

MATRIX CONCEPTS

9M14 Results Inline

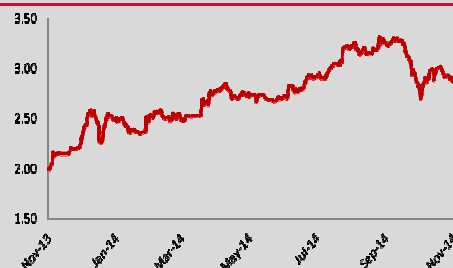
By Sarah Lim | sarahlim@kenanga.com.my, Adrian Ng | adrian.ng@kenanga.com.my

OUTPERFORM ↔

Price: RM2.87
Target Price: RM3.48 ↔

- Period** ■ 3Q14/9M14
- Actual vs. Expectations** ■ Matrix Concepts (MATRIX)'s 9M14 core earnings of RM126.1m was well within our, and streets', expectations, making up 76% and 78% of ours and streets' full-year estimates of RM167.2m and RM162.5m, respectively.
- However, its 9M14 sales came in below our expectations as MATRIX only manages to rake in total sales of RM449.5m that only makes up 56% of our full-year property sales estimates of RM806.0m; note this is inclusive of Sendayan Tech Valley (STV) land sales. The shortfall was mainly due to the lack of land sales from STV for the year owing to timing issues as prospective buyers could have taken a longer approval process on their end to invest in STV.
- Dividends** ■ Second interim dividend of 3.75 sen was declared, which brings 9M14 dividends to 11.0 sen adjusted for bonus issue (3.8% yield). This is considered within expectations as 9M14 makes up 66% of our full-year estimates as we are expecting a higher dividend payout in 4Q14.
- Key Results Highlights** ■ **YoY**, 9M14 core earnings of RM126.1m saw an increase of 12% from RM112.2m, supported by a marginal 4% improvement on its revenue of RM447.3m coupled with 6ppt expansion on its EBITDA margins from 45% to 51% as they were finally able to recognise the billings from its projects like Hijayu 1A (Phase 1 & 2), which further contributed to better margins.
- **QoQ**, MATRIX's 3Q14 pre-tax profit remains flattish at RM58.5m despite lower revenue of RM148.8m (-9%) underpinned by lower operating costs, which decreased by 14% to RM90.0m. However, its 3Q14 earnings continued to improve by 6% to RM45.1m mainly attributable to lower effective tax rate of 23% (-5ppt) due to a reversal of non-deductible expenses for tax purposes due to an over provision in the preceding quarter.
- Outlook** ■ Pending today's briefing, we are looking to reduce FY14-15E sales estimates (currently: RM806m-RM824m) and in particular industrial land sales.
- As for landbanking activities, they are on the lookout for more land in Seremban and Kluang and we do expect more land deals to take place early next year given their light balance sheet. To recap, MATRIX has just replenished 164 acres of industrial land bank that is adjacent to STV back in 19-Sep-14 for RM71.0m.
- As of 9M14, its unbilled sales stand at RM410.5m providing at least one-year visibility.
- Change to Forecasts** ■ No changes to our FY14-15E earnings, pending today's briefing.
- Rating Valuation** ■ **Maintain OUTPERFORM**
- We are reiterating our OUTPERFORM recommendation on MATRIX with an unchanged Target Price of RM3.48 based on our FD RNAV of RM4.35 with an unchanged discount of 20%, despite the softer outlook on the property market as we believe that MATRIX is well positioned in the affordable housing segment and industrial developments within the Greater Klang Valley region.
- Furthermore, its valuation is still cheap, trading at only 7.8x and 6.8x FY14-15E PERs coupled with decent dividend yields of 5.8%-6.6% vs. its peers average of 4.5% - 5.5%, respectively.
- Risks to Our Call** ■ Unable to meet sales targets or replenish landbank. Sector risks, including additional negative policies.

