



Matrix Concepts Holdings Bhd

A Value + Growth Stock

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Fair Value: RM 2.80

Main Market Listing

Not rated

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Matrix Concepts Holdings Bhd (MCHB) is a property developer based in Negeri Sembilan, which en-routes for main market listing end of this month. Currently, it has total GDV of RM6.5bn, which could last until 2019. We like MCHB given its property sales are set to benefit from city population who start migrating to outer part of Klang Valley to enjoy better quality of life. We value MCHB at RM2.80/share, which is at a 20% discount to the group's RNAV/share of RM3.52. Our target price implies CY14 PER of 5.5x, which is 1.1x lower than its peers' average CY14PER of 6.6x. We believe the valuation is undemanding given its strong earnings growth of 21-22% and dividend yield of 7.6-12.7% over the next three years.

Background

Established in 1996, Matrix Concepts Holdings Bhd (MCHB) is principally involved in property developments, investment holdings, project management and procurement of building materials and administrative services. Presently, the group has 2 flagship developments, namely Bandar Sri Sendayan in Seremban, Negeri Sembilan, and Taman Seri Impian in Kluang, Johor, with a total outstanding GDV of RM5.5bn.

IPO Statistic

MCHB's IPO entails a public issue of 62.5mn new ordinary shares, and offer for sale of 37.5mn promoters' shares; at RM2.20/share.

Investment Case

- 1) Beneficiary of decentralization of population
- 2) Strong balance sheet supports future land acquisitions
- 3) Attractive dividend yield

Valuation

We arrive at a fair value of RM2.80/share for MCHB, which is at a 20% discount to its RNAV/share of RM3.52/share. Our target price implies a CY14 PER of 5.5x, which is undemanding as compared with its peers which are currently trading at average CY14 PER of 6.6x.

Earnings Summary (RM mn)

FYE Dec	2011	2012	2013F	2014F	2015F
Revenue	624.3	456.1	558.2	711.8	804.4
EBITDA	108.9	146.1	171.7	209.4	253.0
EBITDA margin (%)	17.5	32.0	30.8	29.4	31.5
Pretax profit	106.3	142.8	168.2	205.2	248.8
Net profit	69.4	103.5	126.1	153.9	186.6
EPS* (sen)	23.1	34.5	42.0	51.3	62.2
EPS Growth (%)	238.4	49.1	21.9	22.0	21.2
PER @ IPO price (x)	9.5	6.4	5.2	4.3	3.5
Gross DPS (sen)	0.0	0.0	16.8	20.0	28.0
Div Yield (%)	0.0	0.0	7.6	9.1	12.7
EV/EBITDA (x)	1.1	0.7	1.6	0.9	0.4
ROE (%)	31.4	35.7	23.4	19.6	21.1

* based on enlarged share capital

Source: TA Securities

Share Information

Listing	Main Market
Enlarged Share Capital (mn)	300
Market Cap @ RM2.20 (RM mn)	660
Par Value (RM)	1.00
Issue price (RM)	2.20
Oversubscription rate	N/A
Estimated free float (%)	33.3
Major shareholders post IPO (%)	

Dato' Lee Tian Hock - 28.5

Datin Yong Chou Lian - 16.8

Ho Kong Soon - 5.1

Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	8-May-13
Closing of the IPO	15-May-13
Balloting of Applications	17-May-13
Listing	28-May-13

Ratio & Analysis

NTA per share (post IPO) (RM)	1.40
Price to NTA (x)	1.60
Proforma ROE (%)	23.40
Proforma ROA (%)	16.10
Proforma Gearing (x)	Net Cash

Utilisation of Proceeds

	%
Working capital	40.0
Construction of Clubhouse	40.0
Infrastructure and common facilities	7.3
Repayment of bank borrowings	8.0
Estimated listing expenses	4.7

Background

Established in 1996, Matrix Concepts Holdings Bhd (MCHB) is principally involved in property developments, investment holdings, project management and procurement of building materials and administrative services. Presently, the group has 2 on-going township projects, namely Bandar Sri Sendayan (BSS) in Seremban, Negeri Sembilan, and Taman Seri Impian (TSI) in Kluang, Johor. It is also the developer of the Sendayan TechValley, an industrial Cluster at BSS which has to date attracted more than RM2.0bn worth of Foreign Direct Investment.

