Matrix Concepts Holdings (MCH MK)

Buy

Property - Real Estate

Market Cap: USD325m

Target Price: MYR5.00

Price: MYR3.55

Standing Out To Be Counted

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

Source: Bloomberg

Avg Turnover (MYR/USD)	2.00m/0.62m
Cons. Upside (%)	26.8
Upside (%)	40.8
52-wk Price low/high (MYR)	2.20 - 3.88
Free float (%)	43

Shareholders (%)	
Dato' Lee & Family	60.0

Shariah compliant

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MCH is a BUY, with a MYR5.00 FV. Investors should watch out for MCH's acquisitions of new land this year that will extend its soon-to-be depleted Sendayan Tech Valley (STV) land, as well as sustain its lofty margin and boost the demand for properties at Bandar Sri Sendayan (BSS). Its solid balance sheet provides scope for a generous dividend payout and bonus issue. Valuations are undemanding at FY14 P/E of 6x.

- **Affordable housing player that caters to market needs.** MCH is one affordable housing player that we believe may follow Tambun Indah (TILB) and Hua Yang's footsteps in being re-rated. With its focus on mid-end housing, MCH is not vulnerable to the recent tightening rules. The successful sale of Kalista condos in Seremban 2 by IJMLD (IJMLD MK, BUY, FV: MYR3.70) at end-2013 is a sign of the strong pent-up demand for mid-end housing within the locality.

- **New land crucial to extend STV, boosting industrial activities and demand for properties.** MCH's key catalysts this year will be the acquisition of new land to extend STV. The new land is intended to not only sustain sales of industrial land, but more importantly, to boost job opportunities and hence, create spillover demand for properties in BSS. In addition, completion of the Tentera Udara Diraja Malaysia (TUDM) complex, new Seremban Toll and new link to KLIA in 2-3 years' time will expand the population catchment and improve accessibility to BSS/STV.

- **Low land cost to sustain above industry-average margin.** MCH's gross margin of about 40% is above the sector's 20-25% average. The low land cost of MYR3 psf (gross) for BSS and MYR9 psf (including infra) for STV will sustain such lofty margins going forward.

- **Balance sheet gives scope for dividend payout, and potentially bonus issue.** We estimate earnings growth of 14-15% for FY14-15. The company's net cash of 64 sen/share and solid balance sheet will underpin its attractive dividend payout and at the same time provide scope for a bonus issue. This should excite the market.

- **Valuations undemanding. Initiate coverage with BUY.** Since we issued our non-rated note in Sept 2013, the stock has appreciated by 35%. The stock has become more investible now with a market cap of more than MYR1bn. We initiate coverage on MCH with a BUY and MYR5.00 FV. Its current 6.3x FY14 P/E is undemanding.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (MYRm)		456	591	678	767
Reported net profit (MYRm)	0	103	146	169	192
Recurring net profit (MYRm)		103	146	169	192
Recurring net profit growth (%)	0.0	na	41.5	15.2	13.8
Recurring EPS (MYR)		0.34	0.49	0.56	0.64
DPS (MYR)	0.00	0.00	0.30	0.21	0.22
Recurring P/E (x)	na	10.3	7.3	6.3	5.6
P/B (x)	na	3.11	1.65	1.42	1.23
Dividend Yield (%)	0.0	0.0	8.6	5.9	6.2
Return on average equity (%)	0.0	60.5	29.6	24.1	23.6
Return on average assets (%)	0.0	35.3	19.5	17.2	17.1
Net debt to equity (%)	0.0	(2.7)	(21.8)	(17.5)	(15.5)
Our vs consensus EPS (%)			0.0	0.0	0.0

Source: Company data, RHB estimates

Head Above The Rest In Seremban

Overview

MCH is a Negeri Sembilan-based developer that currently has 2,731 acres of land with a total portfolio GDV of MYR8bn. The company concentrates mainly on developing residential and commercial properties, as well as sale of industrial land. Over the years, it has successfully completed projects worth a GDV of MYR2.2bn on about 1,860 acres of land.

Management profile. MCH is currently helmed by group MD and CEO Dato' Lee Tian Hock, who oversees the company's business direction and overall strategy. Dato' Lee has about 30 years of experience in the property development industry, having been involved in the development of Taman Rasah Jaya, which is used to be Negeri Sembilan's largest housing scheme at one time. MCH's Deputy MD and COO is Mr Ho Kong Soon, who is responsible for the company's daily operations. He has about 20 years of experience in property development. Besides Dato' Lee and Mr Ho, MCH's other board members also 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 state's Menteri Besar.

Bandar Sri Sendayan a new boom town

BSS, MCH's flagship development, has about 1,000 acres of remaining land. The freehold integrated township is just 5km from the Seremban toll gate, 22km from KLIA, 20km from Port Dickson, and 70km from Kuala Lumpur.

BSS is the jewel. Five reasons why we think BSS will be a new growth area are:

(i) Affordable housing a buffer against policy headwinds

Besides Tambun Indah (TILB MK, BUY, FV: MYR2.08) and Hua Yang (HYB MK, BUY, FV: MYR2.76), we also regard MCH as an affordable housing player. Given that the prices of its properties are at about MYR400k (for a double-storey link house) and their reasonable proximity to KL, BSS has the right products that suit the needs of the market. Compared to other bigger players, affordable housing developers will fare better amid the various cooling measures imposed by the Government, as the demand for their products will be relatively more sustainable. As such, the impact of tightening measures on the affordable housing segment will not be severe given that home prices are typically below MYR500k (the bar before the floor price was raised to MYR1m in Budget 2014). As such, MCH's exposure to foreign purchasers is minimal.