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,806.48 |
| YTD KLCI chg | -3.2% |
| YTD stock price chg | 26.2% |

Stock Information

| | |
|----------------------|---------------|
| Bloomberg Ticker | MCH MK Equity |
| Market Cap (RM m) | 1,311.4 |
| Issued shares | 456.9 |
| 52-week range (H) | 3.32 |
| 52-week range (L) | 1.97 |
| 3-mth avg daily vol: | 732,303 |
| Free Float | 61% |
| Beta | n.a. |

Major Shareholders

| | |
|----------------------|-------|
| TIAN HOCK LEE | 18.6% |
| SHINING TERM SDN BHD | 15.9% |
| SUPREME INTEREST SDN | 5.0% |

Summary Earnings Table

| FYE Dec (RM m) | 2013A | 2014E | 2015E |
|------------------------|--------------|--------------|--------------|
| Turnover | 574.7 | 647.3 | 725.1 |
| EBIT | 208.6 | 226.7 | 257.8 |
| PBT | 207.2 | 225.9 | 256.6 |
| Net Profit (NP) | 152.9 | 167.2 | 190.2 |
| Consensus (CNP) | n.a. | 162.5 | 184.3 |
| Earnings Revision | n.a. | n.a. | n.a. |
| EPS (sen) | 33.8 | 37.0 | 42.1 |
| EPS growth (%) | 48% | 9% | 14% |
| NDPS (sen) | 30.4 | 16.7 | 18.9 |
| BV/Share (RM) | 1.22 | 1.43 | 1.66 |
| PER (x) | 8.5 | 7.8 | 6.8 |
| Price/BV (x) | 2.4 | 2.0 | 1.7 |
| Net Gearing (x) | (0.1) | 0.1 | 0.0 |
| Dividend Yield (%) | 10.5 | 5.8 | 6.6 |

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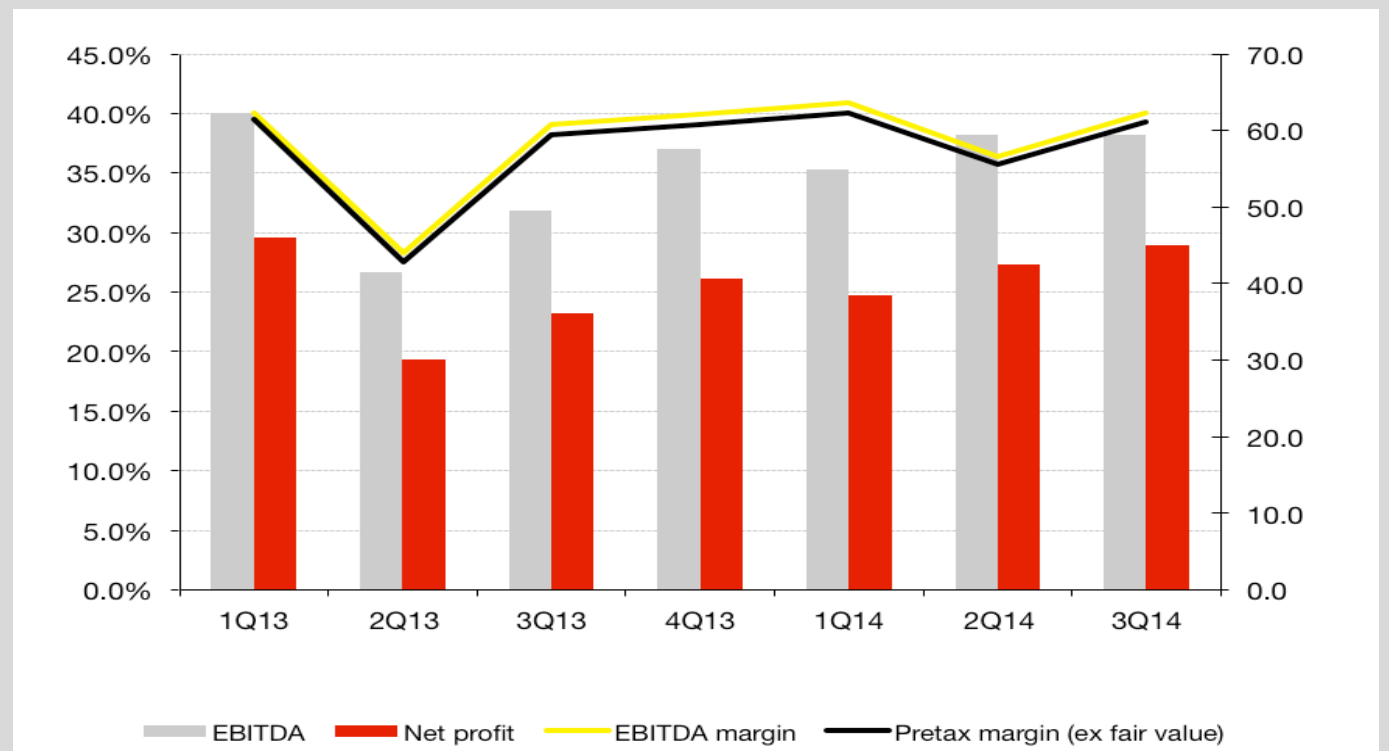
Result Highlight