Since inception, the group has launched 2,659 units of properties worth RM1.0bn with an average take up rate of 72.4%. Remaining undeveloped landbank stands at 1,538 acres which located mainly in Seremban and Port Dickson in Negeri Sembilan and Kluang in Johor. Its on-going and future GDV of RM6.5bn could the last the group until 2019 – see **Table 1**. Unbilled sales as at 31 Mar 2013 was RM445.1mn, providing 1 year earnings visibility.

Table 1: MCHB's on-going and future projects

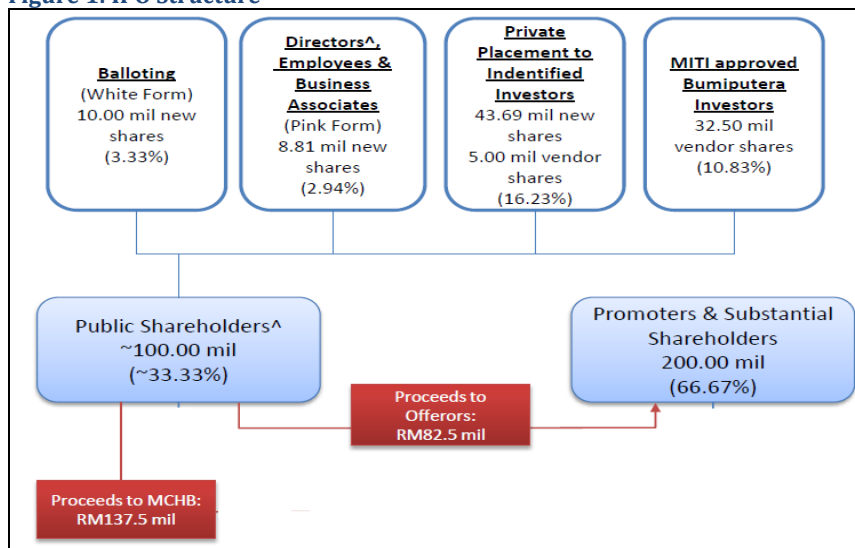
Projects	Timeline to completion	Land size (acres)	Est GDV (RM mn)
On-going (launched)	Current to 2014	817	1,396
Future Projects	2013 to 2019	1,538	5,114
Total		2,355	6,511

Source: Prospectus, TA Securities

IPO Statistic

MCHB's IPO entails a public issue of 62.5mn new ordinary shares, and an offer for sale of 37.5mn promoters' shares, at RM2.20/share – see **Figure 1**.

Figure 1: IPO Structure



Source: Prospectus, TA Securities

Post IPO, Dato Lee Tian Hock, the founder and managing director/chief executive officer of MCHB will be the largest shareholder with an interest of 28.5% in the company. He has approximately 30 years of experience in the property development industry and was involved in the development of Taman Rasah Jaya. Dato Lee is supported by Mr Ho Kong soon, the group's deputy managing director/chief operating officer, who brings with him more than 20 years of experience in the property development industry. Post IPO, Mr Ho has an interest of 5.1% in the company. MCHB's non-independent non-executive chairman, Dato' Haji Mohamed Haslah, is currently the CEO of Menteri Besar Negeri Sembilan (Pemerbadanan) (MBI), a Negeri Sembilan State owned entity. Note that MCHB signed a joint venture agreement with MBI to kick start the development of BSS in 2005.

Utilisation of proceeds

The estimated gross proceeds of RM137.5 raised are expected to be utilized for 1) working capital; 2) construction of clubhouse; 3) infrastructure and common facilities and 4) repayment of borrowings.

