

# Matrix Concepts Holdings Bhd

Edition 1 Version 1 | Bloomberg: MCH MK | Reuters: MATR.KL

Refer to important disclosures at the end of this report

## Malaysia Equity Research

14 December 2015

## BUY

Last Traded Price: RM2.48 (KLCI : 1,640.14)

Price Target : RM3.30 (33% upside) (Prev RM3.30)

Shariah Compliant: Yes

**Potential Catalyst:** Higher-than-expected industrial lot sales and property sales

**Where we differ:** Highest TP

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Mar (RMm)	2014A	*2016F	2017F	2018F
Revenue	599	829	853	903
EBITDA	250	326	318	333
Pre-tax Profit	245	318	310	325
Net Profit	182	242	235	247
Net Pft (Pre Ex.)	182	242	235	247
EPS (sen)	34.2	44.0	42.7	44.8
EPS Pre Ex. (sen)	34.2	44.0	42.7	44.8
EPS Gth (%)	(5)	29	(3)	5
EPS Gth Pre Ex (%)	(5)	29	(3)	5
Diluted EPS (sen)	34.2	44.0	42.7	44.8
Net DPS (sen)	14.9	17.6	17.1	17.9
BV Per Share (sen)	124	150	175	203
PE (X)	7.3	5.6	5.8	5.5
PE Pre Ex. (X)	7.3	5.6	5.8	5.5
P/Cash Flow (X)	9.7	3.8	6.8	6.3
EV/EBITDA (X)	5.2	3.5	3.5	3.2
Net Div Yield (%)	6.0	7.1	6.9	7.2
P/Book Value (X)	2.0	1.7	1.4	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	30.6	32.5	26.3	23.7

**Earnings Rev (%):** 22 10 6  
**Consensus EPS (sen):** 36.0 38.2 43.0  
**Other Broker Recs:** B: 2 S: 0 H: 2

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

Source of all data: 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 Taman Sri Impian (TSI) in Kluang, despite the relatively weak market sentiment. Majority of its launches are priced affordably below the RM600k/unit mark, leveraging on the robust demand for affordable homes. Its sales momentum going forward is likely to remain on the uptrend as Matrix still has a large pipeline of affordable homes which are ready to be introduced to the market.

**Ultimate winner.** BSS remains its jewel in the crown given its low average land cost of RM7psf (ready with infra) 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 end-16 which will then accommodate an additional ~1,500 personnel, further improving the vibrancy of the sprawling township.

**Impressive dividend yield.** We revised our FY15-17F earnings by 22%/10%/6% after accounting for higher property sales as well as the FYE change to Mar-16 from Dec-15. Matrix has a minimum 40% dividend payout policy, implying a 7% FY17 yield. Its strong balance sheet enables the company to pay quarterly dividends.

### Valuation:

We maintain our BUY rating and RM3.30 TP, based on a 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 from 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)	550
Mkt. Cap (RMm/US\$m)	1,365 / 317
Major Shareholders	
Dato' Lee Tian Hock (%)	41.7
Ho Kong Soon (%)	5.1
Free Float (%)	53.2
3m Avg. Daily Val (US\$m)	0.20

**ICB Industry :** Financials / Real Estate Investment & Services

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

**Focusing on township development.** Matrix’s flagship projects – Bandar Sri Sendayan (BSS) in Seremban, Negeri Sembilan and Taman Seri Impian (TSI) 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.

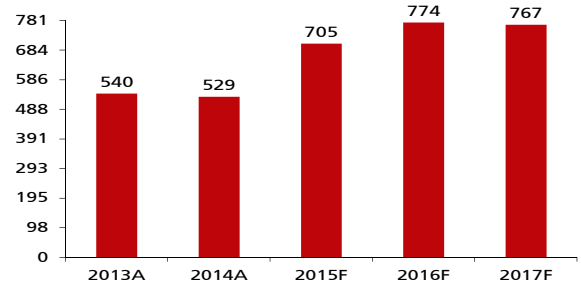
**Strong property sales.** Take-up for Matrix’s projects remains encouraging despite the cautious sentiment. It secured RM630m property sales in FY14, and is on track to exceed its RM700m sales target (12-month) for FY15 (RM612m in 9M15). While Matrix will delay some of the new launches in BSS and TSI in view of the softer sentiment, property sales are expected to remain resilient. In fact, Matrix has increased its FY15 property sales target to RM650m from RM600m, while industrial land sales target was cut to RM50m from RM100m previously, leaving its total sales target of RM700m intact.

