

Matrix Concepts (BUY ↔, EPS ↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

November 24, 2017

Price Target: RM2.36 (↔)

Share price: RM2.19

1HFY18 results: Within expectations
Results

- **Within expectations:** Matrix's 1HFY18 core earnings came in at RM97.4m (-1.0% YoY), accounting for 45.6% of ours and consensus full year earnings forecasts, respectively.

Deviation

- None.

Dividends

- Declared interim dividend of 3.25 (2QFY16: 2.60) sen per share, going ex on 20 Dec, bringing YTD dividend to 5.85 (1HFY16: 5.20) sen per share.

Highlights

- **QoQ:** 2QFY18 revenue increased by 17.4% due to higher revenue recognition from both residential and commercial properties. Core PATAMI grew by 13.8% in tandem with higher revenue.
- **YoY:** Revenue declined by 9.8% due to slower revenue recognition from sales of industrial development. However, core PATAMI increased by 11.5% thanks to higher margin achieved from higher premium residential properties.
- **YTD:** Revenue declined by 10.8% due to slower revenue recognition from sales of industrial development. However, core PATAMI was flat (-1.0%) cushioned by higher margin from better product mix.
- New property sales in 2QFY18 achieved RM349.6m (vs RM250.4m 2QFY17), bringing YTD sales to RM644.7m, on course to meet FY18 sales target of RM1.1bn.
- Total unbilled sales remains healthy at RM1.1bn, improved from RM933.3m last quarter, representing 1.5x over FY17 property development revenue.
- More than RM700m GDV worth of project is expected to be launched in FY18, lifting the total ongoing developments from the current RM2.4bn to exceed the RM3.0bn mark.

Forecasts

- Unchanged.

Rating
BUY (↔)

- We continue to like Matrix as it is well-positioned to ride on affordable housing theme (majority products are below RM600k) within its successful township. HSR is a long-term catalyst and its dividend yield is one of the highest in the sector.

Valuation

- Maintain **BUY** with unchanged TP of **RM2.36** based on unchanged 20% discount to RNAV of RM2.95.

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KLCI	1721.3
Expected share price return	7.8%
Expected dividend return	5.4%
Expected total return	13.2%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	742
Market cap (RMm)	1,624
3-mth avg volume ('000)	834
SC Syariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute %	-3.1	-0.5	11.3
Relative %	-2.3	2.7	5.0

Major shareholders (%)

Lee Tian Hock	15.6
Shining Term Sdn Bhd	14.3

Summary Earnings Table

FYE Mar (RM m)	2017A	2018E	2019F	2020F
Revenue	775	799	1,057	1,222
EBITDA	277	307	403	432
Norm. net profit	185	213	284	304
Norm. EPS (sen)	32.4	29.8	39.7	42.5
Norm. PER (x)	6.8	7.3	5.5	5.1
BVPS (RM)	1.8	1.6	1.8	2.1
P/B (x)	1.2	1.4	1.2	1.0
ROA (%)	23.3	23.6	26.8	26.4
ROE (%)	18.1	18.5	21.5	20.2
DPS	13.8	11.9	15.9	17.0
Yield (%)	6.3	5.5	7.2	7.8

HLIB

Figure #1 Quarterly results comparison

FYE March	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	Comments
Revenue	224.9	172.9	202.9	17.4	(9.8)	QoQ: Higher revenue recognition from sales of residential and commercial properties. YoY: Fell due to slower revenue recognition from sales of industrial development.
Cost of Sales	(130.5)	(70.9)	(94.1)	(32.6)	27.9	
Gross profit	94.3	101.9	108.8	6.8	15.4	QoQ: Flow down from higher revenue, partially offset by lower margin. YoY: Higher margin from better product mix such as higher premium residential properties.
Selling and marketing expenses	(4.4)	(9.2)	(4.9)	46.8	(10.7)	QoQ: High base due to additional property roadshows and advertisement for increased publicity in 1QFY18
Administrative expenses	(26.9)	(29.3)	(33.8)	(15.2)	(25.6)	
Other Income	0.3	0.3	0.9	210.3	153.5	
Operating Profit	63.3	63.7	71.0	11.5	12.2	
Interest Income	0.4	0.5	0.6	26.8	65.1	
Finance costs	(0.9)	(2.2)	(0.7)	69.9	26.2	
Net Interest	(0.5)	(1.7)	(0.0)	98.5	95.1	
JV						
Profit before taxation (PBT)	62.8	62.0	71.0	14.5	13.0	
Income tax expense	(16.4)	(16.4)	(19.2)	(16.7)	(17.3)	
MI						
PATAMI	46.5	45.6	51.8	13.8	11.5	Filtered down from PBT.
EI	-	-	-	-	-	
Core PATAMI	46.5	45.6	51.8	13.8	11.5	

