

## Matrix Concepts (BUY↔, EPS ↓)

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

May 23, 2014

Price Target: RM4.51 (↑)

Share price: RM4.08

## Analyst briefing highlights

## Highlights

- We attended MCH's quarterly investor's briefing and came away feeling reassured about its outlook. Key takeaways were:
- **1Q14 financial highlights:** Revenue and earnings weaker yoy/ qoq in the absence of sales from STV. However, there was +2.5ppts yoy margin expansion thanks to strong selling prices for its double storey terraces (now approaching RM500k/unit).
- **Sendayan Tech Valley (STV):** No sales booked in 1Q. However, two potential transactions involving 75 acres could be struck in 2Q, likely to be in the region of RM45 psf. Given that STV has just 200 acres remaining, MCH is now being selective of its sales.
- **Updates on STV land replenishment.** We also understand that MCH is progressing well with the land acquisition for STV 3, with 60% of the targeted land already acquired.
- **ASP remains strong.** It is interesting to note that 1Q14 saw lower sales volume at higher prices. MCH sold 292 units in 1Q14 (-21% yoy), but ASP was +30% yoy, leading to overall sales of RM126m (+11% yoy).
- **Launches.** MCH launched RM252m worth of projects in 1Q14 with average takeup of 40%, and will be launching further RM510m projects in Seremban and Johor. Given the modest response in 1Q14, sales performance in 2Q14 will be important.
- **Risks**
- Slowdown in sales; escalation in construction and raw material costs; downturn in Seremban and Johor.
- **Forecasts**
- FY14-15E earnings forecast reduced by 3.0-4.7% to reflect reduced earnings contribution from the high-margin STV land plots.
- **Rating**
- **BUY (↔)**
- **Positives:** Offers great exposure to the thriving satellite town of Seremban.
- **Negatives:** Lack of landbank diversification means the company's fate is completely tied to that of Seremban.
- After updating the GDV of its projects and factoring in land value appreciation from STV, our TP is marginally changed from RM4.49 to RM4.51 (maintain 35% discount to RNAV).
- **Valuation**
- We continue to like MCH on back of: (1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; (3) Undemanding FY15E PER of 6.8x vs. more than 10x for mid to large-cap developers; and (4) Still attractive FY14E DY of 5.9%, based on 40% payout ratio.

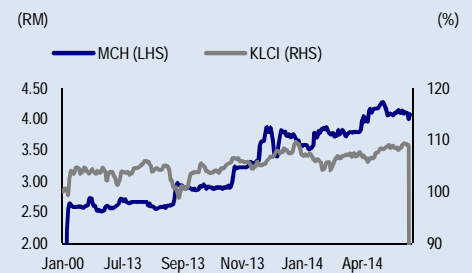
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KLCI	1875.1
Expected share price return	11.8%
Expected dividend return	6.0%
Expected total return	17.7%

## Share price



## Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	304
Market cap (RMm)	1,239
3-mth avg volume ('000)	676

Price Performance	1M	3M	12M
Absolute %	-4.0	6.3	nm
Relative %	-4.4	3.7	Nm

## Major shareholders (%)

LEE TIAN HOCK	19.85
SHINING TERM SDN BHD	16.02
SUPREME INTEREST SDN BHD	5.04
TARGET VENUE SDN BHD	5.04

## Summary Earnings Table

FYE 31 Dec (RM m)	2013A	2014E	2015E	2016E
Revenue	574.7	626.0	689.3	955.3
Reported net profit	152.9	163.8	183.3	246.0
Norm. net profit	152.9	163.8	183.3	246.0
Norm. EPS (sen)	50.8	54.0	60.4	81.0
EPS growth (%)	16.5	6.3	11.9	34.2
Norm. PER (x)	8.0	7.6	6.8	5.0
FD PER (x)	8.0	7.6	6.8	5.0
Net DPS (sen)	31.0	21.6	24.1	32.4
Dividend yield (%)	7.6	5.3	5.9	7.9
BVPS (RM)	1.8	2.1	2.5	3.0
P/B (x)	2.2	1.9	1.6	1.4

HLIB

Figure #1 RNAV table

Project profits - DCF		RMm	
<b>Sendayan</b>			
- Residential			308.15
- Commercial			716.28
- On-going			8.53
<b>Seremban (ex-Sendayan)</b>			
- Residential			101.47
- Commercial			1.54
<b>Johor</b>			
- Residential			49.74
- Commercial			27.90
- On-going			4.75
Unbilled Sales			46.23
<b>Landbank revaluation surplus</b>			
		<b>Mkt price</b>	<b>Book value</b>
	<b>Acres</b>	<b>(RM psf)</b>	<b>(RM psf)</b>
Sendayan Tech Valley	200.00	45.00	9.00
			313.63
<b>Total Surplus</b>			<b>1,578.23</b>
Total Equity			582.00
<b>Total RNAV</b>			<b>2,160.23</b>
Shares outstanding (m)			303.60
<b>RNAV per share (RM)</b>			<b>7.12</b>
ESOS proceeds *			35.46
Diluted share base (m)			316.20
<b>Diluted RNAV per share (RM)</b>			<b>6.94</b>
Dicount to RNAV			35.0%
<b>Target Price (RM)</b>			<b>4.51</b>

