

Matrix Concepts (HOLD ↔, EPS ↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

August 11, 2015

Price Target: RM2.52 (↔)

Share price: RM2.26

2QFY15 Result - Inline
Results

- **Within Expectations:** Matrix's 2QFY15 reported PATAMI of RM30m bringing 1HFY15 to RM145.3m, accounting for 76.3% and 73.8% of ours and consensus' full year earnings, respectively.

Deviations

- Mainly due to higher revenue recognition from industrial properties in 1QFY15 which were brought forward from 2Q and 3Q. Thus, 3QFY15 earnings will be lower than 1QFY15 due to absence of industrial land sales.

Dividends

- Declared second interim dividend of 3.5 sen/share, bringing 1H15 total dividend to 7.1sen/share (versus our full year forecast of 14 sen/share).

Highlights

- **QoQ:** Revenue and PATAMI fell by 26% and 29% respectively mainly due to absence of industrial land sales (recognised RM95m of industrial land sales in 1Q15). We understand that the significant jump in industrial properties in 1QFY15 was attributable to payments being brought forward from 2Q and 3Q due to GST.
- New sales for 2QFY15 grow by 34% QoQ bringing 1HFY15 new sales to RM367m, on track to achieve company full year target of RM600m. New launches like Hijayu 3B (GDV: RM196m) and Hijayu Resort Homes, Phase 1A (GDV:RM70m) have enjoyed take up rate of 37% and 35% respectively, partly help to drive the new sales in 2Q15.
- To note, take up rate for existing Hijayu 3A Phase 4 has surged from 32% to 96% QoQ. We continue to see sustained demand for affordable houses especially those with prices below RM600k which will continue to enjoy good take up rate.
- Unbilled sales also surged by 38% QoQ to RM540m representing 0.9x of FY14's property development revenue.

Forecasts
Rating
HOLD (↔)

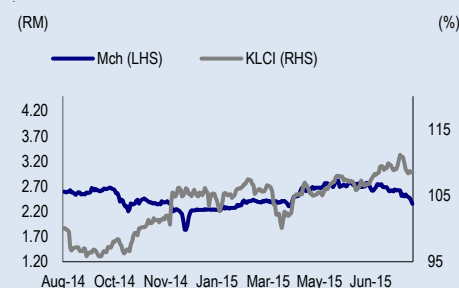
- **Positives:** 1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; and (3) Still attractive FY15E DY of 6.3%, based on 40% payout ratio.
- **Negatives:** (1) Lack of landbank diversification means the company's fate is completely tied to that of Seremban.

Valuation

- Target price adjusted from **RM3.30** to **RM2.52** based on unchanged 30% discount to RNAV posted adjustment on bonus issue and free warrants. Maintain **HOLD** with dividend yield of 6.3%.

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| | |
|-----------------------------|---------|
| KLCI | 1,653.2 |
| Expected share price return | 11.5% |
| Expected dividend return | 6.3% |
| Expected total return | 17.8% |

Share price

Information

| | |
|-------------------------|--------|
| Bloomberg Ticker | MCH MK |
| Bursa Code | 5236 |
| Issued Shares (m) | 461.7 |
| Market cap (RMm) | 1,222 |
| 3-mth avg volume ('000) | 727 |
| SC Syariah-compliant | Yes |

| | | | |
|--------------------------|-------|-------|-------|
| Price Performance | 1M | 3M | 12M |
| Absolute % | -15.8 | -19.4 | -17.8 |
| Relative % | -12.6 | -12.0 | -8.1 |

Major shareholders (%)

| | |
|--------------------------|------|
| Lee Tian Hock | 16.4 |
| Shining Term Sdn Bhd | 15.8 |
| Supreme Interest Sdn Bhd | 5.0 |

