

Matrix Concepts Holdings Berhad (MCH MK)

Not Rated

Property - Real Estate

Target Price: MYR2.62

Market Cap: USD220m

Issue Price: MYR2.20

Riding On The Sector Upcycle

Macro	◆◆◆
Risks	◆◆
Growth	◆◆◆
Value	◆◆◆

Matrix Concepts' (MCHB) listing PE of 6.4x is undemanding, considering the current buoyant market which is fairly conducive for high-beta property sector. We like the company's landbank exposure at Bandar Sri Sendayan (BSS), particularly the Sendayan TechValley (STV) land plots. Given its proximity to KLIA, it has successfully attracted a number of industrial players to set up their plants there. We value the company at MYR2.62, based on 40% discount to RNAV.

- ◆ **A developer based in Negeri Sembilan.** MCHB's landbank is largely located in Negeri Sembilan. MCHB has more than 1,900 acres of land at BSS (together with STV), and over 600 acres at Taman Seri Impian at Kluang Johor. Including other smaller future projects, MCHB carries a total portfolio GDV of about MYR6.8bn.
- ◆ **Bandar Sri Sendayan the key jewel.** The BSS accounted for 74% of MCHB's total revenue in FY12. BSS is left with total landbank of almost 1,950 acres, out of which 338 acres are located within the STV, which MCHB sells to industrial players. We like the land disposal strategy at STV, as we believe the area will be able to attract industrial players, given its proximity to the KLIA and the North-South Highway. The current market price of MYR30-35psf for the land parcels at STV would yield a generous margin to MCHB, given the land cost of only MYR9 psf (including infra). The working population at STV would create a natural demand for properties at BSS. Having said that, IJM Land is a direct competitor, given its Seremban 2 township nearby.
- ◆ **Other projects.** Taman Seri Impian is another township project by MCHB at Kluang. It has a remaining GDV of MYR1.3bn. This project made up 18% of the total revenue in FY12. Take-up rate for this project is above 90% on average.
- ◆ **Forecasts.** We estimate an earnings growth of 22% and 16% for FY13-14. Based on the dividend payout policy of at least 40%, our DPS forecast of 16.8 sen in FY13 would translate into a yield of >7%, based on MYR2.20 issue price.
- ◆ **Valuations.** We value MCHB at MYR2.62, based on 40% discount to RNAV. The PE based on the issue price is 5.2x for FY13, which we think is undemanding for a small cap developer, given the current buoyant sentiment on the property sector post general election.

Listing Sought	Bursa Malaysia Main Market-
Listing Date	28 May 2013
Public Issue	62.5m new shares including: <ul style="list-style-type: none"> - 10m to Malaysian public - 8.08m to directors & employees - 43.7m to identified investors

Shareholders (%)	
Promoters & substantial shareholders	66.7

Shariah compliant

Loong Kok Wen CFA +603 9280 2237
loong.kok.wen@rhb.com.my

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	195.6	624.3	456.1	573.1	661.1
Recurring net profit (MYRm)	20.5	69.4	103.5	126.3	146.3
Net profit growth (%)	-	238.4	49.1	22.1	15.9
EPS (MYR)	0.09	0.29	0.34	0.42	0.49
DPS (MYR)	-	-	0.00	0.17	0.20
Dividend Yield (%)	-	-	0.0	7.7	8.9
Return on average assets (%)	-	-	17.6	12.9	13.3
Return on average equity (%)	-	-	30.3	18.9	19.4
P/E (x)	25.47	7.53	6.38	5.23	4.51
P/B (x)	-	-	1.93	0.99	0.87
Net debt to equity (x)	-	-	0.0	0.0	0.0

