

24 November 2023

Property | Real Estate

## Matrix Concepts (MCH MK)

**Buy** (Maintained)

### Construction Progress Ramped Up In 2QFY24

Target Price (Return): MYR1.88 (+16%)  
 Price (Market Cap): MYR1.62 (USD433m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (MYR/USD) 3.66m/0.78m

- Maintain BUY and MYR1.88 TP, 16% upside and c.7% FY25 (Mar) yield.** Matrix Concepts' 2QFY24 results beat expectations. The stronger earnings largely stemmed from a ramp-up in the progress of construction of its property projects, as labour shortage issues were resolved earlier. 1HFY24 property sales amounted to MYR616.1m, which puts it on track to meet management's full-year MYR1.35bn sales target. The strong earnings momentum and solid balance sheet should provide potential upside for dividend payouts ahead.
- 2QFY24 results review.** The QoQ growth in revenue was largely due to the pick-up in construction works in all residential and commercial developments, as MCH's labour shortage issues were settled earlier. Projects in Sendayan continued to be the largest revenue contributor (MYR340.5m) during the quarter. Meanwhile, its EBIT margin dropped to 24.2% from 26.6% in the previous quarter, mainly from an increase in selling & marketing expenses, as well as a lower-margin product mix – Tiara Sendayan 13A/13B, and Irama Sendayan 1. A second interim single-tier DPS of 2.5 sen was declared, representing a payout ratio of 49%.
- Strong property sales momentum.** MCH's 2QFY24 property sales came up to MYR310.8m, vs MYR305.3m in 1QFY24. Sales for projects launched 5-6 months ago improved further, with Hijayu (Resort Villa) Phase 1 and Tiara Sendayan 16 (P14C3) now 93%- and 94%-sold (from 57%- and 18%-sold in 1QFY24). Other major launches such as Bayu Sutera 7 (Precinct 3B) and Irama Sendayan 2C achieved take-up rates of 63% and 19% - these projects were launched in July and August.
- Over MYR1bn worth of projects in the pipeline.** Upcoming launches worth about MYR1.2bn should drive the company's property sales in 2HFY24. Key projects include Levia Residences in Cheras (GDV: MYR532m), Bayu Sutera 8 (GDV: MYR424m), as well as other smaller phases of its existing township developments in Sendayan.
- Forecasts.** We raise our FY24-26 earnings forecasts by 2-5% as construction progress is expected to normalise at the current level. Unbilled sales slipped to MYR1.3bn, from MYR1.4bn as at 1QFY23. Note that MCH sold an industrial property for MYR48m in Oct 2023, and this disposal is expected to bring an estimated gain of about MYR20m.
- Maintain TP.** Our TP is based on an unchanged 30% discount to RNAV with a 2% ESG premium applied to our intrinsic value for the stock, given our ESG score of 3.1 out of 4 for the company.

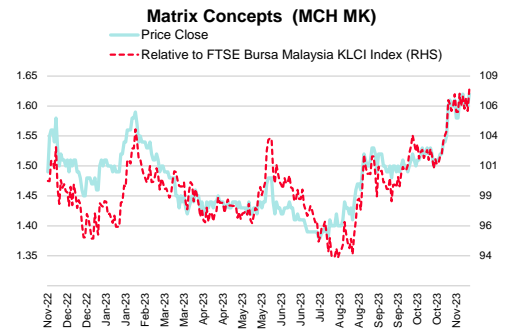
#### Analyst

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#### Share Performance (%)

|                            | YTD  | 1m  | 3m  | 6m   | 12m  |
|----------------------------|------|-----|-----|------|------|
| Absolute                   | 10.2 | 6.6 | 8.7 | 13.3 | 13.3 |
| Relative                   | 12.9 | 5.6 | 8.4 | 10.7 | 12.3 |
| 52-wk Price low/high (MYR) |      |     |     | 1.38 | 1.62 |



Source: Bloomberg

| Forecasts and Valuation         | Mar-22 | Mar-23   | Mar-24F | Mar-25F | Mar-26F  |
|---------------------------------|--------|----------|---------|---------|----------|
| Total turnover (MYRm)           | 887    | 1,118    | 1,405   | 1,542   | 1,598    |
| Recurring net profit (MYRm)     | 205    | 209      | 250     | 265     | 274      |
| Recurring net profit growth (%) | (21.1) | 1.7      | 20.1    | 5.9     | 3.2      |
| Recurring EPS (MYR)             | 0.25   | 0.17     | 0.20    | 0.21    | 0.21     |
| DPS (MYR)                       | 0.08   | 0.08     | 0.10    | 0.11    | 0.11     |
| Recurring P/E (x)               | 6.59   | 9.72     | 8.17    | 7.80    | 7.63     |
| P/B (x)                         | 0.71   | 1.01     | 0.96    | 0.91    | 0.87     |
| Dividend Yield (%)              | 5.1    | 5.1      | 6.2     | 6.5     | 6.8      |
| Return on average equity (%)    | 11.0   | 10.7     | 12.1    | 12.1    | 11.8     |
| Net debt to equity (%)          | 4.6    | net cash | 6.9     | 4.1     | net cash |

Source: Company data, RHB

#### Overall ESG Score: 3.1 (out of 4)

##### E: GOOD

MCH adopts various environmentally-sustainable initiatives, including recycling office and household waste and consuming RE from the power company's solar PV system.

