

## Matrix Concepts Holdings Bhd

## The Matrix Revolutions

### Initial Public Offering

IPO Price : RM 2.20

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#### Key Statistics

Bloomberg Ticker	MCH MK
TCP Ticker / Code	MATRIX/5236
Shares Issued (m)	300.00

#### Major Shareholders (%) – Post IPO

Dato' Lee Tian Hock	19.96
Magnitude Point	6.37

#### Indicative Timetable

#### DATE

Underwriting Agreement Signing	18-April-13
Opening date of Application	8-May-13
Closing date of Application	15-May-13
Balloting of Applications	17-May-13
Despatch of notices of allotment	27-May-13
Listing	28-May-13

#### Highlights:

- ◆ **Valuation:** We have placed a fair value of RM2.49 on MATRIX based on a 30% discount, in view of its mid-size market capitalisation, and the peripheral location of its landbank. Nevertheless, we would recommend to SUBSCRIBE for the IPO premised on: 1) steady earnings with clear visibility; 2) huge land bank of 2,370 acres which promises sustained development until 2019; 3) attractive valuation relative to the property sector, at 5.1x FY13 EPS; 4) expectations of a high dividend yield of 7.8% and 9.5% for FY13 and FY14.

#### Highlights:

- ◆ A vast land bank for sustained development activities
- ◆ Steady earnings with clear visibility
- ◆ Shareholders are expected to be rewarded with attractive dividends
- ◆ Positive outlook on the property sector

