

Matrix Concepts Holdings Bhd

Version 7 | Bloomberg: MCH MK | Reuters: MATR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

24 Feb 2017

BUY

Last Traded Price (23 Feb 2017): RM2.50 (KLCI : 1,704.48)

Price Target 12-mth: RM3.10 (24% upside) (Prev RM3.20)

Shariah Compliant: Yes

Potential Catalyst: Stronger-than-expected property sales

Where we differ: We have the highest TP

Analyst

QUAH He Wei, CFA +603 2604 3966 hewei@alliancedbs.com

What's New

- 3QFY17 results missed expectations due to ESOS expenses
- Third interim DPS of 3.5 sen declared
- Record-high unbilled sales due to impressive new sales in flagship townships
- Maintain BUY with a slightly lower TP of RM3.10

Price Relative



Forecasts and Valuation

FY Mar (RM m)	*2016A	2017F	2018F	2019F
Revenue	912	869	1,035	1,070
EBITDA	371	296	332	340
Pre-tax Profit	357	278	312	318
Net Profit	261	208	234	239
Net Pft (Pre Ex.)	261	208	234	239
Net Pft Gth (Pre-ex) (%)	43.3	(20.2)	12.3	2.0
EPS (sen)	46.3	36.4	40.9	41.7
EPS Pre Ex. (sen)	46.3	36.4	40.9	41.7
EPS Gth Pre Ex (%)	35	(21)	12	2
Diluted EPS (sen)	46.3	36.4	40.9	41.7
Net DPS (sen)	18.5	13.8	14.7	15.0
BV Per Share (sen)	157	173	200	227
PE (X)	5.4	6.9	6.1	6.0
PE Pre Ex. (X)	5.4	6.9	6.1	6.0
P/Cash Flow (X)	nm	8.2	33.4	6.7
EV/EBITDA (X)	4.1	5.2	4.9	4.5
Net Div Yield (%)	7.4	5.5	5.9	6.0
P/Book Value (X)	1.6	1.4	1.2	1.1
Net Debt/Equity (X)	0.1	0.1	0.2	0.1
ROAE (%)	33.7	22.2	21.9	19.5
Earnings Rev (%)		(9)	(1)	0
Consensus EPS (sen):		39.7	41.3	48.5
Other Broker Recs:		B: 5	S: 0	H: 0

*15-month period due to FYE change from Dec15 to Mar16

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Proxy to affordable housing

Sustainable township. Matrix has bucked the trend with record-high property sales at its two flagship projects, Bandar Sri Sendayan (BSS) in Seremban and Bandar Sri Impian (BSI) in Kluang, despite the relatively weak market sentiment. The majority of its launches are priced below the RM600k/unit mark, leveraging on the robust demand for affordable homes. The sales momentum going forward is likely to remain on the uptrend as Matrix still has a large pipeline of affordable homes which are ready for launch.

Ultimate winner. BSS remains its jewel in the crown given the low average land cost of RM7psf (with infrastructure in place) when its affordably-priced properties are already selling at ~RM200psf, leading to significantly higher-than-average profit margins. This unrivalled competitive advantage will make Matrix the best proxy to pure township developments which are set to outperform in this challenging market. The new air force training base at BSS is expected to be completed by mid-CY17 which will then accommodate an additional ~1,500 personnel, further improving the vibrancy of the sprawling township.

Impressive dividend yield. Matrix has revised its dividend policy to a maximum of 40% payout from at least 40% previously, as management intends to preserve more cash for future developments. Nevertheless, its FY18 dividend yield of 6% is still the highest within our property sector coverage.

Valuation:

We maintain our BUY rating but nudge down our TP to RM3.10, based on a 30% discount to our fully-diluted RNAV of RM4.43 after tweaking our future launch pipeline. Matrix is currently trading at a bargain 6x FY18 PE, which is unjustified given the strong earnings visibility for this township developer.

Key Risks to Our View:

Weak property sales. Rising household debt and softer consumer sentiment may lead to lower property sales.

At A Glance

Issued Capital (m shrs)	572
Mkt. Cap (RMm/US\$m)	1,431 / 321
Major Shareholders (%)	
Hock Lee Tian	17.7
Shining Term Sdn Bhd	15.4
Free Float (%)	67.0
3m Avg. Daily Val (US\$m)	0.21

ICB Industry : Financials / Real Estate Investment & Services

WHAT'S NEW

Impressive property sales

3QFY17 results missed expectations: Matrix's 3QFY17 headline net profit of RM50.5m (+9% q-o-q, +37% y-o-y) takes 9MFY17 earnings to RM148.8m – below our estimates and consensus'. The weaker-than-expected result is largely due to RM10m employee share option scheme (ESOS) expense incurred in 3QFY17 as well as lower progress billings of its ongoing property developments.

