

Matrix Concepts (BUY↔↔, EPS ↔↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

August 20, 2014

Price Target: RM3.74 (↔↔)

Share price: RM3.25

Results on the rebound

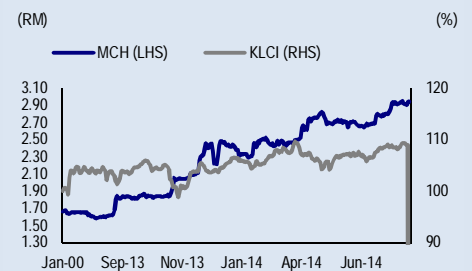
Results	<ul style="list-style-type: none"> 2Q14 core PAT rose 41.3% yoy to RM42.4m, with YTD net profit of RM81m making up 49% of both HLIB and consensus estimates.
Deviations	<ul style="list-style-type: none"> None.
Dividends	<ul style="list-style-type: none"> 3.8 sen net DPS was declared in 2Q14, bringing YTD DPS to 7.1 sen, or 49.3% of our 14.3 sen DPS forecast.
Highlights	<ul style="list-style-type: none"> Pickup in progress billings. Following a weak 1Q which saw both yoy and qoq decline in topline and earnings, 2Q has made an encouraging recovery. Recall that 1Q earnings was weaker in the absence of STV land sales and slower revenue recognition from Hijayu 1A (Phase 1). This project has now hit its milestone and registered stronger earnings recognition in 2Q, and MCHB achieved RM18.9m industrial land sales for 10.5 acres in STV. This led to qoq recovery for both the topline and bottomline. Yoy: Higher margin from Hijayu 1A. Gross margin jumped 9.2ppts yoy, an encouraging sign. Apart from the STV land sales, we also believe margin expansion came about from stronger recognition of Hijayu 1A, which would have stronger margins given its relatively higher ASP of RM460k. In comparison, the group's launches last year were mostly below the RM400k threshold. Qoq: Higher capex costs. Gross margin declined 4.8 ppts qoq, which MCHB attributes to the pre-operating expenses incurred for the Matrix Global Schools and the Group's clubhouse constructed for the use of the residents of its Bandari Sri Sendayan township. Maintained. BUY (↔↔) Positives: 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 P/E of 8.1x vs. more than 12-19x for mid to large-cap developers; and (4) Still attractive FY14E DY of 4.9%, based on 40% payout ratio. Negatives: Lack of landbank diversification means the company's fate is completely tied to that of Seremban. Given the group's improved sales (Figure #4) and earnings recovery in 2Q, we maintain our positive outlook for its future sales and earnings. We maintain our TP at RM3.74 (20% discount to RNAV), which implies FY15E P/E of 9.3x. This remains undemanding vs. 12-18x for mid to large-cap peers.
Forecasts	
Rating	
Valuation	

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KLCI	1872.2
Expected share price return	15.0%
Expected dividend return	4.9%
Expected total return	20.0%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	456
Market cap (RMm)	1,342
3-mth avg volume ('000)	619
SC Syariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	5.8	3.5	66.8
Relative %	6.9	3.2	61.2

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	35.8	40.1	53.8
EPS growth (%)	16.5	-29.4	11.9	34.2
Norm. PER (x)	6.4	9.1	8.1	6.0
FD PER (x)	6.4	9.1	8.1	6.0
Net DPS (sen)	20.6	14.3	16.0	21.5
Dividend yield (%)	6.3	4.4	4.9	6.6
BVPS (RM)	1.8	1.4	1.7	2.0
P/B (x)	1.8	2.3	2.0	1.6

