

17 May 2017

Property | Real Estate

Matrix Concepts Holdings

Buy (Maintained)

Target Price:	MYR2.96
Price:	MYR2.68
Market Cap:	USD356m
Bloomberg Ticker:	MCH MK

Hit MYR1.03bn Property Sales In FY17

We expect Matrix's earnings to be stronger in FY18F, underpinned by its MYR859.5m unbilled sales and FY17 new sales of MYR1.03bn. The disappointing 4QFY17 earnings were compensated by the proposed 1-for-4 bonus issue. Full year FY17 DPS of 13.75 sen represents a decent dividend yield of 5%. We maintain our BUY call and revise our TP upwards to MYR2.96 (from MYR2.80, 10% upside).

Below expectations. Matrix Concepts' (Matrix) FY17 earnings missed our and consensus' estimates by 7.6%. The weak results were mainly attributed to the higher employees stock option scheme (ESOS) expenses that amounted to MYR10.6m during the year. Meanwhile, revenue from its industrial segment was lower than expected, as some industrial land sale transactions are slated for completion only in FY18.

Hit MYR1.03bn new sales in FY17. New sales of MYR1.03bn in FY17 is a record high (4QFY17 (Mar) new sales: MYR193.1m). The take-up rates for Suriaman 2A and Impiana Bayu 2 continued to pick up, now at 84% and 93%, from 67% and 82% in 3QFY17, respectively. Suriaman Biz (Phase 1 & 2) is fully sold. Management has set a sales target of MYR1.1bn for FY18F. We believe this is achievable. Apart from the existing township projects in Seremban and Kluang, the recently launched Ara Sendayan has also achieved encouraging demand. In April, a total of MYR177m worth of residential units were launched, with strong bookings. We believe these would be converted into sales as the signings take place in the coming months.

Bonus issue a sweetener. Despite the weak results, Matrix announced a proposed bonus issue on the basis of one bonus share for every four existing shares. In the meantime, a 3.75 sen final dividend was declared, bringing the full year DPS to MYR13.75 sen. This represents a dividend payout ratio of 42% and yield of about 5%.

Forecasts. We lower our FY18F-19F earnings by 10%, as we now assume a more conservative sales forecast for its industrial segment. We also fine tune the billings projection for the KL and Puchong projects as both developments are likely to be launched later when the property market confidence turns convincingly stronger.

Maintain BUY. Our TP is raised to MYR2.96 based on an unchanged 25% discount to RNAV, as we update our RNAV for the latest financial numbers. With a healthy net gearing of 15% and consistent property sales, we believe Matrix's earnings would be on track and hence its dividend yield ought to be sustainable.

Share Data

Avg Daily Turnover (MYR/USD)	1.61m/0.35m
52-wk Price low/high (MYR)	2.35 - 2.73
Free Float (%)	43
Shares outstanding (m)	301
Estimated Return	10%

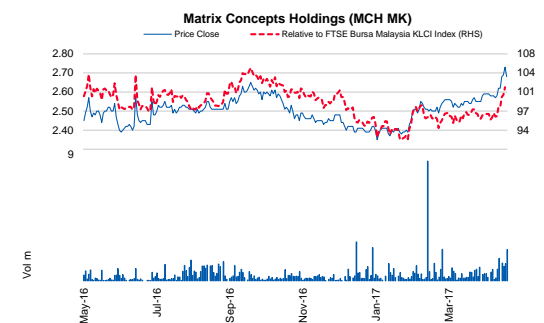
Shareholders (%)