Table 2: Utilisation of proceeds

Description	Estimated timeframe for utilisation upon Proposed Listing	Amount (RM'000)	% of Total Gross Proceeds
Working Capital	Within 24 months	55	40.0
Construction of clubhouse	Within 24 months	55	40.0
Infrastructure and common facilities	Within 24 months	10	7.3
Repayment of bank borrowings	Within 12 months	11	8.0
Estimated listing expenses	Within 1 months	7	4.7
Total proceeds		138	100.0

Source: Prospectus, TA Securities

Investment Case

1) Beneficiary of decentralization of population

MCHB's property sales are set to benefit from rising home demand towards the outer cities of the Klang Valley over the next few years due to rapid house price appreciation in the first-tier cities in the Klang Valley. As improving road accessibility and public transport connectivity makes daily commuting of >70km down south become feasible, we expect housing demand in Seremban to be robust. MCHB's pipeline launches within the BSS – such as Sendayan Tech Valley and Sendayan Auto City, are expected to further broaden the group's earnings base as the industrial properties yield better margins.

2) Strong balance sheet supports future land acquisition

The group's financial position improved significantly after the disposal of 750 acres land within BSS to 1MDB for the development of TUDM City-Academia and training centre for RM294mn in 2011. Coupled with strong earnings recorded over past 3 years, the group achieved a net cash position of RM8.4mn (or 3sen/share) as at end 2012. According to its pro-forma balance sheet post IPO, the group's financial position will be strengthening further to a net cash of RM74.4mn or 25sen/share. Assuming the group has an optimal debt-to-equity ratio of 50%, this would mean the group has a debt headroom of RM300mn for future land acquisitions. We understand that the group has been actively on the lookout for landbank within the Klang Valley Conurbation, as well as Johor.

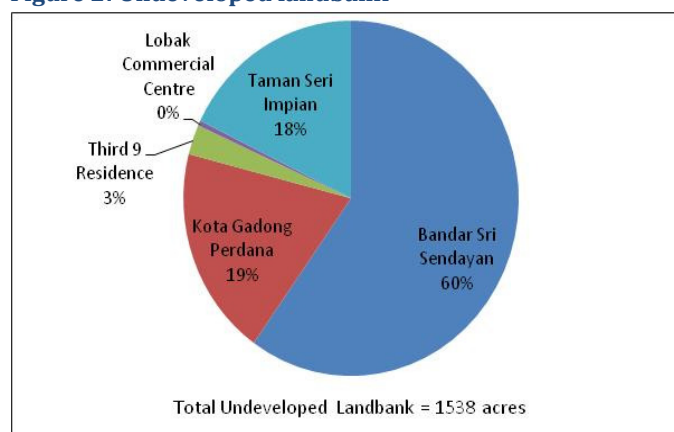
3) Attractive dividend yield

At IPO price of RM2.20/share, the stock is trading at 4.3x CY14 EPS. We think it is undemanding as the company has just entered into the early stage of a multi-year, double-digit earnings growth trajectory. Despite the low financial leverage, MCHB's ROEs are among the highest in the industry. This will support the group's dividend policy of 40% of net profit to be distributed to shareholders. At IPO price of RM2.20/share, the dividend yield works out to 7.6-12.7%, based on our estimated FY13-15 earnings forecasts, which is relatively high against its peers – see **Table 4**.

Risks

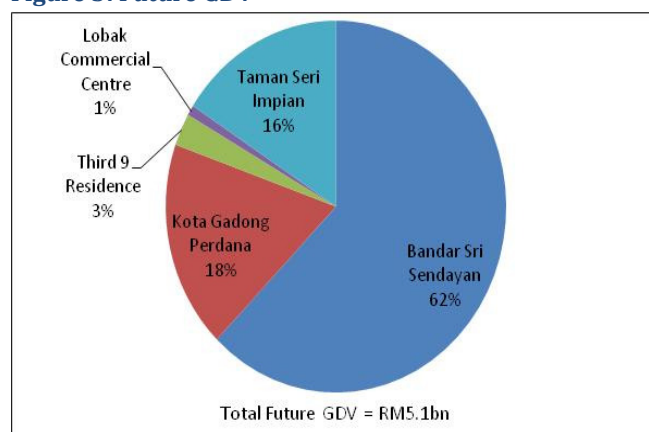
High concentrated risks drawing from its exposure to its flagship project – Bandar Sri Sendayan. Note that 60% and 62% of respective MCHB's undeveloped landbank and future GDV are derived from BSS – see **Figure 2** and **3**. Delay in rolling out new launches within the BSS development will affect the group's future profitability.