**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, it is poised for 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 end-16 which will then accommodate an additional ~1,500 personnel, further improving the vibrancy of the sprawling township.

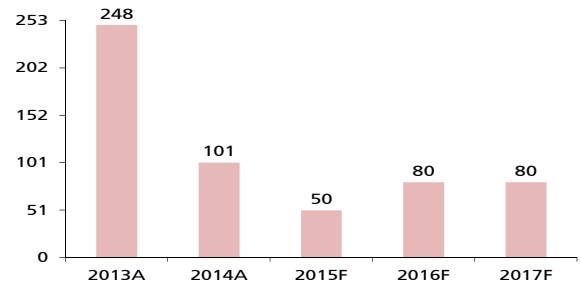
**Affordable homes remain the mainstay.** Apart from BSS and TSI, Matrix may launch its third flagship development, Kota Gadong Perdana in Negeri Sembilan (next to BSS) spanning 295 acres and worth RM900m GDV, in 1QCY16. The project will boast more than 3,000 units of affordable homes priced below RM400k/unit. We estimate that Matrix still has about 2k 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.

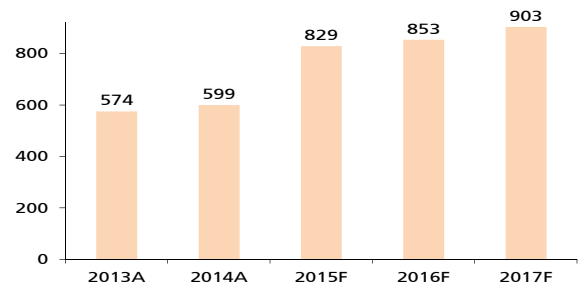
**Property sales (RMm)**



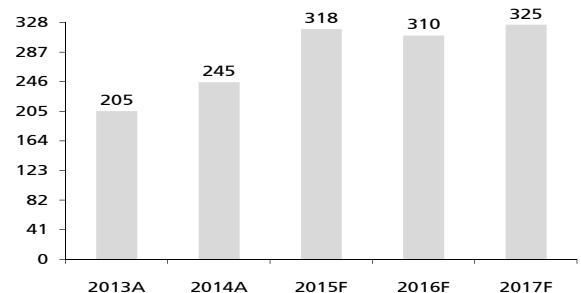
**Industrial land sales (RMm)**



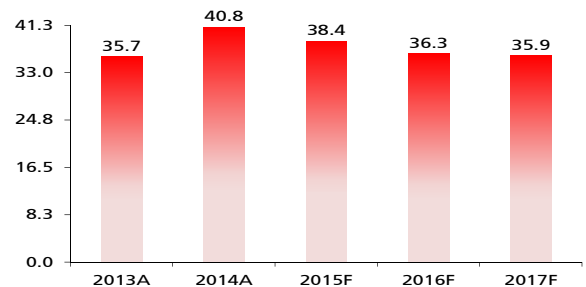
**Revenue (RMm)**



**Pretax profit (RMm)**



**Pretax margin (%)**



Source: Company, AllianceDBS

**Balance Sheet:**

**Solid balance sheet.** Matrix had a minimal net gearing of 7% as at Sep-15 despite heavy capex investments incurred over the years to improve the vibrancy of BSS. For instance, it has 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 target sales, 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 a sustainable demand for its 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 rare property developers that pay quarterly dividends, underlining its superior cash flow positions. Based on its minimum 40% payout policy, Matrix offers a decent dividend yield of 7% - the highest within our Malaysia property universe. As BSS township continues to gain traction, Matrix will be able to continue rewarding its loyal shareholders.

