

# Matrix Concepts Holdings Bhd

Bloomberg: MCH MK | Reuters: MATR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

3 Nov 2015

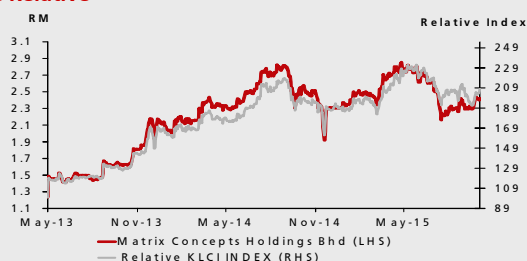
## BUY RM2.43 (KLCI : 1,664.07)

(Initiating Coverage)

**Price Target** : 12-Month RM 3.30 (36% upside)**Shariah Compliant**: Yes**Reason for Report** : New initiation**Potential Catalyst**: Higher-than-expected property sales and industrial lot sales**Analyst**

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**Price Relative****Forecasts and Valuation**

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	599	687	785	866
EBITDA	250	273	294	318
Pre-tax Profit	245	265	286	310
Net Profit	182	199	214	232
Net Pft (Pre Ex.)	182	199	214	232
EPS (sen)	34.2	36.2	38.9	42.2
EPS Pre Ex. (sen)	34.2	36.2	38.9	42.2
EPS Gth (%)	(5)	6	8	8
EPS Gth Pre Ex (%)	(5)	6	8	8
Diluted EPS (sen)	34.2	36.2	38.9	42.2
Net DPS (sen)	14.9	14.5	15.6	16.9
BV Per Share (sen)	124.5	142.4	166.9	193.5
PE (X)	7.1	6.7	6.2	5.8
PE Pre Ex. (X)	7.1	6.7	6.2	5.8
P/Cash Flow (X)	9.5	3.2	10.0	7.5
EV/EBITDA (X)	5.1	3.9	3.7	3.4
Net Div Yield (%)	6.1	6.0	6.4	6.9
P/Book Value (X)	2.0	1.7	1.5	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	30.6	27.5	25.2	23.4

**Consensus EPS (sen):** 36.0 38.0 43.5  
**Other Broker Recs:** B: 2 S: 0 H: 2

**ICB Industry** : Financials**ICB Sector**: Real Estate Investment & Services

**Principal Business**: Matrix Concepts is one of the largest developers in Negeri Sembilan, focusing on its flagship township development, Bandar Sri Sendayan which covers 2,350 acres

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

## Pure township developer

- **Strong demand for value-adding properties at flagship Bandar Sri Sendayan (BSS) township**
- **Completion of 750-acre new air force base in BSS by 2016 to mark tipping point**
- **6.4% sustainable yield given >40% payout**
- **Initiate with BUY and RM3.30 TP**

**Sustainable township gaining momentum.** Matrix's focus on its two key flagship projects, Bandar Sri Sendayan in Seremban, Negeri Sembilan (BSS: 1,038 acres, RM3.8bn GDV) and Taman Seri Impian in Kluang, Johor (TSI: 209 acres, RM674m GDV) since 2005 has resulted in maturing townships which continue to buck the trend with record high property sales despite the weak sentiment. Property sales (excluding industrial lot sales) rose 38% y-o-y in 1H15 to RM367m, on track to achieve its FY15 target of RM650m (+23% y-o-y).

**The best is yet to come.** Matrix's unbilled sales stood at RM540m as at Jun-15, offering decent earnings visibility over the next two years. Also, its 20-acre Matrix Global Schools (RM135m investment) and 6-acre d'Tempat Country Club (RM65m investment) have been operational since 1Q15 which offers an appealing value proposition of a holistic lifestyle for the BSS community. The new air-force training base at BSS is expected to be completed by end-16 which will then accommodate an additional ~1,500 personnel, further improving the vibrancy of BSS.

**Ultimate winner.** BSS remains its jewel of the crown given its low average land cost of RM7psf (ready with infra) when its affordably-priced properties are already selling at ~RM200psf, leading to significantly higher-than-average profit margins. This unrivalled competitive advantage will make Matrix the best proxy to pure township developer which is set to outperform in this challenging market. It is currently trading at an undemanding 6x FY16 PE with 6.4% yield. We initiate coverage on Matrix with BUY and RM3.30 TP, based on 30% discount to our RNAV of RM4.73.

**At A Glance**

Issued Capital (m shrs)	550
Mkt. Cap (RMm/US\$m)	1,337 / 311
Major Shareholders	
Dato' Lee Tian Hock (%)	41.7
Ho Kong Soon (%)	5.1
Free Float (%)	53.2
Avg. Daily Vol.('000)	497

## SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"><li>• <b>Pure township developer.</b> Matrix's integrated township at BSS offers long-term earnings visibility as BSS continues to gain traction not only among the locals but also Klang Valley buyers.</li><li>• <b>Low land cost.</b> Most of Matrix's land bank was acquired at a very low cost which enables the company to deliver above-average profit margins.</li><li>• <b>Proxy to affordable housing.</b> Majority of its properties are priced below RM600k/unit which remains well received despite the softer market.</li><li>• <b>Strong balance sheet.</b> Matrix is in a net cash position despite the heavy capex investment for BSS township.</li><li>• <b>Regular dividend payout.</b> Matrix has a minimum dividend policy payout of 40%, offering one of the highest dividend yields within the Malaysian property sector.</li></ul>	<ul style="list-style-type: none"><li>• <b>High concentration in Negeri Sembilan.</b> Matrix derives the bulk of its earnings from BSS developments.</li><li>• <b>Lack of footprint in Klang Valley.</b> While Matrix plans to venture into the Klang Valley property market, it could take some time before Matrix establishes itself in the competitive market.</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>• <b>Property affordability issue in Klang Valley.</b> BSS could benefit from the growth proposition of Seremban as a satellite city within the Greater KL region given its value-for-money properties.</li><li>• <b>Venture beyond Negeri Sembilan.</b> Riding on the success of BSS, Matrix could replicate the successful development formula in other states.</li><li>• <b>Expanding industrial park.</b> Matrix has been buying industrial land around STV to further expand its successful industrial park.</li></ul>	<ul style="list-style-type: none"><li>• <b>Relatively weaker property sentiment.</b> The strong property price surge over the last few years, coupled with recent tightening measures, could weaken property sales as property buyers are becoming more cautious.</li><li>• <b>Tighter bank lending.</b> Stricter lending guidelines by banks due to rising housing debt may lead to softer sales.</li><li>• <b>Rising costs.</b> Construction and building material costs have been on the uptrend which may erode developers' profitability.</li></ul>

Source: AllianceDBS

## Company Background

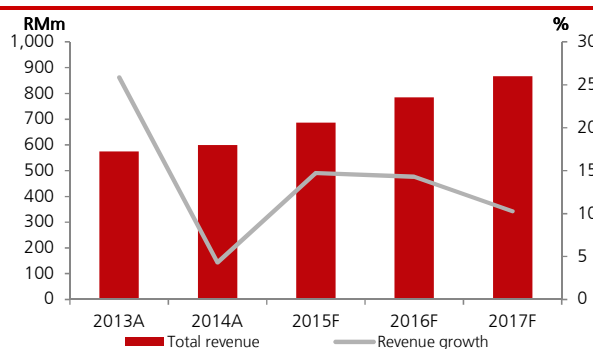
**Established track record.** Matrix has been involved in the property development industry in Johor and Negeri Sembilan for close to 20 years. Starting from small projects ranging from RM3m to RM35m GDV back then, Matrix has now evolved into a major township developer undertaking developments in excess of RM100m GDV per project. The Matrix Group has successfully completed and sold 22,000 residential and commercial properties with a GDV of RM2.5bn.