Company: HLIB

Figure #2 Cumulative results comparison

FYE March	1HFY17	1HFY18	YoY (%)	Comments
Revenue	421.1	375.8	(10.8)	Fell due to slower revenue recognition from sales of industrial properties.
Cost of Sales	(221.1)	(165.0)	25.4	
Gross profit	199.9	210.8	5.4	Higher margin from better product mix such as higher premium residential properties.
Selling and marketing expenses	(10.1)	(14.1)	(40.1)	
Administrative expenses	(56.5)	(63.1)	(11.7)	
Other Income	0.7	1.2	59.5	
Operating Profit	134.1	134.7	0.5	
Interest Income	0.8	1.1	40.3	
Finance costs	(1.6)	(2.8)	(74.5)	
Net Interest	(0.8)	(1.7)	(107.9)	
JV	-	-	-	
Profit before taxation (PBT)	133.3	133.0	(0.2)	Filtered down from gross profit.
Income tax expense	(34.9)	(35.6)	(2.2)	
MI	-	-	-	
PATAMI	98.4	97.4	(1.0)	Filtered down from PBT.
EI	-	-	-	
Core PATAMI	98.4	97.4	(1.0)	

Company: HLIB

Figure #3 1HFY18 Results vs. HLIB's Estimates and Consensus

	Actual 1HFY18	HLIB FY18	Actual vs. HLIB (%)	Consensus FY18	Actual vs. Consensus (%)	Comments
Revenue	375.8	799.3	47.0	890.8	42.2	In-line
Normalised PAT	97.4	213.5	45.6	213.6	45.6	In-line

Company Data, HLIB, Bloomberg

Figure #4 HLIB vs. Consensus

RMm	2018E			2019F		
	HLIB	Consensus	%	HLIB	Consensus	%
Revenue	799.3	890.8	-10.3	1057.2	979.6	7.9
Normalised PAT	213.5	213.6	0.0	283.8	242.4	17.1

HLIB; Bloomberg

Figure #5 RNAV table

Projects	Stake (%)	NPV (RM m)
Ongoing		
BSS	100%	4.3
TSI	100%	2.8
STV 1 and 2	100%	73.0
Unbilled Sales	100%	110.6
Future		
BSS	100%	688.8
TSI	100%	148.4
STP	100%	63.4
STV 3	100%	41.0
Residency SIGC	100%	27.3
Kota Gadong Perdana	100%	171.6
KL High Rise Mixed Development	100%	-
Lobak Commercial Centre	100%	5.0
Carnegie, Australia	100%	17.3
NPV		1,353.5
Shareholder Funds as of 4Q17		1,025.6
Net cash/(debt) as of 4Q17		(156.9)
RNAV		2,222.1
Wa proceed		185.6
Total RNAV		2,407.7
Total Diluted Shares		817.4
RNAV/share		2.95
Discount		20%
Discounted RNAV		1,926.2
Discounted RNAV/Share		2.36

Company, HLIB

Figure #6 Peer Comparison

Company	Current	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)	P/B (x)		Dividend Yield	
	Px						CY18	CY17	CY18	CY17	CY18
IOI PROPERTIES	1.99	Buy	2.54	28%	10,957.2	(49.1)	10.7	0.6	0.5	3.0	3.0
SP SETIA BHD	3.39	Buy	4.00	18%	10,245.8	(40.6)	14.8	1.1	1.1	5.1	4.4
SUNWAY BHD	1.61	Buy	2.25	40%	7,856.3		12.3	1.0	0.9	3.7	4.0
UEM SUNRISE BHD	1.06	Hold	1.18	11%	4,809.7	(63.9)	22.1	0.7	0.7	1.2	1.5
MAH SING GROUP	1.54	Hold	1.57	2%	3,734.2	(36.1)	8.5	1.0	1.0	4.0	5.2
MATRIX CONCEPTS	2.20	Buy	2.36	7%	1,631.4	(25.4)	5.5	1.4	1.2	5.4	7.2
TAMBUN	1.01	Hold	1.39	38%	437.6	(56.7)	5.1	1.4	1.5	7.0	7.4
IBRACO BHD	0.88	Buy	1.00	14%	436.8	(40.9)	6.9	1.4	1.5	4.0	4.0
ECO WORLD DEVELO	1.47	NR			4,328.2	(36.1)	17.2	1.0	0.9	-	-
Average						(43.6)	11.5	1.1	1.0	3.7	4.1