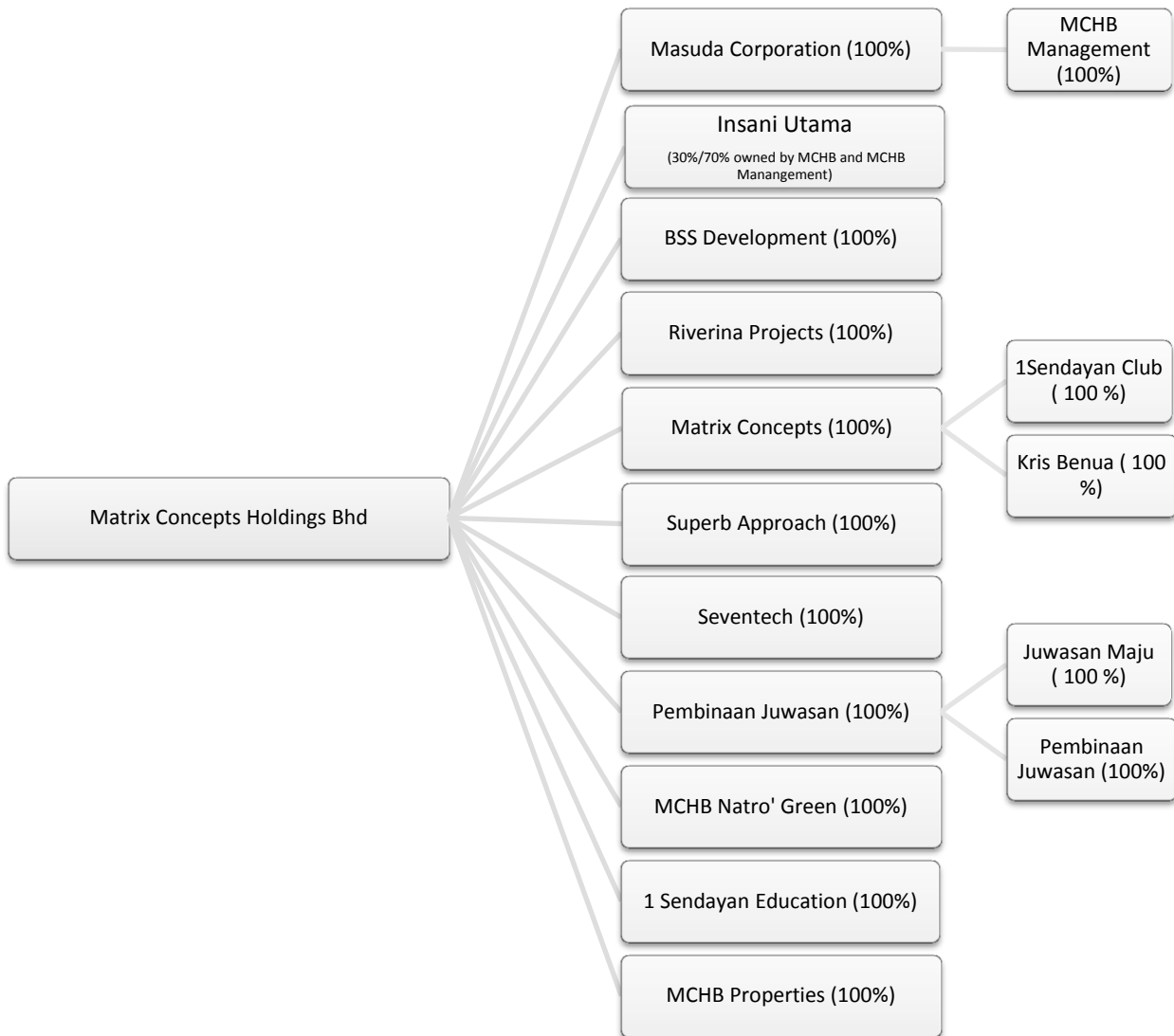
#### Key Financial Items

FYE'Dec (RM'm)	FY10	FY11	FY12	FY13F	FY14F
Revenue (m)	195.63	624.25	456.07	556.92	645.31
Pretax Profit (m)	29.96	106.34	142.76	171.82	211.32
Net Profit (m)	20.51	69.41	103.49	128.91	157.46
EPS (sen)	6.84	23.14	34.50	42.97	52.49
Pretax margin (%)	15.31	17.03	31.30	30.85	32.75
Net Profit margin (%)	10.48	11.12	22.69	23.15	24.40
PER (x)	32.18	9.51	6.38	5.12	4.19
DPS (sen)	0.00	0.00	13.80	17.19	20.99
Dividend Yield	0.00%	0.00%	6.27%	7.81%	9.54%
ROE (%)	10.10	29.21	30.26	27.13	28.42
ROA (%)	10.57	13.71	17.63	14.32	15.17
Net Gearing Ratio (x)	1.61	0.01	net cash	net cash	net cash
BV/Share (RM)	0.68	0.79	1.14	1.64	1.85

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**Chart 1: Corporate Structure**



**Utilization of proceeds**

Details	Estimated Timeframe	RM m	%
Infrastructure and common facilities	Within 24 months	55.0	40.0
Working capital	Within 24 months	55.0	40.0
Construction of clubhouse	Within 24 months	10.0	7.27
Repayment of bank borrowings	Within 12 months	11.0	8.0
Estimated listing expenses	Within 1 month	6.50	4.73
<b>Total proceeds</b>		<b>137.5</b>	<b>100.0</b>

Source: Prospectus. Interpac

**Corporate Milestones**

**1997:**

- Commenced operations as a property development company
- Began maiden property project, Tmn Bahau in Negeri Sembilan

**1999:**

- First JV with Menteri Besar Incorporated (MBI) of Negeri Sembilan to develop Tmn Andalas on approx 39 acres of land
- Launched Phase 1 of Tmn Andalas with 90% units sold within 6 months

**2004:**

- Acquired Seventech, a property development company to expand Johor
- Commenced 1st Johor project with the development of Tmn Anggerik Tenggara

**2005:**

- Entered JV with Koperasi Kemajuan Tanah Negeri Johor Berhad to undertake township development in Tmn Seri Impian, Kluang, Johor
- Entered JV with MBI to develop 2nd flagship development project in Bandar Sri Sendayan (BSS), Seremban
- Accredited with ISO 9001:2000 status

**2006:**

- Launched first 2 phases of Taman Seri Impian township development

**2008:**

- Launched first 2 phases of developments in BSS – Nusari Bayu 1 (residential area) and Sendayan Metropark (commercial plots).