**Focus on affordable housing.** Matrix focuses on developing affordable residential and quality residential and commercial properties to cater to the medium-end market. In recent years, Matrix has also started to venture into higher-end developments due to the rising demand for lifestyle residential properties via its township developments.

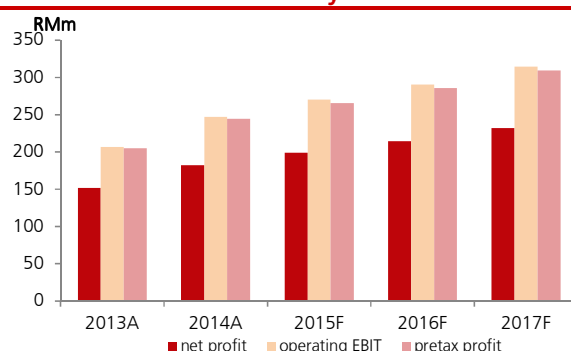
**Breakthrough in 2005.** Matrix achieved a significant breakthrough in 2005 when it entered into JVs with landowners to develop its two flagship developments, namely Bandar Seri Sendayan (with Menteri Besar Incorporated (MBI) of Negeri Sembilan state) in Seremban and Taman Seri Impian (with Koperasi Kemajuan Tanah Negeri Johor) in Kluang, Johor. Both projects have been underpinning its strong earnings growth over the past few years. Matrix has already fulfilled the landowners' entitlement and has full development rights over the land.

Matrix's focus on its two key flagship projects, Bandar Sri Sendayan in Seremban, Negeri Sembilan (BSS: 1,038 acres, RM3.8bn GDV) and Taman Seri Impian in Kluang, Johor (TSI: 209 acres, RM674m GDV) since 2005 has resulted in maturing townships which continue to generate strong property sales despite the overall weak sentiment.

**Sales Trend**



**Profitability Trend**



Source: Company, AllianceDBS

## Management

**Visionary founder.** Matrix is helmed by Dato' Lee Tian Hock who is also the founder the Group. Dato' Lee has been playing a critical role in the success of the company since its humble beginnings. Having been personally involved in the property development industry for more than 30 years, especially in the Negeri Sembilan state, Dato' Lee has developed a strong business acumen which has helped the company to leapfrog from being a small developer to become one of the most reputable township developers in Malaysia.

**Credible management.** Under the leadership of Dato' Lee, Matrix has also been honoured with the Forbes' 2014 Asia's Best under a Billion award, underlining the outstanding achievements of the group. Since its IPO in May-13, Matrix has rewarded its shareholders with two rounds of bonus issues in view of the strong financial performance. In addition, there is a dividend policy of 40% minimum payout.

### Key Management Team

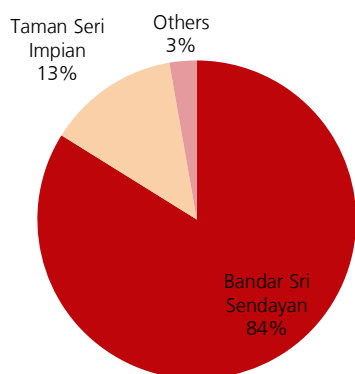
Name	Position	Background
Dato' Haji Mohamad Haslah	Non-independent Non-executive Chairman	- Diploma in Banking from the Institute of Bankers, London - Former Country Director in Fleet Boston NA, Singapore
Dato' Lee Tian Hock	Group Managing Director	- Degree in Housing, Building and Planning, Universiti Sains Malaysia - >30 years of experience in property development - Founded Matrix Group in 1997
Ho Kong Soon	Group Deputy Managing Director	- Bachelor of Engineering, University of Malaya - Joined as Director and GM of Matrix in 1997, promoted to Group Deputy MD in 2012
Dato' Lim Kiu Hock	Executive Director	- Degree in Housing, Building and Planning, Universiti Sains Malaysia - >30 years of experience in property development - Former Executive Director of Mah Sing Group from 2006-2015
Dato' (IR) Batumalai Ramasamy	Independent Non-Executive Director	- Diploma in Civil Engineering from Universiti Teknologi Malaysia - Bachelor of Science in Civil Engineering, University of Aberdeen, Scotland - Former director of Department of Irrigation and Drainage, Negeri Sembilan
Dato' Hon Choon Kim	Independent Non-Executive Director	- Bachelor of Social Sciences (Econ), Universiti Sains Malaysia - Former Deputy Minister of Education from 1999-2008
Dato' Firdaus Muhammad Rom	Independent Non-Executive Director	- Diploma in Marketing from Chartered Institute of Marketing, UK - Former Negeri Sembilan state assemblyman for Chembong, Member of Parliament for Rembau
Rezal Zain	Independent Non-Executive Director	- Bachelor of Arts (Accounting), University of Canberra - Former COO of TDM Berhad

Source: Company, AllianceDBS

## Successful township is sheltered from weak sentiment in the property market

**Resilient township development.** Matrix’s flagship projects – Bandar Sri Sendayan in Seremban, Negeri Sembilan and Taman Seri Impian continue to be well received by property buyers despite the challenging property market. BSS will continue to be the main earnings driver for Matrix as the township contributes more than 80% of its revenue. Property sales at BSS have been growing from strength to strength, largely attributable to the healthy demand for landed properties within township developments which provide a holistic living environment.

### FY14 revenue breakdown



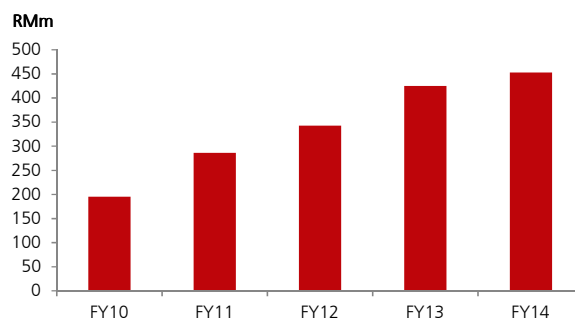
Source: AllianceDBS, Company

**Vibrant BSS eco-system.** We believe BSS’s value-adding township amenities such as food & beverage, clubhouse facilities, education institutions, commercial and retail outlets will continue to attract more property buyers. BSS is now a sustainable township which has been generating strong sales given the various value-adding features available. Matrix has been enjoying exponential growth over the past few years because of overwhelming demand for its affordable landed properties in Bandar Sri Sendayan (BSS). This 2,350-acre township is worth RM6.8bn GDV. The thriving township, estimated to last the Group until 2025, has been able to leverage on high price differential between KL and BSS despite good connectivity between the two areas.

**State-of-the-art campus.** Matrix has completed its 20-acre Matrix Global Schools comprising the Matrix Private School (primary and secondary schools) based on the national curriculum and Matrix International School based on the Cambridge IGCSE examinations. As at Jun-15, 450 students were enrolled, which is on track to reach its targeted 800 students by end-15. Nevertheless, the fully-equipped campus which is modelled after a British residential school can accommodate up to 2,500 students. Matrix has spent RM135m for the state-of-the-art schools which feature not

only auditoriums, lecture theatres and a multi-purpose hall, but also outdoor activities such as rugby, wall climbing and kayaking.

