

24 February 2017

Matrix Concepts Holdings

9M17 Missed Expectations

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MATRIX's 9M17 core net profit (CNP) was below expectations, accounting for 66%/67% of our/streets' full-year estimates, due to: (i) lower-than-expected progress billings, and (ii) higher tax rate. A 3.5 sen dividend was declared, bringing 9M17 dividend to 10.0 sen, as expected. Property sales of RM837.3m is on track to meet our and management's target of RM1.0b. Maintain OUTPERFORM with an unchanged Target Price of RM2.65 given its consistent dividend pay-out which offers a decent yield of 5.5%.

Slightly weaker. 9M17 CNP of RM148.8m came in below expectations, which makes up 66%/67% of our/streets' full-year estimates. The disappointment is due to: (i) lower-than-expected billings progress, and (ii) higher-than-expected tax rate. Single tier dividend of 3.5 sen was declared bringing 9M17 dividends to 10.0 sen, as expected. On a brighter note, it recorded an impressive property sales performance amid a weak property market bringing its 9M17 sales to RM837.3m, which is on-track to meet our and management's RM1.0b target.

QoQ wise, 3Q17 CNP saw a growth of 9% albeit 12% decline in revenue due to improvements in EBITDA margin of 18ppt to 61%. The improvement in margin is mainly driven by better margin contribution from the recognition of industrial property sales vis-à-vis mostly lower-end affordable projects recognised in 2Q17. YoY comparisons are not available due to changes in financial year-end.

Outlook. Its unbilled sales number remains healthy at RM903.5m as compared to RM765.3m in 2Q17, providing at least a year's visibility, and we believe that they are on track to meet our and management's sales target of RM1.0b for FY17 should they maintain their current sales momentum.

Lowering FY17-18E earnings. Following its weaker-than-expected 9M17 performance, we cut our FY17-18E earnings by 7-5%, respectively after we re-timed our project billings and also adjusted for a higher effective tax rate of 27% (from 25%) for FY17E. Our reduction in earnings has subsequently brought our FY17E DPS lower to 13.7 sen from 14.7 sen based on an unchanged dividend pay-out ratio assumption of 40%.

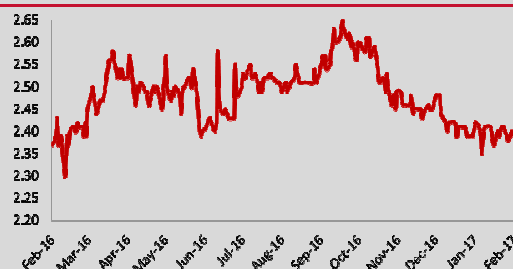
Maintain OUTPERFORM. Despite our mild reduction in our FY17-18E earnings, we are still keeping an OUTPERFORM call on MATRIX with an unchanged Target Price of RM2.65 based on 25% discount to its FD RNAV of RM3.51, the lowest discount rate applied amongst developers under our coverage due to consistent sales performance amid a weak property market underpinned by its strong positioning in the affordable market segment. At our TP, the stock commands an average FY17-18E PER of 7.2x which is in-line with small-mid cap developers (<RM3b mkt cap) FY16-17E PER of 8.4x-6.9x. Currently, it offers a decent dividend yield of 5.5% bringing total returns to 12%.

Downside risks to our call include: (i) weaker-than-expected property sales, (ii) higher-than-expected sales and administrative costs, (iii) negative real estate policies, and (iv) tighter lending environment.

OUTPERFORM ↔

Price: RM2.49
Target Price: RM2.65 ↔

Share Price Performance



KLCI	1,704.48
YTD KLCI chg	3.8%
YTD stock price chg	3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MCH MK Equity
Market Cap (RM m)	1,430.5
Issued shares	572.2
52-week range (H)	2.65
52-week range (L)	2.30
3-mth avg daily vol:	369,582
Free Float	95%
Beta	0.7

Major Shareholders

Tian Hock Lee	14.8%
Shining Term Sdn Bhd	4.6%
Ambang Kussa	4.6%

Summary Earnings Table

FYE Mar (RM m)	2016A*	2017E	2018E
Turnover	912	901	999
EBIT	361	289	321
PBT	357	287	319
Core Net Profit (CNP)	255	210	239
Consensus (CNP)	n.a.	221	235
Earnings Revision	n.a.	-7%	-5%
EPS (sen)	41.8	34.4	39.2
EPS growth (%)	67%	-18%	14%
NDPS (sen)	18.8	13.7	15.7
BV/Share (RM)	1.51	1.71	1.95
PER (x)	6.0	7.2	6.4
Price/BV (x)	1.65	1.45	1.28
Net Gearing (x)	0.1	0.1	0.0
Dividend Yield (%)	7.6	5.5	6.3