Source: HLIB, Company

## Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
<b>Revenue</b>	<b>456.1</b>	<b>574.7</b>	<b>626.0</b>	<b>689.3</b>	<b>955.3</b>
COGS	-263.3	-305.0	-326.0	-352.0	-478.4
<b>Gross profit</b>	<b>192.7</b>	<b>269.7</b>	<b>290.1</b>	<b>324.5</b>	<b>436.8</b>
Opex	-46.6	-64.9	-70.1	-76.5	-105.0
Depreciation	-2.3	0.0	-2.0	-2.0	-2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Finance costs	-1.0	-1.4	-0.9	-0.9	-0.9
Associates	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>142.8</b>	<b>207.2</b>	<b>222.0</b>	<b>248.4</b>	<b>333.4</b>
Taxation	-39.3	-54.3	-58.2	-65.1	-87.4
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>103.5</b>	<b>152.9</b>	<b>163.8</b>	<b>183.3</b>	<b>246.0</b>
Basic shares (m)	237.5	301.2	303.6	303.6	303.6
<b>Basic EPS (sen)</b>	<b>43.6</b>	<b>50.8</b>	<b>54.0</b>	<b>60.4</b>	<b>81.0</b>

## Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Inventories	2.4	1.6	0.5	0.6	0.8
Trade & other receivable	101.0	140.8	74.5	82.0	113.6
Cash	168.2	115.9	69.0	86.1	157.7
<b>Current Assets</b>	<b>679.4</b>	<b>702.1</b>	<b>587.8</b>	<b>612.4</b>	<b>715.9</b>
PPE	11.5	11.9	108.9	204.9	299.8
Investment properties	1.4	67.7	67.7	67.7	67.7
Development properties	30.3	111.9	111.9	111.9	111.9
<b>Total assets</b>	<b>724.6</b>	<b>900.5</b>	<b>883.1</b>	<b>1,003.7</b>	<b>1,202.2</b>
Shr Holder funds	479.4	552.4	650.6	760.6	908.2
<b>Total Equity</b>	<b>479.4</b>	<b>552.4</b>	<b>650.6</b>	<b>760.6</b>	<b>908.2</b>
Long-term borrowings	17.6	15.3	17.6	17.6	17.6
Short-term borrowings	3.9	35.2	0.0	0.0	0.0

## Assumption metrics

FYE 31 Dec (RM m)	2014E	2015E	2016E
Gross margin	46.3	47.1	45.7
PBT margin	35.5	36.0	34.9
Net margin	26.2	26.6	25.7

Source: Company, HLIB

## Valuation ratios

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Reported basic EPS (sen)	43.6	50.8	54.0	60.4	81.0
Norm. basic EPS (sen)	43.6	50.8	54.0	60.4	81.0
Norm. FD EPS (sen)	43.6	50.8	54.0	60.4	81.0
Price	4.1	4.1	4.1	4.1	4.1
PER (x)	9.4	8.0	7.6	6.8	5.0
Net DPS (sen)	0.0	31.0	21.6	24.1	32.4
Net DY (%)	0.0	7.6	5.3	5.9	7.9
NTA/ share (sen)	201.9	183.4	214.3	250.5	299.1
P/NTA (x)	2.0	2.2	1.9	1.6	1.4
Enterprise value	822.2	1,163.4	1,187.3	1,170.2	1,098.5
EV/ EBITDA (x)	5.6	5.6	5.4	4.7	3.3
ROE (%)	21.6	27.7	25.2	24.1	27.1
Net gearing (x)	-0.3	-0.1	-0.1	-0.1	-0.2
BVPS (RM)	2.0	1.8	2.1	2.5	3.0

## Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
PAT	103.5	152.9	163.8	183.3	246.0
Depreciation	2.3	0.0	2.0	2.0	2.0
Amortisation	0.0	0.0	0.0	0.0	0.0
Working cap & others	-10.9	18.5	-48.3	3.1	19.0
<b>Operating cashflow</b>	<b>94.9</b>	<b>171.4</b>	<b>117.6</b>	<b>188.4</b>	<b>267.0</b>
Capex	<b>-100.0</b>	<b>-100.0</b>	<b>-99.0</b>	<b>-98.0</b>	<b>-97.0</b>
<b>Investing Cashflow</b>	<b>-100.0</b>	<b>-100.0</b>	<b>-99.0</b>	<b>-98.0</b>	<b>-97.0</b>
Issue of shares	0	0	0	0	0
Dividends	0	-94	-66	-73	-98
Others	0	0	0	0	0
<b>Financing cashflow</b>	<b>0.0</b>	<b>-98.1</b>	<b>-65.5</b>	<b>-73.3</b>	<b>-98.4</b>
<b>Net cash flow</b>	<b>-5.1</b>	<b>-26.7</b>	<b>-46.9</b>	<b>17.1</b>	<b>71.6</b>

## Quarterly financial summary

FYE 31 Dec (RM m)	1Q13	2Q13	3Q13	4Q13	1Q14
<b>Revenue</b>	<b>155.6</b>	<b>147.3</b>	<b>127.4</b>	<b>144.3</b>	<b>134.7</b>
Cost of sales	-81.1	-93.7	-64.3	-65.9	-66.9
<b>Gross profit</b>	<b>74.5</b>	<b>53.6</b>	<b>63.1</b>	<b>78.5</b>	<b>67.8</b>
Selling and marketing ex	-2.3	-1.5	-1.3	-2.9	-3.4
Administrative expenses	-10.8	-11.6	-14.5	-20.2	-10.7
Operating Profit	61.7	40.9	49.0	57.0	54.4
Prelax profit	61.5	40.6	48.7	53.4	54.0
<b>Net profit</b>	<b>46.0</b>	<b>30.0</b>	<b>36.2</b>	<b>40.7</b>	<b>38.6</b>
Basic shares (m)	72.1	228.8	300.3	300.8	301.8
Basic EPS (sen)	63.7	13.1	12.1	13.5	12.8
DPS (sen)	10.1	5.3	10.0	5.0	5.0
FCF/ share (sen)	12.7	17.1	11.6	-37.4	28.4
Net cash/ share (sen)	24.3	81.5	63.9	21.6	26.8

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