

Matrix Concepts (BUY↔, EPS ↑)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

August 27, 2013

Price Target: RM2.84 (↑)

Share price: RM2.60

Strong earnings and land acquisition

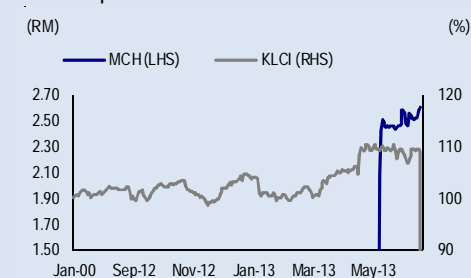
Results	<ul style="list-style-type: none"> 2Q net profit came in at RM30m, bringing 1H earnings to RM76m, or 64% and 60% of HLIB and consensus estimates respectively.
Deviations	<ul style="list-style-type: none"> Due to stronger than expected margins in progress billings.
Dividends	<ul style="list-style-type: none"> 5.25 sen net DPS was declared in 2Q13, bringing YTD DPS to 15.4 sen, or 59% of our 26 sen DPS forecast.
Highlights	<ul style="list-style-type: none"> Qoq margin contraction. Gross profit margin experience sequential qoq contraction due to a change in product mix, declining from 48% to 36%. 2Q saw lower sales in industrial land and lower recognition of double storey residential units, which both typically command substantially better margins. Raising our forecasts. However, even with the qoq margin contraction, 1H earnings were significantly ahead of HLIB and street estimates, we believe due to overly conservative margin assumptions. To remedy this, we have bumped up our gross profit margin assumption from 25% to 30%. Land acquisition announced, for a 1-acre parcel of land located along Jalan Ipoh Kecil. We like the location as it is in close proximity to Putra World Trace Center, public transportation and a number of retail and commercial areas. Making its presence known. MCH is proposing a high rise mixed development on the said land parcel, to commence in FY14. We are positive on this development as it gives MCH a foothold in the Klang Valley market, which offers a potential avenue of growth for future earnings as well as to raise its profile in the largest market in Malaysia. Focus remains on Seremban and Johor. Nonetheless, MCH still remains very much focused on these two areas, with Seremban accounting for more than 90% of future GDV.
Risks	<ul style="list-style-type: none"> Slowdown in sales; escalation in construction and raw material costs; downturn in Seremban and Johor.
Forecasts	<ul style="list-style-type: none"> Following our increase in margin assumption, we raise FY13-15 net profit forecast by 9-27%.
Rating	<ul style="list-style-type: none"> 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.
Valuation	<ul style="list-style-type: none"> Following our raised earnings forecast, our TP is raised from RM2.77 to RM2.84 (maintain 25% discount to RNAV).

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KLCI	1722.5
Expected share price return	9.8%
Expected dividend return	10.0%
Expected total return	19.8%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	300
Market cap (RMm)	778
3-mth avg volume ('000)	nm

Price Performance	1M	3M	12M
Absolute %	-4.4	17.7	nm
Relative %	0.3	20.8	Nm

Major shareholders (%)

LEE TIAN HOCK	19.96
SHINING TERM SDN BHD	16.11
MAGNITUDE POINT SDN BHD	6.37
SUPREME INTEREST SDN BHD	5.06
TARGET VENUE SDN BHD	5.06
AMBANG KUSSA	4.98

Summary Earnings Table

FYE 31 Dec (RM m)	2012A	2013E	2014E	2015E
Revenue	456.1	774.7	838.8	917.7
Reported net profit	103.5	151.2	170.4	193.9
Norm. net profit	103.5	151.2	170.4	193.9
Norm. EPS (sen)	43.6	50.4	56.8	64.6
EPS growth (%)	49.1	15.6	12.7	13.8
Norm. PER (x)	5.9	5.1	4.6	4.0
FD PER (x)	5.9	5.1	4.6	4.0
Net DPS (sen)	0.0	26.0	22.7	25.9
Dividend yield (%)	0.0	10.0	8.8	10.0
BVPS (RM)	2.0	1.8	2.2	2.6
P/B (x)	1.3	1.4	1.2	1.0
HLIB				