Summary Earnings Table

| FYE 31 Dec (RM m) | 2014A | 2015E | 2016E | 2017E |
|-------------------|-------|-------|-------|-------|
| Revenue | 599 | 633 | 689 | 821 |
| EBITDA | 247 | 261 | 280 | 313 |
| Norm. net profit | 182 | 191 | 210 | 235 |
| Norm. EPS (sen) | 40 | 35 | 39 | 43 |
| Norm. PER (x) | 5.7 | 6.4 | 5.8 | 5.2 |
| BVPS (RM) | 1.46 | 1.44 | 1.67 | 1.93 |
| P/B (x) | 1.55 | 1.57 | 1.35 | 1.17 |
| ROA (%) | 42.1 | 36.2 | 33.6 | 33.9 |
| ROE (%) | 27.5 | 24.6 | 23.2 | 22.5 |
| HLIB | | | | |

Figure #1 Quarterly results comparison

| FYE Dec | 2Q14 | 1Q15 | 2Q15 | Qoq (%) | Yoy (%) | Comments |
|-------------------------------------|-------------|--------------|-------------|---------------|---------------|--|
| Revenue | 163.7 | 317.6 | 120.4 | (62.1) | (26.4) | YoY & QoQ: Due to project completion of launched projects coupled with decrease in revenue recognition from the sales of industrial land. |
| Cost of Sales | (89.2) | (130.5) | (57.4) | (56.0) | (35.6) | |
| Gross profit | 74.6 | 187.1 | 63.0 | (66.3) | (15.5) | QoQ: Absence from sales of industrial properties, which commands higher margin. |
| Selling and marketing expenses | (2.6) | (9.1) | (4.1) | (54.7) | 61.5 | |
| Administrative expenses | (13.9) | (22.9) | (16.9) | (26.0) | 21.7 | |
| Other Income | 0.4 | 0.3 | 0.2 | (36.3) | (57.7) | |
| Operating Profit | 58.5 | 155.5 | 42.1 | (72.9) | (28.0) | |
| Interest Income | 0.4 | 0.6 | 0.8 | 45.8 | 114.7 | |
| Finance costs | (0.4) | (0.6) | (1.6) | 148.5 | 351.4 | |
| Net Interest | 0.0 | (0.1) | (0.8) | 771.4 | (3,876.2) | |
| JV | | - | | | | |
| Profit before taxation (PBT) | 58.6 | 155.4 | 41.4 | (73.4) | (29.4) | Filtered down from gross profit. |
| Income tax expense | (16.1) | (39.9) | (11.5) | (71.2) | (28.6) | |
| MI | | | | | | |
| PATAMI | 42.4 | 115.4 | 29.9 | (74.1) | (29.7) | Filtered down from PBT. |
| EPS (sen) | 14.0 | 25.2 | 6.5 | | | |

Company; HLIB

Figure #2 Cumulative results comparison

| FYE Dec | 1H14 | 1H15 | Yoy (%) | Comments |
|-------------------------------------|--------------|--------------|-------------|---|
| Revenue | 298.4 | 438.0 | 46.8 | Due to revenue recognition of the group's sales of development properties as well as substantial increase in sale of industrial properties. |
| Cost of Sales | (156.1) | (187.9) | 20.4 | |
| Gross profit | 142.4 | 250.2 | 75.7 | From sales of property developments, especially industrial properties, which commands higher margin. |
| Selling and marketing expenses | (5.9) | (13.2) | 123.1 | |
| Administrative expenses | (24.6) | (39.8) | 61.8 | |
| Other Income | 0.5 | 0.4 | (15.3) | |
| Operating Profit | 112.4 | 197.6 | 75.9 | |
| Interest Income | 0.9 | 1.4 | 46.1 | |
| Finance costs | (0.8) | (2.2) | 182.6 | |
| Net Interest | 0.1 | (0.9) | (750.0) | |
| JV | | | | |
| Profit before taxation (PBT) | 112.5 | 196.7 | 74.9 | Filtered down from gross profit. |
| Income tax expense | (31.5) | (51.4) | 63.2 | |
| MI | | | | |
| PATAMI | 81.0 | 145.3 | 79.4 | Filtered down from PBT. |
| EPS (sen) | 26.8 | 31.6 | | |