HLIB

Figure #1 Quarterly results comparison

FYE 31 DEC	2Q13	1Q14	2Q14	QoQ (%)	YoY (%)	Remarks
Revenue	147.3	134.7	163.7	21.6	11.1	Topline up qoq and yoy due to stronger progress billings from Hijayu 1A (Phase 1), and resumption of sales of industrial land in Sendayan Tech Valley (no STV sales booked in 1Q).
Cost of Sales	-93.7	-66.9	-89.2	33.3	-4.8	
Gross profit	53.6	67.8	74.6	10.0	39.1	Slight margin contraction qoq (-4.8 ppts qoq) due to pre-operating expenses incurred for the Matrix Global Schools and the clubhouse constructed for the use of the residents of its Bandari Sri Sendayan township.
Other income	0.4	0.7	0.8	17.1	117.1	
Selling and marketing expenses	-1.5	-3.4	-2.6	-24.3	75.7	
Administrative expenses	-11.6	-10.7	-13.9	30.0	19.6	
Operating Profit	40.9	54.4	58.9	8.3	44.0	
Finance costs	-0.3	-0.4	-0.4	-19.4	14.2	
Profit before taxation	40.6	54.0	58.6	8.5	44.3	
Income tax expense	-10.5	-15.4	-16.1	4.5	52.7	Flow-down from revenue and gross profit.
Net profit	30.0	38.6	42.4	10.1	41.3	
PATAMI	30.0	38.6	42.4	10.1	41.3	Flow-down from PBT.
Minority interest	0.0	0.0	0.0	nm	nm	
EPS (sen)	13.1	12.8	14.0	9.4	6.9	
DPS (sen)	5.3	5.0	3.8	-25.0	-28.6	

Source: Company, HLIB

Figure #2 Cumulative results comparison

	FY13	FY14	YoY (%)	HLIB	% HLIB	Remarks
Revenue	302.9	298.4	-1.5	626.0	47.7	In-line
Cost of Sales	-174.8	-156.1	-10.7			
Gross profit	128.1	142.4	11.1			
Other income	0.6	1.5	148.6			
Selling and marketing expenses	-3.7	-5.9	58.7			
Administrative expenses	-22.4	-24.6	9.8			
Operating Profit	102.6	113.3	10.5			
Finance costs	-0.5	-0.8	63.5			
Profit before taxation	102.1	112.5	10.2	222.0	50.7	In-line
Income tax expense	-26.0	-31.5	21.0			
Net profit	76.0	81.0	6.5			
PATAMI	76.0	81.0	6.5	163.8	49.4	In-line
Minority interest	0.0	0.0	nm			
EPS (sen)	76.8	26.8	-65.1			
DPS (sen)	15.4	8.8	-43.1			

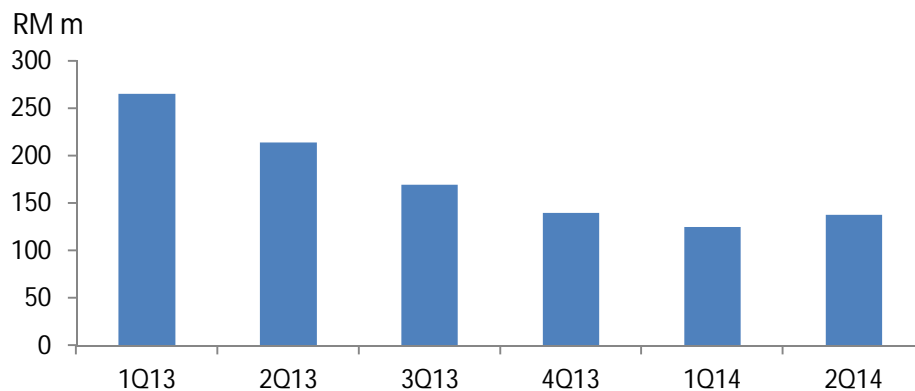
Source: Company, HLIB

Figure #3 RNAV table

Project profits - DCF		RMm		
Sendayan				
- Residential		308.15		
- Commercial		716.28		
- On-going		8.53		
Seremban (ex-Sendayan)				
- Residential		101.47		
- Commercial		1.54		
Johor				
- Residential		49.74		
- Commercial		27.90		
- On-going		4.75		
Unbilled Sales		46.23		
Landbank revaluation surplus				
	Acres	Mkt price (RM psf)	Book value (RM psf)	
Sendayan Tech Valley	200.00	45.00	9.00	313.63
Total Surplus				1,578.23
Total Equity				582.00
Total RNAV				2,160.23
Shares outstanding (m)				457.22
RNAV per share (RM)				4.72
ESOS proceeds *				35.46
Diluted share base (m)				469.82
Diluted RNAV per share (RM)				4.67
Dicount to RNAV				20.0%
Target Price (RM)				3.74

