

Matrix Concepts Holdings Bhd

Bloomberg: MCH MK | Reuters: MATR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

18 Nov 2015

BUY

Last Traded Price: RM2.44 (KLCI : 1,661.53)

Price Target : RM3.30 (35% upside)

Shariah Compliant: Yes

Reason for Report : 3Q15 results

Potential Catalyst: Stronger-than-expected industrial lot sales and property sales

Where we differ: Highest TP due to high conviction

Analyst

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Result Summary

FY Dec (RMm)	3Q 2015	3Q 2014	2Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	121	149	120	(18.4)	0.8
Gross Profit	68.3	83.8	63.0	(18.5)	8.3
Opg Profit	40.1	58.9	43.0	(31.9)	(6.6)
EBITDA	44.4	58.9	43.0	(24.7)	3.3
Net Profit	31.1	45.1	29.9	(31.1)	4.1
Other Data					
Gross Margin (%)	56.2	56.3	52.3		
Opg Margin (%)	33.1	39.6	35.7		
Net Margin (%)	25.6	30.3	24.8		

Financial Summary

FY Dec (RMm)	2014A	2015F	2016F	2017F
Revenue	599	687	785	866
Operating Profit	247	270	291	315
EBITDA	250	273	294	318
Net Pft (Pre Ex.)	182	199	214	232
EPS (sen)	34.2	36.2	38.9	42.2
EPS Pre Ex. (sen)	34.2	36.2	38.9	42.2
EPS Gth (%)	(5)	6	8	8
EPS Gth Pre Ex (%)	(5)	6	8	8
Net DPS (sen)	14.9	14.5	15.6	16.9
BV Per Share (sen)	124	142	167	193
PE (X)	7.1	6.7	6.3	5.8
PE Pre Ex. (X)	7.1	6.7	6.3	5.8
EV/EBITDA (X)	5.1	3.9	3.7	3.4
Net Div Yield (%)	6.1	5.9	6.4	6.9
P/Book Value (X)	2.0	1.7	1.5	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	30.6	27.5	25.2	23.4

At A Glance

Issued Capital (m shrs)	550
Mkt. Cap (RMm/US\$m)	1,343 / 307
3m Avg. Daily Val (US\$m)	0.21

ICB Industry : Financials

ICB Sector: Real Estate Investment & Services

Principal Business: Matrix Concepts is one of the largest township developers in Negeri Sembilan, focusing on its flagship township development, Bandar Sri Sendayan which covers 2,350 acres
 Source: Company, AllianceDBS, Bloomberg Finance L.P.

Record high property sales

- 3Q15 results met expectations
- Record property sales despite weaker market
- Declared 3.5 sen quarterly DPS
- Maintain BUY and RM3.30 TP

Highlights

Within expectation

- Matrix reported 3Q15 earnings of RM31.1m (+4% q-o-q, -31% y-o-y) on the back of RM121m revenue (+1% q-o-q, -18% y-o-y). This takes 9M15 earnings to RM176.4m (+40% y-o-y) which is 89% of our FY15 forecast, due to accelerated completion in 1Q15 prior to the implementation of GST in Apr15.
- While its investment properties (Matrix Global Schools and d'Tempat Country Club) are still marginally loss-making in 3Q15, we notice that Matrix Global School recorded its smallest quarterly operating loss of RM1.2m since its first intake in Sep14 given strong student enrolment, indicating turnaround may come earlier than expected.
- 3Q15 net margin remains healthy at 25.6%, compared to 24.8% in 2Q15 and 30.3% in 3Q14.

Consistent quarterly dividend payout

- Matrix has declared 3.6 sen (adjusted for 1-for-6 bonus issue) and 3.5 sen DPS with respect to 1Q15 and 2Q15 results, respectively. For 3Q15, 3.5 sen DPS has been declared, on track to achieve our FY15 target. Meanwhile, balance sheet remains healthy at 7.2% net gearing as at Sep15.

Outlook

Property sales hit all-time high

- 3Q15 property sales (excluding industrial lot sales) surged 49% to hit a record high of RM237m, contributing to an impressive 42% y-o-y increase for its 9M15 sales of RM604m. Therefore, Matrix is set to exceed its FY15 sales target of RM650m (+23% y-o-y), reinforcing our view that the strong sales momentum for its flagship Bandar Sri Sendayan will remain unabated despite the relatively weak property market.
- As at Sep15, unbilled sales stood at all-time high of RM641m which will provide strong earnings visibility over the next two years.

Matrix Concepts Holdings Bhd

Best proxy to affordable housing

- Given that Matrix mainly focuses on affordable landed homes priced below RM600k/unit, these value-for-money properties are expected to be well received by property buyers. Matrix’s unrivalled competitive advantage of low land cost for the bulk of its land bank at <RM10psf will continue to underpin its superior profitability with net margins exceeding 25%, leading to sustainable dividend yield of 6.4% going forward.

Valuation:

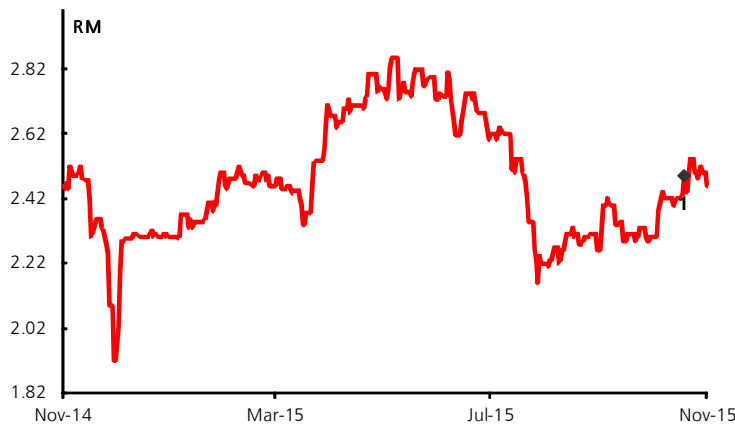
We maintain BUY rating and RM3.30 TP, based on 30% discount to our RNAV of RM4.73. Matrix is currently trading at a bargain of 6x FY16 PE which is unjustified given the strong earnings clarity for a township developer.

Key Risks:

Weaker property sentiment. The strong property price surge over the last few years, coupled with recent tightening measures, could weaken property sales as property buyers are becoming more cautious.

Rising cost. Construction and building material costs have been on the uptrend which may erode developers’ profitability

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	03 Nov 15	2.49	3.30	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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