| FY Dec (RM'm) | 3Q14 | 2Q14 | QoQ | 3Q13 | YoY | 9M14 | 9M13 | YoY |
|------------------------------|-------------|-------------|-----------|-------------|------------|--------------|--------------|------------|
| Revenue | 148.8 | 163.7 | -9% | 127.4 | 17% | 447.3 | 430.3 | 4% |
| Op costs w/o depn/amort | (90.0) | (105.0) | -14% | (79.4) | 13% | (275.4) | (279.2) | -1% |
| Other Op Income | 0.7 | 0.8 | -17% | 1.7 | -61% | 2.1 | 2.2 | -6% |
| EBITDA | 59.5 | 59.5 | 0% | 49.6 | 20% | 174.0 | 153.3 | 13% |
| EBIT | 58.9 | 58.9 | 0% | 49.0 | 20% | 172.2 | 151.6 | 14% |
| Net interest | (0.5) | (0.4) | 32% | (0.3) | 58% | (1.3) | (0.8) | 62% |
| Associates | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Fair Value Adjustments on IP | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Pretax profit | 58.5 | 58.6 | 0% | 48.7 | 20% | 171.0 | 150.8 | 13% |
| Taxation | (13.4) | (16.1) | -17% | (12.5) | 7% | (44.9) | (38.6) | 16% |
| Minority Interests | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Net profit | 45.1 | 42.4 | 6% | 36.2 | 25% | 126.1 | 112.2 | 12% |
| Core net profit | 45.1 | 42.4 | 6% | 36.2 | 25% | 126.1 | 112.2 | 12% |
| EPS (sen)* | 9.9 | 14.0 | | 12.0 | | 36.5 | 41.4 | |
| DPS (sen)* | 3.8 | 3.8 | | 5.0 | | 12.5 | 25.5 | |
| NTA/share (RM) | 1.4 | 2.0 | | 1.8 | | 1.4 | 1.8 | |
| Net gearing/(cash) (x) | (0.0) | (0.0) | | (0.4) | | (0.0) | (0.4) | |
| EBITDA margin | 40% | 36% | | 28% | | 39% | 36% | |
| Pretax margin | 39% | 36% | | 28% | | 38% | 35% | |
| Effective tax rate | 23% | 28% | | 26% | | 26% | 26% | |

*EPS & DPS based on weighted average no. of shares.

