

# Matrix Concepts Holdings

## A Disappointing Year...

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MATRIX's FY17 core net profit (CNP) was below expectations, accounting for 90%/87% of our/streets' full-year estimates, due to: (i) lower-than-expected progress billings, (ii) higher tax-rate and iii) higher operational costs due to ESOS. 3.75sen dividend declared, bringing FY17 dividend to 13.75sen, as expected. Property sales of RM1.0b are also inline with our and management's target of RM1.0b. Lowered FY18E earnings by 6%. Downgrade to MARKET PERFORM (previously, OUTPERFORM) with an unchanged Target Price of RM2.65.

**Disappointing performance.** FY17 CNP of RM187.8m came in below expectations, accounting for 90%/87% of our/streets' full-year estimates. The disappointment was mainly due to i) higher than expected operational cost due to employee share options programme (ESOS), ii) slower than expected billings progress and iii) higher-than-expected tax rate. Single tier dividend of 3.75sen was declared bringing FY17 dividends to 13.75sen which is inline with our full-year estimates of 13.74sen. Positively, its full-year property sales of RM1.0b is within our and management's RM1.0b target. That said, we are also positive on its 1 for 4 proposed bonus issue (on a separate announcement) as it would further enhance the liquidity of its shares.

**QoQ wise,** 4Q17 CNP declined by 23% following the decrease in revenue of 19% as a result of lower progressive billings booked in for in 4Q17. That said, its pre-tax margins are also down by 3ppt from 37% due to higher interest expenses, which has risen by 203%. YoY comparisons are not available due to changes in financial year-end.

**Outlook.** Its unbilled sales number remains healthy at RM859.5m, providing another year of visibility. Looking at its planned launches of RM1.4b for FY18, which is targeted at affordable housing priced below RM500.0k, we are expecting MATRIX to replicate its RM1.0b sales performance for FY18.

**Lowering FY18E earnings.** Following its weaker-than-expected FY17 performance, we have reduced our FY18E earnings by 6%, following a lower adjustment to margins after factoring in higher operational costs. That said, we have also introduced our FY19E earnings forecast of RM238.0m. In terms of property sales, we are estimating MATRIX to churn RM1.0b sales for both FY18-19E.

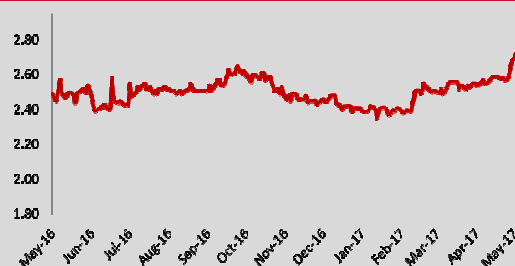
**Downgrade to MARKET PERFORM.** We downgrade MATRIX to MARKET PERFORM (previously, OUTPERFORM) given the recent sharp share price rally whilst we see no impetus to raise our Target Price of RM2.65 given the recent earnings disappointment. Furthermore, our discount factor of 25% applied to its FD RNAV of RM3.51 is the lowest amongst the developer under our coverage. At our TP, the stock commands an average FY18E PER of 7.2x which is higher than its mid cap developers (<RM3b mkt cap) average of 6.8x. In terms of yield, it offers a dividend yield of 5.5%.

**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.

# MARKET PERFORM

Price: **RM2.68** ↓  
Target Price: **RM2.65** ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,778.15 |
| YTD KLCI chg        | 8.3%     |
| YTD stock price chg | 10.7%    |

### Stock Information

|                      |               |
|----------------------|---------------|
| Shariah Compliant    | Yes           |
| Bloomberg Ticker     | MCH MK Equity |
| Market Cap (RM m)    | 1,539.5       |
| Issued shares        | 574.4         |
| 52-week range (H)    | 2.76          |
| 52-week range (L)    | 2.35          |
| 3-mth avg daily vol: | 627,931       |
| Free Float           | 95%           |
| Beta                 | 0.8           |

### Major Shareholders

|                      |       |
|----------------------|-------|
| Tian Hock Lee        | 17.6% |
| Shining Term Sdn Bhd | 14.7% |
| EPF                  | 5.4%  |