### Increasing revenue from property development

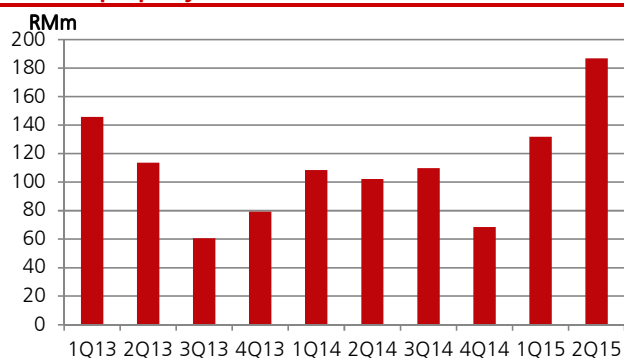


Source: AllianceDBS, Company

**Centre of activity.** BSS’s very own clubhouse, the RM65m d’Tempat Country Club, commenced operations in 1Q15. There is a comprehensive range of lifestyle and fitness amenities including F&B outlets, an Olympic-size swimming pool, bowling alley, aqua gym, badminton/ squash/ tennis courts and even an 800-pax banquet hall, all located within the 6.3-acre clubhouse. Matrix offers free membership to all new homebuyers in BSS, with 2,200 households eligible for membership currently.

**Leaving no stone unturned.** Matrix has invested significantly in BSS as part of its mission to make it a model township. Apart from the schools and clubhouse, massive infrastructure works have also been completed in BSS which will enable Matrix to continue riding on the township’s success. BSS was also awarded the 2013 “Sustainable township of the year” by the World Sense of Place, which is an acknowledgement of Matrix’s strength in creating a sustainable and holistic township.

### Resilient property sales from BSS

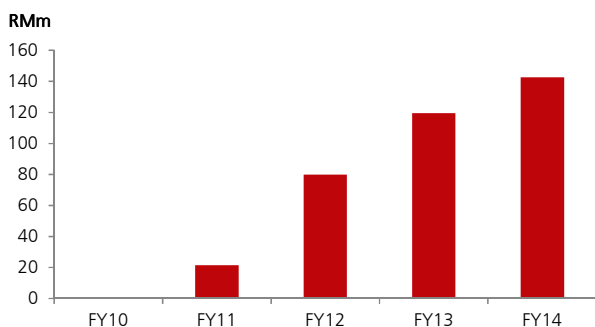


Source: AllianceDBS, Company

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**Complementary industrial park in BSS.** Under the BSS master plan, Sendayan TechValley (STV) complements the township with the offering of an eco-friendly techno-entrepreneur industrial park. Currently, STV still has ~187 acres of ready-for-sale industrial plots valued at RM276m, implying a 69% take-up for its total 640 acres of net saleable areas. Industrial land ASP at STV has surged from RM12psf in 2010 when it was first launched, to RM45psf currently, implying strong demand for the STV land.

**Promising sales from industrial lots at BSS**



Source: AllianceDBS, Company

**Foreign direct investment supports growing BSS.** STV has been making great strides since its inception in 2010 as its total foreign direct investments have exceeded RM4bn, lifting STV to be one of the main industrial hubs in Negeri Sembilan. Some of the key customers include Japan’s Daihatsu which has started the construction of its RM600m plant in Sep-14. STV has managed to attract more than 50 local and 10 foreign multi-national corporations to set up their bases at STV.

Key customers at STV:

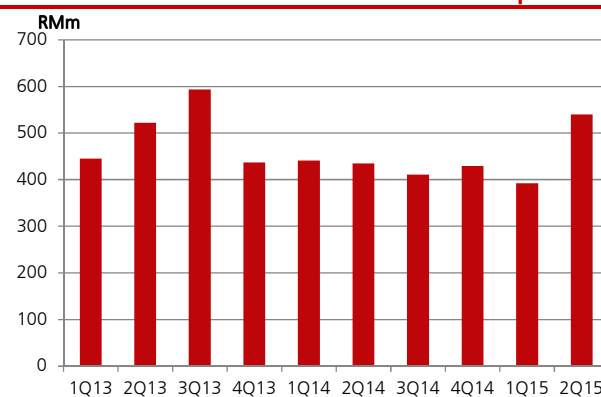
- Akashi Kikai Industry from Japan
- Hino Motors Manufacturing from Japan
- Meditop Corporation from Japan
- Kayaku Safety Systems from Japan
- Messier-Bugatti-Dowty from France
- Schmidt + Clemens from Germany
- Weir Group/Linatex Rubber Products from UK
- Hubei Dijian Construction from China
- Daihatsu Engine Manufacturing from Japan
- Fibertex Personal Care from Denmark
- Shimadzu Corporation from Japan
- S-Form Co. from Korea

**Lucrative sales.** The infrastructure works at STV have been completed by 2013. Therefore, Matrix will be able to recognise full contribution from any subsequent industrial lot sales upon completion of sales. With an ASP of RM45psf, Matrix is able to realise an estimated margin of 60%. Its outstanding 187 acres of industrial land at STV will still be able to last Matrix over the next few years.

**Clear earnings visibility.** There were RM540m unbilled sales as at Jun-15, which will provide strong earnings visibility for the next two years. Matrix continues to grow from strength to strength as it continues to focus on affordable homes priced at below RM500k/unit. Nevertheless, its profitability remains impressive with net margins consistently exceeding 25%, which is rare among listed property developers in Malaysia.