Source: Company data, RHB estimates

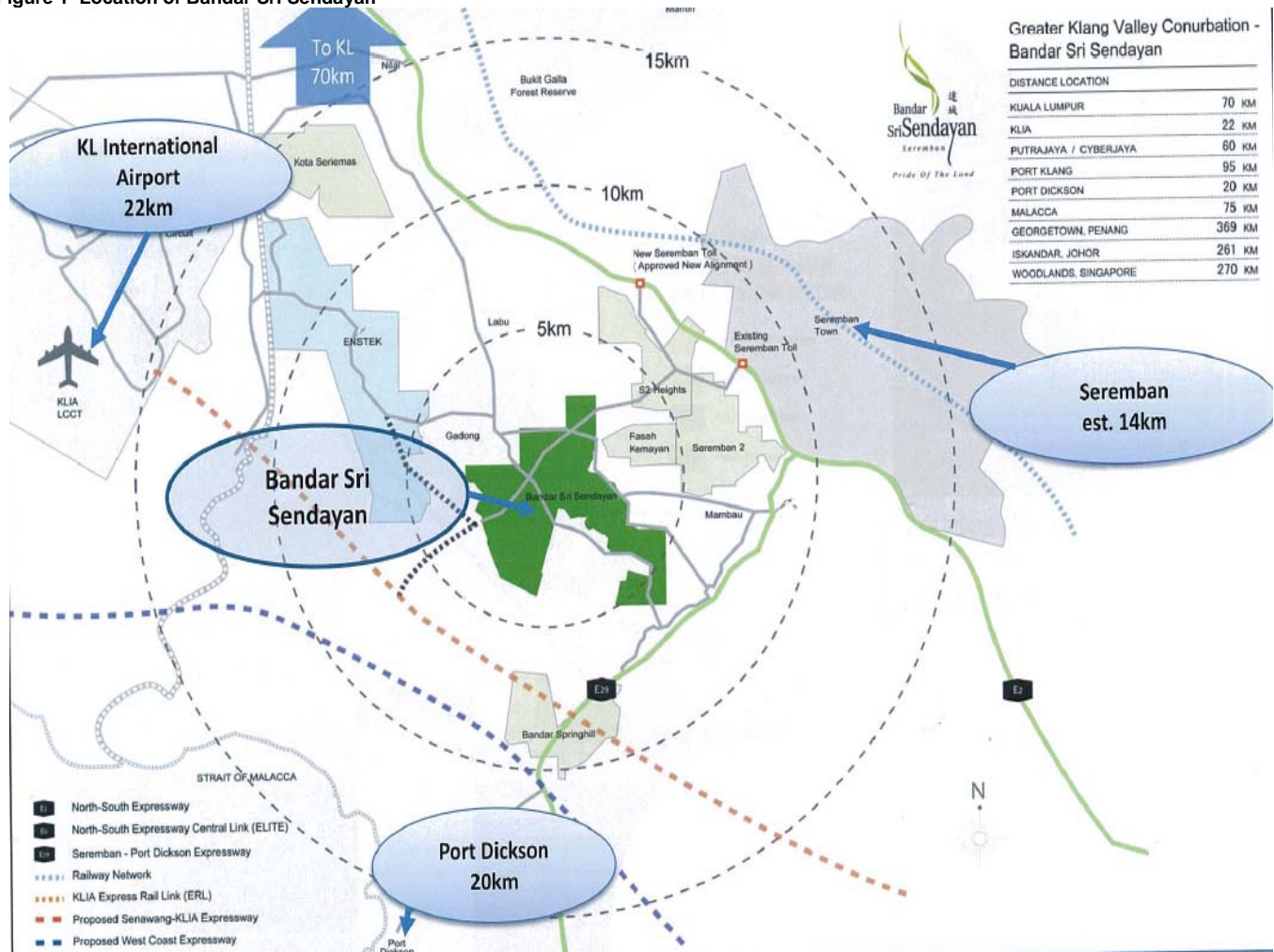
Riding On The Sector Upcycle

A Negeri Sembilan-based developer

MCHB has more than 1,900 acres of landbank at Negeri Sembilan and over 600 acres in Kluang Johor, carrying a total portfolio GDV of about MYR6.8bn. The company mainly concentrates in developing residential, commercial and industrial properties. Over the years, the company has completed projects worth MYR2.1bn GDV on about 1,800 acres of land.

Bandar Sri Sendayan the key jewel. Among all the land parcels, we like BSS the most. BSS is 22km away from KLIA, 20km from Port Dickson, and 70km from KL. BSS is currently the key earnings contributor. It accounted for 74% of MCHB's total revenue in FY12. Take-up rate of all phases in the township is above 80% on average. The township has a remaining landbank of almost 1,950 acres, out of which 338 acres are located within the STV, which MCHB sells to industrial players. We like the land disposal strategy at STV, as we believe the area will be able to attract manufacturers and industrial companies, given its proximity to the KLIA and the North-South Highway. Indeed, a few foreign industrial players have already set up their plants there. These include Hino Motor, Messier-Buggatti-Dowty, Akashi-Kikai Industry/Daihatsu, MBM Resources/Mitsubishi, and Nippon Kayaku etc. The current market price of MYR30-35psf for the land parcels at STV would yield a generous margin to MCHB, given the land cost of only MYR9 psf (including infra). The working population at STV would create a natural demand for properties at BSS. Having said that, IJM Land is a direct competitor, given its Seremban 2 project nearby.

