

# Matrix Concepts (BUY↔↔, EPS ↔↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

August 21, 2014

Price Target: RM3.74 (↔↔)

Share price: RM3.20

## Making the right moves

### Highlights

- We attended MCHB's briefing and came away reassured that management is making the right moves.
- **KL project updates.** MCHB is postponing the launch to after Apr 2015 (instead of this year), given the uncertain sentiment in the KL property market. The good news is that the GDV should be significantly higher than the RM250m guided originally given: (1) This project is being re-positioned to a higher-end concept, with the ASP likely to be significantly above the RM700-800 psf originally planned, and (2) Its plot ratio has been successfully raised from 8x to 9x.
- **Bandar Sri Sendayan (BSS) extension wings.** Recall MCHB acquired two parcels in Seremban in July 2013 (431 acres, RM5.70 psf), and we understand this could yield RM3-4m GDV per acre, translating into RM1.6bn of future GDV, which makes up close to 25% of its future GDV. MCHB has obtained the necessary approvals in July and is mulling smaller and more affordable units in the extension wing of BSS. We concur with this move given the success of Hijayu 3A Phase 1, which achieve >90% takeup within 2 weeks thanks to its smaller size and affordable pricing (RM420k/unit vs. RM460k/unit for Hijayu 1A).
- **2014 sales outlook.** Management declined to commit to a sales target for FY14, as it concedes the overall market remains challenging. MCHB racked up RM788m sales last year (inclusive of STV) and 1H14 sales of RM291m translates to 37% run-rate.
- **How to make up for the "shortfall"?** MCHB has RM720m of existing projects yet to be sold, and is launching RM410m of projects in 2H14. Moreover, we understand that it is close to striking industrial land deals for STV, possibly up to 35 acres.
- 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 8.0x vs. more than 12-18x for mid to large-cap developers; and (4) Still attractive FY14E DY of 5.0%, based on 40% payout ratio.
- **Negatives:** Lack of landbank diversification means the company's fate is completely tied to that of Seremban.
- 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

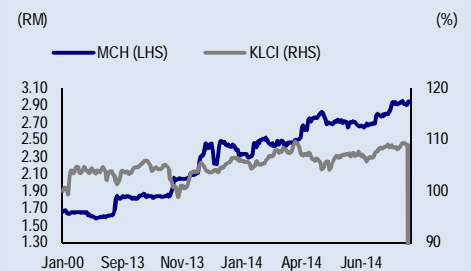
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KLCI	1878.9
Expected share price return	16.8%
Expected dividend return	5.0%
Expected total return	21.8%

### 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)	6.3	8.9	8.0	5.9
FD PER (x)	6.3	8.9	8.0	5.9
Net DPS (sen)	20.6	14.3	16.0	21.5
Dividend yield (%)	6.4	4.5	5.0	6.7
BVPS (RM)	1.8	1.4	1.7	2.0
P/B (x)	1.7	2.2	1.9	1.6