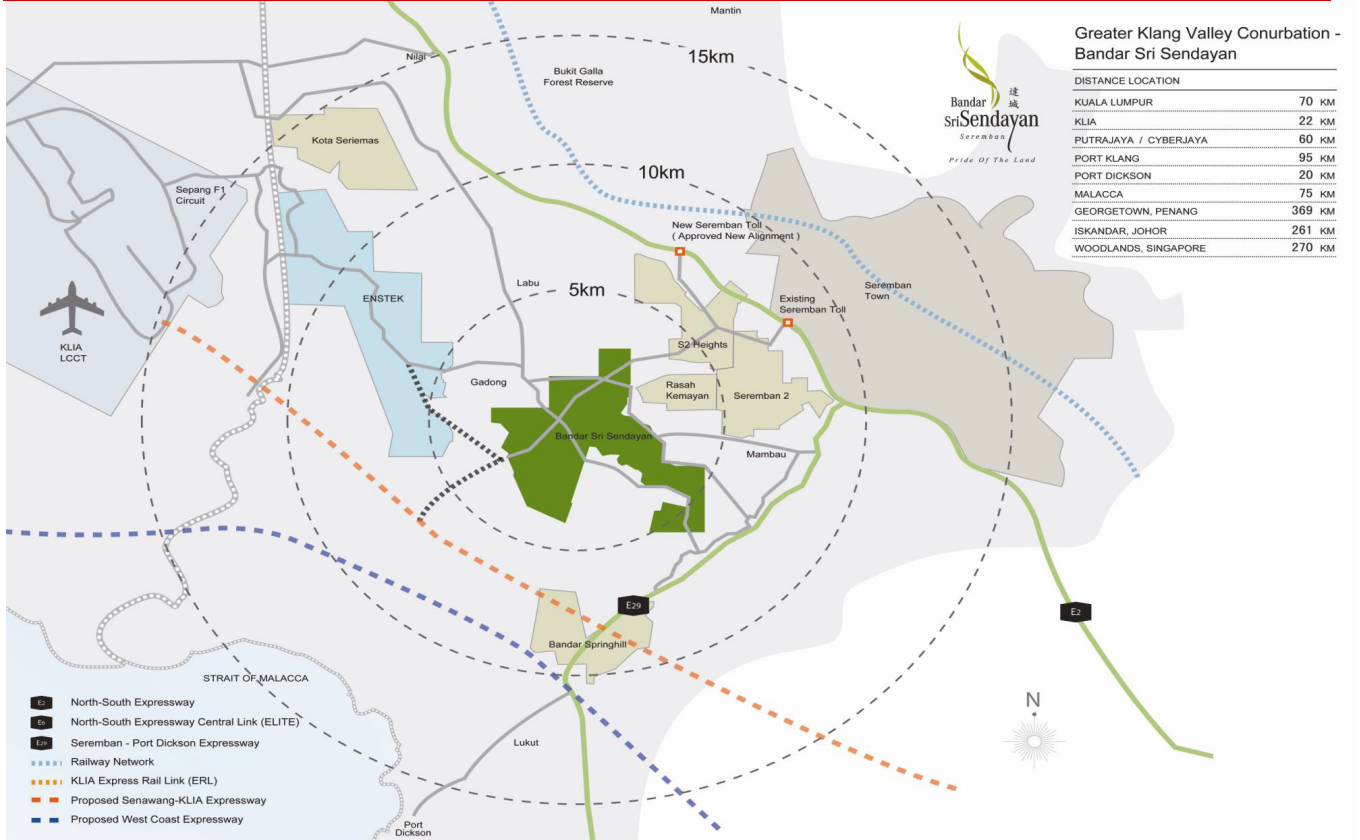
**Strong property sales.** Take-up for Matrix’s projects remains encouraging despite the cautious sentiment. It secured RM630m property sales in FY14, and is on track to meet its RM700m sales target for FY15 (RM367m in 1H15). While Matrix will delay some of the new launches in BSS and TSI in view of the softer sentiment, property sales are expected to remain resilient. In fact, Matrix has increased its FY15 property sales target to RM650m from RM600m, while industrial land sales target was cut to RM50m from RM100m previously, leaving its total sales target of RM700m intact.

**Stable unbilled sales due to resilient township sales**



Source: AllianceDBS, Company

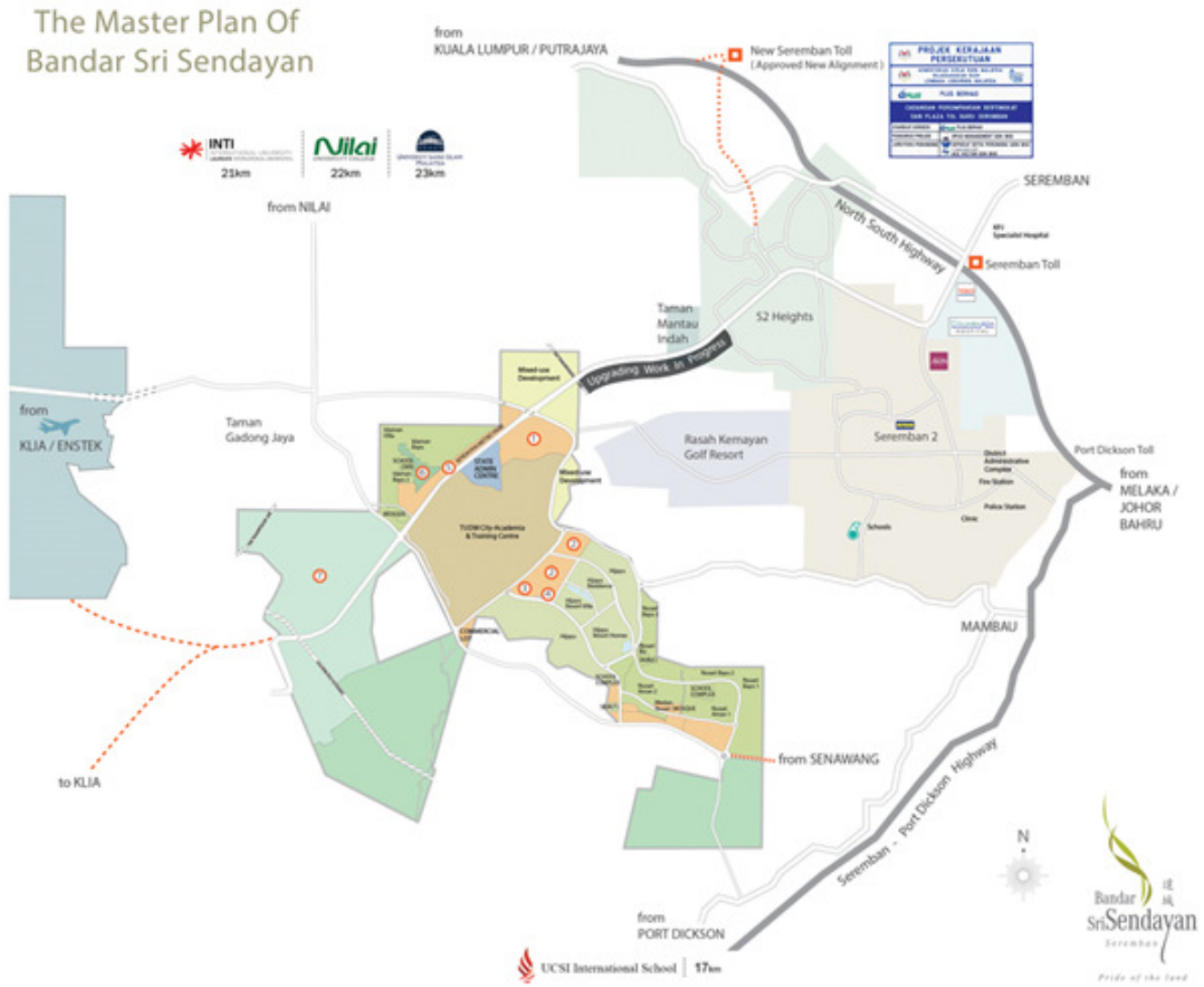
**Strategic location of Bandar Sri Sendayan in Seremban, Negeri Sembilan**



Source: Company



**Masterplan of Bandar Sri Sendayan in Seremban, Negeri Sembilan**



Source: Company



## Unrivalled advantages with sustainable flagship development

**Jewel in the crown.** The success of BSS boils down to the extensive planning of the township spanning 5,233 acres under close collaboration between Matrix and the Negeri Sembilan state government. The township is undertaken based on Negeri Sembilan's policy on housing and urbanisation to create a quality living environment to the community. Today, the township boasts of more than 4,000 households with a population size of about 20,000.

**Affordably priced properties.** The majority of Matrix's launches are priced affordably below the RM600k/unit mark, while the higher-end products typically do not exceed RM1m/unit. For instance, its latest launch, Hijayu 3B features 333 units of double-storey terraces (>RM560k/unit; 22' x 80') which are 40% taken up within two months. Also, BSS's properties are typically priced lower than its neighbouring projects, offering better value for money to its property buyers. This is probably due to Matrix's low land cost advantage which in turn helps to offer better capital appreciation potential in the long run.