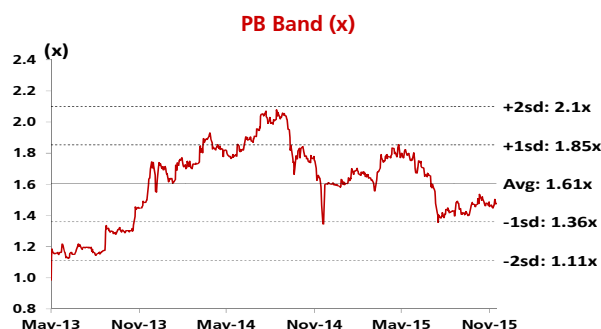
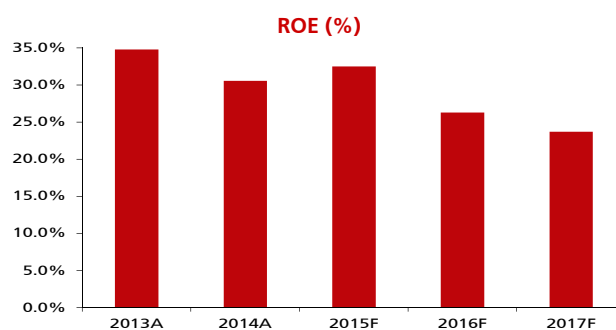
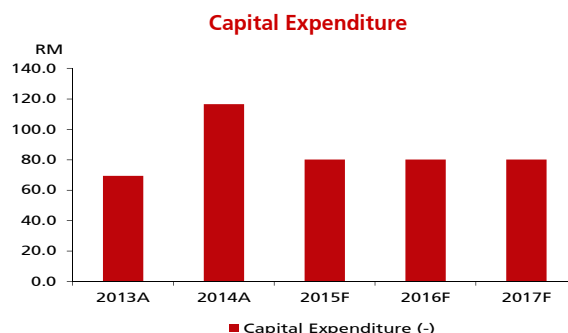
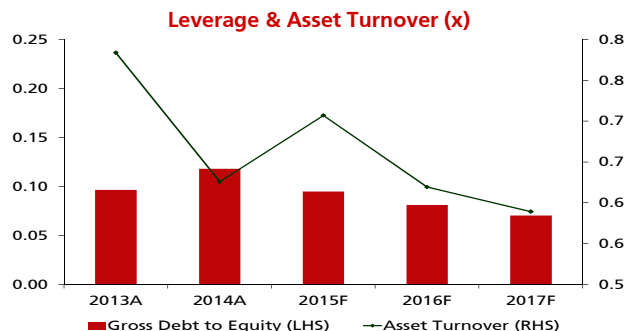
**Key Risks:**

**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

## Matrix Concepts Holdings Bhd

## Key Assumptions

FY Mar	2013A	2014A	2016F	2017	2018F
Property sales	540	529	705	774	767
Industrial land sales	248	101	50.0	80.0	80.0

Expect resilient sales from township developments

## Segmental Breakdown

FY Mar	2013A	2014A	2016F	2017F	2018F
<b>Revenues (RMm)</b>					
Industrial land sales	120	143	110	80.0	80.0
Property development	425	453	707	760	808
Education	0.0	0.73	5.20	5.98	6.88
Clubhouse	0.0	0.0	6.00	7.20	8.64
Others	29.7	2.51	0.0	0.0	0.0
<b>Total</b>	<b>574</b>	<b>599</b>	<b>829</b>	<b>853</b>	<b>903</b>
<b>EBIT (RMm)</b>					
Industrial land sales	N/A	N/A	66.0	48.0	48.0
Property development	N/A	N/A	265	274	285
Education	N/A	N/A	(7.0)	(7.0)	(5.0)
Clubhouse	N/A	N/A	(1.0)	0.0	2.00
<b>Total</b>	<b>0.0</b>	<b>247</b>	<b>323</b>	<b>315</b>	<b>330</b>
<b>EBIT Margins (%)</b>					
Industrial land sales	N/A	N/A	60.0	60.0	60.0
Property development	N/A	N/A	37.5	36.0	35.2
Education	N/A	N/A	(134.6)	(117.1)	(72.7)
Clubhouse	N/A	N/A	(16.7)	0.0	23.1
<b>Total</b>	<b>36.0</b>	<b>41.3</b>	<b>39.0</b>	<b>36.9</b>	<b>36.5</b>