##### S: EXCELLENT

MCH has built three public schools and numerous houses of worship for various religions. It is also a premier sponsor of the state's sports associations. The company is also involved in various corporate social responsibility programmes for cultural activities, education and community enrichment activities.

##### G: GOOD

56% of MCH's Board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. MCH has both in-house and external investor relations teams, and holds investor meetings regularly, embodying good transparency and disclosure practices

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

## Financial Exhibits

| Asia  | Financial summary (MYR)             | Mar-22        | Mar-23        | Mar-24F        | Mar-25F        | Mar-26F        |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Malaysia  | Recurring EPS                       | 0.25          | 0.17          | 0.20           | 0.21           | 0.21           |
| Property  | EPS                                 | 0.25          | 0.17          | 0.20           | 0.21           | 0.21           |
| <b>Matrix Concepts</b>  | DPS                                 | 0.08          | 0.08          | 0.10           | 0.11           | 0.11           |
| MCH MK  | BVPS                                | 2.29          | 1.60          | 1.69           | 1.77           | 1.86           |
| Buy   | Return on average equity (%)        | 11.0          | 10.7          | 12.1           | 12.1           | 11.8           |
|   | Return on average assets (%)        | 8.1           | 8.0           | 8.8            | 8.4            | 8.3            |
| <b>Valuation basis</b>  |                                     |               |               |                |                |                |
| 30% discount to RNAV  |                                     |               |               |                |                |                |
| <b>Key drivers</b>  | <b>Valuation metrics</b>            | <b>Mar-22</b> | <b>Mar-23</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
| i. New property and industrial land sales;  | Recurring P/E (x)                   | 6.59          | 9.72          | 8.17           | 7.80           | 7.63           |
| ii. Landbank acquisitions.  | P/B (x)                             | 0.7           | 1.0           | 1.0            | 0.9            | 0.9            |
|   | Dividend Yield (%)                  | 5.1           | 5.1           | 6.2            | 6.5            | 6.8            |
|   | EV/EBITDA (x)                       | 2.27          | 2.93          | 2.47           | 2.32           | 2.07           |
| <b>Key risks</b>  | <b>Income statement (MYRm)</b>      | <b>Mar-22</b> | <b>Mar-23</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
| Weaker-than-expected market conditions  | Total turnover                      | 887           | 1,118         | 1,405          | 1,542          | 1,598          |
|   | Gross profit                        | 496           | 518           | 619            | 668            | 691            |
|   | EBITDA                              | 281           | 279           | 352            | 374            | 385            |
|   | Operating profit                    | 281           | 279           | 352            | 374            | 385            |
|   | Net interest                        | (13)          | (7)           | (13)           | (16)           | (15)           |
|   | Pre-tax profit                      | 271           | 273           | 338            | 358            | 370            |
|   | Taxation                            | (70)          | (69)          | (88)           | (93)           | (96)           |
|   | Reported net profit                 | 205           | 209           | 250            | 265            | 274            |
|   | Recurring net profit                | 205           | 209           | 250            | 265            | 274            |
| <b>Company Profile</b>  | <b>Cash flow (MYRm)</b>             | <b>Mar-22</b> | <b>Mar-23</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
| Matrix Concepts is a Negeri Sembilan-based developer that currently has 2,732 acres of land with a total portfolio GDV of MYR8.2bn. The group focuses mainly on developing residential and commercial properties, as well as industrial land sales. | Change in working capital           | (78)          | 49            | (113)          | (54)           | 11             |
|   | Cash flow from operations           | 163           | 296           | 183            | 257            | 332            |
|   | Capex                               | (1)           | 0             | (200)          | (50)           | (50)           |
|   | Cash flow from investing activities | (4)           | (64)          | (193)          | (42)           | (41)           |
|   | Dividends paid                      | (66)          | (70)          | (103)          | (126)          | (134)          |
|   | Cash flow from financing activities | (181)         | (155)         | (137)          | (159)          | (166)          |
|   | Cash at beginning of period         | 224           | 194           | 246            | 275            | 289            |
|   | Net change in cash                  | (21)          | 76            | (147)          | 56             | 125            |
|   | Ending balance cash                 | 202           | 270           | 99             | 331            | 414            |
|   | <b>Balance sheet (MYRm)</b>         | <b>Mar-22</b> | <b>Mar-23</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
|   | Total cash and equivalents          | 194           | 246           | 275            | 289            | 420            |
|   | Total investments                   | 1,116         | 1,178         | 1,360          | 1,393          | 1,425          |
|   | Total other assets                  | 85            | 71            | 51             | 41             | 31             |
|   | Total assets                        | 2,572         | 2,637         | 3,079          | 3,205          | 3,367          |
|   | Short-term debt                     | 160           | 123           | 133            | 143            | 153            |
|   | Total long-term debt                | 121           | 117           | 287            | 237            | 237            |
|   | Total liabilities                   | 673           | 648           | 965            | 961            | 990            |
|   | Shareholders' equity                | 1,910         | 2,005         | 2,129          | 2,260          | 2,392          |
|   | Minority interests                  | (12)          | (16)          | (16)           | (16)           | (16)           |
|   | Total equity                        | 1,899         | 1,989         | 2,114          | 2,245          | 2,377          |
|   | Total liabilities & equity          | 2,572         | 2,637         | 3,079          | 3,205          | 3,367          |
|   | <b>Key metrics</b>                  | <b>Mar-22</b> | <b>Mar-23</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
|   | Revenue growth (%)                  | (21.4)        | 26.0          | 25.7           | 9.7            | 3.6            |
|   | Recurring net profit growth (%)     | (21.1)        | 1.7           | 20.1           | 5.9            | 3.2            |
|   | Recurrent EPS growth (%)            | (21.8)        | (32.2)        | 18.9           | 4.9            | 2.1            |
|   | Gross margin (%)                    | 55.9          | 46.3          | 44.1           | 43.4           | 43.2           |
|   | Recurring net profit margin (%)     | 23.1          | 18.7          | 17.8           | 17.2           | 17.1           |
|   | Dividend payout ratio (%)           | 33.9          | 49.5          | 50.5           | 50.5           | 51.8           |