**Strategic location.** BSS's advantage lies at its location which forms part of the KL Conurbation, the National Growth Conurbation, which is a level one priority development under the National Physical Plan. BSS also falls into the Malaysian Vision Valley, a 108,000-ha multi-billion project to be carried out over the next 30 years. It is envisaged that the Nilai-Enstek-Sendayan area could be an education-cum-sports cluster while Seremban could be turned into a CBD.

**Great connectivity.** BSS is strategically located close to various transportation networks. It is accessible via several highways including the Seremban-Port Dickson Expressway and North-South Expressway. Also, it is located within a 30-min drive to KLIA, klia2 and MASkargo's Advanced Cargo Centre which could be one of the selling points for STV. The smooth connectivity between BSS and KL has also attracted buyers from Klang Valley who have increasingly accepted the concept of "stay Seremban, work in Klang Valley" given the high quality of life which comes at a fraction of the cost in Klang Valley.

**Low land cost.** Matrix's BSS land was secured back in 2005 from the Negeri Sembilan state government at an estimated gross land price of c.RM3psf. It then started the BSS township development in 2008 when it launched the first residential area, Nusari Bayu 1 and commercial plots at Sendayan Metropark. Despite the heavy capex for the township infrastructure that Matrix has pumped in over the years, its blended land cost still stood at a meagre RM7psf (based on annual report), which explains the significantly higher profit margins fetched by Matrix vis-à-vis other listed peers.

**Partnership with government agencies.** Matrix has adopted a three-pronged approach to lift the population critical mass within BSS via partnership with various government agencies:

**RMAF academia and training centre** – A 750-acre new training base for the Royal Malaysian Air Force (RMAF) at BSS is under construction. The RMAF would make the base as a training centre and emplace all training units at all airbases throughout the country in one location only, replacing the existing base at Sungai Besi. Upon completion of the relocation, it will house a large number of air force officials and their family members.

**State admin centre** – The new Negeri Sembilan's state admin centre will occupy 55 acres when the relocation is completed progressively over the next few years. Meanwhile, the State Syariah Court Complex is already operational.

**STV industrial players** – Establishment of operations by MNCs could attract their vendors and suppliers to set up operations in BSS as well.

These will help to spur economic growth in BSS given the higher population. After seven years of hard work, it is evident that BSS is already a growing yet self-sustaining township. Its 116-acre Sendayan Icon Park is likely to be the most prized land within BSS which Matrix plans to develop into a commercial hub comprising a shopping mall, a convention centre, hotels and a medical facility.

## Matrix Concepts Holdings Bhd

### Large portfolio of affordable housing projects to drive future growth

**Affordably-priced properties in BSS.** BSS will remain Matrix's key earnings driver over the next few years, as the township continues to grow. There are c.1k acres of undeveloped land bank remaining at BSS with RM3.8bn GDV. The maturing township continues to be popular because of attractive pricing, coupled with value-added features, including landscaping and gated-and-guarded residential precincts. Demand for BSS properties could also be boosted by the relocation of the academia and training base for the Royal Malaysian Air Force to BSS from the existing base in Sungai Besi, KL, where it occupies 750 acres.

While we notice that Matrix has been launching more lifestyle properties priced in excess of RM450k in BSS recently, the projects remain well-received given the better value-for-money features compared against other projects nearby. Going forward, BSS properties may continue their healthy appreciation trend, which will make its future launches more expensive as they cater towards mid- to high-income property buyers.

**Affordable homes remain the mainstay.** Apart from BSS, Matrix's flagship development in Kluang, Taman Seri Impian also offers affordably-priced landed properties with prices ranging from RM300-400k/unit. When Matrix launched the very first double-storey terrace houses at TSI in 2007, they were sold at only RM150k/unit, indicating the healthy trend in tandem with the booming property market and economy growth. TSI property sales have been relatively resilient, generating ~RM110m sales p.a. on average.

**Third flagship project in the pipeline.** Matrix may launch its third flagship development, Kota Gadong Perdana in Negeri Sembilan (next to BSS) spanning 295 acres and worth RM900m GDV, in 1Q16. The project will boast more than 3,000 units of affordable homes priced below RM400k/unit. Management is confident of sustaining its margins though the project will have more affordable homes, thanks to its low land cost acquired back in 2002.

### Attractive selling price for BSS properties vis-à-vis neighbouring properties

Launch	Project	Developer	Location	Selling price	Lot size (ft)	Built-up (sf)	RMpsf
Apr14	Sophia	IJM Land	Seremban 2	>RM641k	22 x 70	2,231	287
Jun14	Dextora	Matrix	Bandar Sri Sendayan	>RM477k	20 x 80	2,615	182
May15	Abadi	Sime Darby	Bandar Ainsdale	>RM498k	22 x 75	1,948	256
Jul15	Elvina	Matrix	Bandar Sri Sendayan	>RM559k	22 x 80	2,807	199
Oct15	Rimbun Vista	IJM Land	Seremban 2	>RM940k	24 x 80	2,641	356

Source: Various, AllianceDBS

### Huge pipeline of affordable homes

Project	Type	Location	Area (acres)	Est. GDV (RMm)	Est. land cost (RMpsf)	Remarks
Bandar Sri Sendayan	Township	Negeri Sembilan	1094	3,785	6.8	On-going flagship project
Taman Seri Impian	Township	Kluang, Johor	209	674	n.a.	On-going flagship project
Kota Gadong Perdana	Township	Negeri Sembilan	295	926	3.0	FY16 launch
Residency SIGC	Residential	Negeri Sembilan	42	229	5.2	3Q15 launch
Rasah Kemayan land	Township	Negeri Sembilan	194	800	7.3	Extension of BSS
Labu land	Township	Negeri Sembilan	237	760	4.8	Extension of BSS
			<b>2,071</b>	<b>7,174</b>		

Source: Company, AllianceDBS

**Huge advantage of low land cost .** Matrix still boasts a huge launch pipeline of affordable homes in Negeri Sembilan, thanks to its cheap land bank. Given the first-mover advantage in the state, Matrix has been able to generate unrivalled profitability despite its relatively lower selling prices. Its 40-50% gross margin is significantly higher than its listed peers' 20-30%.

Therefore, Matrix's positioning in the affordable housing segment will stand it in good stead to grab more market share given the robust demand for affordably-priced properties. Also, the huge pipeline of affordable homes will underpin its earnings visibility over the next 10 years.

**Continuous land-banking exercise for future expansion.** In view of the resounding success of its BSS township, Matrix has been scouting for strategic land banks within close proximity to BSS to further extend its footprint in the area. In Jul-13, Matrix announced two land bank acquisitions totalling 431 acres for RM106.8m, both of which have been completed, as follows:

**Rasah land** – 237 acres for RM47.5m, implying RM4.6psf. The land is located within close vicinity of BSS which will be an extension of BSS with a proposed mixed development of RM800m GDV.

**Labu land** – 194 acres for RM59.3m, implying RM7psf. It is located west of BSS, which will also be developed into a proposed mixed development of residential and commercial properties worth RM760m GDV.