Source: HLIB, Company

Figure #4 Matrix - Quarterly sales



Source: HLIB, Company

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue	456.1	574.7	626.0	689.3	955.3
COGS	-263.3	-305.0	-326.0	-352.0	-478.4
Gross profit	192.7	269.7	290.1	324.5	436.8
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
Pretax profit	142.8	207.2	222.0	248.4	333.4
Taxation	-39.3	-54.3	-58.2	-65.1	-87.4
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit	103.5	152.9	163.8	183.3	246.0
Basic shares (m)	237.5	301.2	457.2	457.2	457.2
Basic EPS (sen)	43.6	50.8	35.8	40.1	53.8

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
Current Assets	679.4	702.1	587.8	612.4	715.9
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
Total assets	724.6	900.5	883.1	1,003.7	1,202.2
Shr Holder funds	479.4	552.4	650.6	760.6	908.2
Total Equity	479.4	552.4	650.6	760.6	908.2
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	35.8	40.1	53.8
Norm. basic EPS (sen)	43.6	50.8	35.8	40.1	53.8
Norm. FD EPS (sen)	43.6	50.8	35.8	40.1	53.8
Price	3.3	3.3	3.3	3.3	3.3
PER (x)	7.5	6.4	9.1	8.1	6.0
Net DPS (sen)	0.0	20.6	14.3	16.0	21.5
Net DY (%)	0.0	6.3	4.4	4.9	6.6
NTA/ share (sen)	201.9	183.4	142.3	166.4	198.6
P/NTA (x)	1.6	1.8	2.3	2.0	1.6
Enterprise value	625.1	913.4	1,434.5	1,417.4	1,345.8
EV/ EBITDA (x)	4.3	4.4	6.5	5.7	4.1
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	1.4	1.7	2.0

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
Operating cashflow	94.9	171.4	117.6	188.4	267.0
Capex	-100.0	-100.0	-99.0	-98.0	-97.0
Investing Cashflow	-100.0	-100.0	-99.0	-98.0	-97.0
Issue of shares	0	0	0	0	0
Dividends	0	-94	-66	-73	-98
Others	0	0	0	0	0
Financing cashflow	0.0	-98.1	-65.5	-73.3	-98.4
Net cash flow	-5.1	-26.7	-46.9	17.1	71.6

Quarterly financial summary

FYE 31 Dec (RM m)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	147.3	127.4	144.3	134.7	163.7
Cost of sales	-93.7	-64.3	-65.9	-66.9	-89.2
Gross profit	53.6	63.1	78.5	67.8	74.6
Selling and marketing ex	-1.5	-1.3	-2.9	-3.4	-2.6
Administrative expenses	-11.6	-14.5	-20.2	-10.7	-13.9
Operating Profit	40.9	49.0	57.0	54.4	58.9
Prelax profit	40.6	48.7	53.4	54.0	58.6
Net profit	30.0	36.2	40.7	38.6	42.4
Basic shares (m)	228.8	300.3	300.8	301.8	303.5
Basic EPS (sen)	13.1	12.1	13.5	12.8	14.0
DPS (sen)	5.3	10.0	5.0	5.0	3.8
FCF/ share (sen)	17.1	11.6	-37.4	28.4	-14.2
Net cash/ share (sen)	81.5	63.9	21.6	26.8	8.5

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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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 No. 3, Jalan Kia Peng
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