### Summary Earnings Table

| FYE Mar (RM m)               | 2017A      | 2018E      | 2019E      |
|------------------------------|------------|------------|------------|
| Turnover                     | 780        | 999        | 1,057      |
| EBIT                         | 268        | 301        | 319        |
| PBT                          | 261        | 299        | 317        |
| <b>Core Net Profit (CNP)</b> | <b>188</b> | <b>224</b> | <b>238</b> |
| Consensus (CNP)              | n.a.       | 215        | 232        |
| Earnings Revision            | n.a.       | -6%        | 0%         |
| EPS (sen)                    | 30.8       | 36.7       | 38.9       |
| EPS growth (%)               | -26%       | 19%        | 6%         |
| NDPS (sen)                   | 13.8       | 14.7       | 15.6       |
| BV/Share (RM)                | 1.68       | 1.90       | 2.13       |
| PER (x)                      | 8.7        | 7.3        | 6.9        |
| Price/BV (x)                 | 1.60       | 1.41       | 1.26       |
| Net Gearing (x)              | 0.2        | 0.2        | 0.1        |
| Dividend Yield (%)           | 5.2        | 5.5        | 5.8        |

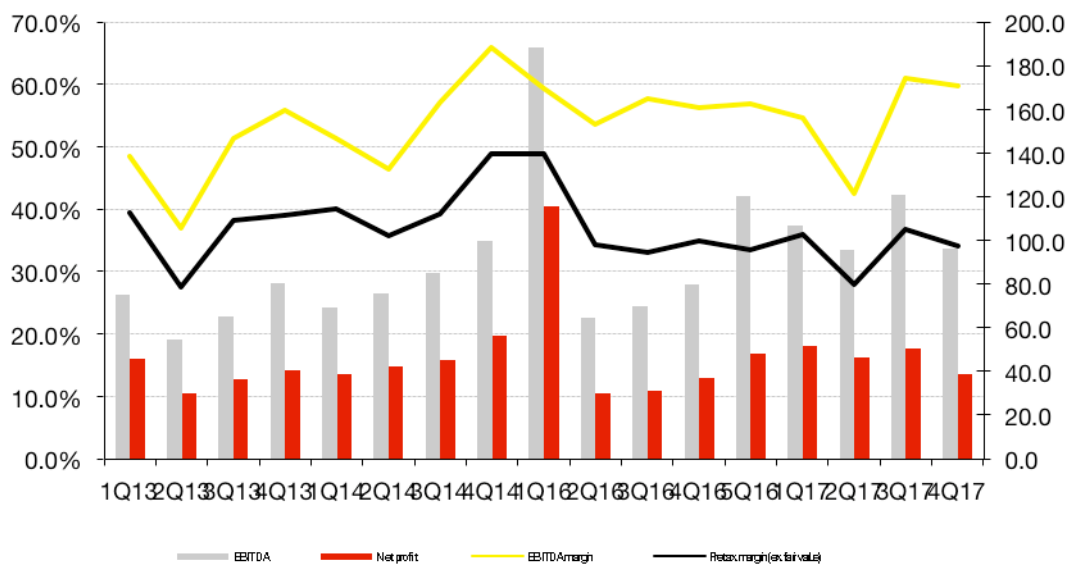
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Result Highlight