**Replicating the success of STV.** Matrix also acquired a 164-acre industrial land in Labu, Negeri Sembilan for RM71m (RM10psf) in Sep-14 which will be developed as Sendayan Tech Park (STP). STP is located near STV and will replenish its industrial land bank , which augurs well for the vibrancy of the BSS township via job creation to create spill-over effects on the demand for residential and commercial properties in BSS.

**Venturing beyond Negeri Sembilan.** Matrix has also showcased its ambitious plan to venture into the property market in Klang Valley via its two parcels of land in KL and Puchong which are intended for high-rise developments. It acquired a 1.1-acre land in KL and a 5.8-acre land in Puchong in Aug-13 and Apr-15 respectively, as a strategic move to expand its footprint beyond Negeri Sembilan to secure future earnings. Matrix has not launched the two projects at this juncture in view of the soft sentiment for high-rise properties, but the land parcels will come in handy for future developments.

### Recent land acquisitions

Date	Buyer	Seller	Location	Size (acre)	RMm	RMpsf	Remarks
8/7/2013	Matrix	Koperasi Sendayan Labu Seren	Labu, Negeri Sembilan	236.9	47.5	4.6	extension of BSS
8/7/2013	Matrix	TJ Integrated SB	Rasah, Negeri Sembilan	194.4	59.3	7.0	extension of BSS
26/8/2013	Matrix	Chong Hoe Realty SB	Jalan Ipoh Kecil, KL	1.1	43.6	949.3	
19/9/2014	Matrix	Palipadu SB	Labu, Negeri Sembilan	164.0	71.5	10.0	Sendayan Tech Park
12/3/2015	Matrix	Individuals	Labu, Negeri Sembilan	79.0	27.5	8.0	extension of STV
21/4/2015	Matrix	IRDK Ventures SB	Puchong	5.8	95.0	378.5	

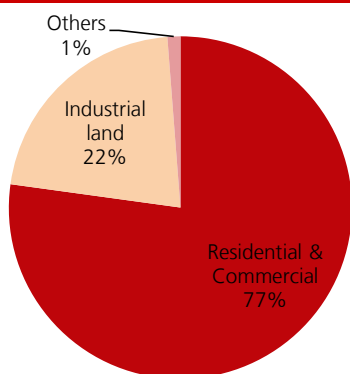
Source: Company, AllianceDBS

**Matrix Concepts Holdings Bhd**

**Financials**

**Undeterred by slower market.** Matrix’s 1H15 earnings surged 79% to RM145.3m, largely due to the impressive 1Q15 earnings of RM115.4m on the back of accelerated completion and recognition of land sales prior to the implementation of Goods and Services Tax (GST) in Apr15. However, there was no recognition of industrial land sales in 2Q15 and earnings was mainly driven by progressive billing of property development.

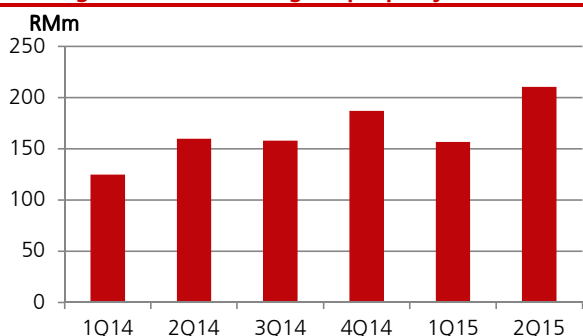
**1H15 revenue breakdown**



Source: Company, AllianceDBS

**Strong sales momentum.** As at Jun15, Matrix’s unbilled sales stood at RM540m (including RM26m from STV) which is the highest since Sep13, thanks to overwhelming response for BSS properties. Its 2Q15 sales exceeded the RM200m mark for the first time, largely attributable to sales from BSS township, underlining the robust demand from buyers despite the relatively weak property market. We expect the strong sales momentum to sustain as BSS township continues to gain traction going forward.

**Bucking the trend with higher property sales**



Source: Company

**Growing recurring income.** With the commencement of the operation of Matrix Global Schools and d’Tempat Country Club, Matrix has also started to recognise maiden revenue from these two investment properties though the contribution is still at its infancy stage. We believe Matrix Global Schools could spring a surprise given its impressive student enrolment of 450 as at Jun15 though it only had its first intake in Sep14, and it is poised to achieve its 800-student enrolment by year end. Management is targeting for 10% revenue contribution from investment properties in five-year time, riding on the success of BSS township.

**Promising earnings prospects.** We conservatively project Matrix to register 3-year earnings CAGR of 8% over FY14-17F as we assume FY15-17F property sales of RM614m/ RM756m/ RM795m which is inclusive of RM80m industrial land sales p.a. Nevertheless, Matrix will be in a strong position to roll out more launches should the market sentiment improve. The completion of the new air-force training base at BSS - expected to be completed by end-16 which will then accommodate an additional ~1,500 personnel - may also serve as a strong catalyst for the BSS township.

**Strong pipeline of affordable projects.** Despite its strong reliance on BSS township, Matrix has a strong pipeline of affordable homes within Negeri Sembilan which is ready to be launched to capture the rising demand of affordable housing. Thanks to its low land cost, we believe Matrix will be able to weather any severe downturn. In addition, its balance sheet is in net cash position which will enable Matrix to look for opportunistic acquisitions.

## Key Risks

**Relatively weaker property sentiment.** The strong property price surge over the last few years, coupled with recent tightening measures, could hamper property sales as property buyers are getting more cautious with their property purchase decisions.

**Rising raw material costs.** In tandem with rising property prices, construction and building material costs have been on the uptrend and may erode developers' profitability. However, Matrix's established presence in Negeri Sembilan with large scale township development will help to achieve lower cost.

**Tighter bank lending.** Stricter lending guidelines by banks due to rising housing debt may lead to softer sales as certain property buyers have been facing difficulty in obtaining mortgage loans.

**Heavy concentration on BSS.** While Matrix plans to venture into the Klang Valley property market, it could take some time before Matrix establishes itself in the competitive market. In recent years, Matrix has started scouting for strategic land bank beyond Negeri Sembilan to venture into other property hotspots.

**Matrix Concepts Holdings Bhd**

**Key Assumptions**

FY Dec	2012A	2013A	2014A	2015F	2016F	2017F
Property sales	686.5	540.3	529.2	563.8	675.6	715.1
Industrial land sales	N/A	247.7	101.0	50.0	80.0	80.0

**Sensitivity Analysis**

	2016
Property sales +/- 1%	Net Profit +/- 1%

**Segmental Breakdown**

FY Dec	2012A	2013A	2014A	2015F	2016F	2017F
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**Revenues (RM m)**

Industrial land sales	80	120	143	110	80	80
Property development	343	425	453	566	692	771
Education	0	0	1	5	6	7
Clubhouse	0	0	0	6	7	9
Others	33	30	3	0	0	0
<b>Total</b>	<b>456</b>	<b>574</b>	<b>599</b>	<b>687</b>	<b>785</b>	<b>866</b>

**EBIT (RM m)**

Industrial land sales	N/A	N/A	N/A	66	48	48
Property development	N/A	N/A	N/A	212	250	270
Education	N/A	N/A	N/A	(7)	(7)	(5)
Clubhouse	N/A	N/A	N/A	(1)	0	2
Others	N/A	N/A	N/A	0	0	0
<b>Total</b>	<b>144</b>	<b>207</b>	<b>247</b>	<b>270</b>	<b>291</b>	<b>315</b>