Source: Company, Kenanga Research

Earnings Trend



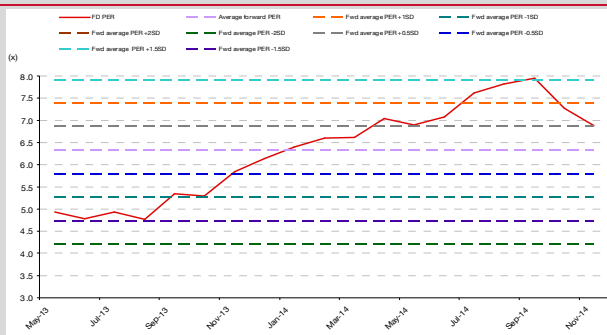
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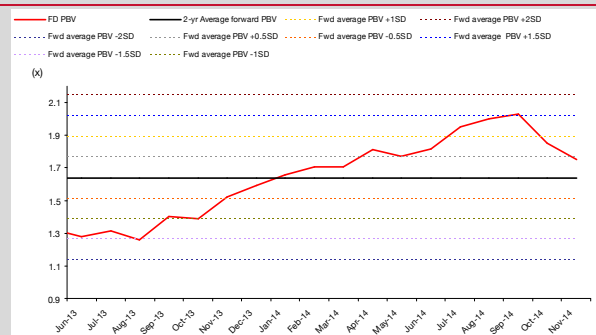
| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|-------------------|--------|--------|--------|--------|--------|-------------------------|-------|--------|--------|-------|-------|
| FY Dec (RM'm) | 2011A | 2012A | 2013A | 2014E | 2015E | FY Dec (RM'm) | 2011A | 2012A | 2013A | 2014E | 2015E |
| Revenue | 624.3 | 456.1 | 574.7 | 647.3 | 725.1 | Growth | | | | | |
| EBITDA | 108.9 | 146.1 | 211.2 | 231.0 | 263.0 | Turnover (%) | 219% | -27% | 26% | 13% | 12% |
| Depreciation | (2.0) | (2.3) | (2.6) | (4.3) | (5.2) | EBITDA (%) | 232% | 34% | 45% | 9% | 14% |
| Operating Profit | 106.9 | 143.8 | 208.6 | 226.7 | 257.8 | Operating Profit (%) | 245% | 34% | 45% | 9% | 14% |
| Interest Exp | (0.6) | (1.0) | (1.4) | (0.8) | (1.2) | PBT (%) | 255% | 34% | 45% | 9% | 14% |
| PBT | 106.3 | 142.8 | 207.2 | 225.9 | 256.6 | Core Net Profit (%) | 238% | 49% | 48% | 9% | 14% |
| Taxation | (26.4) | (39.3) | (54.3) | (58.7) | (66.4) | Profitability | | | | | |
| Minority Interest | (10.5) | 0.0 | 0.0 | 0.0 | 0.0 | EBITDA Margin | 17% | 32% | 37% | 36% | 36% |
| Net Profit | 69.4 | 103.5 | 152.9 | 167.2 | 190.2 | Operating Margin | 17% | 32% | 36% | 35% | 36% |
| Core Net Profit | 69.4 | 103.5 | 152.9 | 167.2 | 190.2 | PBT Margin | 17% | 31% | 36% | 35% | 35% |
| | | | | | | Core Net Margin | 11% | 23% | 27% | 26% | 26% |
| | | | | | | Effective Tax Rate | 25% | 28% | 25% | 26% | 26% |
| | | | | | | ROA | 12% | 17% | 19% | 17% | 16% |
| | | | | | | ROE | 32% | 29% | 30% | 28% | 27% |
| | | | | | | DuPont Analysis | | | | | |
| | | | | | | Net Margin (%) | 11% | 23% | 27% | 26% | 26% |
| | | | | | | Leverage Factor (x) | 2.1 | 1.5 | 1.6 | 1.7 | 1.7 |
| | | | | | | ROE (%) | 32% | 29% | 30% | 28% | 27% |
| | | | | | | Leverage | | | | | |
| | | | | | | Debt/Asset (x) | 0.03 | 0.01 | 0.06 | 0.14 | 0.13 |
| | | | | | | Debt/Equity (x) | 0.07 | 0.02 | 0.09 | 0.24 | 0.21 |
| | | | | | | (Net Cash)/Debt | 306.8 | (75.6) | (96.7) | 38.0 | 25.1 |
| | | | | | | Net Debt/Equity (x) | 0.01 | (0.16) | (0.12) | 0.07 | 0.04 |
| | | | | | | Valuations | | | | | |
| | | | | | | EPS (sen) | 15.4 | 22.9 | 33.8 | 37.0 | 42.1 |
| | | | | | | NDPS (sen) | 4.5 | 5.7 | 30.4 | 16.7 | 18.9 |
| | | | | | | BVPS (RM) | 0.53 | 1.05 | 1.22 | 1.43 | 1.66 |
| | | | | | | PER (x) | 18.7 | 12.6 | 8.5 | 7.8 | 6.8 |
| | | | | | | N. Div. Yield (%) | 1.5 | 2.0 | 10.5 | 5.8 | 6.6 |
| | | | | | | PBV (x) | 5.5 | 2.8 | 2.4 | 2.0 | 1.7 |
| | | | | | | EV/EBITDA (x) | n.a. | n.a. | 5.9 | 5.8 | 5.1 |