Dato' Lee & Family	60.0
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.7	5.5	12.1	8.1	9.4
Relative	2.4	2.7	7.9	(1.2)	(0.3)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
Total turnover (MYRm)	732	780	823	875	921
Reported net profit (MYRm)	210	188	200	214	229
Recurring net profit (MYRm)	210	188	200	214	229
Recurring net profit growth (%)	10.8	(10.4)	6.3	7.1	6.9
Recurring EPS (MYR)	0.38	0.33	0.34	0.36	0.39
DPS (MYR)	0.16	0.14	0.14	0.15	0.16
Recurring P/E (x)	7.12	8.17	7.80	7.35	6.95
P/B (x)	1.68	1.50	1.36	1.23	1.12
Dividend Yield (%)	5.8	5.1	5.2	5.6	6.0
Return on average equity (%)	26.7	19.7	18.4	17.6	16.9
Return on average assets (%)	18.3	13.4	12.7	12.6	12.5
Net debt to equity (%)	14.3	15.3	14.9	11.9	12.0
Our vs consensus EPS (adjusted) (%)			(10.9)	(9.6)	(4.3)

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2017-05-16

Asia	Financial summary	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
Malaysia	Recurring EPS (MYR)	0.38	0.33	0.34	0.36	0.39
Property	EPS (MYR)	0.38	0.33	0.34	0.36	0.39
Matrix Concepts Holdings	DPS (MYR)	0.16	0.14	0.14	0.15	0.16
Bloomberg MCH MK	BVPS (MYR)	1.59	1.79	1.98	2.18	2.39
Buy	Weighted avg adjusted shares (m)	557	572	581	587	593
Valuation basis	Valuation metrics	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
25% discount to RNAV	Recurring P/E (x)	7.12	8.17	7.80	7.35	6.95
Key drivers	P/E (x)	7.12	8.17	7.80	7.35	6.95
i. New property and industrial land sales;	P/B (x)	1.68	1.50	1.36	1.23	1.12
ii. Landbank acquisitions	FCF Yield (%)	(1.2)	3.2	6.4	10.1	8.7
Key risks	Dividend Yield (%)	5.8	5.1	5.2	5.6	6.0
Weaker-than-expected market conditions	EV/EBITDA (x)	3.99	2.76	2.85	2.46	2.31
	EV/EBIT (x)	3.99	2.76	2.85	2.46	2.31
Company Profile	Income statement (MYRm)	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
Matrix Concepts (Matrix) 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 turnover	732	780	823	875	921
	Gross profit	407	414	424	455	478
	EBITDA	290	268	281	300	320
	Operating profit	290	268	281	300	320
	Net interest	(3)	(7)	(8)	(7)	(7)
	Pre-tax profit	287	261	274	293	313
	Taxation	(77)	(73)	(74)	(79)	(85)
	Recurring net profit	210	188	200	214	229
	Cash flow (MYRm)	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
	Change in working capital	(257)	165	(90)	5	(51)
	Cash flow from operations	(17)	391	149	259	218
	Capex	(1)	(342)	(50)	(100)	(80)
	Cash flow from investing activities	(27)	(363)	(49)	(118)	(107)
	Proceeds from issue of shares	37	31	0	0	0
	Dividends paid	(64)	(108)	(79)	(81)	(88)
	Cash flow from financing activities	42	(49)	(118)	(120)	(126)
	Cash at beginning of period	97	78	117	82	72
	Net change in cash	(3)	(21)	(18)	21	(14)
	Ending balance cash	94	57	99	104	57
	Balance sheet (MYRm)	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
	Total cash and equivalents	78	117	82	72	68
	Total investments	269	623	671	789	896
	Total other assets	7	12	12	12	12
	Total assets	1,292	1,510	1,632	1,761	1,890
	Short-term debt	79	86	66	66	91
	Total long-term debt	126	188	188	158	148
	Other liabilities	0	24	24	24	24
	Total liabilities	406	484	484	481	471
	Shareholders' equity	886	1,026	1,148	1,279	1,419
	Total equity	886	1,026	1,148	1,279	1,419
	Net debt	126	156	172	152	171
	Total liabilities & equity	1,292	1,510	1,632	1,761	1,890
	Key metrics	Mar-16	Mar-17	Mar-18F	Mar-19F	Mar-20F
	Revenue growth (%)	16.1	6.6	5.4	6.4	5.3
	Recurrent EPS growth (%)	(4.3)	(12.9)	4.8	6.0	5.8
	Gross margin (%)	55.7	53.0	51.6	52.0	51.9
	Operating EBITDA margin (%)	39.6	34.4	34.2	34.3	34.7
	Net profit margin (%)	28.6	24.1	24.3	24.4	24.8
	Dividend payout ratio (%)	41.4	41.9	40.7	41.2	41.5
	Capex/sales (%)	0.2	43.8	6.1	11.4	8.7
	Interest cover (x)	102	38	36	42	46