**EBIT Margins (%)**

Industrial land sales	N/A	N/A	N/A	60.0	60.0	60.0
Property development	N/A	N/A	N/A	37.5	36.1	35.0
Education	N/A	N/A	N/A	(134.6)	(117.1)	(72.7)
Clubhouse	N/A	N/A	N/A	(16.7)	0.0	23.1
<b>Total</b>	<b>31.5</b>	<b>36.0</b>	<b>41.3</b>	<b>39.3</b>	<b>37.0</b>	<b>36.3</b>

Expect resilient sales from township developments

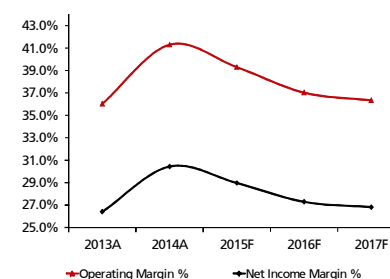
Unbilled sales of RM540m as at Jun-15

High margins for STV industrial land sales

Source: Company, AllianceDBS

**Income Statement (RM m)**

FY Dec	2012A	2013A	2014A	2015F	2016F	2017F
Revenue	456	574	599	687	785	866
Cost of Goods Sold	(263)	(300)	(271)	(315)	(387)	(439)
<b>Gross Profit</b>	<b>193</b>	<b>274</b>	<b>328</b>	<b>372</b>	<b>398</b>	<b>427</b>
Other Opng (Exp)/Inc	(49)	(68)	(81)	(102)	(107)	(113)
<b>Operating Profit</b>	<b>144</b>	<b>207</b>	<b>247</b>	<b>270</b>	<b>291</b>	<b>315</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	(1)	(2)	(3)	(5)	(5)	(5)
Exceptional Gain/(Loss)	0	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>143</b>	<b>205</b>	<b>245</b>	<b>265</b>	<b>286</b>	<b>310</b>
Tax	(39)	(53)	(62)	(66)	(71)	(77)
Minority Interest	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
<b>Net Profit</b>	<b>103</b>	<b>152</b>	<b>182</b>	<b>199</b>	<b>214</b>	<b>232</b>
Net Profit before Except.	103	152	182	199	214	232
EBITDA	146	210	250	273	294	318
<b>Growth</b>						
Revenue Gth (%)	(26.9)	25.9	4.3	14.7	14.3	10.3
EBITDA Gth (%)	34.1	43.4	19.3	9.3	7.7	8.2
Opg Profit Gth (%)	34.5	43.9	19.6	9.2	7.7	8.2
Net Profit Gth (%)	26.3	46.5	20.2	9.2	7.7	8.4
<b>Margins &amp; Ratio</b>						
Gross Margins (%)	42.3	47.8	54.8	54.1	50.7	49.3
Opg Profit Margin (%)	31.5	36.0	41.3	39.3	37.0	36.3
Net Profit Margin (%)	22.7	26.4	30.4	29.0	27.3	26.8
ROAE (%)	35.7	34.8	30.6	27.5	25.2	23.4
ROA (%)	18.9	20.7	19.0	17.6	16.4	15.8
ROCE (%)	33.7	32.4	27.8	25.2	23.5	22.1
Div Payout Ratio (%)	0.0	60.2	43.5	40.0	40.0	40.0
Net Interest Cover (x)	142.1	115.0	90.9	57.6	57.2	61.9

**Margins Trend**

Consistently high margins

Source: Company, AllianceDBS

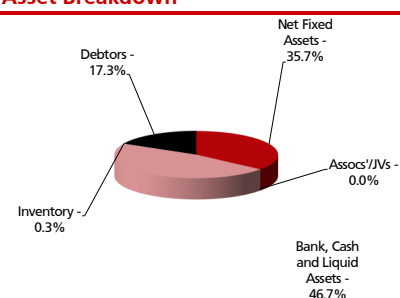


**Matrix Concepts Holdings Bhd**

**Balance Sheet (RM m)**

FY Dec	2012A	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	12	78	191	268	344	421
Invt in Associates & JVs	0	0	0	0	0	0
Other LT Assets	34	39	47	47	47	47
Cash & ST Invt	31	101	97	349	323	336
Inventory	2	1	2	2	3	3
Debtors	101	117	113	129	148	163
Other Current Assets	408	542	588	427	520	586
<b>Total Assets</b>	<b>587</b>	<b>878</b>	<b>1,037</b>	<b>1,223</b>	<b>1,385</b>	<b>1,556</b>
ST Debt	4	40	50	50	50	50
Creditor	48	121	136	156	178	196
Other Current Liab	175	176	158	205	210	216
LT Debt	18	11	28	28	28	28
Other LT Liabilities	0	1	1	1	1	1
Shareholder's Equity	342	529	664	784	918	1,065
Minority Interests	0	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>587</b>	<b>878</b>	<b>1,037</b>	<b>1,223</b>	<b>1,385</b>	<b>1,556</b>
Non-Cash Wkg. Capital	288	362	409	199	283	341
Net Cash/(Debt)	9	50	19	271	245	258
Debtors Turn (avg days)	70.5	69.3	70.0	64.3	64.4	65.5
Creditors Turn (avg days)	73.3	103.7	174.2	170.2	158.3	156.7
Inventory Turn (avg days)	2.2	2.0	1.9	2.6	2.4	2.4
Asset Turnover (x)	0.8	0.8	0.6	0.6	0.6	0.6
Current Ratio (x)	2.4	2.3	2.3	2.2	2.3	2.4
Quick Ratio (x)	0.6	0.6	0.6	1.2	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	13.1	136.2	148.8	102.3	102.3	102.3

**Asset Breakdown**

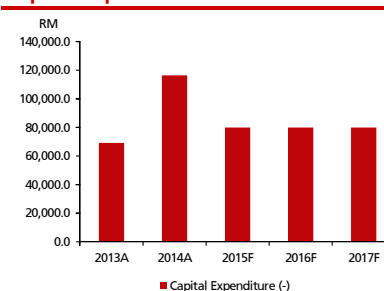


Net cash position despite heavy capex investment for BSS township

Source: Company, AllianceDBS

**Cash Flow Statement (RM m)**

FY Dec	2012A	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	143	205	245	265	286	310
Dep. & Amort.	2	3	3	3	3	4
Tax Paid	(39)	(50)	(63)	(20)	(66)	(71)
Assoc. & JV Inc/(loss)	0	0	0	0	0	0
Chg in Wkg.Cap.	(71)	(120)	(56)	163	(90)	(63)
Other Operating CF	0	1	8	0	0	0
<b>Net Operating CF</b>	<b>35</b>	<b>40</b>	<b>136</b>	<b>412</b>	<b>133</b>	<b>179</b>
Capital Exp.(net)	(3)	(69)	(116)	(80)	(80)	(80)
Other Invt.(net)	0	(15)	15	0	0	0
Invt in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	0	2	0	0	0
<b>Net Investing CF</b>	<b>(3)</b>	<b>(84)</b>	<b>(100)</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>
Div Paid	(20)	(46)	(78)	(79)	(80)	(86)
Chg in Gross Debt	5	(3)	21	0	0	0
Capital Issues	0	140	10	0	0	0
Other Financing CF	0	(8)	0	0	0	0
<b>Net Financing CF</b>	<b>(15)</b>	<b>83</b>	<b>(47)</b>	<b>(79)</b>	<b>(80)</b>	<b>(86)</b>
Currency Adjustments	0	32	6	0	0	0
Chg in Cash	17	70	(4)	253	(27)	13
Opg CFPS (sen)	25.2	37.9	36.0	45.2	40.5	43.9
Free CFPS (sen)	7.6	(7.0)	3.7	60.3	9.6	17.9