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

| FYE Mar (MYRm)    | 2QFY23 | 1QFY24 | 2QFY24 | QoQ (%) | YoY (%) | 1HFY23 | 1HFY24 | YoY (%) | Comments  |
|-------------------|--------|--------|--------|---------|---------|--------|--------|---------|---|
| Turnover          | 222.4  | 331.4  | 359.4  | 8.4     | 61.6    | 451.6  | 690.8  | 53.0    | Revenue improved QoQ, as construction works accelerated further since the labour shortage issue was resolved earlier.                   |
| EBIT              | 67.4   | 88.2   | 86.9   | (1.5)   | 28.9    | 132.0  | 175.1  |         | 2QFY24 EBIT margin was lower YoY due to narrower-margin product mix, while selling and marketing expenses also rose during the quarter. |
| EBIT margin (%)   | 30.3   | 26.6   | 24.2   |         |         | 29.2   | 25.3   |         |   |
| Net interest      | (1.2)  | (1.3)  | (2.8)  | n.m.    | n.m.    | (2.6)  | (4.1)  | 60.2    |   |
| Pretax profit     | 66.5   | 87.2   | 83.8   | (3.9)   | 26.0    | 130.3  | 171.0  | 31.2    |   |
| Pretax margin (%) | 29.9   | 26.3   | 23.3   |         |         | 28.9   | 24.8   |         |   |
| Taxation          | (16.8) | (23.5) | (20.7) | (12.0)  | 23.2    | (34.4) | (44.2) | 28.5    |   |
| Tax rate (%)      | 25.3   | 27.0   | 24.7   |         |         | 26.4   | 25.9   |         |   |
| Minority interest | 0.8    | 0.9    | 0.9    | n.m.    | n.m.    | 1.7    | 1.8    |         |   |
| Net profit        | 50.6   | 64.6   | 64.0   | (0.9)   | 26.6    | 97.6   | 128.6  | 31.8    | Above expectations.   |
| Net margin (%)    | 22.7   | 19.5   | 17.8   |         |         | 21.6   | 18.6   |         |   |
| EPS (sen)         | 4.0    | 5.2    | 5.1    |         |         | 9.7    | 10.3   |         |   |
| Gross DPS (sen)   | 2.0    | 2.5    | 2.5    |         |         | 5.0    | 5.0    |         |   |
| NTA/share (MYR)   | 1.6    | 1.6    | 1.7    |         |         | 1.6    | 1.7    |         |   |