**2009:**

- Upgraded to ISO 9001:2008 by BM TRADA Certification Ltd

**2011:**

- Disposed piece of land (750 acres) to 1Malaysia Development Berhad for purpose of setting up new academia and training centre for the RMAF at BSS

**2012:**

- Signed MOU with 6 foreign companies from Japan, Taiwan, Hong Kong and France for purchase of industrial lots at Sendayan Techvalley 2

*Source: Prospectus, Interpac*

**Management Team:**

**1. Dato' Lee Tian Hock ( Group Managing Director/ Chief Executive Officer):**

Founder of Matrix Concepts Group. He is responsible for the Group's business direction and overall strategies and policies. He has approximately 30 years of experience in the property development industry and was involved in the development of Taman Rasah Jaya – then the largest housing scheme in Negeri Sembilan; Graduated with a degree in Housing, Building and Planning from Universiti Sains Malaysia.

**2. Ho Kong Soon ( Group Deputy Managing Director/ Chief Operating Officer):**

Responsible for overall project management as well as overseeing daily operations of the Group; Has approximately 20 years of experience and was involved in the development of the Allson Klana Resort Hotel, Kasturi Klana Park Condominium and Taman Semarak housing scheme in Negeri Sembilan; graduated with Bachelor of Engineering degree from University of Malaya.

**3. Lee Fah Pin (General Manager- Projects):**

More than 20 years of civil engineering experience, e.g. preparing structural engineering design calculations and drawings for commercial, industrial and residential buildings in steel, timber and concrete design. Graduated with a Bachelor of Science (Civil Engineering) and Masters of Science (Civil Engineering) from California State University of Fresno. Member of Institute of Engineers, Malaysia and Technological Association of Malaysia and Structural Engineers Institution, USA.