Figure #1 Quarterly results comparison

FYE 31 DEC	2Q12	1Q13	2Q13	QoQ (%)	YoY (%)	Remarks
Revenue	nm	155.6	147.3	-5.3	nm	The breakdown for 2Q revenue comprised of sales from: (1) residential and commercial properties (77%); (2) industrial development properties (18%); and (3) land sales (5%).
Cost of Sales	nm	-81.1	-93.7	15.5	nm	
Gross profit	nm	74.5	53.6	-28.0	nm	GP margin experience sequential qoq contraction due to change in product mix, declining from 48% to 36%. 2Q saw lower sales in industrial land and lower recognition of double storey residential units, which both typically command substantially better margins.
Other income	nm	0.2	0.4	61.6	nm	
Selling and marketing expenses	nm	-2.3	-1.5	-36.3	nm	
Administrative expenses	nm	-10.8	-11.6	7.8	nm	MCH incurred RM0.9m of staff costs as a result of the employee share option scheme granted in 2Q.
Operating Profit	nm	61.7	40.9	-33.7	nm	
Finance costs	nm	-0.2	-0.3	77.1	nm	
Profit before taxation	nm	61.5	40.6	-34.0	nm	Due to higher admin expenses incurred in 2Q.
Income tax expense	nm	-15.5	-10.5	-31.9	nm	Flow-down from revenue and gross profit.
Net profit	nm	46.0	30.0	-34.7	nm	
PATAMI	nm	46.0	30.0	-34.7	nm	Flow-down from PBT.
Minority interest	nm	0.0	0.0	nm	nm	
EPS (sen)	nm	63.7	13.1	-79.4	nm	
DPS (sen)	nm	10.1	5.3	-48.1	nm	

Company, HLIB

Figure #2 Cumulative results comparison

	FY12	FY13	YoY (%)	HLIB	% HLIB	Remarks
Revenue	nm	302.9	nm	774.7	39.1	YTD breakdown of revenue between residential / commercial properties, industrial properties and the sale of land was 76%, 21% and 3% respectively.
Cost of Sales	nm	-174.8	nm			
Gross profit	nm	128.1	nm			
Other income	nm	0.6	nm			
Selling and marketing expenses	nm	-3.7	nm			
Administrative expenses	nm	-22.4	nm			
Operating Profit	nm	102.6	nm			
Finance costs	nm	-0.5	nm			
Profit before taxation	nm	102.1	nm	201.5	64.4	Due to stronger than expected GP margins in 1Q (48%).
Income tax expense	nm	-26.0	nm			
Net profit	nm	76.0	nm			
PATAMI	nm	76.0	nm	151.2	64.0	
Minority interest	nm	nm	nm			
EPS (sen)	nm	76.8	nm			
DPS (sen)	nm	15.4	nm			

Company, HLIB

Figure #3 RNAV table

Project profits - DCF	Rm
Sendayan	
- Residential	126.96
- Commercial	349.07
- Industrial	8.33
- On-going	18.86
- Unbilled Sales	20.95
Seremban (ex-Sendayan)	
- Residential	37.06
- Commercial	0.71
Johor	
- Residential	15.37
- Commercial	13.43
- On-going	1.79
- Unbilled Sales	2.87
Total Surplus	595.40
Total Equity	552.59
Total RNAV	1,147.99
Shares outstanding (m)	300.00
RNAV per share (RM)	3.83
ESOS proceeds *	2.23
Diluted share base (m)	303.45
Diluted RNAV per share (RM)	3.79
Dicount to RNAV	25.0%
Target Price (RM)	2.84