Meanwhile, 3QFY17 revenue came in at RM198m (-12% q-o-q, +40% y-o-y), contributed by the sale of industrial properties worth RM49.4m. Excluding the sale of industrial properties, revenue from property development dipped 30% q-o-q (but gained 2% y-o-y) to RM140.3m. Overall net margin recovered to 25.5% in 3QFY17 from 20.7% in 2QFY17 due to the industrial land sales.

Investment properties: Its investment properties (Matrix Global Schools and d'Tempat Country Club) remained in the red with RM4.7m operating loss, as the business has yet to operate with economies of scale. Nevertheless, student enrolment in Matrix Global Schools is set to be boosted significantly, following Matrix's collaboration with China's Shanghai Zhangjiang Specialised College to send at least 300 students to Matrix Global Schools to undertake an 18-month preparatory programme for public examinations over 2017-2018.

Consistently high dividend payout. Matrix declared its third interim DPS of 3.5 sen, implying a 40% payout ratio which is in line with its dividend policy of up to 40% payout. Its balance sheet remains healthy with net gearing at 16% as at end-Sep 16.

Strong property sales. It achieved RM331m property sales in 3QFY17 (+32% q-o-q, +71% y-o-y), taking 9MFY17 sales to an unprecedented RM837m – on track to hit management's target of RM1bn in FY17. This reinforces our view that the flagship projects in Bandar Sri Sendayan, Sembilan and Bandar Seri Impian, Kluang are enjoying strong sales momentum. Unbilled sales stood at an all-time high of RM903m as at end-Dec 16 which will provide strong earnings visibility over the next two years.

Earnings revision. We cut our FY17 earnings by 9%, mainly to account for its ESOS expense and lower progress billings of its ongoing property projects. Nevertheless, we reiterate our BUY rating with a revised TP of RM3.10 (30% discount to RNAV) due to changes in our future launch pipeline.

Quarterly / Interim Income Statement (RMm)

FY Mar	4Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	142	225	198	39.9	(11.9)
Cost of Goods Sold	(63.6)	(131)	(78.7)	23.7	(39.7)
Gross Profit	77.9	94.3	119	53.1	26.5
Other Oper. (Exp)/Inc	(27.6)	(30.6)	(45.0)	63.4	47.2
Operating Profit	50.4	63.7	74.3	47.5	16.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(0.8)	(0.9)	(1.4)	(64.4)	(51.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	49.5	62.8	72.9	47.2	16.1
Tax	(12.7)	(16.4)	(22.5)	77.1	37.5
Minority Interest	0.0	0.0	0.0	nm	nm
Net Profit	36.8	46.5	50.5	36.9	8.6
Net profit bef Except.	36.8	46.5	50.5	36.9	8.6
EBITDA	52.0	65.8	76.5	47.3	16.3
Margins (%)					
Gross Margins	55.0	41.9	60.3		
Opg Profit Margins	35.6	28.3	37.5		
Net Profit Margins	26.0	20.7	25.5		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