(ii) Pent-up demand in Seremban as buyers seek affordable houses

The higher property prices and cost of living in KL have driven a small number of KL residents to relocate to Seremban even though the travelling distance is longer. Apart from this, the pent-up demand in Seremban itself is apparently very strong. IJM Land's high-rise Kalista Residence in Seremban 2 (S2), which was launched in Oct 2013, has set a new benchmark of sorts in the state's property scene. We were pleasantly surprised by the overwhelming response to this condo project, which saw potential buyers queuing up overnight for the units, racking up a booking rate of 80% at an ASP of about MYR250-260 psf. We reasonably believe that the demand will spill over to BSS given the latter's more affordable landed properties, and its location just 5km from the North-South Highway and 3-4km from S2. Based on our checks with industry players, we learnt that most of the buyers of BSS' properties are not only those living and working in Seremban, but also civil servants (army, navy etc) who are not working in the area but will stay there on a sporadic basis. This group of buyers is entitled to a bumi discount and also benefits from easier financing from financial institutions.

(iii) TUDM and STV to boost demand for BSS properties

The heightening of industrial activities at STV and the relocation of TUDM in 3-4 years' time will be BSS township's key growth catalysts. In addition, BSS is also targeting KLIA workers and the population in Seremban, Putrajaya and Cyberjaya. Currently, the township contributes over 60% of MCH's turnover. As more factories are set up in STV, the growing working population will eventually translate into higher demand for residential properties in BSS, which is just next to STV. BSS houses are more affordable to the middle-income group. Currently, BSS only offers single and double-storey terraces and semi-detached houses that are priced a tad lower (about 5-10%) than those of its neighbor, S2 (by IJM Land). The latest launch of two-storey terrace houses with land areas of 22' x 80' are priced at about MYR400k after discounts. This is comparable to the prices at S2 but come with a bigger land area.

Further away, after the Sungai Besi Air Force base in KL (which will be developed into Bandar Malaysia) is relocated to BSS, the new TUDM academy and training centre is expected to have 5k-8k staff. In 2011, TUDM bought 750 acres of land in BSS for MYR295m (or MYR9 psf) for the relocation of its ground training facilities, whereas runway training will be moved to Subang and Kuantan. We understand that the complex at BSS, on which construction has begun, will cost an estimated MYR2-2.5bn. The complex will be completed in three years while actual staff movement will take about 6-12 months after that. Although TUDM will provide its own staff housing, the growing population would boost business activities, and accordingly, demand for properties in the area. Plans for the commercial clusters of Sendayan Metropark, Merchant Square and schools under Matrix Global Schools are already in place. These will be located in the areas surrounding the TUDM site and serve the needs of TUDM staff and the BSS community.

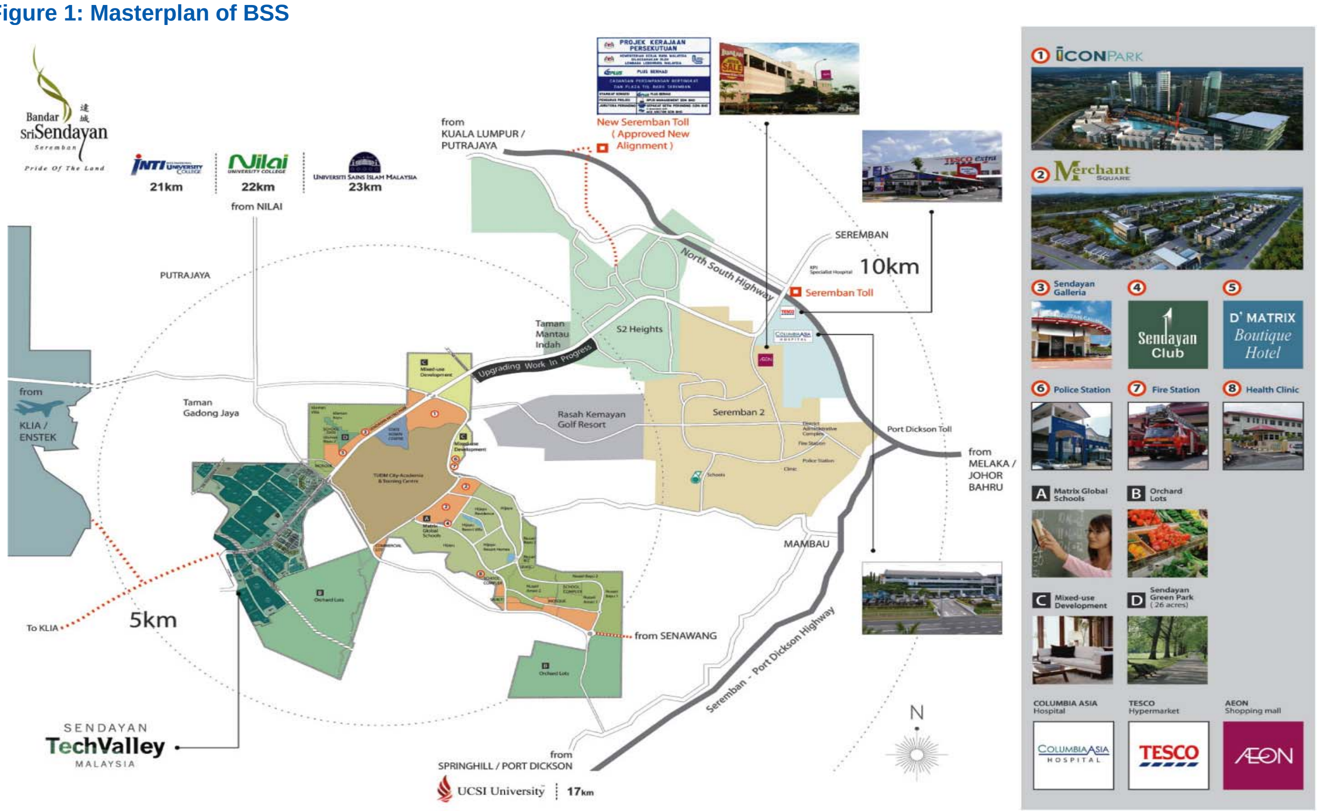
(iv) MCH is also an industrial proxy within the Klang Valley