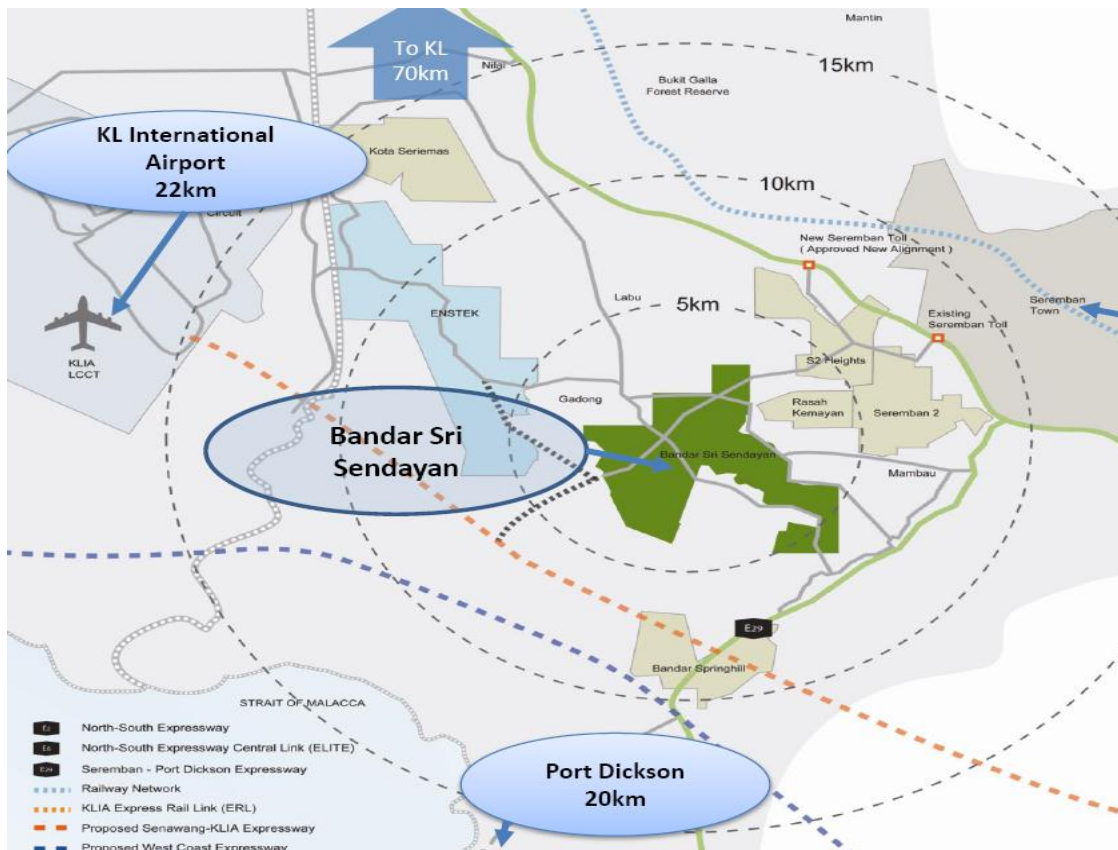
**Background:**

The company was established as Brilliant Radical Sdn Bhd in 1996, as a private limited company. Subsequently the company name is changed to Matrix Concepts Holdings Sdn Bhd. In 2004, the company is converted into a public limited company and assumed its present name. Matrix Concepts Holdings Bhd (MCHB) is principally an investment holding company, with subsidiary companies that are involved in property development, investment holding, project management and procurement of building materials and administrative services. MCHB's first maiden property development project commenced in 1997, which was Taman Bahau in Negeri Sembilan, where 595 units of residential and commercial properties with a GDV of approximately RM34.9 million were successfully launched, sold and delivered in December 1998 for Phase 1 and March 1999 for Phase 2. MCHB's main focus is building affordable residential and quality residential and commercial properties that are able to meet the demand for medium-end properties. The Group is currently undertaking the development of two township projects known as Bandar Sri Sendayan in Seremban, Negeri Sembilan and Taman Seri Impian in Kluang, Johor. To-date, MCHB has launched 2,659 units of residential, commercial and industrial properties with an estimated total GDV of RM1.0 billion. Of these, 1,925 units of properties were sold, representing approximately 72.4% of the total number of on-going development properties launched by the Group.

Bandar Sri Sendayan (BSS)

In 2005, MCHB through BSS Development signed a joint venture agreement with MBI [(Menteri Besar (Perbadanan))] to develop a new integrated township located on a 5,233-acre plot of land in Seremban, Negeri Sembilan. MCHB has been engaged in the development of Bandar Sri Sendayan since 2008. To-date, MCHB had completed 2,173 units of terrace houses, 74 units of semi-detached houses, 46 units of shop offices and 18 lots of commercial plots. The Group has delivered RM494.4 mil worth of projects in Bandar Sri Sendayan so far. The township is partially completed with basic public amenities, residential properties and retail businesses. Some of the retail businesses are already operational. In addition to the on-going residential, commercial and industrial projects, there are various other government and private projects being undertaken in BSS, including the development of public amenities, construction of government buildings and factories.

BSS is strategically located among other large developments and townships. BSS is 70km away from Kuala Lumpur, 22km away from KLIA and 14km away from Seremban town. With the rising house prices in Klang Valley, we believe BSS is set to benefit from spill-over effects. BSS can be viewed as an investment proxy to the proposition that Seremban will be a satellite city within the Greater Klang Valley KL-Seremban conurbation, which has been gaining traction over the years, along with rising number of people migrating to Seremban while still working in Kuala Lumpur.



According to the Planning and Development Guide 2020 of Negeri Sembilan, the State's potential prime development sectors are agriculture, tourism, industry and property. In addition, Seremban is one of the areas of emphasis for the National and State Government, given that Seremban is part of the Kuala Lumpur Conurbation, the National Growth Conurbation, which is a level 1 priority development under the National Physical Plan. The planning strategies for the Kuala Lumpur Conurbation include enhancement of inter-urban and intra-city movement and promotion of development within the regions. We anticipate, BSS will benefit from this Development Guide and will attract further commercial and industrial investments, and this will lead to more residential investments in the area. The development of Bandar Sri Sendayan is also undertaken based on the State's policies on housing and urbanization.

#### Commercial, Industrial, Leisure and Institutional Developments in BSS

Apart from residential developments, BSS development is also comprised of a large proportion of commercial and industrial developments. Sendayan Merchant Square and Sendayan Metropark are mainly commercial developments comprising two and three-storey shop offices and some commercial land. The Sub Centre @ Sendayan TechValley 1A development consists of corporate showrooms/factories, shop offices and commercial land.