Source: Company data, RHB

Figure 2: RNAV estimate

| Projects                                  | Remaining landbank<br>(acres) | GDV<br>(MYR m) | Stake | NPV @ 10% |
|---|-------------------------------|----------------|-------|-----------|
| Bandar Sri Sendayan, Negeri Sembilan      | 1,724.2                       | 5,866.1        | 100%  | 459.0     |
| New land in Labu                          | 1,382.2                       | 7,000.0        | 85%   | 431.2     |
| Taman Seri Impian, Kluang, Johor          | 465.7                         | 2,217.9        | 100%  | 267.1     |
| Others                                    | 27.7                          | 156.8          | 100%  | 6.9       |
| Damansara Perdana                         | 5.5                           | 400.0          | 100%  | 22.4      |
| Puchong                                   | 5.8                           | 400.0          | 100%  | 23.6      |
| Cheras                                    | 5.2                           | 532.0          | 100%  | 34.5      |
| St Kilda, Melbourne                       | 0.6                           | 240.0          | 100%  | 16.4      |
| Islamic Financial District, Jakarta       | 8.9                           | 2,044.0        | 30%   | 46.6      |
| Total                                     |                               |                |       | 1,307.6   |
| Shareholders' fund                        |                               |                |       | 2,005.2   |
| Warrants conversion                       |                               |                |       | 123.6     |
| ESOS proceeds                             |                               |                |       | 57.7      |
| Total RNAV                                |                               |                |       | 3,494.2   |
| Share base (incl. warrants and placement) |                               |                |       | 1,324.4   |
| RNAV/share                                |                               |                |       | 2.64      |
| Discount to RNAV                          |                               |                |       | 30%       |
| Intrinsic value                           |                               |                |       | 1.85      |
| ESG premium                               |                               |                |       | 2%        |
| Target price                              |                               |                |       | 1.88      |

Source: RHB

## Emissions And ESG

### Trend analysis

Matrix Concepts' Scope 3 emissions are calculated from the commute of employees to work, the disclosure on ESG key performance indicators and targets, as well as per the Taskforce on Climate Related Financial Disclosures framework.

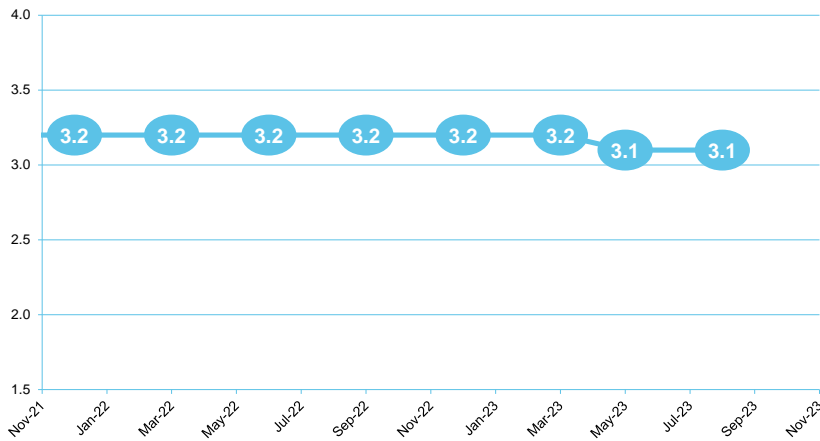
| Emissions (tCO2e) | Mar-21 | Mar-22 | Mar-23  |
|-------------------|--------|--------|---------|
| Scope 1           | 821    | 601    | 428     |
| Scope 2           | 4,345  | 4,210  | 4,373   |
| Scope 3           | na     | na     | 136,639 |
| Total emissions   | 5,166  | 4,811  | 141,440 |

Source: Company data, RHB

## Latest ESG-Related Developments

- The company has been upgraded to a 4-star rating by FTSE Russell - Top 25% ESG ratings amongst the public-listed companies in the FBM EMAS index.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2023-08-22 | Buy            | 1.88         | 1.49  |
| 2023-05-24 | Buy            | 1.75         | 1.44  |
| 2023-05-11 | Buy            | 1.75         | 1.43  |
| 2022-11-23 | Buy            | 1.75         | 1.49  |
| 2022-10-30 | Buy            | 1.88         | 1.41  |
| 2022-08-25 | Buy            | 2.75         | 1.55  |
| 2022-08-23 | Buy            | 2.66         | 1.53  |
| 2022-05-25 | Buy            | 2.66         | 1.62  |
| 2022-02-23 | Buy            | 2.66         | 1.55  |
| 2021-11-25 | Buy            | 2.47         | 1.47  |
| 2021-08-25 | Buy            | 2.36         | 1.37  |
| 2021-08-08 | Buy            | 2.36         | 1.36  |
| 2021-05-26 | Buy            | 2.36         | 1.31  |
| 2021-02-25 | Buy            | 2.22         | 1.20  |
| 2020-11-18 | Buy            | 2.22         | 1.13  |

Source: RHB, Bloomberg

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|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
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| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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