Located next to BSS is STV, a 685-acre industrial hub that is creating job opportunities. A few newly built factories have already started operations, with some undergoing construction. Given the ready infra such as power and water supply, freehold land status, connectivity to the North-South Highway and KLIA as well as the flexibility for industrial players to choose their preferred land sizes, STV has managed to attract many local and foreign auto or aircraft parts manufacturers. Thus far, it has garnered MYR2.7bn worth of foreign direct investments. Its key investors include Hino Motor, Messier-Bugatti-Dowty, Keen Point, MCT Metal, Akashi-Kikai Industry/Daihatsu, MBM Resources/Mitsubishi, Nippon Kayaku, Meditop Corporation and the latest addition being UK-based Weir Group. The selling prices of the industrial land plots have appreciated to MYR40 psf in the latest transaction, compared with MYR36 psf a year ago. MCH still has remaining land plots of 244 acres available for sale. Management is looking to increase the selling price by 10% this year.

(v) Better infrastructure and connectivity will add value to BSS and STV

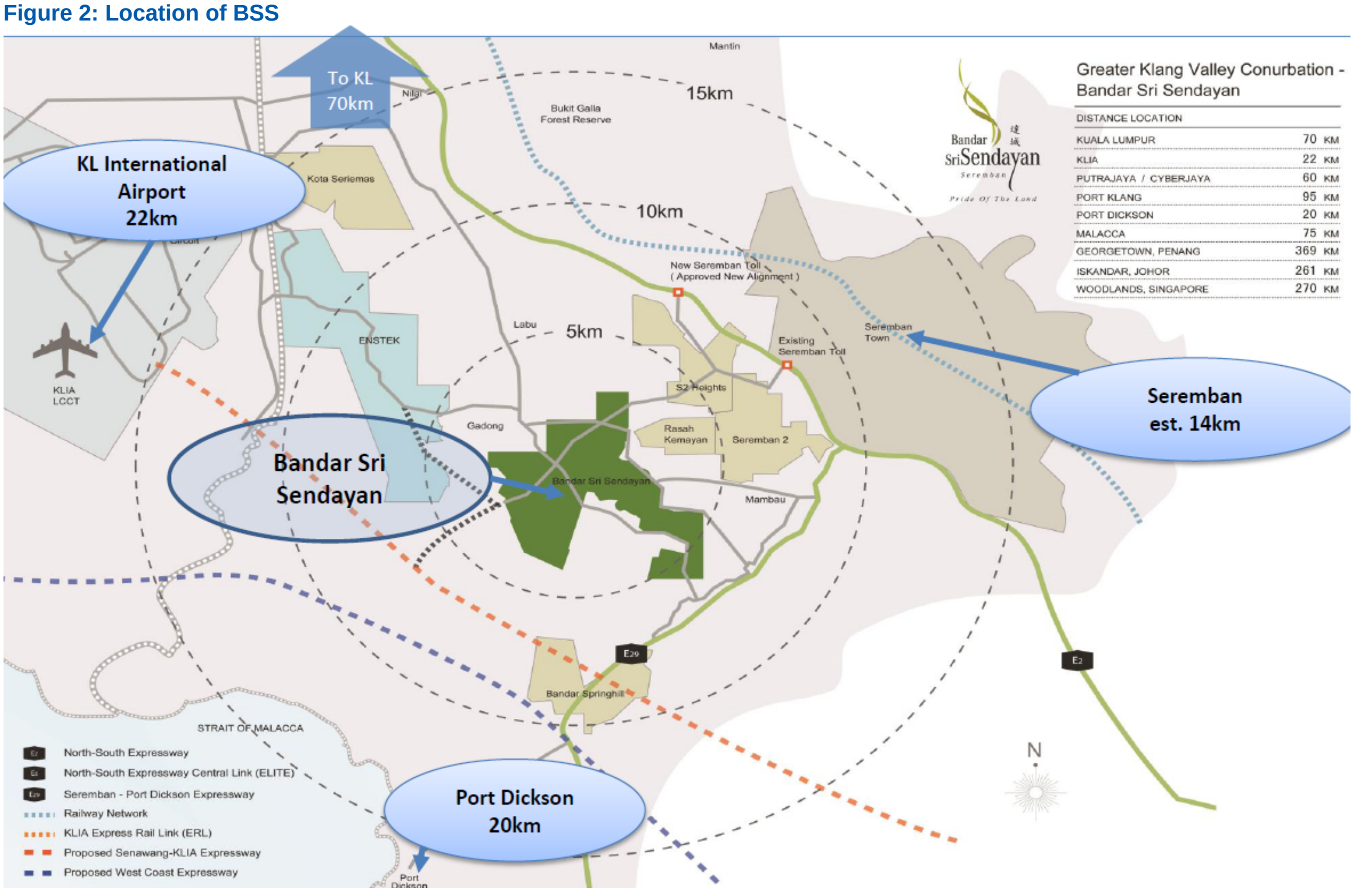
Improving accessibility will be the key to attracting population. The new Seremban toll (before the existing one along the North-South Highway from KL) currently being constructed is likely to be completed in a year's time. The Senawang-KLIA Expressway has been proposed and the contractors are now submitting their tenders. The new expressway will offer an alternative route linking the North-South Highway and KLIA. Note that the expressway is also important to MCH as it will pass by or is near to the land in Labu that it acquired last year.