HLIB; Bloomberg

Financial Projections for Matrix Concepts (TP: RM2.36)**Income statement**

FYE 31 Mar (RM m)	2016A*	2017A	2018F	2019F	2020F
Revenue	912	775	799	1,057	1,222
Operating cost	(543)	(498)	(492)	(654)	(790)
EBITDA	369	277	307	403	432
D&A	(10)	(9)	(11)	(11)	(12)
Net Interest	(4)	(8)	(4)	(3)	(3)
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
Pretax profit	356	260	292	389	417
Taxation	(95)	(75)	(79)	(105)	(113)
Minority Interest	-	-	-	-	-
PATAMI	261	185	213	284	304
Core Earning	261	185	213	284	304
Basic shares (m)	564	572	715	715	715
Basic EPS (sen)	46.2	32.4	29.8	39.7	42.5

Balance sheet

FYE 31 Mar (RM m)	2016A*	2017A	2018F	2019F	2020F
Fixed assets	219	236	255	274	291
Other long-term assets	7	11	11	11	11
Other short-term assets	0	0	0	0	0
Working capital	499	645	663	877	1,014
Receivables	180	267	275	364	421
Payables	166	214	219	290	335
Inventory	152	164	169	223	258
Net cash / (debt)	(127)	(157)	(81)	(86)	(103)
Cash	78	117	193	188	171
ST debt	97	93	93	93	93
LT debt	108	181	181	181	181
Shareholders' funds	885	1,024	1,152	1,322	1,505
Share capital	564	577	577	577	577
Reserves	321	447	575	745	928
Minorities	-	-	-	-	-
Other liabilities	(287)	(289)	(304)	(247)	(292)

Summary Earnings Table

Revenue	912	775	799	1,057	1,222
EBITDA	369	277	307	403	432
Net profit	261	185	213	284	304
P/E (x)	4.7	6.8	7.3	5.5	5.1
BV / share	1.6	1.8	1.6	1.8	2.1
P/BV (x)	1.4	1.2	1.4	1.2	1.0
ROA (%)	41.0	23.3	23.6	26.8	26.4
ROE (%)	29.5	18.1	18.5	21.5	20.2

*15M of financial result as financial year end change from Dec to Mar

Cashflow

FYE 31 Mar (RM m)	2016A*	2017A	2018F	2019F	2020F
EBIT	360	268	296	391	420
D&A	10	9	11	11	12
Working capital changes	(334)	(154)	(33)	(157)	(182)
Taxation	(95)	(75)	(79)	(105)	(113)
Others	(8)	9	(7)	(8)	(8)
Operating cashflow	(69)	53	188	133	130
Capex & acquisitions	(40)	(25)	(30)	(30)	(30)
Free cashflow	(110)	29	158	103	100
Others	3	(3)	3	6	5
Investing cashflow	(37)	(28)	(27)	(24)	(25)
Equity Raised	67	22	0	0	0
Others	0	0	0	0	1
Net Borrowing	132	57	-	-	-
Financing cashflow	94	(4)	(85)	(114)	(122)
Net cashflow	(13)	22	76	(5)	(17)

Valuation ratios

Net DPS (sen)	18.8	13.8	11.9	15.9	17.0
FCF/ share (sen)	-19.4	5.1	22.1	14.4	13.9
FCF yield (%)	-8.9	2.3	10.1	6.6	6.4
Market capitalization (m)	1,236	1,253	1,567	1,567	1,567
Net cash (m)	(127)	(157)	(81)	(86)	(103)
Enterprise value	1,362	1,410	1,648	1,653	1,670
EV/ EBITDA (x)	3.7	5.1	5.4	4.1	3.9

Growth margins ratios

Growth (%)					
Sales Growth	52.3	(15.0)	3.1	32.3	15.6
Operating expenses	54.4	(8.2)	(1.2)	32.9	20.7
EBITDA Growth	49.4	(25.1)	10.9	31.3	7.2
PBT Growth	45.4	(26.8)	12.3	32.9	7.2
PATMI	43.1	(29.0)	15.2	32.9	7.2
Basic EPS Growth	15.6	(30.0)	(7.8)	32.9	7.2

Margins (%)

EBITDA Margin	40.5	35.7	38.4	38.1	35.4
PBT Margin	39.0	33.6	36.6	36.8	34.1
PATMI	28.6	23.9	26.7	26.8	24.9

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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