Source: Company data, RHB

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Figure 1: Quarterly results (change in FYE from Dec to Mar in 2015)

FYE Mar (MYRm)	5QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	Comments
Turnover	211.3	198	161.3	(18.5)	(23.6)	594.6	780.4	31.2	The weaker revenue in 4QFY17 was due to a higher industrial land sale in the preceding quarter, and slower billings during the current quarter, as construction works for some projects were at the initial stage.
EBIT	71.4	74.3	59.2	(20.3)	(17.1)	204.8	268.4	31	Hit by higher ESOS expenses
EBIT margin (%)	33.8	37.5	36.7			34.4	34.4		
Net interest	(0.6)	(1.4)	(4.1)			203.1	645.4	(2.9)	145.8
Pretax profit	70.8	72.9	55.1	(24.4)	(22.2)	201.9	261.3	29.4	
Pretax margin (%)	33.5	36.8	34.2			34	33.5		
Taxation	(22.9)	(22.5)	(16.1)	(28.3)	(29.5)	(56.2)	(73.5)	30.8	
Tax rate (%)	32.3	30.8	29.2			27.8	28.1		
Minority interest	0.0	0.0	0.0	nm	nm.	0.0	0.0	nm	
Net profit	48	50.4	39	(22.7)	(18.7)	145.7	187.8	28.9	Below expectations.
Net margin (%)	22.7	25.5	24.2			24.5	24.1		
EPS (sen)	8.6	8.8	6.8			27.7	33		
Gross DPS (sen)	4.4	3.5	3.8			15.2	13.8		
NTA/share (MYR)	1.6	1.8	1.8			1.6	1.8		