Company; HLIB

Figure #3 RNAV table

| Projects | Stake (%) | NPV (RM m) |
|--------------------------------|------------------|-------------------|
| Ongoing | | |
| BSS | 100% | 10.4 |
| TSI | 100% | 6.7 |
| STV 1 and 2 | 100% | 111.0 |
| Unbilled Sales | 100% | 80.5 |
| Future | | |
| BSS | 100% | 769.6 |
| TSI | 100% | 141.6 |
| STP | 100% | 59.8 |
| STV 3 | 100% | 27.7 |
| Residency SIGC | 100% | 36.4 |
| Kota Gadong Perdana | 100% | 54.2 |
| KL High Rise Mixed Development | 100% | 57.9 |
| Lobak Commercial Centre | 100% | 4.6 |
| NPV | | 1,360.4 |
| Shareholder Funds as of 1Q15 | | 758.3 |
| Net cash/(debt) as of 1Q15 | | (31.6) |
| RNAV | | 2,087.1 |
| Wa proceed | | 185.6 |
| Total RNAV | | 2,272.7 |
| Total Diluted Shares | | 631.5 |
| RNAV/share | | 3.3 |
| Discount | | 30% |
| Discounted RNAV | | 1,590.9 |
| Discounted RNAV/Share | | 2.52 |

Company, HLIB

Financial Projections for Matrix Concepts (TP: RM2.52)

Income statement

| FYE 31 Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
|-----------------------------|-------|-------|-------|-------|-------|
| Revenue | 574 | 599 | 633 | 689 | 821 |
| Operating cost | -369 | -352 | -373 | -408 | -507 |
| EBITDA | 206 | 247 | 261 | 280 | 313 |
| D&A | -3 | -3 | -4 | -4 | -3 |
| Net Interest | 2 | 0 | -2 | -1 | -1 |
| Associates | - | - | - | - | - |
| Jointly controlled entities | - | - | - | - | - |
| Exceptionals | - | - | - | - | - |
| Pretax profit | 205 | 245 | 255 | 276 | 309 |
| Taxation | (53) | (62) | (64) | (66) | (74) |
| Minority Interest | - | - | - | - | - |
| PATAMI | 152 | 182 | 191 | 210 | 235 |
| Core Earning | 152 | 182 | 191 | 210 | 235 |
| Basic shares (m) | 456 | 456 | 541 | 541 | 541 |
| Basic EPS (sen) | 33.3 | 40.0 | 35.4 | 38.7 | 43.4 |

Balance sheet

| FYE 31 Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
|----------------------------|-------|-------|-------|-------|-------|
| Fixed assets | 80 | 192 | 188 | 185 | 181 |
| Other long-term assets | 22 | 7 | 7 | 7 | 7 |
| Other short-term assets | 0 | 0 | 0 | 0 | 0 |
| Working capital | 425 | 411 | 435 | 473 | 564 |
| Receivables | 147 | 135 | 143 | 156 | 185 |
| Payables | 277 | 274 | 290 | 315 | 376 |
| Inventory | 1 | 2 | 2 | 2 | 3 |
| Net cash / (debt) | 50 | 19 | 110 | 196 | 238 |
| Cash | 101 | 97 | 188 | 274 | 316 |
| ST debt | 40 | 50 | 50 | 50 | 50 |
| LT debt | 11 | 28 | 28 | 28 | 28 |
| Shareholders' funds | 529 | 664 | 779 | 904 | 1,045 |
| Share capital | 301 | 457 | 457 | 457 | 457 |
| Reserves | 228 | 207 | 322 | 447 | 588 |
| Minorities | - | - | - | - | - |
| Other liabilities | 47 | -35 | -38 | -43 | -56 |