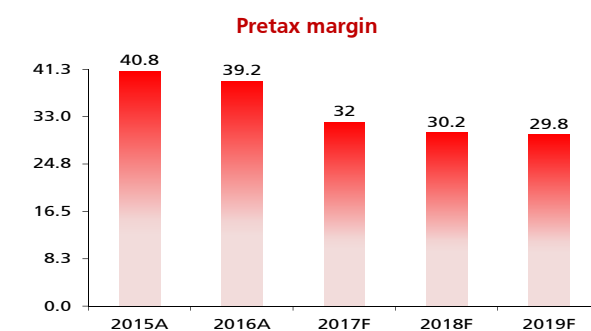
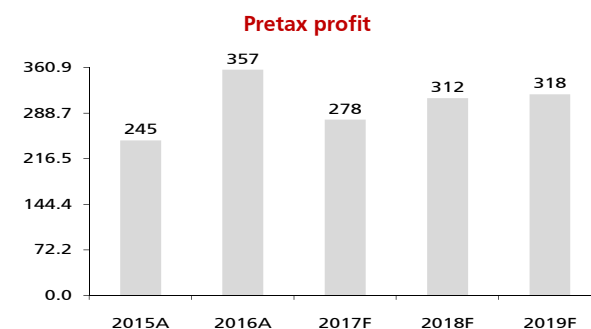
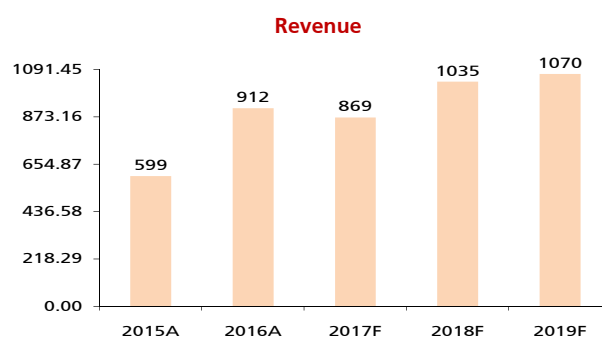
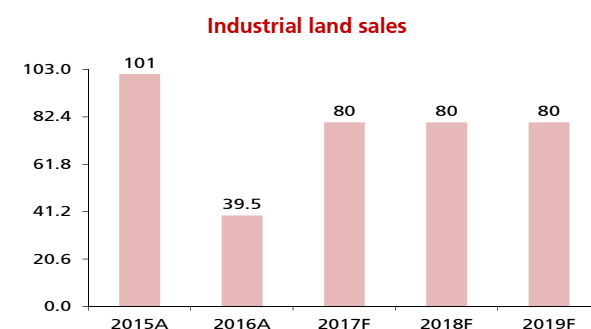
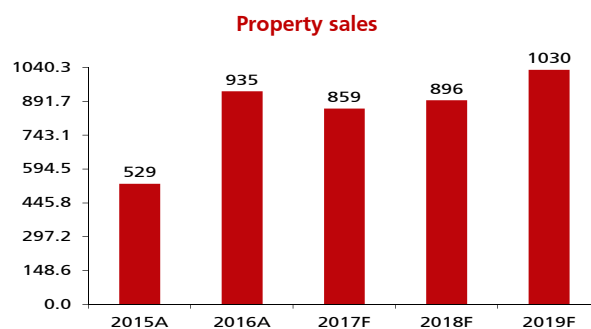
Focusing on township development. Matrix's flagship projects – Bandar Sri Sendayan (BSS) in Seremban, Negeri Sembilan and Bandar Seri Impian (BSI) in Kluang, Johor – continue to be well received by property buyers despite the challenging property market. BSS will continue to be the main earnings driver for Matrix, as the township contributes more than 80% of its revenue. Property sales at BSS have been growing from strength to strength, largely attributable to the healthy demand for landed properties within township developments which provide a holistic living environment.

Strong property sales. The take-up for Matrix's projects remains encouraging despite the cautious sentiment. It secured RM630m property sales in FY14 and RM974m for 15MFY15/16 (FYE changed to Mar 16 from Dec 15). While Matrix will delay some of the new launches in BSS and BSI in view of the softer sentiment, its property sales are expected to remain resilient. For the trailing 12-month period in 15MFY15/16, Matrix achieved RM817m property sales, far exceeding its initial target of RM700m.

Riding on maturing township. BSS is the jewel in the crown due to its attractive land cost despite heavy capex for the township infrastructure over the years. Its blended land cost still stood at a meagre RM7psf (based on annual report), which explains the significantly higher profit margins fetched by Matrix vis-à-vis other listed peers. Going by the current sales momentum in BSS, the project is poised to be a resounding success as we believe BSS has yet to hit critical mass. The new air-force training base at BSS is expected to be completed by mid-CY17 which will then accommodate an additional ~1,500 personnel, further improving the vibrancy of the sprawling township.

Affordable homes remain the mainstay. Apart from BSS and BSI, Matrix may launch its third flagship development, Kota Gadong Perdana in Negeri Sembilan (next to BSS) spanning 295 acres and worth RM3.1bn GDV, in FY17. The project will boast more than 3,000 units of affordable homes priced below RM400k/unit. We estimate that Matrix still has about 2,000 acres of undeveloped land bank which will mainly cater to the affordable housing segment.

Penetrating beyond Negeri Sembilan. Matrix has also showcased its ambitious plan to venture into the property market in Klang Valley via its two parcels of land in KL and Puchong which are intended for high-rise developments. It acquired a 1.1-acre land in KL and a 5.8-acre land in Puchong in Aug 13 and Apr 15, respectively, as a strategic move to expand its footprint beyond Negeri Sembilan to secure future earnings.