Figure 1: Masterplan of BSS



Source: Company

Figure 2: Location of BSS



Source: Company

Watch out for the purchase of new land for STV3

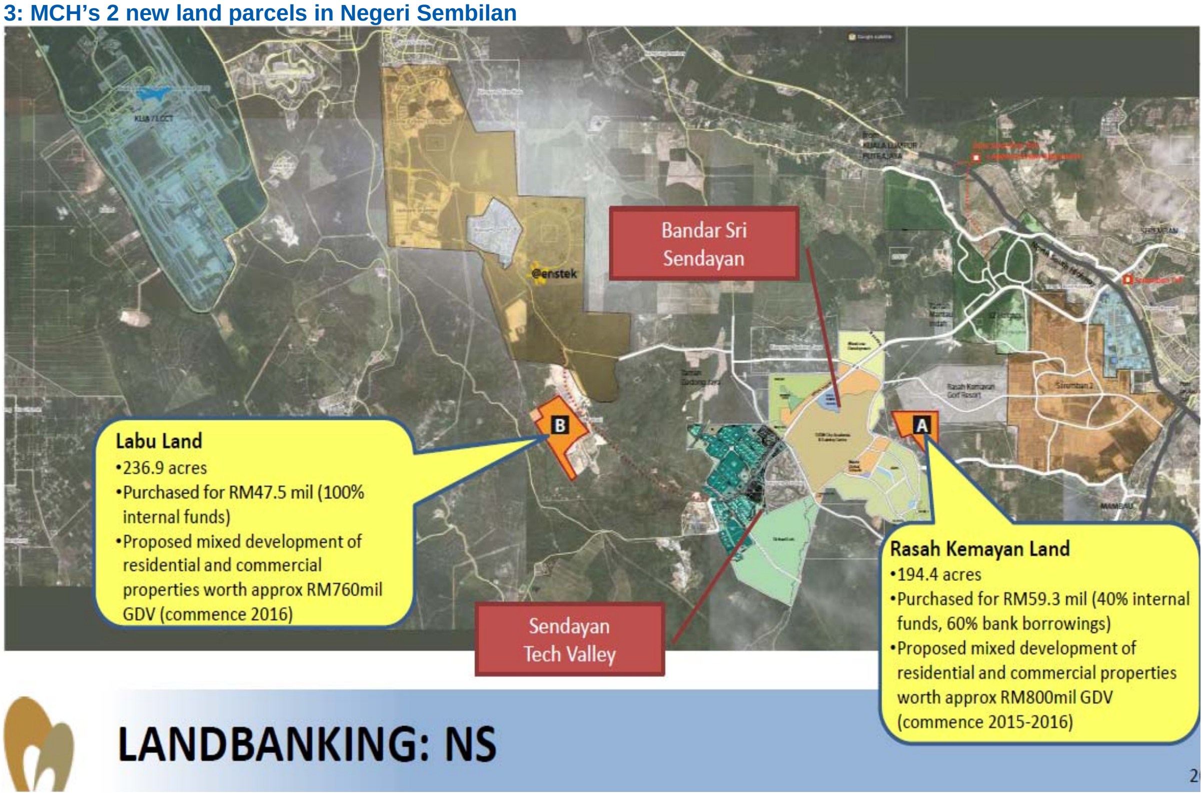
MCH will likely acquire a large tract of land to extend STV this year. This will be the key re-rating catalyst that investors should look out for in 2014, as this may potentially enhance MCH's RNAV. The need to replenish its STV landbank is necessary as STV 1 & 2 are now left with 244 acres, which can be easily sold off in a year in view of the encouraging demand in recent years. In addition, enlarging the industrial area would give rise to more new jobs, which is magnet for population growth.

In a recent conversation with MCH's management, we understand that the potential acquisition is making good progress. Management indicated that negotiations with the potential land owners have started, and that the acquisition price would be "attractive" from MCH's standpoint, even though the land value has appreciated over the last few years. This announcement is likely to be made in 2H14. As the new land parcels are adjacent to the existing STV, any extension to power and roads can be carried out without incurring major capex. This will make the hefty margin from the sale of new land sustainable.