Figure 1 Location of Bandar Sri Sendayan



Source: Company

Other projects. Taman Seri Impian is another township project by MCHB at Kluang. It is accessible via Jalan Kluang-Bandar Tenggara road with proposed connections to interchange/exit to Kluang-Pasir Gudang Highway. The project has a remaining GDV of MYR1.3bn. It made up 18% of the total revenue in FY12. Based on the track record, take-up rate of all the phases launched in the past achieved >90%. In the pipeline, MCHB also has some other landbanks in Negeri Sembilan, such as Kota Gadong Perdana, Third 9 Residence at Seremban and Lobak Commercial Centre, which comprises double-storey shop offices and commercial lots.

Management profile. MCHB is currently under the leadership of Dato' Lee Tian Hock. He is the Group MD and CEO of the company. He is responsible for the company's business direction and overall strategies. Dato' Lee has about 30 years of experience in the property development industry. He was involved in the development of Taman Rasah Jaya, which is used to be the largest housing scheme in Negeri Sembilan. Mr Ho Kong Soon is the Group Deputy MD and COO. He is responsible for the daily operations of the company. He has about 20 years of experience in the property development industry. Apart from Dato' Lee and Mr Ho, MCHB also has other board members who have some connection to the Negeri Sembilan state government. They are Dato' Haji Mohamad Haslah (Non-independent non-executive chairman) who is currently the CEO of MBI – a Negeri Sembilan State owned entity, and Dato' Firdaus Muhammad Rom (Independent non-executive director), who is the political secretary to the Menteri Besar of Negeri Sembilan.

IPO proceeds. MCHB will raise MYR137.5m from the IPO. 40% of the amount (or MYR55m) will be spent on infrastructure and common facilities at its various projects, and another 40% will be used as working capital. The remaining MYR27m is for the construction of clubhouse, repayment of bank borrowings and listing expenses.

Forecasts. MCHB has unbilled sales of MYR440.2m, giving one year of earnings visibility. Ongoing projects are now worth more than MYR1bn, and these are likely to top up the unbilled sales further going forward. We estimate earnings growth of 22% and 16% for FY13-14 respectively.

As at FY12, MCHB's balance sheet is in a net cash position, and it will remain so after the IPO. This would give the company ample capacity for landbanking and help to sustain dividend payout. Based on the company's payout policy of at least 40% on our FY13 EPS forecast, our DPS estimate of 16.8 sen translates into a dividend yield of 7.6%, based on the IPO offer price of MYR2.20. This is rather attractive compared to the sector peers' average of 3%.

Valuations

We value MCHB at MYR2.62, based on 40% discount to RNAV. The PE based on the issue price is 5.2x for FY13, which we think is undemanding, given the current buoyant sentiment on the property sector. Post general election, many property stocks have been re-rated by 15-20%, as the sector was previously a laggard play, even though sales and earnings delivery have been consistent.

Figure 2 RNAV breakdown for Matrix Concept

Projects	Remaining landbank (acres)	GDV (MYR mil)	Stake	NPV @ 10%
Bandar Sri Sendayan, Negeri Sembilan				
Ongoing	737.9	1,243.1	100%	133.9
Future developments	920.8	3,186.9	100%	261.0
Taman Seri Impian, Kluang, Johor				
	636.6	1,300.0	100%	115.0
<i>Future projects</i>				
Taman Desa PD 3	4.3	5.5	100%	0.8
Kota Gadong Perdana	294.6	926.4	100%	113.4
Third 9 Residence	41.8	144.7	100%	19.4
Lobak Commercial Centre	7.3	45.5	100%	6.1
	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley	338	38	9	320.2
Total				969.8
Shareholders' fund				341.9
Total RNAV				1311.8
Share base				300.0
RNAV/share				4.37
Discount				40%
Fair value				2.62