Source: Company, AllianceDBS

Matrix Concepts Holdings Bhd

Balance Sheet:

Solid balance sheet. Matrix’s net gearing was low at 16% as at end-Dec 16 despite heavy capex investments incurred over the years to improve the vibrancy of BSS. For instance, it spent RM135m for its 20-acre Matrix Global Schools and RM65m for its 6-acre d’Tempat Country Club which offers an appealing value proposition of a holistic lifestyle for the BSS community.

Share Price Drivers:

Rising property sales. Given the weak prevailing market where several large property developers have revised down their sales targets, Matrix has bucked the trend with higher y-o-y sales, largely due to the strong demand for its affordably-priced landed properties. We believe that sustainable demand for BSS properties will help to lift interest in Matrix which has proven to be a resilient township developer.

Sustainable dividend yield. Matrix stands out as one of the very few property developers that pay quarterly dividends, underlining its superior cash flow position. Matrix offers a decent dividend yield of c.6% – the highest within our Malaysia property universe. As the BSS township continues to gain traction, Matrix will be able to continue rewarding its loyal shareholders.

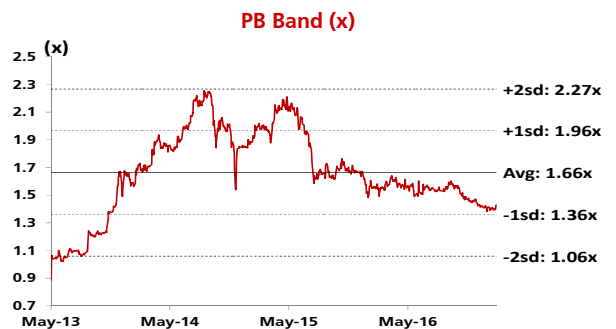
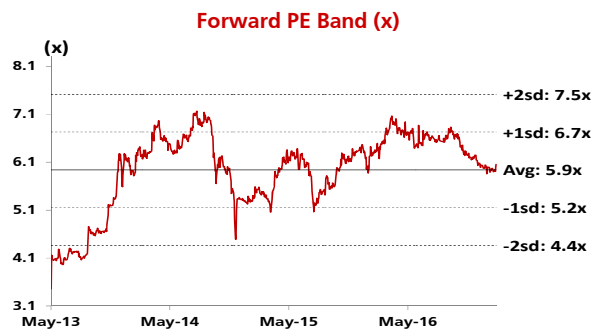
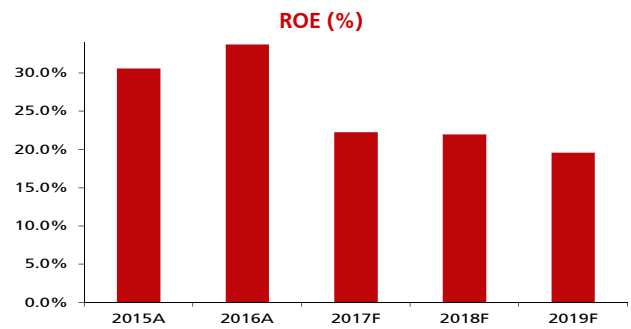
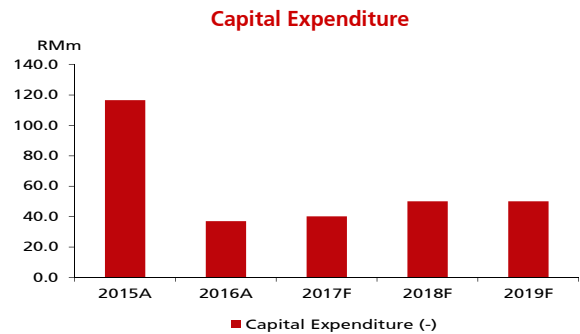
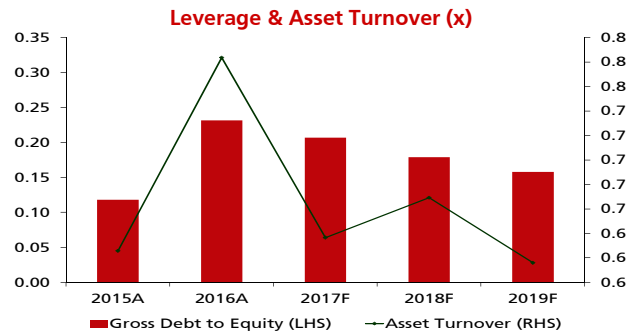
Key Risks:

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.

