

26 Aug 2020

Buy

Price
 RM1.75

Target Price
 RM2.05 (from RM2.00)

Market Data

Bloomberg Code	MCH MK
No. of shares (m)	834.3
Market cap (RMm)	1,460.0
52-week high/low (RM)	1.97 / 1.24
Avg daily turnover (RMm)	1.0
KLCI (pts)	1,555.0

Source: Bloomberg, KAF

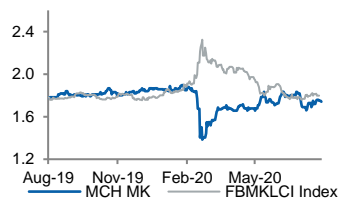
Major Shareholder (%)

Dato' Lee Tian Hock	(34.7%)
EPF	(9.9%)
PT Fin Centerindo Dua	(4.1%)
Free Float	431.4

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	2.9	(8.4)	(7.9)
Rel Market (%)	(4.9)	(11.6)	(4.7)



Source: Bloomberg, KAF

Analyst

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Matrix Concepts

1Q21 results in line

We maintain our Buy recommendation on Matrix Concepts (MCH) with a slightly higher TP of RM2.05 based on 20% discount to our RNAV of RM2.54. The group managed to rake in sales of RM350m in 1Q21, making up c.32% of its year-end sales target of RM1.1b. In addition to its aggressive online marketing initiatives, strong sales were partially boosted by its previous year's sales backlog (that was unable to close during the MCO period). Earnings were in line with our and consensus expectations. MCH is trading at a PBR of 0.8x FY21F and PRNAV of 0.7x FY21F, at a premium to the industry. We believe the premium is justifiable given its strong balance sheet and high dividend yields.

Financial Highlights

FYE Mar	2018	2019	2020	2021F	2022F
Revenue (RMm)	818	1,046	1,282	1,001	1,362
Core net profit (RMm)	213	218	234	195	282
Core EPS (Sen)	28.2	28.8	28.2	23.4	33.9
EPS growth (%)	(10.4)	2.1	(2.1)	(17.0)	44.9
DPS (Sen)	12.8	12.9	11.5	9.5	13.8
Core PE (x)	6.2	6.1	6.2	7.5	5.2
Div yield (%)	7.3	7.4	6.6	5.4	7.9
ROE (%)	19.1	17.2	15.9	11.3	14.7
Net Gearing (%)	2.9	7.4	7.3	8.6	9.5
PBV(x)	1.1	1.0	0.9	0.8	0.7

Source: Company, KAF

1Q21 results review. MCH reported net profit of RM31m, -43% yoy, in 1Q21. Despite of a significant yoy earnings contraction, it was in line with our expectations, making up c.19% (consensus: 16%) of our initial full-year net profit forecast of RM165m. The group's earnings contracted as its revenue fell by 35% yoy due to the movement control order (MCO) with very limited construction activities.

Recorded a strong sales. As of end-Jun 2020, the group had raked in RM350m worth of sales, or 32% of its sales target of RM1.1b in FY21F. Most of its sales (80% of total sales) were secured from its key townships i.e., The Sendayans. Strong sales were recorded due to 1) its aggressive online marketing initiatives and 2) from previous year's sales backlog that was unable to close during the MCO period.

Revise in-house sales target to RM950m. MCH's total bookings as at Jun-20 had approval rate of 35%, rejection rate of 40%, and the remaining, pending for approval/rejection. In view of strong approval rate and booking pipeline, we revised upward our in-house sales target to RM950m (from RM740m) in FY21F. This is slightly lower than management sales target of RM1.1b.

Earnings and TP revision. From 1) higher in-house sales target and 2) recommencement of its construction activities, we revised upward our earnings forecast for FY21F by 18%. Our revised net profit forecast is RM195m for FY21F. As a result, our RNAV and TP are higher at RM2.54 (from RM2.50) and RM2.05 (from RM2.00), respectively.

Healthy inventory level. MCH had unsold completed inventory worth RM50m or c.5% of its annual sales. MCH has, in fact, consistently recorded a healthier inventory level than its peers with an inventory-to-sales ratio of less than 10% (industry's 5-year average: 28%). Its fast-moving inventory owes to its price-point strategy.