New land in Labu, Rasah Kemayan land to anchor position in Negeri Sembilan

Almost two months after its IPO in May 2013, MCH bought two more parcels of land in Seremban that are close to BSS and STV. The company paid an attractive MYR47.5m for 236.9 acres in Labu (MYR4.60 psf) and MYR59.3m for 194.4 acres in Rasah Kemayan (MYR7 psf). Both land parcels will be used for a mixed development comprising residential and commercial properties with GDVs of MYR760m and MYR800m respectively. The Labu land, which is closer to KLIA, is just next to Taman Eka Matahari, a project by Tan & Tan Developments. As BSS progresses and moves on to slightly higher end products, the Labu land will fill in the gap and provide more affordable mid-range products. Currently, the single-storey and double-storey terraces in Taman Eka Matahari are going at about MYR80-90k and over MYR100k respectively. MCH, meanwhile, is looking to offer houses in the MYR200-300k range that are of better design and quality. On the other hand, as the Rasah Kemayan land is next to Rasah Kemayan Golf Resort and also close to S2, it will feature mid to higher end products in this development. Plans are still preliminary and both projects are expected to start only in 2015-2016. By then, BSS and STV will be more densely populated.

Figure 3: MCH's 2 new land parcels in Negeri Sembilan



Source: Company

Embarks on maiden venture in Klang Valley. To raise its corporate profile, MCH recently acquired 1.1 acres of freehold land near PWTC and Sunway Putra Mall in Kuala Lumpur for MYR43.6m (or MYR930 psf) that is also within walking distance to LRT and monorail stations. Land cost is not cheap as it makes up 17% of the project's estimated GDV of MYR250m. However, the land is approved with 8x plot ratio. MCH's focus will still be affordable housing. With unit sizes ranging from 480 – 980 sqf and priced at about MYR650-700 psf, the unit cost of MYR350k – MYR700k will appeal to the younger working population who would like to stay within the city centre. The project is slated for launch this year.

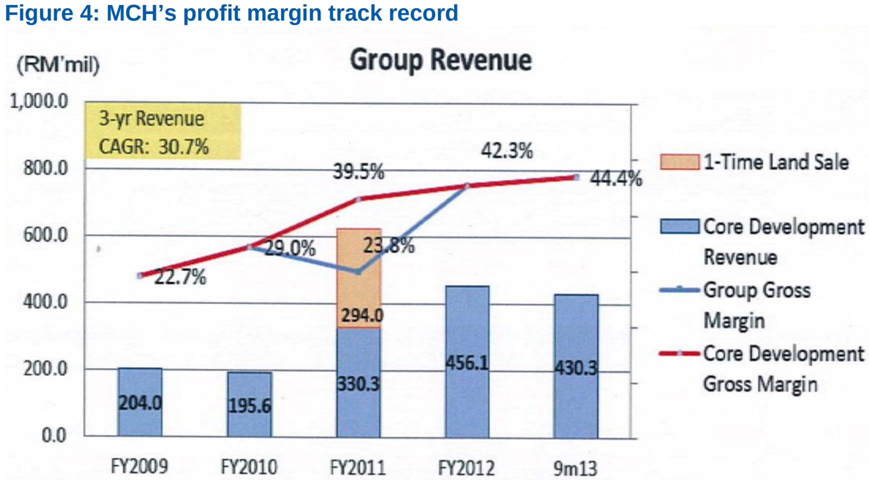
Other projects. MCH is also undertaking the Taman Seri Impian township project in Kluang. The project, which is accessible via Jalan Kluang-Bandar Tenggara, with proposed connections to the interchange/exit to the Kluang-Pasir Gudang Highway, has a remaining GDV of MYR900m. It contributed 18% of the company's 9M13 revenue. Due to the steady flow of buyers, the take-up rate for all the project's phases launched in the past has typically hit >90%. MCH also has some other landbank in Negeri Sembilan, such as Kota Gadong Perdana, Third 9 Residence in Seremban and Lobak Commercial Centre, which are mainly planned for double-storey shop offices and commercial lot developments.

Sustainable high profit margins

MCH's gross margin is expected to hover at around 40%, which is above the sector's average 20-25%. We believe this high margin is sustainable (gross margin of 44.4% achieved on 9M13 earnings) given the low land cost of MYR3 psf (gross) for BSS and MYR9 psf (including infra) for STV, which are the company's anchor projects. Industrial land plot sales fetch particularly high profit margins of about 50-60% considering the current going price of MYR35-40 psf. Given the fixed infrastructure cost and management's plans to raise selling prices by 10% for the remaining parcels this year, MCH will see a direct positive impact on its bottomline and profit margin.