Company Background

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

Key Assumptions

FY Mar	2015A	2016A	2017F	2018F	2019F
Property sales	529	935	859	896	1,030
Industrial land sales	101	39.5	80.0	80.0	80.0
Revenue	599	912	869	1,035	1,070
Pretax profit	245	357	278	312	318
Pretax margin	40.8	39.2	32.0	30.2	29.8

Conservative assumption

Segmental Breakdown

FY Mar	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Industrial land sales	143	141	80.0	80.0	80.0
Property development	453	750	764	925	955
Education	0.73	11.6	13.4	15.4	17.7
Clubhouse	0.0	10.1	12.1	14.5	17.4
Others	2.51	0.0	0.0	0.0	0.0
Total	599	912	869	1,035	1,070
EBIT (RMm)					
Industrial land sales	85.6	84.4	48.0	48.0	48.0
Property development	167	289	244	276	280
Education	(4.8)	(11.1)	(7.0)	(5.0)	(3.0)
Clubhouse	(0.9)	(1.6)	0.0	1.00	1.50
Others	0.0	0.0	0.0	0.0	0.0
Total	247	361	285	320	327
EBIT Margins (%)					
Industrial land sales	60.0	60.0	60.0	60.0	60.0
Property development	36.9	38.6	32.0	29.9	29.3
Education	(649.6)	(95.7)	(52.4)	(32.6)	(17.0)
Clubhouse	N/A	(15.9)	0.0	6.9	8.6
Others	0.0	N/A	N/A	N/A	N/A
Total	41.3	39.6	32.8	30.9	30.5

Driven by unbilled sales

Income Statement (RMm)

FY Mar	2015A	2016A	2017F	2018F	2019F
Revenue	599	912	869	1,035	1,070
Cost of Goods Sold	(271)	(405)	(456)	(581)	(603)
Gross Profit	328	508	413	454	467
Other Opng (Exp)/Inc	(80.6)	(147)	(127)	(134)	(141)
Operating Profit	247	361	285	320	327
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.7)	(3.5)	(7.2)	(8.2)	(8.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	245	357	278	312	318
Tax	(62.4)	(96.1)	(69.5)	(78.0)	(79.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	182	261	208	234	239
Net Profit before Except.	182	261	208	234	239
EBITDA	250	371	296	332	340
Growth					
Revenue Gth (%)	4.3	52.3	(4.7)	19.1	3.4
EBITDA Gth (%)	19.3	48.4	(20.2)	12.3	2.2
Opg Profit Gth (%)	19.6	45.9	(21.0)	12.4	1.9
Net Profit Gth (Pre-ex) (%)	20.2	43.3	(20.2)	12.3	2.0
Margins & Ratio					
Gross Margins (%)	54.8	55.7	47.5	43.9	43.7
Opg Profit Margin (%)	41.3	39.6	32.8	30.9	30.5
Net Profit Margin (%)	30.4	28.6	24.0	22.6	22.3
ROAE (%)	30.6	33.7	22.2	21.9	19.5
ROA (%)	19.0	22.4	15.3	15.1	13.7
ROCE (%)	27.8	28.8	18.7	18.9	17.2
Div Payout Ratio (%)	43.5	39.9	38.0	36.0	36.0
Net Interest Cover (x)	90.9	102.2	39.8	39.1	39.9

Source: Company, AllianceDBS

Matrix Concepts Holdings Bhd

Quarterly / Interim Income Statement (RMm)

FY Mar	4Q2015	5Q2015/16	1Q2017	2Q2017	3Q2017
Revenue	142	211	196	225	198
Cost of Goods Sold	(63.6)	(99.9)	(90.6)	(131)	(78.7)
Gross Profit	77.9	111	106	94.3	119
Other Oper. (Exp)/Inc	(27.6)	(40.0)	(34.5)	(30.6)	(45.0)
Operating Profit	50.4	71.4	71.2	63.7	74.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.8)	(0.6)	(0.7)	(0.9)	(1.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	49.5	70.8	70.4	62.8	72.9
Tax	(12.7)	(22.9)	(18.5)	(16.4)	(22.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	36.8	48.0	51.9	46.5	50.5
Net profit bef Except.	36.8	48.0	51.9	46.5	50.5
EBITDA	52.0	74.1	73.2	65.8	76.5
Growth					
Revenue Gth (%)	16.6	49.3	(7.1)	14.6	(11.9)
EBITDA Gth (%)	17.1	42.7	(1.2)	(10.1)	16.3
Opg Profit Gth (%)	25.5	41.8	(0.3)	(10.5)	16.6
Net Profit Gth (Pre-ex) (%)	18.5	30.2	8.2	(10.5)	8.6
Margins					
Gross Margins (%)	55.0	52.7	53.8	41.9	60.3
Opg Profit Margins (%)	35.6	33.8	36.3	28.3	37.5
Net Profit Margins (%)	26.0	22.7	26.5	20.7	25.5