Source: Company, RHB estimates

Financial Exhibits

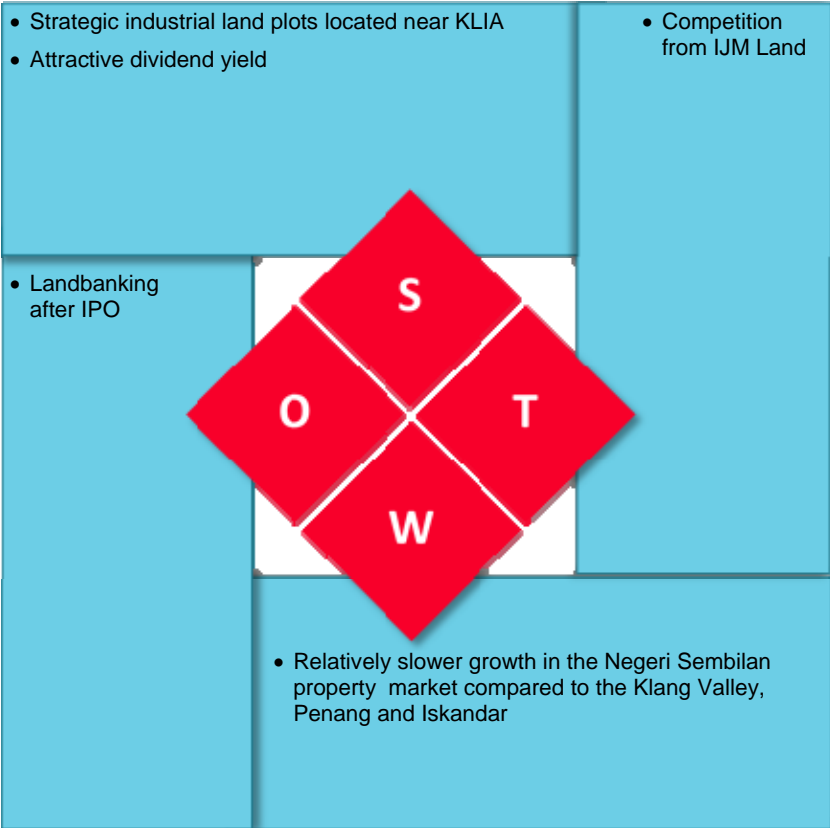
Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Turnover	196	624	456	573	661
Cost of sales	(139)	(476)	(263)	(351)	(405)
Gross profit	57	148	193	223	256
Gen & admin expenses	(24)	(47)	(47)	(46)	(51)
Other operating costs	0	7	1	1	1
Operating profit	31	107	144	177	206
Operating EBITDA	33	109	146	177	206
Depreciation of fixed assets	(2)	(2)	(2)	(0)	(0)
Operating EBIT	31	107	144	177	206
Net income from investments	0	0	0	0	0
Interest income	0	0	0	0	0
interest expense	(1)	(1)	(1)	(3)	(4)
Pretax Profit	30	106	143	174	202
Taxation	(8)	(26)	(39)	(48)	(56)
Minority Interests	(2)	(11)	0	0	0
Profit after tax & minorities	21	69	103	126	146
Net income to ord equity	21	69	103	126	146
Recurring net profit	21	69	103	126	146

Source: Company data, RHB Estimates

Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	-	-	31	266	258
Inventories	-	-	376	473	545
Accounts receivable	-	-	120	151	174
Other current assets	-	-	15	15	15
Total current assets	-	-	542	905	992
Total investments	-	-	32	32	32
Tangible fixed assets	-	-	12	41	71
Intangible assets	-	-	0	0	0
Total other assets	-	-	2	2	2
Total non-current assets	-	-	45	75	105
Total assets	-	-	587	980	1,097
Short-term debt	-	-	4	24	24
Accounts payable	-	-	190	188	217
Other current liabilities	-	-	33	33	33
Total current liabilities	-	-	227	246	275
Total long-term debt	-	-	18	68	68
Other liabilities	-	-	0	0	0
Total non-current liabilities	-	-	18	68	68
Total liabilities	-	-	245	313	342
Share capital	-	-	51	300	300
Retained earnings reserve	-	-	291	366	454
Other reserves	-	-	0	0	0
Shareholders' equity	-	-	342	667	754
Minority interests	-	-	0	0	0
Total equity	-	-	342	667	754
Total liabilities & equity	-	-	587	980	1,097

Source: Company data, RHB Estimates

SWOT Analysis



Company Profile

A developer based in Negeri Sembilan, with some exposure in Kluang Johor. The company mainly concentrates in residential, commercial and industrial property developments.

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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Bangkok		
<p>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL) 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999</p>		