Matrix Concepts a long-term defensive play

BY **KHAIRIE HISYAM ALIMAN**

Investors looking for a long-term property play beyond the persistently weak sentiment in the lacklustre real estate sector may consider Matrix Concepts Holdings Bhd, a developer of affordable homes.

With its land bank concentrated in Negeri Sembilan unlike its more geographically diversified peers, and though known as a township developer with niche expertise and an established brand name, MCHB is not a darling of investors at the moment.

A look at 79 property stocks listed on Bursa Malaysia shows that more than half of them have advanced by double-digit percentage year to date compared with MCHB's 5.79%.

"MCHB's discount to revalued net asset value is also lower than that of other major players," a property analyst says. On the other hand, the developer has bucked the sluggish trend with record high sales at its two flagship projects of Bandar Sri Sendayan (BSS) in Seremban and Bandar Sri Impian (BSI) in Kluang, says AllianceDBS Research in a March 9 report.

Apart from its existing parcels of prime land in Puchong, Kuala Lumpur and Melbourne, MCHB is not looking to grow its land bank outside Negeri Sembilan, managing director Datuk Lee Tian Hock tells *The Edge*. Its focus is firmly on expanding its existing townships, whose core product is affordably priced residential properties of RM600,000 and below, he says.

"That said, with the increasing vibrancy of BSS, we are seeing rising demand for higher-premium properties and we will strive to meet the needs of our buyers," he adds.

The geographical concentration of MCHB's land and projects does not trouble Lee, who expects strong economic and population growth in the Greater Klang Valley conurbation to spill over into Seremban and boost its township projects.

"Currently, about 60% of our buyers are from the Klang Valley compared with less than 40% in the earlier years," he says. "Investors need to appreciate the value of Seremban as the next growth hot spot by virtue of being an extension of the Klang Valley. Improving intercity connectivity through more expressways and the upcoming high-speed rail will also work to our advantage and make Seremban an economic hub."

This will support demand for the developer's properties in addition to its affordable price points, Lee says. He expects MCHB's financial performance to be supported by planned launches worth about RM1 billion a year compared with RM600 million to RM800 million several years ago.

"Furthermore, we anticipate more commercial property launches going forward as we near critical mass in our township population, which would be strengthened by the higher presence of government agencies and the upcoming TUDM academy," he says.

Analysts are unanimously bullish on MCHB, with five "buy" calls and target prices of RM2.65 to RM3.10. This implies an upside potential of up to 21.1% from its closing price of RM2.56 last Thursday.

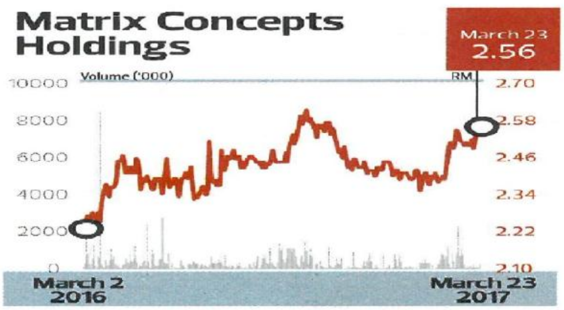
"BSS remains its jewel in the crown. Compared with the low average land cost of RM7 psf with infrastructure in place, its affordably priced properties are already going for around RM200 psf — leading to significantly higher-than-average profit margins," says AllianceDBS.

Of its total undeveloped land bank of 1,700 acres, 70% is located in BSS. The developer expects a total potential gross development value of RM7.5 billion from its ongoing and future projects.

In its third quarter ended Dec 31, 2016 (3QFY2017), MCHB reported a net profit of RM50.5 million on revenue of RM198 million. There is no comparable quarter due to a recent change in financial year-end but in the quarter ended Dec 31, 2015, MCHB posted a net profit of RM36.8 million on revenue of RM141.5 million.

Its net gearing stands at a low 16%.

In the nine-month period to date, MCHB's unbilled sales stood at a record high of RM903.5 million, which analysts say will sustain earnings up to FY2018. An analyst says the developer's overall land bank can sustain earnings up to 2022.



The company is targeting RM1 billion in property sales in FY2017, 83.7% of which has already been achieved.

In a Feb 24 note, Hong Leong Investment Bank says MCHB is well positioned to ride the affordable housing theme because the majority of its products are priced below RM600,000. It adds that the stock's "dividend yield is one of the highest in the sector at about 6%".

This fell slightly after MCHB rallied more than 6% following the announcement of its 3QFY2017 results.

However, an analysis of the 79 property stocks shows that MCHB's dividend yield remains among the highest at 5.65%, according to Bloomberg data, outperforming bigger developers such as IOI Properties Group Bhd, Mah Sing Group Bhd and IGB Corp Bhd.

This presents MCHB as a defensive play in a weak property market. Of the top 10 property stocks by dividend yield, the developer's earnings per share over the trailing 12-month period is the second highest at 35 sen per share, behind UOA Development Bhd's 42 sen.

Some analysts feel that the company's steady growth and high earnings visibility mean that it is undervalued at the moment. Lee agrees. "Investors may have remained cautious on the overall property sector due to issues such as credit liquidity, loan approval rates and a shortfall in sales consensus target for various developers," he says via email. "Our valuation of about seven times trailing PER does not yet reflect our strong sales record."

However, analysts tracking the stock warn that the key risks could be weaker-than-expected sales, further softening of sentiment and higher-than-expected sales cost. E