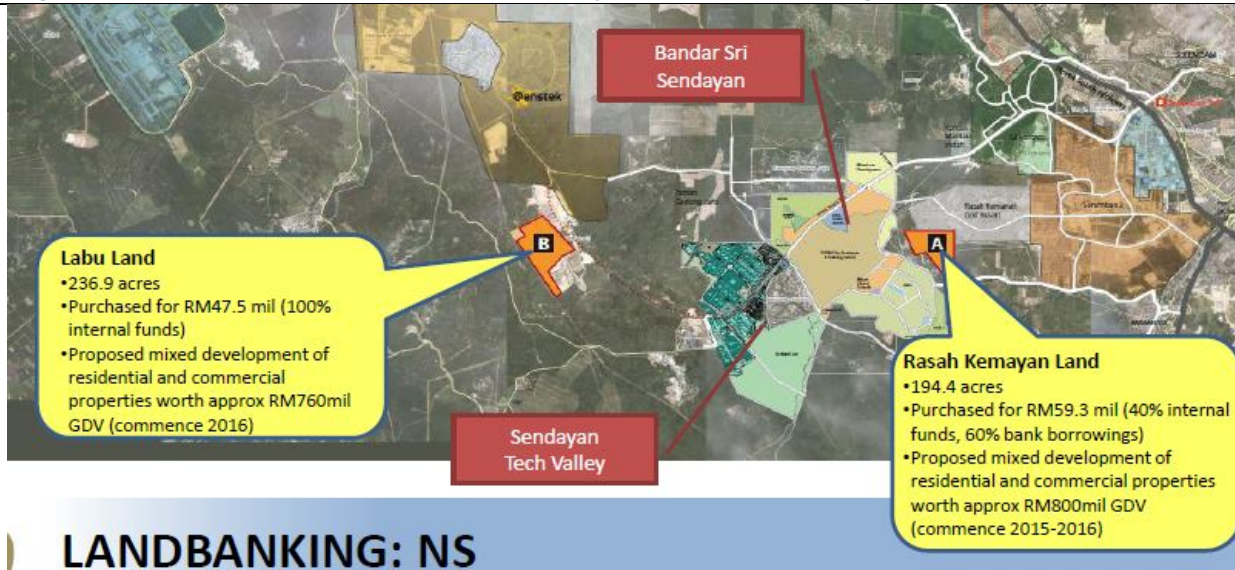
HLIB

Figure #1 Location of KL project



Source: Company, HLIB

Figure #2 Location of Bandar Sri Sendayan extension wings



## LANDBANKING: NS

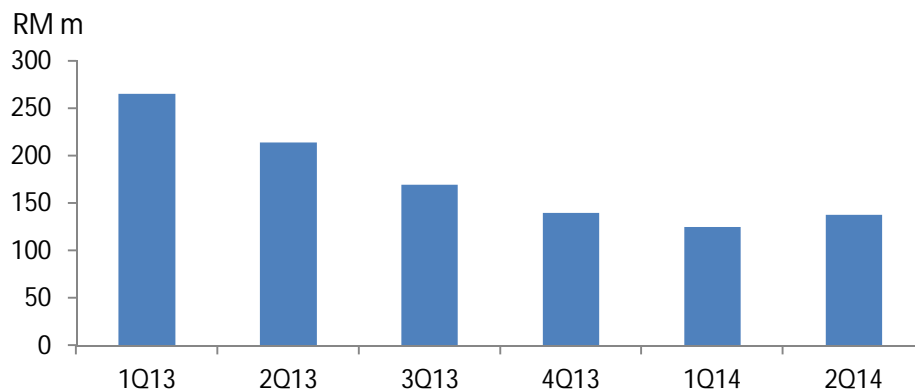
Source: Company, HLIB

Figure #3 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>Acres</b>	<b>Mkt price (RM psf)</b>	<b>Book value (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)				457.22
<b>RNAV per share (RM)</b>				<b>4.72</b>
ESOS proceeds *				35.46
Diluted share base (m)				469.82
<b>Diluted RNAV per share (RM)</b>				<b>4.67</b>
Dicount to RNAV				20.0%
<b>Target Price (RM)</b>				<b>3.74</b>

Source: HLIB, Company

Figure #4 Matrix - Quarterly sales



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	457.2	457.2	457.2
<b>Basic EPS (sen)</b>	<b>43.6</b>	<b>50.8</b>	<b>35.8</b>	<b>40.1</b>	<b>53.8</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	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	3.2	3.2	3.2	3.2	3.2
PER (x)	7.3	6.3	8.9	8.0	5.9
Net DPS (sen)	0.0	20.6	14.3	16.0	21.5
Net DY (%)	0.0	6.4	4.5	5.0	6.7
NTA/ share (sen)	201.9	183.4	142.3	166.4	198.6
P/NTA (x)	1.6	1.7	2.2	1.9	1.6
Enterprise value	613.2	898.4	1,411.7	1,394.6	1,322.9
EV/ EBITDA (x)	4.2	4.3	6.4	5.6	4.0
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
<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)	2Q13	3Q13	4Q13	1Q14	2Q14
<b>Revenue</b>	<b>147.3</b>	<b>127.4</b>	<b>144.3</b>	<b>134.7</b>	<b>163.7</b>
Cost of sales	-93.7	-64.3	-65.9	-66.9	-89.2
<b>Gross profit</b>	<b>53.6</b>	<b>63.1</b>	<b>78.5</b>	<b>67.8</b>	<b>74.6</b>
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
<b>Net profit</b>	<b>30.0</b>	<b>36.2</b>	<b>40.7</b>	<b>38.6</b>	<b>42.4</b>
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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<b>TRADING BUY</b>	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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