

Matrix Concepts (BUY↔, EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

November 19, 2014

Price Target: RM3.74 (↔)

Share price: RM2.89

Positive Outlook Despite Challenging Times
Highlights

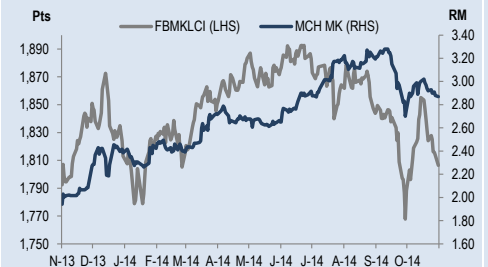
- We attended MCHB's briefing and below are the key takeaways:
- Bandar Sri Sendayan (BSS):** Hijayu 1B was completed in 3QFY14, launched Hijayu 3A (phase 3) with GDV of RM82m in Aug '14 (take up of >30%) and is launching phase 4 (GDV: RM98m) in 4QFY14.
- Matrix International School have opened for its first intake in 3QFY14 with very encouraging enrolments. The development for Matrix Private School and d'Tempat Country Club is still ongoing and is expected to complete by year-end.
- Sendayan TechValley (STV):** YTD, 10.5 acres of industrial plot was sold at an average of RM40 psf. In Oct, it has sold an additional 29.6 acres for circa RM51.6m and is currently negotiating deals to sell another 55 acres. Should the deal come true by year-end, the group could easily surpass its RM100m land sales target for FY14. Going into FY15, Matrix remained conservative with unchanged land sales target of RM100m.
- Sendayan TechPark (STP):** STP will be developed on its latest acquired land (164 acres; net sellable are of 75%) back in Sept '14 with estimated GDV of RM170m. The purchase is expected to complete by early-2015. Partial of the land (80 acres) have been carved out for an automobile investor and we believe that the deal is currently in negotiation.
- Taman Seri Impian (TSI):** Launched Impiana Height (phase 1) with GDV of RM63.5m with take-up rate of 37.8%.
- FY15:** Despite the challenging environment next year from GST implementation, stringent policy and competition, the group remained positive given its competitive advantage on low land costs and remaining launched are skewed more to mid- to high-end developments.
- Matrix is targeting to have as much as RM1bn worth of projects to be launched in FY15, in addition to its RM100m target of land sales. 20% of the launched is likely to comprise of commercial properties (excl. STV) and the remaining would be coming from residential.
- Maintained.

Forecasts
Rating
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 7.2x 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 7.2x.

Valuation
Grace Chew
PSChew@hlib.hongleong.com.my
(603) 2168 1165

KLCI	1,818.4
Expected share price return	29.4%
Expected dividend return	5.5%
Expected total return	34.9%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	456.9
Market cap (RMm)	1,320.6
3-mth avg volume ('000)	741.0
SC Syariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute %	4.7	-11.3	41.7
Relative %	3.0	-9.0	40.2

Major shareholders (%)

Lee Tian Hock	18.6
Shining Term Sdn Bhd	15.9
Supreme Interest Sdn Bhd	5.0

Summary Earnings Table

FYE 31 Dec (RM m)	2013A	2014E	2015E	2016E
Revenue	574.7	626.0	689.3	955.3
Rep 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	43.2	40.1	53.8
EPS growth (%)	16.5	-14.8	-7.3	34.2
Norm. PER (x)	5.7	6.7	7.2	5.4
FD PER (x)	5.7	6.7	7.2	5.4
Net DPS (sen)	20.6	14.3	16.0	21.5
Div yield (%)	7.1	5.0	5.5	7.4
BVPS (RM)	1.8	1.7	1.7	2.0
P/B (x)	1.6	1.7	1.7	1.5

HLIB

Figure #1 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
Discount to RNAV				20.0%
Target Price (RM)				3.74
HLIB				

Financial Projections for Matrix Concepts (TP: RM3.74)

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 rec	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 props	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

Valuation ratios

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Reported basic EPS (sen)	43.6	50.8	43.2	40.1	53.8
Norm. basic EPS (sen)	43.6	50.8	43.2	40.1	53.8
Norm. FD EPS (sen)	43.6	50.8	43.2	40.1	53.8
Price	2.9	2.9	2.9	2.9	2.9
PER (x)	6.6	5.7	6.7	7.2	5.4
Net DPS (sen)	0.0	20.6	14.3	16.0	21.5
Net DY (%)	0.0	7.1	5.0	5.5	7.4
NTA/ share (sen)	201.9	183.4	171.7	166.4	198.6
P/NTA (x)	1.4	1.6	1.7	1.7	1.5
Enterprise value	539.6	805.0	1,043.4	1,252.8	1,181.2
EV/ EBITDA (x)	3.7	3.9	4.7	5.1	3.6
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	1.7	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)	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	127.4	144.3	134.7	163.7	148.8
Cost of sales	-64.3	-65.9	-66.9	-89.2	-65.1
Gross profit	63.1	78.5	67.8	74.6	83.8
Selling and mktg expenses	-1.3	-2.9	-3.4	-2.6	-3.2
Administrative expenses	-14.5	-20.2	-10.7	-13.9	-22.2
Operating Profit	49.0	57.0	54.4	58.9	58.9
Pretax profit	48.7	53.4	54.0	58.6	58.5
Net profit	36.2	40.7	38.6	42.4	45.1
Basic shares (m)	300.3	300.8	301.8	303.5	428.4
Basic EPS (sen)	12.1	13.5	12.8	14.0	10.5
DPS (sen)	10.0	5.0	5.0	3.8	3.8
FCF/ share (sen)	11.6	-37.4	28.4	-14.2	-2.7
Net cash/ share (sen)	63.9	21.6	26.8	8.5	0.0

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 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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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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