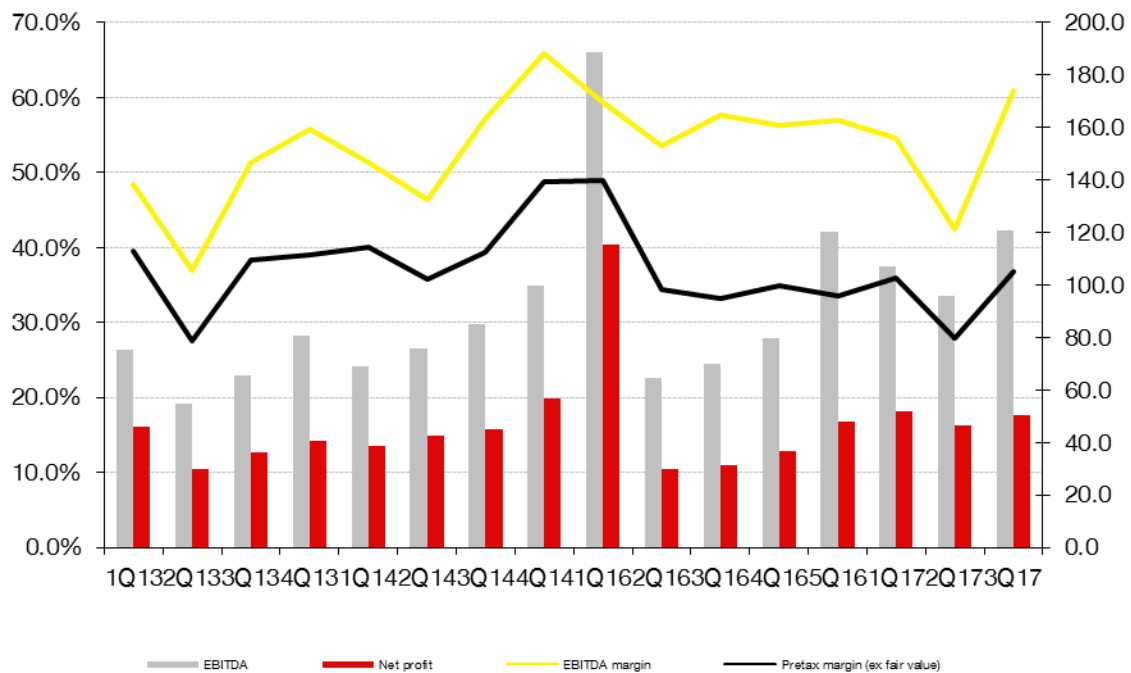
*MATRIX changed year end from Dec to March, hence 15M for FY16

Result Highlight

	3Q17	2Q17	QoQ	2Q16	YoY	9M17	9M16	YoY
Revenue								
Revenue	198.0	224.9	-12%	n.a.	n.a.	619.1	n.a.	n.a.
Op costs w/o depn/amort	-78.1	-130.0	-40%	n.a.	n.a.	-298.1	n.a.	n.a.
Other Op Income	0.8	0.7	12%	n.a.	n.a.	2.3	n.a.	n.a.
EBITDA	120.7	95.6	26%	n.a.	n.a.	323.3	n.a.	n.a.
EBIT	120.1	95.0	26%	n.a.	n.a.	321.6	n.a.	n.a.
Net interest	-1.4	-0.9	52%	n.a.	n.a.	-3.0	n.a.	n.a.
Selling & Marketing, Admin Cost	-45.8	-31.3	46%	n.a.	n.a.	-112.4	n.a.	n.a.
Fair Value Adjustments on IP	0.0	0.0	n.m.	n.a.	n.a.	0.0	n.a.	n.a.
Pretax profit	72.9	62.8	16%	n.a.	n.a.	206.2	n.a.	n.a.
Taxation	-22.5	-16.4	37%	n.a.	n.a.	-57.3	n.a.	n.a.
Minority Interests	0.0	0.0	n.m.	n.a.	n.a.	0.0	n.a.	n.a.
Net profit	50.4	46.5	9%	n.a.	n.a.	148.8	n.a.	n.a.
Core net profit	50.4	46.5	9%	n.a.	n.a.	148.8	n.a.	n.a.
EPS (sen)	8.8	8.2				26.2		
DPS (sen)	3.5	3.3				10.0		
NTA/share (RM)	1.7	1.7				5.0		
Net gearing/(cash) (x)	0.16	0.11				0.4		
EBITDA margin	61%	43%				52%		
Pretax margin	37%	28%				33%		
Effective tax rate	31%	26%				28%		