Source: RHB

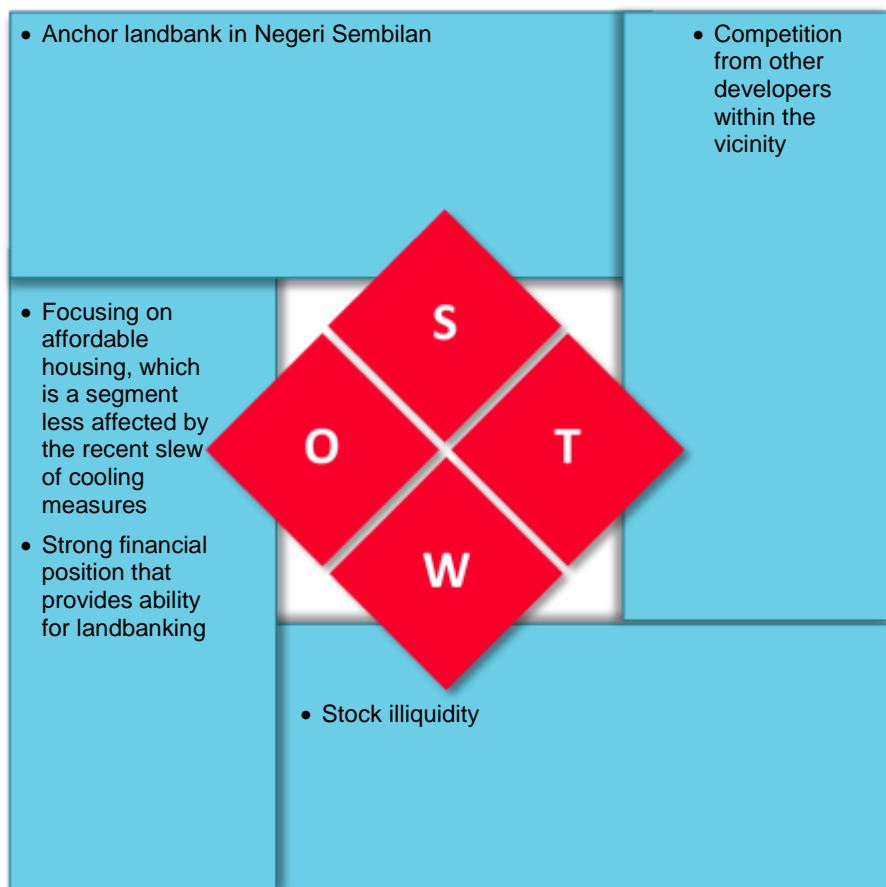
Figure 2: RNAV estimate

Projects	Remaining landbank (acres)	GDV (MYR m)	Stake	NPV @ 13%
<i>Bandar Sri Sendayan, Negeri Sembilan</i>				
Ongoing & future developments	1,069.6	4,380.9	100%	335.9
Taman Seri Impian, Kluang, Johor	279.2	1,514.2	100%	161.4
KL land	1.1	400	100%	25.5
Kota Gadong Perdana	227.1	1428	100%	116.2
Residensi SIGC (Third 9 Residence)	41.8	229	100%	19.2
Lobak Commercial Centre	7.3	29.3	100%	2.6
Labu land	236.9	760	100%	66.4
Rasah Kemayan land	194.4	800	100%	72.9
Puchong	5.8	500	100%	32.7
Australia	n.a.	94.5	100%	7.1

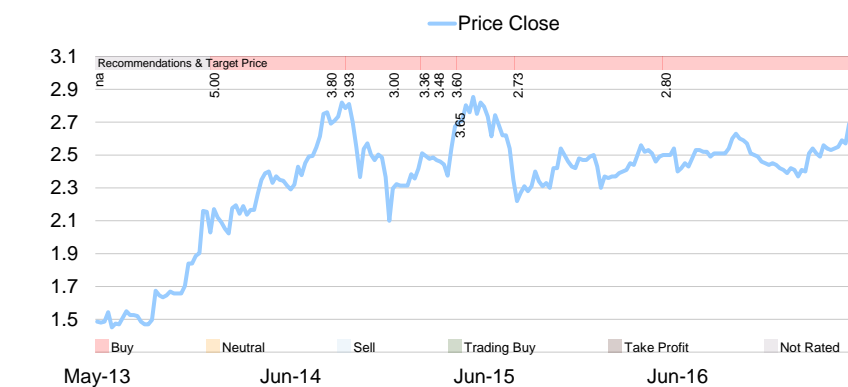
	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley 1 & 2	112	45	10	128.1
Sendayan TechPark	123	33	13	48.2
Sendayan TechValley 3	85	45	15	83.3
Unbilled sales				149.0
Total				1,248.8
Shareholders' fund				1,025.6
Warrants conversion (exercice price at MYR2.40)				186.8
Total RNAV				2,461.1
Share base (incl. warrants)				622.7
RNAV/share				3.95
Discount				25%
Target price				2.96

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-23	Buy	2.80	2.50
2016-11-15	Buy	2.80	2.48
2016-08-25	Buy	2.80	2.50
2016-05-19	Buy	2.80	2.57
2016-02-24	Buy	2.73	2.37
2015-08-10	Buy	2.73	2.26
2015-05-13	Buy	3.65	2.75
2015-04-21	Buy	3.65	2.66
2015-04-15	Buy	3.60	2.71
2015-03-12	Buy	3.48	2.50

Source: RHB, Bloomberg

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