Another major development in BSS is the Sendayan TechValley (STV), a light-to-medium industrial area spanning 685 acres within BSS. STV is the key economic driver for the BSS development as it has attracted a good number of foreign investors to STV. These include Hino Motor (RM150m), Messier-Bugatti-Dowty (RM300m), Akashi-Kakai Industry/Daihatsu (RM220m), Nippon Kayaku (RM600m) and others.

To round off Bandar Sri Sendayan as an integrated township, MCHB has embarked on The Sendayan Clubhouse Development, which consists of clubhouses, commercial plots and educational institutions with its own leisure and educational facilities meeting the needs of the community of Bandar Sri Sendayan. The development of the clubhouse will include various sports and recreational facilities, retail and dining outlets, a fitness centre as well as a therapeutic treatment facility. Some of the sports and recreational facilities include among others, an Olympics-size swimming pool, a bowling alley, a futsal court, badminton and indoor tennis courts, a table tennis centre and games room. It will also offer different types of dining outlets including an indoor cafeteria, outdoor dining outlets as well as restaurants and a banquet hall. The Group is currently in the midst of completing building plans for the design and layout of the clubhouse and is scheduled to be completed by June 2014. In addition, the group is in the midst of planning the development of the Sendayan Icon Park. Based on current plans, the Sendayan Icon Park development will comprise small office home office (SoHo) units, a trade and exhibition centre and two floating restaurants separated by a lake as well as a cultural village. MCHB intends to operate and retain ownership of the trade and exhibition centre while outlets within the exhibition centre will be leased out to various targeted businesses such as lifestyle and fashion boutiques, leather and designer goods, household goods, DIY stores, medical and pharmaceutical outlets.



Nusari Aman 2A Double storey semi-detached house



Idaman Bayu Single Storey



Artist impression of Sendayan Icon Park

#### Taman Seri Impian – Kluang

In 2005, MCHB signed a joint venture agreement with Koperasi Kemajuan Tanah Negeri Johor Berhad to embark on another flagship project, a 900-acre township known as Taman Seri Impian (TSI) in Kluang, Johor. The project involved the development of residential and commercial properties. The residential development is within close proximity to various public amenities such as hospitals, schools, bus and taxi terminals, a recreation park and markets. Taman Seri Impian is easily accessible via the Jalan Kluang- Bandar Tenggara road with proposed connections to interchange/exit points to the Kluang – Pasir Gudang Expressway.

To date, MCHB has completed the development of 2,337 units of residential properties and 69. units of commercial properties through the developments of Taman Seri Impian 1, Implana Avenue 1, Parcel 1 and Parcel 2 of Taman Seri Impian 2, Taman Seri Impian 3 (Impiana Garden 1), Taman Seri Impian 3 (Impian Garden 2 - Modena), Taman Seri Impian 3 (Impiana Garden 2) and Impiana Avenue 2. The residential properties in these phases are single storey and double storey terrace houses while the commercial properties are double storey shop offices. In respect of on-going projects, the combined total site area is 68.4 acres with a combined GDV of RM143.2m. These include Impiana Villa 1 and Taman Seri Impian 4 (Impiana Casa 1). Upon completion, these phases will comprise 626 units of residential properties. Impiana Villa 1 is a gated and guarded community comprised of single storey and double storey detached-houses, with 24-hour security and patrolling guards while Taman Seri Impian 4 (Impiana Casa 1) comprises single storey and double storey terrace houses. In addition, more developments of residential and commercial properties in Taman Seri Impian have been planned for future developments. The combined total site area of completed projects at Taman Seri Impian was approximately 242.2 acres with a combined net sales value of RM274.9 million.







Taman Seri Impian – Playground



Impiana Avenue 1 and 2– Double-Storey Shop offices



Impiana Casa – Single-Storey and Double-Storey Terrace Houses

### **Investment Case for MCHB**

#### **Equipped with vast land bank for sustained development**

To date, the Group has an estimated 2,374 acres in its land bank. Of these about 1,900 acres of the land bank is located in two major townships; Bandar Sri Sendayan located in Negeri Sembilan and Taman Seri Impian located in Kluang, Johor. However, the main revenue driver is its developments in BSS, which accounted for 75 % revenue of FY12, and 18% of its revenue derived from TSI. The GDV of on-going developments scheduled to be completed by December 2013 is estimated at RM1.0b. In addition, between June 2012 and 2019, the group plans to undertake various property development projects in Seremban, Negeri Sembilan and Kluang, Johor, with an estimated total GDV of RM5.4b excluding the clubhouse, educational institutions and the Sendayan Icon Park.