|                                 | 4Q17        | 3Q17         | QoQ         | 3Q16        | YoY         | FY17         | FY16        | YoY         |
|---------------------------------|-------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|
| <b>Revenue</b>                  |             |              |             |             |             |              |             |             |
| Revenue                         | 161.3       | 198.0        | -19%        | n.a.        | n.a.        | 780.4        | n.a.        | n.a.        |
| Op costs w/o depn/amort         | -66.0       | -78.1        | -16%        | n.a.        | n.a.        | -364.1       | n.a.        | n.a.        |
| Other Op Income                 | 1.0         | 0.8          | 21%         | n.a.        | n.a.        | 3.3          | n.a.        | n.a.        |
| <b>EBITDA</b>                   | <b>96.3</b> | <b>120.7</b> | <b>-20%</b> | <b>n.a.</b> | <b>n.a.</b> | <b>419.7</b> | <b>n.a.</b> | <b>n.a.</b> |
| <b>EBIT</b>                     | <b>95.8</b> | <b>120.1</b> | <b>-20%</b> | <b>n.a.</b> | <b>n.a.</b> | <b>417.3</b> | <b>n.a.</b> | <b>n.a.</b> |
| Net interest                    | -4.1        | -1.4         | 203%        | n.a.        | n.a.        | -7.1         | n.a.        | n.a.        |
| Selling & Marketing, Admin Cost | -36.5       | -45.8        | -20%        | n.a.        | n.a.        | -148.9       | n.a.        | n.a.        |
| Fair Value Adjustments on IP    | 0.0         | 0.0          | n.a.        | n.a.        | n.a.        | 0.0          | n.a.        | n.a.        |
| <b>Pretax profit</b>            | <b>55.1</b> | <b>72.9</b>  | <b>-24%</b> | <b>n.a.</b> | <b>n.a.</b> | <b>261.3</b> | <b>n.a.</b> | <b>n.a.</b> |
| Taxation                        | -16.1       | -22.5        | -28%        | n.a.        | n.a.        | -73.5        | n.a.        | n.a.        |
| Minority Interests              | 0.0         | 0.0          | n.a.        | n.a.        | n.a.        | 0.0          | n.a.        | n.a.        |
| <b>Net profit</b>               | <b>39.0</b> | <b>50.4</b>  | <b>-23%</b> | <b>n.a.</b> | <b>n.a.</b> | <b>187.8</b> | <b>n.a.</b> | <b>n.a.</b> |
| <b>Core net profit</b>          | <b>39.0</b> | <b>50.4</b>  | <b>-23%</b> | <b>n.a.</b> | <b>n.a.</b> | <b>187.8</b> | <b>n.a.</b> | <b>n.a.</b> |
| EPS (sen)                       | 6.8         | 8.8          |             | n.a.        |             | 33.0         | n.a.        |             |
| DPS (sen)                       | 3.8         | 3.5          |             | n.a.        | 84%         | 13.8         | n.a.        |             |
| NTA/share (RM)                  | 1.8         | 1.7          |             | n.a.        |             | 6.8          | n.a.        |             |
| Net gearing/(cash) (x)          | 0.15        | 0.16         |             | n.a.        |             | 0.6          | n.a.        |             |
| EBITDA margin                   | 60%         | 61%          |             | n.a.        |             | 54%          | n.a.        |             |
| Pretax margin                   | 34%         | 37%          |             | n.a.        |             | 33%          | n.a.        |             |
| Effective tax rate              | 29%         | 31%          |             | n.a.        |             | 28%          | n.a.        |             |