Source: Company, Kenanga Research

Earnings Trend



Source: Company, Kenanga Research

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FD RNAV							
	Stake	Remaining GDV*** (RM'm)	Remaining Net Profit*** (RM'm)	Start of DCF	Assumed durations (years)	WACC (%)	NPV (RM m) ***
On-going Projects							
BSS	100%	770	162	2,013	2	10%	120
STV 1&2	100%	786	165	2,013	3	10%	150
TSI	100%	223	47	2,013	1	10%	35
Taman Desa Port Dickson 3	100%	6	1	2,013	2	10%	1
Lobak Commerical Centre (Phase 1)	100%	16	3	2,013	3	10%	3
Unbilled sales	100%	593	124	2,013	2	10%	108
Pipeline Projects							
BSS	100%	4,771	1,013	2,014	8	10%	526
TSI	100%	891	187	2,014	8	10%	97
Kota Gadong Perdana	100%	926	195	2,016	3	10%	108
Third 9 Residence	100%	145	30	2,014	2	10%	21
Lobak Commercial Centre	100%	29	6	2,013	4	10%	4
Labu Land	100%	760	160	2,015	4	10%	85
Rasah Kemayan Land	100%	800	168	2,016	3	10%	85
KL land (near PWTC)	100%	250	53	2,014	4	10%	36
Sendayan Tech Park	100%	170	36	2,016	3	10%	27
Agriculture land for future industrial use (STV3)	100%	110	23	2,016	3	10%	14
Puchong Land	100%	500	71	2,016	5	10%	40
Replenish	100%	620	121		10	10%	50
*** after shareholding							
Other lands							
		NBV (RM'm)	NBV (RM psf)		Market Price (RM'm)	Market Price (RM psf)	Market Value RM'm)
Lot No. 769, Mukim Pasir Panjang, Port Dickson	100%	2	2		3	3	2
Lot No. 847, Mukim Pasir Panjang, Port Dickson	100%	0	1		3	5	3
Revised Asset Value							1,513
Shareholder's equity (as at 30 June 2013)							540
RNAV							2,053
RNAV per share (RM)							MYR 3.54
No of paid-up shares ('m)							579.6
Dilution impact on RNAV*							251.7
Diluted RNAV per share (RM)*							MYR 3.51
Diluted no of shares ('m)*							656.9
% Discount to RNAV Target Price							-25% MYR2.65

Source: Kenanga Research

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Peer Comparison

NAME	Price (23/2/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.98	9,386	14.5	11.7	11.7	3.7%	4.1%	4.2%	0.58	648.5	800.2	803.6	23.4%	0.4%	2.23	OUTPERFORM
S P SETIA BHD*	3.39	9,674	12.0	12.7	15.6	5.5%	9.7%	8.0%	1.17	808.0	761.3	620.6	-5.8%	-18.5%	3.53	OUTPERFORM
UEM SUNRISE BHD*	1.16	5,263	20.5	38.5	34.3	1.4%	3.9%	2.0%	0.84	257.2	136.6	153.6	-46.9%	12.5%	UNDER REVIEW	UNDER REVIEW
SUNWAY BHD	3.15	6,379	10.7	13.2	13.0	3.1%	11.7%	7.4%	0.78	594.2	484.6	489.7	-18.4%	1.0%	3.23	MARKET PERFORM
MAH SING GROUP BHD^	1.49	3,590	10.1	9.7	9.7	4.1%	14.3%	11.4%	1.07	357.2	369.1	369.5	3.3%	0.1%	1.49	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.54	4,307	33.3	31.6	18.9	0.0%	3.7%	3.5%	1.09	129.3	136.3	228.4	5.4%	67.5%	1.53	OUTPERFORM
UOA DEVELOPMENT BHD*	2.52	4,111	11.0	10.8	10.5	6.0%	19.4%	9.8%	1.04	373.9	379.2	391.4	1.4%	3.2%	2.54	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.44	3,090	-41.4	22.0	45.2	0.6%	-3.3%	5.1%	1.66	-74.6	140.3	68.4	-288%	-51.2%	1.33	MARKET PERFORM
KSL HOLDINGS BHD	1.18	1,215	5.7	6.1	6.4	0.0%	10.5%	9.0%	0.51	211.5	198.4	190.3	-6.2%	-4.1%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.50	1,431	5.6	6.8	6.0	5.5%	31.8%	22.7%	1.46	255.2	210.0	239.0	-17.7%	13.8%	2.65	OUTPERFORM
SUNSURIA BERHAD	1.29	1,030	28.1	10.5	6.6	2.4%	6.9%	13.3%	1.30	36.7	98.0	157.0	167.2%	60.1%	1.50	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.56	355	19.9	12.7	10.6	3.1%	2.2%	3.3%	0.41	17.8	28.0	33.5	57.2%	19.6%	1.68	MARKET PERFORM
HUA YANG BHD	1.14	401	3.6	5.7	6.5	1.8%	21.9%	12.2%	0.66	110.1	70.3	61.7	-36.2%	-12.3%	1.18	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.52	3,364	11.3	11.0	14.0	3.6%	7.0%	6.4%	0.68	298.0	307.0	240.3	3.0%	-21.7%	4.80	BUY
GLOMAC BHD	0.70	506	6.3	12.5	7.4	5.3%	14.2%	6.0%	0.51	80.9	40.5	68.7	-50.0%	69.6%	0.75	SELL
PARAMOUNT CORP BHD	1.67	706	9.4	8.8	8.4	5.4%	8.2%	8.3%	0.73	75.0	80.4	84.6	7.1%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.41	603	5.4	6.2	6.4	6.5%	22.9%	15.7%	1.07	112.2	97.6	94.2	-13.0%	-3.5%	1.61	BUY

* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

IOIPG's Price/per share data is based on ex-rights

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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