Unbilled sales of RM641m as at Sep-15

## Income Statement (RMm)

FY Mar	2013A	2014A	2016F	2017F	2018F
Revenue	574	599	829	853	903
Cost of Goods Sold	(300)	(271)	(404)	(432)	(461)
<b>Gross Profit</b>	<b>274</b>	<b>328</b>	<b>425</b>	<b>422</b>	<b>442</b>
Other Opng (Exp)/Inc	(67.6)	(80.6)	(102)	(107)	(113)
<b>Operating Profit</b>	<b>207</b>	<b>247</b>	<b>323</b>	<b>315</b>	<b>330</b>
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	(1.8)	(2.7)	(4.7)	(5.1)	(5.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>205</b>	<b>245</b>	<b>318</b>	<b>310</b>	<b>325</b>
Tax	(53.5)	(62.4)	(76.4)	(74.3)	(77.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>152</b>	<b>182</b>	<b>242</b>	<b>235</b>	<b>247</b>
Net Profit before Except.	152	182	242	235	247
EBITDA	210	250	326	318	333
<b>Growth</b>					
Revenue Gth (%)	25.9	4.3	38.4	3.0	5.8
EBITDA Gth (%)	43.4	19.3	30.5	(2.5)	4.8
Opg Profit Gth (%)	43.9	19.6	30.6	(2.6)	4.8
Net Profit Gth (Pre-ex) (%)	46.5	20.2	32.8	(2.8)	4.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	47.8	54.8	51.3	49.4	49.0
Opg Profit Margin (%)	36.0	41.3	39.0	36.9	36.5
Net Profit Margin (%)	26.4	30.4	29.2	27.6	27.3
ROAE (%)	34.8	30.6	32.5	26.3	23.7
ROA (%)	20.7	19.0	20.6	17.1	16.1
ROCE (%)	32.4	27.8	29.8	24.5	22.4
Div Payout Ratio (%)	60.2	43.5	40.0	40.0	40.0
Net Interest Cover (x)	115.0	90.9	68.8	61.9	64.8

Superior margins due to low land cost

Source: Company, AllianceDBS

**Quarterly / Interim Income Statement (RMm)**

<b>FY Mar</b>	<b>3Q2014</b>	<b>4Q2014</b>	<b>1Q2015</b>	<b>2Q2015</b>	<b>3Q2015</b>
Revenue	149	151	318	120	121
Cost of Goods Sold	(65.1)	(53.5)	(130)	(57.4)	(53.1)
<b>Gross Profit</b>	<b>83.8</b>	<b>97.5</b>	<b>187</b>	<b>63.0</b>	<b>68.3</b>
Other Oper. (Exp)/Inc	(24.8)	(23.3)	(31.1)	(20.1)	(28.1)
<b>Operating Profit</b>	<b>58.9</b>	<b>74.2</b>	<b>156</b>	<b>43.0</b>	<b>40.1</b>
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	(0.5)	(0.5)	(0.6)	(1.6)	0.09
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>58.5</b>	<b>73.8</b>	<b>155</b>	<b>41.4</b>	<b>40.2</b>
Tax	(13.4)	(17.3)	(39.9)	(11.5)	(9.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>45.1</b>	<b>56.5</b>	<b>115</b>	<b>29.9</b>	<b>31.1</b>
Net profit bef Except.	45.1	56.5	115	29.9	31.1
EBITDA	58.9	74.2	156	43.0	44.4
<b>Growth</b>					
Revenue Gth (%)	(9.1)	1.5	110.3	(62.1)	0.8
EBITDA Gth (%)	0.0	26.0	110.2	(72.5)	3.3
Opg Profit Gth (%)	0.0	26.0	110.2	(72.5)	(6.6)
Net Profit Gth (Pre-ex) (%)	6.2	25.4	104.2	(74.1)	4.1
<b>Margins</b>					
Gross Margins (%)	56.3	64.6	58.9	52.3	56.2
Opg Profit Margins (%)	39.6	49.2	49.1	35.7	33.1
Net Profit Margins (%)	30.3	37.4	36.3	24.8	25.6