Source: Company, Kenanga Research

Earnings Trend



Source: Company, Kenanga Research

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| <b>FD RNAV</b>                                       |              |  |   |                         |  |                                      |                               |
|--|--------------|--|---|-------------------------|--|--------------------------------------|-------------------------------|
|  | <b>Stake</b> | <b>Remaining<br/>GDV***<br/>(RM'm)</b> | <b>Remaining Net<br/>Profit***<br/>(RM'm)</b> | <b>Start of<br/>DCF</b> | <b>Assumed<br/>durations<br/>(years)</b> | <b>WACC (%)</b>                      | <b>NPV (RM m)<br/>***</b>     |
| <b>On-going Projects</b>                             |              |  |   |                         |  |                                      |                               |
| 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<br>Dickson 3                         | 100%         | 6                                      | 1   | 2,013                   | 2  | 10%                                  | 1                             |
| Lobak Commerical<br>Centre (Phase 1)                 | 100%         | 16                                     | 3   | 2,013                   | 3  | 10%                                  | 3                             |
| Unbilled sales                                       | 100%         | 593                                    | 124   | 2,013                   | 2  | 10%                                  | 108                           |
| <b>Pipeline Projects</b>                             |              |  |   |                         |  |                                      |                               |
| 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<br>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<br>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                               |              |  |   |                         |  |                                      |                               |
| <b>Other lands</b>                                   |              | <b>NBV (RM'm)</b>                      | <b>NBV (RM psf)</b>                           |                         | <b>Market Price<br/>(RM'm)</b>           | <b>Market<br/>Price (RM<br/>psf)</b> | <b>Market Value<br/>RM'm)</b> |
| Lot No. 769, Mukim Pasir<br>Panjang, Port Dickson    | 100%         | 2                                      | 2   |                         | 3  | 3                                    | 2                             |
| Lot No. 847, Mukim Pasir<br>Panjang, Port Dickson    | 100%         | 0                                      | 1   |                         | 3  | 5                                    | 3                             |
| <b>Revised Asset Value</b>                           |              |  |   |                         |  |                                      | <b>1,513</b>                  |
| Shareholder's equity (as<br>at 30 June 2013)         |              |  |   |                         |  |                                      | 540                           |
| <b>RNAV</b>  |              |  |   |                         |  |                                      | <b>2,053</b>                  |
| <b>RNAV per share (RM)</b>                           |              |  |   |                         |  |                                      | <b>MYR 3.54</b>               |
| No of paid-up shares ('m)                            |              |  |   |                         |  |                                      | 579.6                         |
| Dilution impact on<br>RNAV*                          |              |  |   |                         |  |                                      | 251.7                         |
| <b>Diluted RNAV per share<br/>(RM)*</b>              |              |  |   |                         |  |                                      | <b>MYR 3.51</b>               |
| Diluted no of shares ('m)*                           |              |  |   |                         |  |                                      | 656.9                         |
| <b>% Discount to RNAV</b>                            |              |  |   |                         |  |                                      | <b>-25%</b>                   |
| <b>Target Price</b>                                  |              |  |   |                         |  |                                      | <b>MYR2.65</b>                |