Incurring RM10m ESOS expense in 3QFY17

Boosted by industrial land sales

Balance Sheet (RMm)

FY Mar	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	191	218	247	285	322
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	46.8	58.8	58.8	58.8	58.8
Cash & ST Invt	96.7	78.5	108	21.6	100.0
Inventory	2.09	6.21	5.92	7.05	7.29
Debtors	113	178	170	202	209
Other Current Assets	588	753	850	1,081	1,122
Total Assets	1,037	1,292	1,439	1,656	1,819
ST Debt	49.8	79.0	79.0	79.0	79.0
Creditor	136	161	153	207	214
Other Current Liab	158	40.7	90.6	99.2	101
LT Debt	28.4	126	126	126	126
Other LT Liabilities	0.65	0.0	0.0	0.0	0.0
Shareholder's Equity	664	886	990	1,145	1,299
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	1,037	1,292	1,439	1,656	1,819
Non-Cash Wkg. Capital	409	736	781	985	1,024
Net Cash/(Debt)	18.5	(126)	(96.8)	(183)	(105)
Debtors Turn (avg days)	70.0	58.2	73.1	65.6	70.2
Creditors Turn (avg days)	174.2	137.1	128.8	115.6	130.3
Inventory Turn (avg days)	1.9	3.8	5.0	4.2	4.4
Asset Turnover (x)	0.6	0.8	0.6	0.7	0.6
Current Ratio (x)	2.3	3.6	3.5	3.4	3.7
Quick Ratio (x)	0.6	0.9	0.9	0.6	0.8
Net Debt/Equity (X)	CASH	0.1	0.1	0.2	0.1
Net Debt/Equity ex MI (X)	CASH	0.1	0.1	0.2	0.1
Capex to Debt (%)	148.8	18.0	19.5	24.4	24.4
Z-Score (X)	4.5	4.9	4.4	4.3	4.3

Healthy balance sheet

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Mar	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	245	357	278	312	318
Dep. & Amort.	2.55	9.86	10.9	11.9	13.1
Tax Paid	(62.9)	(97.3)	(19.5)	(69.5)	(78.0)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(55.7)	(336)	(95.6)	(212)	(40.8)
Other Operating CF	7.67	(3.7)	0.0	0.0	0.0
Net Operating CF	136	(69.6)	174	42.8	213
Capital Exp.(net)	(116)	(36.9)	(40.0)	(50.0)	(50.0)
Other Invt.(net)	15.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.68	0.17	0.0	0.0	0.0
Net Investing CF	(99.7)	(36.8)	(40.0)	(50.0)	(50.0)
Div Paid	(77.6)	(105)	(104)	(79.2)	(84.3)
Chg in Gross Debt	21.2	132	0.0	0.0	0.0
Capital Issues	9.53	66.9	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(46.9)	93.9	(104)	(79.2)	(84.3)
Currency Adjustments	6.14	(5.8)	0.0	0.0	0.0
Chg in Cash	(4.2)	(18.3)	29.5	(86.4)	78.4
Opg CFPS (sen)	36.0	47.2	47.1	44.5	44.3
Free CFPS (sen)	3.72	(18.9)	23.4	(1.3)	28.4

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 16	2.39	3.30	BUY
2:	08 Mar 16	2.40	3.30	BUY
3:	12 Apr 16	2.54	3.30	BUY
4:	20 May 16	2.50	3.30	BUY
5:	23 May 16	2.47	3.20	BUY
6:	10 Jun 16	2.54	3.20	BUY
7:	14 Jul 16	2.48	3.20	BUY
8:	26 Aug 16	2.51	3.20	BUY
9:	27 Sep 16	2.58	3.20	BUY
10:	16 Nov 16	2.48	3.20	BUY
11:	03 Jan 17	2.42	3.20	BUY

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

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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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Wong Ming Tek, Executive Director

Published by

AllianceDBS Research Sdn Bhd (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com