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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| Peer Comparison | | | | | | | | | | | | | | | |
|---|---------------------|------------|---------|---------|---------|-----------------------|-------------------|------|------------------|---------|---------|-------------------------|-------------------------|-----------------|-------------------|
| NAME | Price (17/11/14) | Mkt Cap | PER (x) | | | Est. NDiv. Yld. | Historical ROE | P/BV | Net Profit (RMm) | | | FY13/14 NP Growth | FY14/15 NP Growth | Target Price | Rating |
| | (RM) | (RMm) | FY13/14 | FY14/15 | FY15/16 | (%) | (%) | (x) | FY13/14 | FY14/15 | FY15/16 | (%) | (%) | (RM) | |
| DEVELOPERS UNDER COVERAGE | | | | | | | | | | | | | | | |
| UEM Sunrise* | 1.79 | 8,122 | 17.7 | 15.4 | 20.8 | 2.2% | 10.2% | 1.3 | 459.1 | 528.8 | 389.9 | 15.2% | -26.3% | 1.93 | MARKET PERFORM |
| IOI Properties* | 2.47 | 8000 | 16.7 | 14.0 | 13.1 | 3.2% | 4.3% | 0.7 | 479.2 | 573.0 | 611.0 | 19.6% | 6.6% | 3.10 | OUTPERFORM |
| SP Setia* | 3.24 | 8,224 | 19.1 | 24.5 | 15.8 | 3.1% | 8.7% | 1.3 | 417.9 | 325.3 | 504.6 | -22.2% | 55.1% | 3.30 | MARKET PERFORM |
| Sunway Berhad | 3.24 | 5572 | 11.6 | 10.3 | 9.8 | 3.1% | 33.6% | 1.0 | 482.7 | 540.0 | 572.2 | 11.9% | 6.0% | 3.87 | OUTPERFORM |
| IJM Land* | 3.43 | 5,347 | 16.0 | 14.5 | 13.4 | 1.7% | 17.7% | 1.5 | 335.2 | 368.0 | 400.2 | 9.8% | 8.7% | 3.55 | ACCEPT OFFER |
| Mah Sing Group | 2.30 | 3,394 | 11.6 | 9.7 | 8.4 | 4.1% | 17.6% | 1.5 | 280.6 | 334.6 | 385.5 | 19.2% | 15.2% | 3.05 | OUTPERFORM |
| UOA Development* | 2.11 | 3,019 | 8.2 | 10.1 | 8.4 | 6.6% | 16.0% | 1.1 | 344.6 | 280.8 | 336.2 | -18.5% | 19.7% | 2.00 | MARKET PERFORM |
| Tropicana | 1.27 | 1,743 | 9.7 | 6.0 | 6.8 | 3.3% | 15.3% | 0.5 | 145.3 | 233.1 | 207.3 | 60.4% | -11.1% | 1.28 | MARKET PERFORM |
| Matrix Concepts | 2.87 | 1,311 | 8.5 | 7.8 | 6.8 | 5.8% | 29.8% | 2.0 | 152.9 | 167.2 | 190.2 | 9.4% | 13.8% | 3.48 | OUTPERFORM |
| Crescendo* | 2.76 | 628 | 11.3 | 7.5 | 7.5 | 5.5% | 18.4% | 0.9 | 84.2 | 84.4 | 93.2 | 0.3% | 10.5% | 2.95 | OUTPERFORM |