**Steady earnings with clear visibility**

Matrix Concepts registered a strong improvement in the growth of its PAT from 11% in FY10 and 13% in FY11 to 23% in FY12, boosted by enviable gross margins of 29%, 24% and 42% for FY10, FY11 and FY12. Part of its property activities also covers the sale of land, including large tracts of undeveloped land. For the FY11, the land sale accounted for 51% of the total Group revenue and 13.8% of total Group gross profit. Total land sales largely reflected the sale of a 750-acre plot of undeveloped land to 1 MOB for the setting up of a new academia and training centre for the Royal Malaysian Air Force and the relocation of the Sungai Besi airbase to Bandar Sri Sendayan in Negeri Sembilan. This sale amounted to RM294.0 million, which represented 47.1% of total Group revenue. The strong set of financial results was mainly due to the higher selling prices of new launches which represented a huge premium over the landbank acquisition cost which was at a cheap average price of RM3psf for land in BSS and TSI. We believe that the double-digit profit trend is likely to continue with higher margin sales, as both BSS and TSI developments are progressively moving into the upper-middle and higher-end segments.

**Shareholders can expect to be reward with attractive dividends**

The company intends to adopt a policy of active capital management, as they target a payout ratio of not less than 40% of consolidated profits each financial year. Based on the FY12 EPS of 34.5sen, dividends will be RM13.8sen/share, which implies a yield of 6.3% and is very attractive for a property sector player. Based on our FY13 and FY14 forecasts, a 40% dividend payout ratio will result in 17.2sen and 20.9 sen in dividends/share, which implies a yield of 7.8% and 9.5% against the IPO price of RM2.20.

**Positive outlook for Property**

Now that the general election was over, we expect major government policies to continue. Any significant changes in the government's key economic development programmes such as the Economic Transformation Programme (ETP) and the Iskandar developments are unlikely. The property sector has been lagging for the last 12 months as buyers turned cautious. For now, the election uncertainties have dissipated, our view is that the property sector will fare well as current market environment favours high beta stocks.

**Valuation**

We have placed a fair value of RM2.49 on MATRIX based on a 30% discount to its RNAV of RM3.56 in view of its mid-size market capitalisation, and its landbanking assets being in more peripheral areas. Nevertheless, we would recommend to SUBSCRIBE the IPO premised on its: 1) Steady earnings with clear visibility; 2) a huge land bank of 2,370 acres which commands a sustainable development until 2019; 3) an attractive valuation relative to the property sector, at 5.1x FY13 EPS; 4) high expected dividend yield of 7.8% and 9.5% for FY13 and FY14 respectively.

Land	Registered/ Beneficial Owner	Location	Size (acres)	Stake	Estimated Market Value (RM'000)
Residential and Commercial Land for future development, Bandar Seri Sedayan (BSS)	MBI/BSS Deveopment	Negeri Sembilan	1,657	100%	934,310
Sendayan TechValley, STV	Matrix	Negeri Sembilan		100%	
Jalan Tan Sri Manikavasagam	BSS Deveopment	Negeri Sembilan	101.7	100%	5,750
Office Building, Jln Tun Dr. Ismail, Seremban	Matrix	Negeri Sembilan	-	100%	4,800
Jalan Pasir Panjang , Port Dickson	Matrix	Negeri Sembilan	-	100%	3,320
Taman Seri Impian, Kluang	Matrix-KKTNB	Johor	320.0	100%	111,200
Kota Gadang Perdana, Seremban	Matrix	Negeri Sembilan	295.0	100%	93,400
					1,152,780
Trade receivables and amount due from customers					33,900
Deposits and Cash Balance					30,727
Loans and Payables					(149,062)
Total					1,068,345
<b>RNAV/Share</b>					<b>3.56</b>

## Ratings System

Ratings:	Description:
SUBSCRIBE	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
NOT SUBSCRIBE	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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