Source: HLIB

Income statement

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Revenue	631.6	456.1	774.7	838.8	917.7
COGS	-475.8	-263.3	-575.0	-614.2	-662.8
Gross profit	155.7	192.7	240.2	260.0	284.5
Opex	-46.8	-46.6	-41.9	-37.0	-31.3
Depreciation	-2.0	-2.3	-2.0	-2.0	-2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Finance costs	-0.6	-1.0	-1.1	-0.9	-0.9
Associates	0.0	0.0	0.0	0.0	0.0
Pretax profit	106.3	142.8	201.5	227.2	258.6
Taxation	-26.4	-39.3	-50.4	-56.8	-64.6
Minorities	-10.5	0.0	0.0	0.0	0.0
Net profit	69.4	103.5	151.2	170.4	193.9
Basic shares (m)	237.5	237.5	300.0	300.0	300.0
Basic EPS (sen)	29.2	43.6	50.4	56.8	64.6

Balance sheet

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Inventories	0.8	2.4	0.9	1.0	1.1
Trade & other receivable	75.1	101.0	92.1	99.8	109.2
Cash	151.5	168.2	164.2	173.1	198.1
Current Assets	599.2	679.4	665.0	681.5	716.0
PPE	11.0	11.5	109.5	206.4	302.4
Investment properties	1.4	1.4	1.4	1.4	1.4
Development properties	30.2	30.3	30.3	30.3	30.3
Total assets	643.9	724.6	808.2	921.7	1,052.2
Shr Holder funds	375.1	479.1	552.3	654.5	770.9
Total Equity	375.1	479.4	552.6	654.8	771.2
Long-term borrowings	12.2	17.6	17.6	17.6	17.6
Short-term borrowings	0.0	3.9	0.0	0.0	0.0

Assumption metrics

FYE 31 Dec (RM m)	2013E	2014E	2015E
Gross margin	31.0	31.0	31.0
PBT margin	26.0	27.1	28.2
Net margin	19.5	20.3	21.1

Company, HLIB

Valuation ratios

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Reported basic EPS (sen)	29.2	43.6	50.4	56.8	64.6
Norm. basic EPS (sen)	29.2	43.6	50.4	56.8	64.6
Norm. FD EPS (sen)	29.2	43.6	50.4	56.8	64.6
Price	2.6	2.6	2.6	2.6	2.6
PER (x)	8.9	5.9	5.1	4.6	4.0
Net DPS (sen)	0.0	0.0	26.0	22.7	25.9
Net DY (%)	0.0	0.0	10.0	8.8	10.0
NTA/ share (sen)	157.9	201.9	184.2	218.3	257.1
P/NTA (x)	1.6	1.3	1.4	1.2	1.0
Enterprise value	479.4	468.4	630.3	621.5	596.5
EV/ EBITDA (x)	4.4	3.2	3.2	2.8	2.4
ROE (%)	18.5	21.6	27.4	26.0	25.1
Net gearing (x)	-0.4	-0.3	-0.3	-0.2	-0.2
BVPS (RM)	1.6	2.0	1.8	2.2	2.6

Cashflow

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
PAT		103.5	151.2	170.4	193.9
Depreciation		2.3	2.0	2.0	2.0
Amortisation		0.0	0.0	0.0	0.0
Working cap & others		-10.9	24.7	3.6	4.6
Operating cashflow		94.9	177.9	176.0	200.6
Capex		-100.0	-100.0	-99.0	-98.0
Investing Cashflow		-100.0	-100.0	-99.0	-98.0
Issue of shares		0	0	0	0
Dividends		0	-78	-68	-78
Others		0	0	0	0
Financing cashflow		0.0	-81.9	-68.1	-77.6
Net cash flow		-5.1	-4.0	8.8	25.0

Quarterly financial summary

FYE 31 Dec (RM m)	1Q13	2Q13
Revenue	147.3	0.0
Cost of sales	-93.7	0.0
Gross profit	53.6	0.0
Selling and marketing ex	-1.5	0.0
Administrative expenses	-11.6	0.0
Operating Profit	40.9	0.0
Pretax profit	40.6	0.0
Net profit	30.0	0.0
Basic shares (m)	72.1	228.8
Basic EPS (sen)	63.7	13.1
DPS (sen)	13.5	7.0
FCF/ share (sen)	12.7	17.1
Net cash/ share (sen)	24.3	81.5

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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