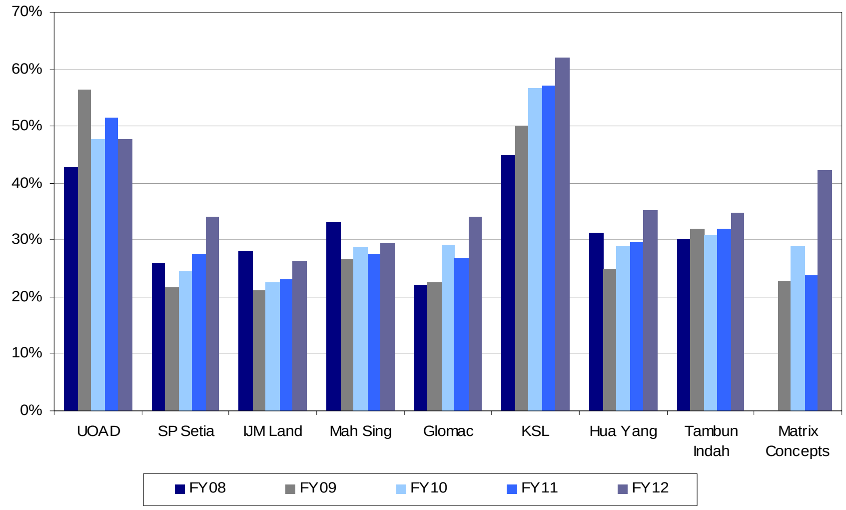
Operating efficiency is also one of MCH's strengths. The company has its own construction subsidiary, which is largely an in-house procurement centre for building materials needed for all its projects. This unit also carries out tenders and gives out labour and construction works contracts.

Figure 4: MCH's profit margin track record



Source: Company

Figure 5: MCH's gross margin compared to peers



Source: Company, RHB estimates

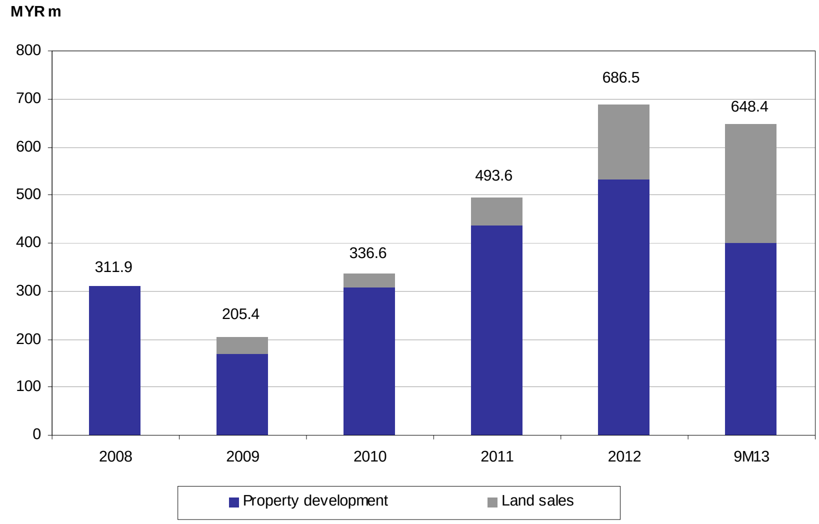
Earnings forecasts and valuations

Forecasts. We expect MCH's earnings to surge 42% and 15% for FY13-14. The company reported a net profit of MYR112.2m in 9M13 while new property sales spiked up 34% to MYR648.4m from MYR483.7m in 1H13 – nearly matching its FY12 sales of MYR687m. Its unbilled sales currently total MYR593m. In addition to the ongoing GDV of MYR1.8bn, about MYR646m worth of projects will be ready to market this year, and will potentially include the KL project once approval is obtained. The key projects include single and double-storey terraces in BSS Hijayu 1A and Hijayu 3A (combined MYR367m), Taman Sri Impian shop offices, double-storey and semi-d houses, shop offices at Lobak Commercial Centre Seremban, as well as landed houses at Third 9 Residence in Seremban.

Balance sheet strength supports 6% dividend yield and potential bonus issue. MCH was sitting on net cash of MYR191.3m, or 64 sen per share, as at Sept 2013. Taking into account the MYR140-150m cash required to pay for its landbank acquisitions (Labu, Rasah Kemayan and KL land) and RM30m for 3Q's interim and special dividend, ie its total cash commitment up to 1Q14, the company's consistent operating cash inflow will ensure the sustainability of dividends. While the payout in FY13 (due to the absence of a dividend in 2012, that being the year of its IPO exercise) was an exceptionally high 68%, MCH's dividend payout will be fixed at 40% from FY14 onwards. Based on our estimated gross DPS of 21 sen and 22 sen for FY14-15, this represents a potential dividend yield of almost 6%.

Investors with an eye on MCH should also look out for a possible bonus issue. We believe the company's robust balance sheet and its strong shareholder equity base provide scope for it to reward its shareholders further. Apart from being a share price catalyst, a bonus issue will also enhance the stock's liquidity, thus increasing its appeal to institutional investors.

Figure 6: MCH's historical sales performance



Source: Company, RHBRI

Valuations. Since we issued our non-rated note in Sept 2013, the stock has appreciated by 35%. It has also become more investible with its current market cap exceeding the MYR1bn mark. We initiate coverage on MCH with a BUY. We value the stock at a MYR5.00 FV, based on a 20% discount to RNAV, which is in line with our valuations for other small cap affordable housing developers such as Tambun Indah and Hua Yang. The stock's valuation is currently undemanding at a 6.3x FY14 P/E. Note that, MHC's current high P/NTA of 2.0x very much reflects its low land cost, which suppresses the book value. The implied valuation based on our FV is 8.9x FY14 P/E. All said, MCH's anchor landbank in Seremban, potential catalysts in its new landbank, a possible bonus issue, high double-digit earnings growth, strong property sales, attractive dividend yield, undemanding valuations, are all the right attributes that will put the stock on the radar of investors seeking exposure to the property sector.

