

Matrix Concepts (BUY↔, EPS ↔)

 INDUSTRY: NEUTRAL
 COMPANY INSIGHT/BRIEFING

August 28, 2013

Price Target: RM2.84 (↔)

Share price: RM2.57

Land sales an icing on the cake
Highlights

- We attended MCH's analyst briefing for its 2QFY13 results announcement, and came away feeling upbeat about its prospects. Salient highlights:
- **Updates on the new KL development**, with selling price guided in the region of RM700-800 psf. The land cost of the one-acre site averaged at RM950 psf with circa 8x plot ratio, with planned GDV of RM250m.
- **Strong earnings visibility**, with unbilled sales now standing at RM362m (0.8x FY12 revenue).
- **Margins highly sensitive to earnings mix.** In line with our results review, MCH's margins are highly sensitive to product mix, with 2Q only recording 36% gross margins vs. 48% for 1Q, as 1Q saw more high-margin industrial land disposals and sales of double-storey terrace houses.
- **High margins from industrial land.** Management guides for ~70% gross profit margin from industrial land sales. We reckon this is achievable given: (1) Low land cost of RM3psf vs. recent transacted price of RM34 psf; (2) All infra costs have been paid for at ~RM6 psf; and (3) Strong FDI momentum with reputable manufacturing MNCs such as Hino continuing to make Sendeyan Tech Valley (STV) their destination of choice.
- **More land sales to come.** YTD, STV land sales have amounted to 50 acres and we gather that MCH intends to release a further 50 acres of land in 2H. Currently, it has 200 acres of industrial land plots in inventory.
- **Strong property prices in Seremban.** The asset class outlook in Seremban continues to be encouraging, with MCH's double storey terrace houses now fetching RM380k vs. RM300k last year. We believe a large part of this comes from new buyers from Klang Valley, now estimated to make up 40% of MCH's new sales.

Risks

- Slowdown in sales; escalation in construction and raw material costs; downturn in Seremban and Johor.

Forecasts

- Unchanged. Note that we upgraded our FY13-15 net profit forecast by 9-27% immediately after the results.

Rating

- **BUY (↔)**
- **Positives:** Offers great exposure to the thriving satellite town of Seremban and high dividend yield.
- **Negatives:** Lack of landbank diversification means the company's fate is closely tied to that of Seremban, although we note that the recent maiden land acquisition in Klang Valley will mitigate some concerns.

Valuation

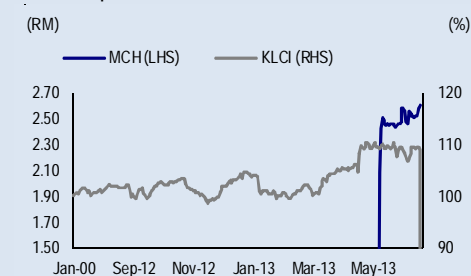
- Maintain TP at RM2.84 (25% discount to RNAV).

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| | |
|-----------------------------|--------|
| KLCI | 1701.2 |
| 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) | 772 |
| 3-mth avg volume ('000) | 1,047 |

| Price Performance | 1M | 3M | 12M |
|-------------------|------|-----|-----|
| Absolute % | -5.2 | 0.8 | nm |
| Relative % | 0.8 | 5.2 | 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 | 4.5 | 4.0 |
| FD PER (x) | 5.9 | 5.1 | 4.5 | 4.0 |
| Net DPS (sen) | 0.0 | 26.0 | 22.7 | 25.9 |
| Dividend yield (%) | 0.0 | 10.1 | 8.8 | 10.1 |
| BVPS (RM) | 2.0 | 1.8 | 2.2 | 2.6 |
| P/B (x) | 1.3 | 1.4 | 1.2 | 1.0 |

HLIB

Figure #1 RNAV table

| Project profits - DCF | RMm |
|------------------------------------|-----------------|
| 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) | 8.8 | 5.9 | 5.1 | 4.5 | 4.0 |
| Net DPS (sen) | 0.0 | 0.0 | 26.0 | 22.7 | 25.9 |
| Net DY (%) | 0.0 | 0.0 | 10.1 | 8.8 | 10.1 |
| NTA/ share (sen) | 157.9 | 201.9 | 184.2 | 218.3 | 257.1 |
| P/N TA (x) | 1.6 | 1.3 | 1.4 | 1.2 | 1.0 |
| Enterprise value | 474.7 | 463.6 | 624.3 | 615.5 | 590.5 |
| EV/ EBITDA (x) | 4.4 | 3.2 | 3.1 | 2.8 | 2.3 |
| 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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| | |
|---------------------|--|
| BUY | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside. |
| TRADING BUY | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
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Industry rating definitions

| | |
|--------------------|--|
| OVERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months. |
| NEUTRAL | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
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