Source: Kenanga Research

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## Peer Comparison

| NAME                               | Price<br>(16/5/17) | Mkt<br>Cap | PER (x) |         |         | Est.<br>NDiv.<br>Yld. | Hist.<br>ROE | Fwd<br>ROE | P/BV | Net Profit (RMm) |         |         | FY17/18<br>NP<br>Growth | FY18/19<br>NP<br>Growth | Target<br>Price | Rating         |
|------------------------------------|--------------------|------------|---------|---------|---------|-----------------------|--------------|------------|------|------------------|---------|---------|-------------------------|-------------------------|-----------------|----------------|
|                                    | (RM)               | (RMm)      | FY16/17 | FY17/18 | FY18/19 | (%)                   | (%)          | (%)        | (x)  | FY16/17          | FY17/18 | FY18/19 | (%)                     | (%)                     | (RM)            |                |
| <b>DEVELOPERS UNDER COVERAGE</b>   |                    |            |         |         |         |                       |              |            |      |                  |         |         |                         |                         |                 |                |
| IOI PROPERTIES GROUP BHD*          | 2.08               | 11,453     | 17.7    | 14.3    | 14.3    | 3.5%                  | 4.1%         | 4.2%       | 0.61 | 648.5            | 800.2   | 803.6   | 23.4%                   | 0.4%                    | 2.30            | OUTPERFORM     |
| S P SETIA BHD*                     | 3.63               | 10,361     | 12.8    | 13.6    | 16.7    | 5.1%                  | 9.7%         | 8.0%       | 1.25 | 808.0            | 761.3   | 620.6   | -5.8%                   | -18.5%                  | 3.86            | OUTPERFORM     |
| UEM SUNRISE BHD*                   | 1.29               | 5,853      | 39.7    | 25.1    | 36.3    | 0.0%                  | 2.2%         | 3.4%       | 0.91 | 147.3            | 233.5   | 161.3   | 58.5%                   | -30.9%                  | 1.45            | OUTPERFORM     |
| SUNWAY BHD                         | 3.53               | 7,178      | 13.3    | 13.8    | 13.2    | 2.9%                  | 7.3%         | 6.7%       | 0.81 | 541.6            | 521.7   | 542.6   | -3.7%                   | 4.0%                    | 3.41            | OUTPERFORM     |
| MAH SING GROUP BHD^                | 1.54               | 3,711      | 10.7    | 10.9    | 11.3    | 4.2%                  | 10.1%        | 10.0%      | 1.07 | 346.8            | 338.9   | 327.5   | -2.3%                   | -3.4%                   | 1.63            | OUTPERFORM     |
| ECO WORLD DEVELOPMENT<br>GROUP BHD | 1.52               | 4,475      | 34.6    | 39.7    | 18.0    | 0.0%                  | 3.7%         | 4.4%       | 1.18 | 129.3            | 112.9   | 248.8   | -12.7%                  | 120.4%                  | 1.72            | OUTPERFORM     |
| UOA DEVELOPMENT BHD*               | 2.74               | 4,470      | 12.0    | 11.8    | 11.4    | 5.5%                  | 19.4%        | 9.8%       | 1.13 | 373.9            | 379.2   | 391.4   | 1.4%                    | 3.2%                    | 2.56            | MARKET PERFORM |
| MALAYSIAN RESOURCES CORP BHD       | 1.75               | 3,808      | 15.6    | 55.4    | 50.3    | 0.2%                  | 8.6%         | 2.4%       | 1.91 | 244.1            | 68.8    | 75.7    | -72%                    | 10.0%                   | 1.65            | MARKET PERFORM |
| KSL HOLDINGS BHD                   | 1.21               | 1,246      | 6.1     | 7.2     | 7.0     | 0.0%                  | 8.8%         | 6.9%       | 0.46 | 204.6            | 173.7   | 177.1   | -15.1%                  | 2.0%                    | 1.30            | UNDERPERFORM   |
| MATRIX CONCEPTS HOLDINGS BHD       | 2.68               | 1,539      | 8.2     | 6.9     | 6.5     | 5.5%                  | 31.8%        | 22.7%      | 1.41 | 188.0            | 224.0   | 238.0   | 19.1%                   | 6.3%                    | 2.65            | MARKET PERFORM |
| SUNSURIA BERHAD                    | 1.44               | 1,150      | 31.4    | 11.7    | 7.3     | 2.1%                  | 6.9%         | 13.3%      | 1.45 | 36.7             | 98.0    | 157.0   | 167.2%                  | 60.1%                   | 1.61            | OUTPERFORM     |
| CRESCENDO CORPORATION BHD*         | 1.68               | 382        | 13.2    | 11.4    | 11.0    | 2.9%                  | 2.2%         | 8.0%       | 0.50 | 28.9             | 33.6    | 34.6    | 16.4%                   | 3.0%                    | 1.70            | MARKET PERFORM |
| HUA YANG BHD                       | 1.07               | 377        | 3.4     | 5.4     | 6.1     | 1.9%                  | 21.9%        | 12.2%      | 0.62 | 110.1            | 70.3    | 61.7    | -36.2%                  | -12.3%                  | 1.33            | OUTPERFORM     |
| <b>CONSENSUS NUMBERS</b>           |                    |            |         |         |         |                       |              |            |      |                  |         |         |                         |                         |                 |                |
| IGB CORPORATION BHD                | 2.95               | 3,938      | 13.2    | 12.8    | 16.4    | 3.1%                  | 6.7%         | 6.4%       | 0.80 | 298.0            | 307.0   | 240.3   | 3.0%                    | -21.7%                  | 4.80            | BUY            |
| GLOMAC BHD                         | 0.69               | 499        | 6.2     | 12.5    | 7.3     | 5.4%                  | 12.7%        | 6.0%       | 0.50 | 80.9             | 39.8    | 68.7    | -50.9%                  | 72.7%                   | 0.75            | SELL           |
| PARAMOUNT CORP BHD                 | 1.90               | 806        | 10.7    | 10.0    | 9.5     | 4.7%                  | 8.2%         | 8.3%       | 0.83 | 75.0             | 80.6    | 84.9    | 7.5%                    | 5.3%                    | 2.24            | BUY            |
| TAMBUN INDAH LAND BHD              | 1.53               | 659        | 5.9     | 6.8     | 6.8     | 5.5%                  | 22.5%        | 16.6%      | 1.10 | 112.2            | 96.9    | 97.3    | -13.6%                  | 0.4%                    | 1.63            | BUY            |

\* Core NP and Core PER

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

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%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

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

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