| Hua Yang | 2.19 | 578 | 7.0 | 5.6 | 5.3 | 6.1% | 22.8% | 1.2 | 82.2 | 102.9 | 109.6 | 25.2% | 6.5% | 2.60 | OUTPERFORM |
| * Core NP and Core PER | | | | | | | | | | | | | | | |
| ** Crescendo per share data is based on non-Fully Diluted | | | | | | | | | | | | | | | |
| CONSENSUS NUMBERS | | | | | | | | | | | | | | | |
| BERJAYA LAND BHD | 0.82 | 4,091 | 112.3 | n.a. | n.a. | n.a. | 0.7% | 0.8 | 36.4 | n.a. | n.a. | n.a. | n.a. | 0.93 | NEUTRAL |
| IGB CORPORATION BHD | 2.90 | 3,871 | 17.6 | 17.6 | 16.1 | 2.3% | 5.3% | 0.9 | 220.3 | 220.3 | 240.3 | 0.0% | 9.1% | 4.10 | NEUTRAL |
| YNH PROPERTY BHD | 2.06 | 849 | 18.0 | 11.4 | 9.8 | 2.4% | 5.6% | 1.0 | 47.2 | 74.2 | 86.6 | 57.2% | 16.7% | n.a. | NEUTRAL |
| YTL LAND & DEVELOPMENT BHD | 0.89 | 738 | 34.4 | n.a. | 37.1 | n.a. | 2.4% | 0.7 | 21.5 | n.a. | 19.9 | n.a. | n.a. | n.a. | BUY |
| GLOMAC BHD | 1.12 | 814 | 7.8 | 7.8 | 7.5 | 4.7% | 12.0% | 0.9 | 104.7 | 103.9 | 109.0 | -0.8% | 4.9% | 1.13 | SELL |
| KSL HOLDINGS BHD | 4.48 | 1,739 | 8.7 | 5.7 | 6.4 | 5.1% | 14.9% | 1.2 | 199.1 | 302.9 | 271.8 | 52.1% | -10.3% | n.a. | BUY |
| PARAMOUNT CORP BHD | 1.51 | 638 | 8.3 | 8.9 | 8.9 | 6.0% | 9.1% | 0.7 | 77.0 | 71.8 | 71.8 | -6.8% | 0.0% | 1.76 | BUY |
| IVORY PROPERTIES GROUP BHD | 0.51 | 227 | 9.5 | n.a. | n.a. | n.a. | 1.5% | 0.6 | 23.9 | n.a. | n.a. | n.a. | n.a. | n.a. | BUY |
| TAMBUN INDAH LAND BHD | 2.11 | 870 | 8.8 | 8.9 | 7.3 | 4.5% | 30.3% | 2.5 | 99.4 | 98.1 | 118.7 | -1.3% | 21.0% | 2.55 | BUY |
| Source: Kenanga Research | | | | | | | | | | | | | | | |

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Stock Ratings are defined as follows:**Stock Recommendations**

| | |
|----------------|---|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%). |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%. |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate). |

Sector Recommendations***

| | |
|-------------|--|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%). |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%. |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate). |

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research