Figure 7: MCH's RNAV

Projects	Remaining landbank (acres)	GDV (MYR m)	Stake	NPV @ 13%
Bandar Sri Sendayan, Negeri Sembiilan				
Ongoing & future developments	1382.2	3,985.9	100%	433.1
Taman Seri Impian, Kluang, Johor	326	901.7	100%	100.9
KL land	1.1	250	100%	27.7
Taman Desa PD 3	4.3	5.5	100%	0.9
Kota Gadong Perdana	294.6	926.4	100%	119.8
Third 9 Residence	41.8	144.7	100%	20.3
Lobak Commercial Centre	7.3	45.5	100%	6.4
Labu land	236.9	760	100%	97.6
Rasah Kemayan land	194.4	800	100%	107.0
	Remaining landbank (acres)	**Market price (MYR psf)**	**BV (MYR psf)**	**Net surplus**
Sendayan TechValley	243.7	45	10	278.7
Unbilled sales				148.3
Total				1,340.7
Shareholders' fund				540.1
Total RNAV				1,880.7
Share base				301.0
RNAV/share				6.25
Discount				20%
Fair value				5.00

Source: Company, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover		456	591	678	767
Cost of sales		(263)	(339)	(390)	(447)
Gross profit	**-**	**193**	**253**	**288**	**320**
Selling expenses		(47)	(50)	(54)	(53)
Other operating costs		(2)	1	0	0
Operating profit	**-**	**144**	**203**	**235**	**267**
Operating EBITDA	-	144	203	235	267
Operating EBIT	**-**	**144**	**203**	**235**	**267**
Interest expense	-	(1)	(1)	(2)	(2)
Pre-tax profit	**-**	**143**	**202**	**233**	**265**
Taxation	-	(39)	(56)	(64)	(73)
Profit after tax & minorities	**-**	**103**	**146**	**169**	**192**
Reported net profit	**-**	**103**	**146**	**169**	**192**
Recurring net profit		**103**	**146**	**169**	**192**

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	**-**	**144**	**203**	**235**	**267**
Change in working capital	**-**	**(288)**	**(143)**	**(66)**	**(68)**
Other operating cash flow		268	(288)	25	30
Operating cash flow	**-**	**124**	**(227)**	**194**	**229**
Interest paid	-	(1)	(1)	(2)	(2)
Tax paid	-	(39)	(56)	(64)	(73)
Cash flow from operations	**-**	**84**	**(284)**	**128**	**154**
Capex	-	(14)	(30)	(50)	(50)
Other investing cash flow	-	(39)	-	-	-
Cash flow from investing activities	**-**	**(53)**	**(30)**	**(50)**	**(50)**
Dividends paid	-	-	-	(91)	(63)
Proceeds from issue of shares	-	238	-	-	-
Increase in debt	-	21	-	-	-
Other financing cash flow	-	(260)	466	4	(38)
Cash flow from financing activities	**-**	**(0)**	**466**	**(87)**	**(101)**
Cash at beginning of period	-	-	31	182	173
Total cash generated	**-**	**31**	**152**	**(9)**	**3**
Implied cash at end of period	**-**	**31**	**182**	**173**	**177**

Source: Company data, RHB estimates

Financial Exhibits

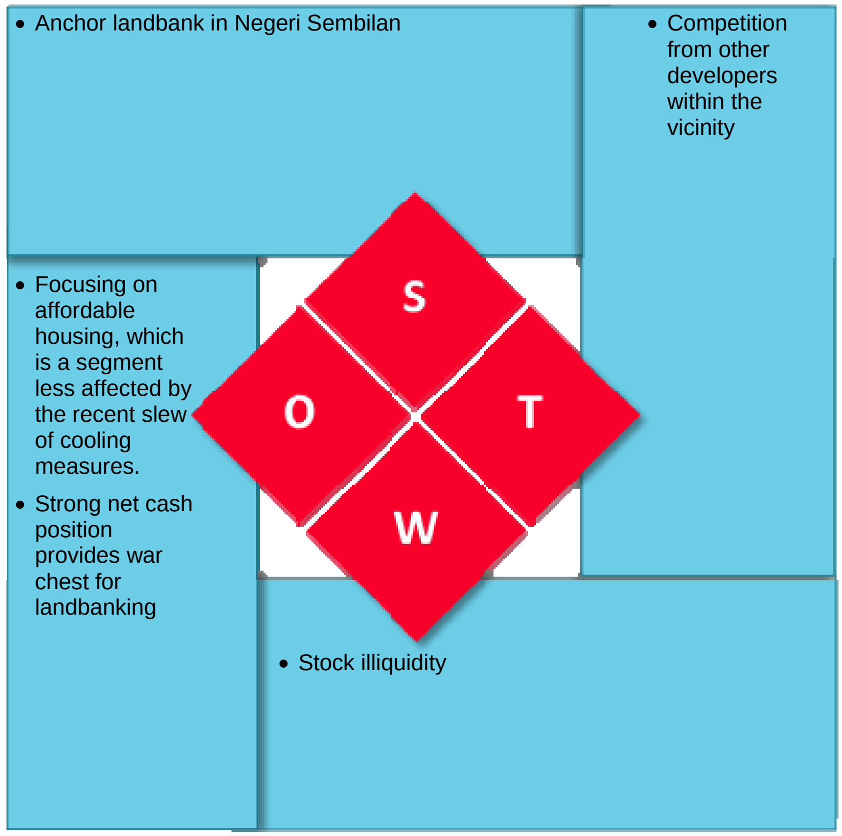
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	-	31	182	173	177
Inventories		2	3	4	4
Accounts receivable	-	120	155	178	202
Other current assets	-	389	500	571	644
Total current assets	**-**	**542**	**841**	**926**	**1,026**
Total investments	-	43	73	123	172
Total other assets	-	2	2	2	2
Total non-current assets	-	45	75	125	174
Total assets	**-**	**587**	**916**	**1,050**	**1,200**
Short-term debt	-	4	14	14	14
Accounts payable	-	190	194	223	252
Other current liabilities	-	33	33	33	33
Total current liabilities	**-**	**227**	**242**	**270**	**299**
Total long-term debt	-	18	28	28	28
Other liabilities	-	0	0	0	0
Total non-current liabilities	**-**	**18**	**28**	**28**	**28**
Total liabilities	**-**	**245**	**269**	**298**	**327**
Share capital		51	301	301	302
Retained earnings reserve	-	291	346	451	571
Other reserves	-	0	0	0	0
Shareholders' equity	**-**	**342**	**646**	**752**	**873**
Total equity	**-**	**342**	**646**	**752**	**873**
Total liabilities & equity	**-**	**587**	**916**	**1,050**	**1,200**