Accelerated completion prior to implementation of GST in Apr-15

**Balance Sheet (RMm)**

<b>FY Mar</b>	<b>2013A</b>	<b>2014A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Net Fixed Assets	78.2	191	268	344	421
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	39.5	46.8	46.8	46.8	46.8
Cash & ST Invt	101	96.7	294	318	362
Inventory	0.77	2.09	2.90	2.98	3.16
Debtors	117	113	156	161	170
Other Current Assets	542	588	541	577	615
<b>Total Assets</b>	<b>878</b>	<b>1,037</b>	<b>1,308</b>	<b>1,450</b>	<b>1,617</b>
ST Debt	39.8	49.8	49.8	49.8	49.8
Creditor	121	136	188	193	204
Other Current Liab	176	158	215	213	216
LT Debt	11.0	28.4	28.4	28.4	28.4
Other LT Liabilities	0.82	0.65	0.65	0.65	0.65
Shareholder's Equity	529	664	827	965	1,118
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>878</b>	<b>1,037</b>	<b>1,308</b>	<b>1,450</b>	<b>1,617</b>
Non-Cash Wkg. Capital	362	409	297	335	367
Net Cash/(Debt)	50.1	18.5	215	240	284
Debtors Turn (avg days)	69.3	70.0	59.2	67.7	66.8
Creditors Turn (avg days)	103.7	174.2	147.2	162.2	158.6
Inventory Turn (avg days)	2.0	1.9	2.3	2.5	2.4
Asset Turnover (x)	0.8	0.6	0.7	0.6	0.6
Current Ratio (x)	2.3	2.3	2.2	2.3	2.4
Quick Ratio (x)	0.6	0.6	1.0	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	136.2	148.8	102.3	102.3	102.3
Z-Score (X)	NA	NA	NA	NA	NA

Net cash position despite heavy capex investment for BSS township

Source: Company, AllianceDBS

**Matrix Concepts Holdings Bhd**

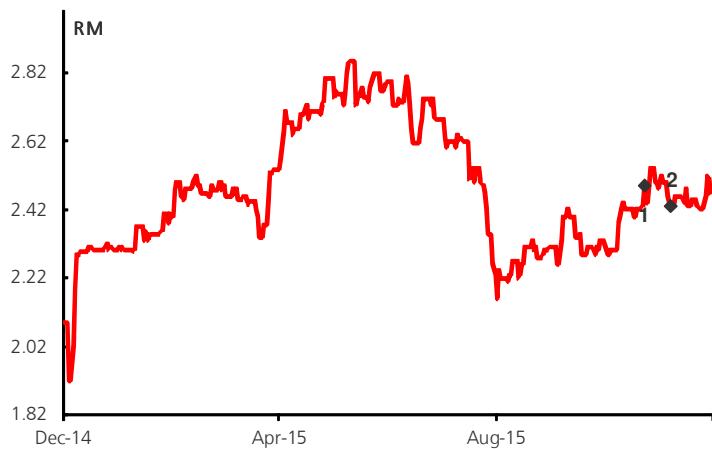
**Cash Flow Statement (RMm)**

FY Mar	2013A	2014A	2016F	2017F	2018F
Pre-Tax Profit	205	245	318	310	325
Dep. & Amort.	2.66	2.55	3.00	3.30	3.63
Tax Paid	(49.6)	(62.9)	(19.9)	(76.4)	(74.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(120)	(55.7)	54.6	(35.3)	(35.9)
Other Operating CF	1.42	7.67	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>39.7</b>	<b>136</b>	<b>356</b>	<b>201</b>	<b>218</b>
Capital Exp.(net)	(69.3)	(116)	(80.0)	(80.0)	(80.0)
Other Invt.(net)	(15.0)	15.0	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	0.14	1.68	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(84.2)</b>	<b>(99.7)</b>	<b>(80.0)</b>	<b>(80.0)</b>	<b>(80.0)</b>
Div Paid	(46.2)	(77.6)	(79.2)	(96.8)	(94.1)
Chg in Gross Debt	(3.4)	21.2	0.0	0.0	0.0
Capital Issues	140	9.53	0.0	0.0	0.0
Other Financing CF	(7.7)	0.0	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>82.8</b>	<b>(46.9)</b>	<b>(79.2)</b>	<b>(96.8)</b>	<b>(94.1)</b>
Currency Adjustments	31.9	6.14	0.0	0.0	0.0
Chg in Cash	70.2	(4.2)	197	24.4	43.8
Opg CFPS (sen)	37.9	36.0	54.8	43.0	46.1
Free CFPS (sen)	(7.0)	3.72	50.2	22.0	25.1

40% dividend payout policy

Source: Company, AllianceDBS

**Target Price & Ratings History**



S.No.	Date	Closing Price	Target Price	Rating
1:	03 Nov 15	2.49	3.30	BUY
2:	18 Nov 15	2.43	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

**DISCLAIMER**

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