Strong balance sheet. MCH's balance sheet remains strong with a net gearing of 9% in 1Q21. MCH has consistently reported a low net gearing ratio (lower than the industry's average of >30%). We are of the view that being less geared makes a developer less vulnerable to market/economic uncertainty as it is less impacted by lower financing costs. MCH is set to

exploit any opportunities for future expansion from its strong balance sheet position. We expect the group's net gearing to remain below 10% in FY21-22F.

Declared 2.0 sen DPS. A DPS of 2.0 sen was declared in 1Q21 or c.54% payout ratio. Historically, MCH had payout more 40% of its earnings as dividend. We estimate a lower DPS of 9.5 sen for FY21F (based on 41% payout ratio as per FY20) on the back of lower earnings forecast. This translates into a dividend yield of more than 5% at current price.

Valuation. MCH is trading at a PBR of 0.8x FY21F and PRNAV of 0.7x FY21F, at a premium to the industry. We believe the premium is justifiable given its strong balance sheet to weather current market uncertainties with significantly lower net gearing compared to peers. In addition, the group's low net debt-to-EBITDA level shows that they are not excessively indebted and should be able to repay their debt obligations, eliminating the near-term credit risk. Maintain Buy.

Exhibit 1: Quarterly trend (before update)

Year to 31 December	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	% chg		Cumulative			KAF	
	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	qoq	yoy	3M20	3M10	% chg	2021F	3M/F
RM m	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21							
Revenue	279	249	283	279	472	162	(66)	(35)	249	162	(35)	912	18%
Cost of sales	(152)	(123)	(144)	(123)	(303)	(77)	(75)	(37)	(123)	(77)	(37)	(457)	17%
Gross profit	127	126	139	156	169	85	(50)	(32)	126	85	(32)	456	19%
Other income	5	2	1	1	0	1	769	(58)	2	1	(58)	4	20%
OPEX	(48)	(53)	(59)	(64)	(72)	(41)	(42)	(22)	(53)	(41)	(22)	(219)	19%
EBITDA	84	75	80	93	98	45	(54)	(41)	75	45	(41)	241	19%
Depreciation	(3)	(3)	(3)	(3)	(3)	(3)	(2)	8	(3)	(3)	8	(8)	36%
Amortisation	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBIT	81	73	78	90	95	42	(56)	(42)	73	42	(42)	233	18%
Interest income	1	1	2	2	1	1	54	(18)	1	1	(18)	6	18%
Finance costs	1	(1)	0	(0)	(0)	(0)	(69)	(85)	(1)	(0)	(85)	(2)	8%
Associates	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBT	83	73	79	91	95	43	(55)	(41)	73	43	(41)	237	18%
Taxation	(18)	(18)	(21)	(26)	(42)	(13)	(70)	(30)	(18)	(13)	(30)	(75)	17%
Profit (before MI)	66	55	59	65	53	30	(43)	(45)	55	30	(45)	162	18%
EI	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	-	-	-	-	(3)	(1)	(57)	nm	0	(1)	nm	(3)	43%
Net profit	66	55	59	65	56	31	(44)	(43)	55	31	(43)	165	19%
Distribution to perp sukuk	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Core net profit	66	55	59	65	56	31	(44)	(43)	55	31	(43)	165	19%

Source: Company, KAF

Exhibit 2: Quarterly trend (after update)

Year to 31 December	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	% chg		Cumulative			KAF	
	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	qoq	yoy	3M20	3M10	% chg	2021F	3M/F
RM m	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21							
Revenue	279	249	283	279	472	162	(66)	(35)	249	162	(35)	1,001	16%
Cost of sales	(152)	(123)	(144)	(123)	(303)	(77)	(75)	(37)	(123)	(77)	(37)	(501)	15%
Gross profit	127	126	139	156	169	85	(50)	(32)	126	85	(32)	500	17%
Other income	5	2	1	1	0	1	769	(58)	2	1	(58)	4	20%
OPEX	(48)	(53)	(59)	(64)	(72)	(41)	(42)	(22)	(53)	(41)	(22)	(219)	19%
EBITDA	84	75	80	93	98	45	(54)	(41)	75	45	(41)	285	16%
Depreciation	(3)	(3)	(3)	(3)	(3)	(3)	(2)	8	(3)	(3)	8	(8)	33%
Amortisation	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBIT	81	73	78	90	95	42	(56)	(42)	73	42	(42)	276	15%
Interest income	1	1	2	2	1	1	54	(18)	1	1	(18)	6	17%
Finance costs	1	(1)	0	(0)	(0)	(0)	(69)	(85)	(1)	(0)	(85)	(2)	8%
Associates	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBT	83	73	79	91	95	43	(55)	(41)	73	43	(41)	281	15%
Taxation	(18)	(18)	(21)	(26)	(42)	(13)	(70)	(30)	(18)	(13)	(30)	(89)	14%
Profit (before MI)	66	55	59	65	53	30	(43)	(45)	55	30	(45)	192	16%
EI	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	-	-	-	-	(3)	(1)	(57)	nm	0	(1)	nm	(3)	43%
Net profit	66	55	59	65	56	31	(44)	(43)	55	31	(43)	195	16%
Distribution to perp sukuk	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Core net profit	66	55	59	65	56	31	(44)	(43)	55	31	(43)	195	16%