Figure 2: Undeveloped landbank



Source: Prospectus, TA Securities

Figure 3: Future GDV



Source: Prospectus, TA Securities

Financial Highlight

The group reported a CAGR of 30.7% for its revenue from 2009 to 2012. PAT grew by a CAGR of 75.9% for the same period, mainly due to margin expansion of 14ppt to 23% in 2012 from 9% in 2009. The increase in margin was underpinned by higher selling price of new launches over existing landbank with low land costs.

Figure 4: Revenue and gross margins



Source: Prospectus, TA Securities

Earnings Forecast

We envisage the group's FY12-15 net profit to grow at a commendable 3-year CAGR of 22%, anchored by unbilled sales of RM445mn and an outstanding GDV of RM5.1bn for future development. We assume the group's property sales to range between RM500mn-RM850mn for FY13-15, with a PBT margin of 29-31%.

Valuation

We arrive at a fair value of RM2.80/share for MCHB, which is at a 20% discount to its RNAV/share of RM3.52/share – see **Table 3**. Our target price implies a CY14 PER of 5.5x, which is 1.1x lower than its peers' average CY14PER of 6.6x – see **Table 4**. We believe the valuation is undemanding given its strong earnings growth of 21-22% and dividend yields of 7.6-12.7% over the next three years.

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Div Yield	(%)	0.0	0.0	7.6	9.1	12.7
EV/EBITDA	(x)	1.1	0.7	1.6	0.9	0.4
ROE	(%)	31.4	35.7	23.4	19.6	21.1

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Source: TA Securities

Table 3: RNAV Table

Project	Remaining GDV	NPV
Bandar Seri Sendayan		
Hijayu 1A, 3A, 3B, & 3C	740	75.9
Hijayu (resorts home)	314	32.3
Hijayu (residence)	139	15.4
Sendayan Merchant Square 1 & 2	476	61.7
Idaman Yu 1 & 2	686	60.7
Sendayan Metroapak 1B & 2	289	32.8
Sub Centre @ Sendayan Tech Valley 1A	129	15.0
Sendayan Auto City	252	44.9
Taman Seri Impian		
Impiana Avenue 3	19	2.7
Impiana Villa 2	86	10.4
Impiana Bayu 1	115	16.4
Impiana Bayu 2	131	15.7
Impiana Villa 3	80	9.7
Impiana Avenue 4,5,6,7,8,9	382	32.3
Others		
Kota Gadong Perdana	926	62.8
Third 9 Residence	145	20.4
Lobak Commercial Centres	46	6.3
Current unbilled sales	445	66.8
Total	5399	582.2
Total shareholders' funds		472.9
RNAV		1055.1
Enlarged Share Base		300.0
RNAV/share		3.52
Discount		20%
Target Price (RM)		2.80

Table 4: Peer comparison

Peer Comparison										
Company	Price	Market Cap	EPS growth (%)		PER (x)		ROE (%)		Div Yield (%)	
	(RM)	(RM mn)	CY13	CY14	CY13	CY14	FY13	FY14	FY13	FY14
KSL	2.29	884.9	2.9	10.9	6.5	5.9	11.2	11.1	1.5	1.5
YNH Property	2.10	885.2	66.7	42.5	10.5	7.4	11.1	20.3	3.8	3.6
Glomac	1.15	814.9	20.3	14.8	7.3	6.4	13.8	15.5	5.2	6.1
Wing Tai	2.34	734.6	25.5	2.9	6.9	6.7	13.6	10.6	1.6	2.6
Crescendo	2.99	582.4	6.5	17.5	9.4	8.0	9.7	10.1	4.0	4.3
Hua Yang	2.45	485.1	28.7	21.7	5.5	4.5	23.2	24.0	5.3	5.9
Tambun Indah	1.24	386.9	7.4	6.3	7.8	7.3	19.5	19.4	5.3	6.3
MCHB	2.20	660.0	21.9	22.0	5.2	4.3	23.4	19.6	7.6	9.1
Sector Average - Ex MCHB			22.5	17.3	7.7	6.6	15.7	16.3	4.3	4.9

Source: Bloomberg, TA Securities

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