**Capital Expenditure**

Minimum 40%  
dividend payout policy

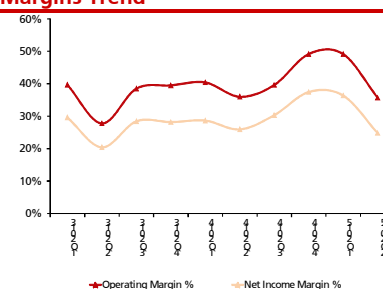
Source: Company, AllianceDBS

**Matrix Concepts Holdings Bhd**

**Quarterly / Interim Income Statement (RM m)**

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	135	164	149	151	318	120
Cost of Goods Sold	(67)	(89)	(65)	(54)	(130)	(57)
<b>Gross Profit</b>	<b>68</b>	<b>75</b>	<b>84</b>	<b>98</b>	<b>187</b>	<b>63</b>
Other Oper. (Exp)/Inc	(13)	(16)	(25)	(23)	(31)	(20)
<b>Operating Profit</b>	<b>54</b>	<b>59</b>	<b>59</b>	<b>74</b>	<b>156</b>	<b>43</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	(1)	(2)
Exceptional Gain/(Loss)	0	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>54</b>	<b>59</b>	<b>58</b>	<b>74</b>	<b>155</b>	<b>41</b>
Tax	(15)	(16)	(13)	(17)	(40)	(12)
Minority Interest	0	0	0	0	0	0
<b>Net Profit</b>	<b>39</b>	<b>42</b>	<b>45</b>	<b>57</b>	<b>115</b>	<b>30</b>
Net profit bef Except.	39	42	45	57	115	30
EBITDA	85	92	90	101	156	43

**Margins Trend**



Accelerated completion prior to implementation of GST in Apr-15

**Growth**

Revenue Gth (%)	(6.7)	21.6	(9.1)	1.5	110.3	(62.1)
EBITDA Gth (%)	39.6	7.8	(2.6)	12.1	55.2	(72.5)
Opg Profit Gth (%)	(4.5)	8.3	0.0	26.0	110.2	(72.5)
Net Profit Gth (%)	(5.2)	10.1	6.2	25.4	104.2	(74.1)

**Margins**

Gross Margins (%)	50.3	45.5	56.3	64.6	58.9	52.3
Opg Profit Margins (%)	40.4	36.0	39.6	49.2	49.1	35.7
Net Profit Margins (%)	28.6	25.9	30.3	37.4	36.3	24.8

Source: Company, AllianceDBS

## Valuation

**Undemanding valuation.** We derive our TP of RM3.30, after applying a 30% discount to our RNAV of RM4.73. Matrix is currently trading at a bargain of 6x FY16 PE which is unjustified given the strong earnings clarity for a township developer. It is the best proxy to a resilient township development which is less cyclical given the long-term nature of a township development.

**Record profits year after year.** What makes Matrix stand out among its peers is its impressive earnings delivery. It had registered 32% earnings CAGR over the past three years, and prospects remain positive as its flagship developments continue to gain traction. FY15 is likely to be a record year for Matrix, thanks to strong 1H15 earnings (+79% y-o-y) driven by accelerated recognition following quick construction and completion of industrial property sales before GST implementation.

**Impressive dividend yield.** Coming from a large base, Matrix's earnings growth could be less exciting going forward, but shareholders will continue to enjoy strong earnings clarity given the strong demand for its affordably-priced properties. Also, its large concentration of affordable properties implies sales are likely to remain strong which in turn will ensure sustainable dividend payout. Based on its minimum 40% payout policy, Matrix offers a decent dividend yield of 6.4% - the highest within our Malaysia property universe.

## RNAV

Project	Type	Area (acres)	Est. GDV (RMm)	Land cost (RMm)	(RMpsf)	Market value (RMm)	(RMpsf)	NPV/surplus (RMm)
Bandar Sri Sendayan	Township	907.3	3,509					659
Taman Seri Impian	Township	209	674					94
Kota Gadong Perdana	Township	294.6	926	39	3.0	192	15	154
Residency SIGC	Residential	41.8	229					50
Putra Land	High rise	1.1	400					32
Locak Commercial Centre	Commercial	6.6	90					14
Rasah Kemayan land	Township	194.4	800	62	7.3	169	20	108
Labu land	Township	236.9	760	50	4.8	186	18	136
Puchong land	High rise	5.76	500	95	378.6	125	500	30
		<b>1,897</b>	<b>7,888</b>					<b>1,276</b>
Sendayan Tech Value	Industrial	187	276	81	10	407	50	326
Sendayan Tech Park	Industrial	123	170	80	15	214	40	134
Labu land	Industrial	79	110	45	13	138	40	93
		<b>389</b>	<b>556</b>					<b>553</b>
	Total	<b>2,286</b>	<b>8,444</b>					<b>1,829</b>
							Total	<b>1,829</b>
							Shareholders fund	<b>774</b>
							RNAV (RMm)	<b>2,603</b>
							RNAV/share (RM)	<b>4.73</b>
							TP - 30% discount to RNAV	<b>3.30</b>

Source: AllianceDBS, Company

## Company Focus

### Matrix Concepts Holdings Bhd

#### Peer comparison

Company	FYE	Rating	Price	TP	Market cap	RNAV discount	PE		PB		ROE	
							CY15	CY16	CY15	CY16	CY15	CY16
SP Setia	Oct	Buy	3.30	4.10	8,673	43%	14.2	13.8	1.4	1.3	10%	10%
UEM Sunrise	Dec	Hold	1.29	1.00	5,853	61%	19.5	15.2	0.9	0.9	5%	6%
Sunway	Dec	Hold	3.10	3.20	5,545	30%	10.1	10.0	0.9	0.8	9%	8%
Eco World	Oct	Buy	1.39	1.70	3,286	34%	46.3	16.9	1.0	1.0	2%	6%
E&O	Mar	FV	1.60	1.20	2,003	59%	45.9	32.7	1.2	1.2	3%	4%
Matrix Concepts	Dec	Buy	2.43	3.30	1,337	49%	6.7	6.2	1.7	1.5	25%	23%
MKH	Sep	Buy	2.32	2.80	973	52%	9.1	7.3	0.9	0.8	10%	11%
<b>Average</b>						<b>47%</b>	<b>21.7</b>	<b>14.6</b>	<b>1.1</b>	<b>1.1</b>	<b>9%</b>	<b>10%</b>

Source: AllianceDBS, Company

**Appendix**

**D'Tempat Country Club**



**Matrix Global Schools**



**D'Tempat Country Club – Indoor tennis lawn**



**Matrix Global Schools – Leisure area**



**D'Tempat Country Club – Bowling alley**



**Matrix Global Schools – Library**



Source: Company

**DISCLOSURE**

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**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**Commonly used abbreviations**

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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