Source: Company, KAF

Matrix Concepts

Income Statement

FYE Mar (RMm)	2018	2019	2020	2021F	2022F
Revenue	818.5	1,045.5	1,282.3	1,000.9	1,362.5
EBITDA	304.1	305.2	346.2	284.9	416.7
Depreciation/Amortisation	(9.7)	(10.5)	(10.7)	(8.4)	(11.4)
Operating income (EBIT)	294.5	294.7	335.5	276.5	405.3
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	0.7	3.1	3.6	4.4	3.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	295.2	297.8	339.1	280.9	408.9
Taxation	(81.9)	(79.5)	(107.5)	(89.0)	(129.6)
Minorities/pref dividends	0.0	(0.2)	(2.7)	(2.7)	(2.7)
Net profit	213.3	218.4	234.3	194.6	282.0
Core net profit	213.3	218.4	234.3	194.6	282.0

Balance Sheet

FYE Mar (RMm)	2018	2019	2020	2021F	2022F
Fixed assets	869.3	710.3	1,016.1	1,324.3	1,629.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	15.9	26.9	150.0	150.0	150.0
Total non-current assets	885.1	737.2	1,166.1	1,474.3	1,779.5
Cash & equivalent	280.4	264.2	281.3	226.6	229.1
Stock	389.8	671.4	582.0	523.8	471.4
Trade debtors	274.0	373.4	372.8	291.3	396.5
Other current assets	35.4	51.6	0.0	0.0	0.0
Total current assets	979.6	1,360.7	1,236.2	1,041.7	1,097.0
Trade creditors	190.0	359.0	337.6	252.1	343.1
Short-term borrowings	133.8	162.1	135.0	108.8	110.0
Other current liabilities	144.5	47.6	52.9	52.9	52.9
Total current liabilities	468.4	568.8	525.5	413.7	505.9
Long-term borrowings	181.3	200.2	263.4	276.0	308.0
Other long-term liabilities	8.1	1.0	0.2	0.2	0.2
Total long-term liabilities	189.4	201.1	263.6	276.2	308.2
Shareholders' funds	1,206.5	1,327.1	1,615.0	1,829.0	1,996.4
Minority interests	0.5	0.8	(1.8)	(1.8)	(1.8)

Cash flow Statement

FYE Mar (RMm)	2018	2019	2020	2021F	2022F
Pretax profit	295.2	297.8	339.1	280.9	408.9
Depreciation/Amortisation	9.7	10.5	10.7	8.4	11.4
Net change in working capital	(32.4)	(131.5)	(172.9)	(181.2)	(181.2)
Others	(90.1)	(99.0)	(115.2)	(93.5)	(133.2)
Cash flow from operations	182.3	77.9	61.6	14.6	105.9
Capital expenditure	(10.2)	(31.4)	(6.9)	(50.0)	(50.0)
Net investments & sale of fixed assets	0.5	0.6	(130.3)	0.2	0.2
Others	(57.2)	18.1	24.7	0.0	0.0
Cash flow from investing	(66.9)	(12.8)	(112.5)	(49.8)	(49.8)
Debt raised/(repaid)	37.4	28.7	57.8	59.5	61.0
Equity raised/(repaid)	60.8	3.5	161.1	0.0	0.0
Dividends paid	(85.2)	(101.5)	(97.5)	(79.1)	(114.6)
Others	0.5	0.5	0.0	0.0	0.0
Cash flow from financing	13.5	(68.8)	121.3	(19.5)	(53.6)
Net cash flow	129.0	(3.7)	70.5	(54.7)	2.5

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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