Source: Company data, RHB estimates

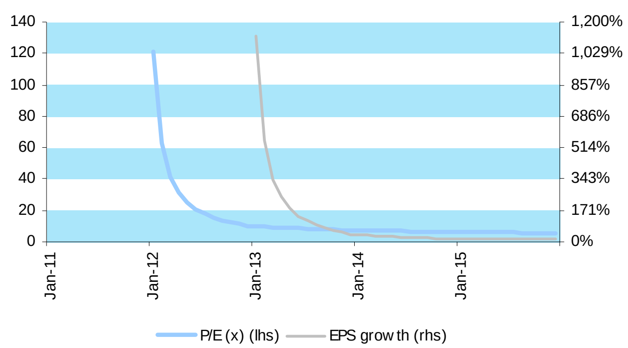
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	0.0	0.0	29.7	14.6	13.2
Operating profit growth (%)	0.0	0.0	41.5	15.3	13.7
Net profit growth (%)	0.0	0.0	41.5	15.2	13.8
EPS growth (%)	0.0	0.0	41.3	15.0	13.6
Bv per share growth (%)	0.0	0.0	88.7	16.2	15.8
Operating margin (%)	0.0	31.5	34.4	34.6	34.8
Net profit margin (%)	0.0	22.7	24.8	24.9	25.0
Return on average assets (%)	0.0	35.3	19.5	17.2	17.1
Return on average equity (%)	0.0	60.5	29.6	24.1	23.6
Net debt to equity (%)	0.0	(2.7)	(21.8)	(17.5)	(15.5)
DPS	0.00	0.00	0.30	0.21	0.22
Recurrent cash flow per share	0.00	0.28	(0.95)	0.42	0.51

Source: Company data, RHB estimates

SWOT Analysis

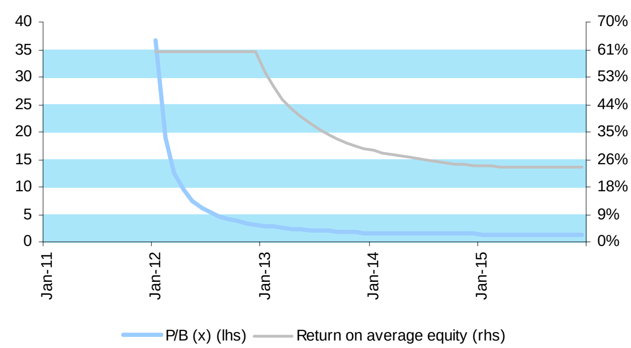


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

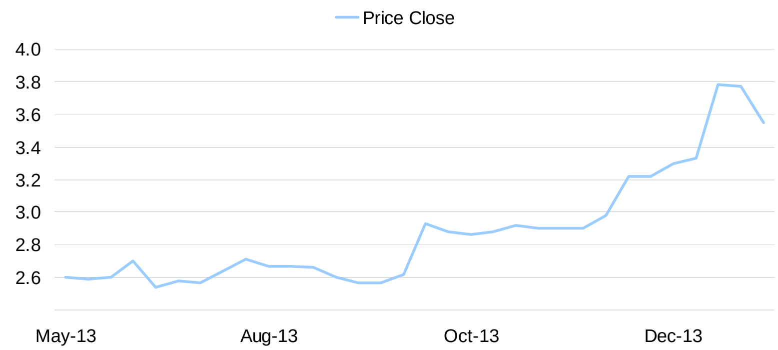


Source: Company data, RHB estimates

Company Profile

MCH 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.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2014-01-06			

Source : RHB estimates, Bloomberg

RHB Guide to Investment Ratings

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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