	136	-69	59	76	66
Capex & acquisitions	-116	-40	-29	-30	-30
Free cashflow	20	-110	30	46	36
Others	17	3	-2	3	2
Investing cashflow	-100	-37	-31	-27	-28
Equity Raised	10	67	22	0	0
Others	0	0	0	0	0
Net Borrowing	21	132	56	0	0
Financing cashflow	-47	94	-5	-88	-107
Net cashflow	(11)	(13)	23	(39)	(69)

Valuation ratios

Net DPS (sen)	14.85	18.79	12.82	15.31	18.63
FCF/ share (sen)	4.35	-19.42	5.30	7.99	6.32
FCF yield (%)	1.6%	-7.2%	2.0%	3.0%	2.4%
Market capitalization (m)	1,222	1,512	1,534	1,534	1,534
Net cash (m)	19	-127	-156	-195	-264
Enterprise value	1,203	1,639	1,690	1,729	1,798
EV/ EBITDA (x)	4.9	4.5	6.1	4.8	4.1

Growth margins ratios

Growth (%)					
Sales Growth	4.3	52.3	-14.4	17.1	21.5
Operating expenses	-4.6	57.0	-8.5	10.3	21.4
EBITDA Growth	20.3	45.7	-23.6	29.6	21.8
PBT Growth	19.3	46.1	-26.9	31.0	21.6
PATMI	20.2	43.3	-20.2	20.2	21.6
Basic EPS Growth	20.2	15.8	-21.3	20.2	21.6

Margins (%)

EBITDA Margin	41.3	39.5	35.3	39.0	39.1
PBT Margin	40.8	39.2	33.5	37.5	37.5
PATMI	30.4	28.6	26.7	27.4	27.4

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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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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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