Summary Earnings Table

| | | | | | |
|----------------|------|------|------|------|------|
| Revenue | 574 | 599 | 633 | 689 | 821 |
| EBITDA | 206 | 247 | 261 | 280 | 313 |
| Net profit | 152 | 182 | 191 | 210 | 235 |
| P/E (x) | 6.8 | 5.7 | 6.4 | 5.8 | 5.2 |
| BV / share | 1.2 | 1.5 | 1.4 | 1.7 | 1.9 |
| P/BV (x) | 1.8 | 1.6 | 1.6 | 1.4 | 1.2 |
| ROA (%) | 43.3 | 42.1 | 36.2 | 33.6 | 33.9 |
| ROE (%) | 28.6 | 27.5 | 24.6 | 23.2 | 22.5 |

Cashflow

| FYE 31 Dec (RM m) | 2013A | 2014A | 2015E | 2016E | 2017E |
|---------------------------|-------|-------|-------|-------|-------|
| EBIT | 203 | 244 | 257 | 277 | 310 |
| D&A | 3 | 3 | 4 | 4 | 3 |
| Working capital changes | (120) | (56) | (27) | (43) | (103) |
| Taxation | (53) | (62) | (64) | (66) | (74) |
| Others | 4 | 8 | (3) | (3) | (3) |
| Operating cashflow | 40 | 136 | 167 | 168 | 133 |
| Capex & acquisitions | -69 | -116 | 0 | 0 | 0 |
| Free cashflow | -30 | 20 | 167 | 168 | 133 |
| Others | -15 | 17 | 1 | 2 | 3 |
| Investing cashflow | -84 | -100 | 1 | 2 | 3 |
| Equity Raised | 140 | 10 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Net Borrowing | -3 | 21 | 0 | 0 | 0 |
| Financing cashflow | 83 | -47 | -77 | -84 | -94 |
| Net cashflow | 38 | (10) | 92 | 86 | 42 |

Valuation ratios

| | | | | | |
|---------------------------|-------|-------|-------|-------|-------|
| Net DPS (sen) | 0.00 | 0.00 | 0.00 | 1.00 | 1.00 |
| FCF / share (sen) | -6.49 | 4.35 | 30.81 | 30.95 | 24.56 |
| FCF yield (%) | -2.9% | 1.9% | 13.6% | 13.7% | 10.9% |
| Market capitalization (m) | 1,030 | 1,030 | 1,030 | 1,030 | 1,030 |
| Net cash (m) | 50 | 19 | 110 | 196 | 238 |
| Enterprise value | 980 | 1,012 | 920 | 834 | 792 |
| EV / EBITDA (x) | 4.8 | 4.1 | 3.5 | 3.0 | 2.5 |

Growth margins ratios

| Growth (%) | | | | | |
|--------------------|--|------|-------|-----|------|
| Sales Growth | | 4.3 | 5.7 | 8.8 | 19.2 |
| Operating expenses | | -4.5 | 5.9 | 9.6 | 24.2 |
| EBITDA Growth | | 20.2 | 5.5 | 7.6 | 11.7 |
| PBT Growth | | 19.3 | 4.3 | 8.1 | 12.0 |
| PATMI | | 20.2 | 5.0 | 9.5 | 12.0 |
| Basic EPS Growth | | 20.2 | -11.6 | 9.5 | 12.0 |

Margins (%)

| | | | | | |
|---------------|------|------|------|------|------|
| EBITDA Margin | 35.8 | 41.2 | 41.2 | 40.7 | 38.2 |
| PBT Margin | 35.7 | 40.8 | 40.3 | 40.1 | 37.7 |
| PATMI | 26.4 | 30.4 | 30.2 | 30.4 | 28.6 |

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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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Equity rating definitions

| | |
|---------------------|--|
| 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. |
| HOLD | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside. |
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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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