

27 February 2014

Matrix Concepts Enhancing Land Value

We attended MATRIX's post-result briefing and came away positively affirmed on its prospects due to the following factors: (i) demand for affordable housing in Seremban has stayed resilient despite recent cooling measures for the property sector, (ii) strong demand for industrial properties which will benefit their Sendayan Tech Valley (STV) development, and (iii) it is continuously creating value for their township which could translate into better margins for the group in the future. The group is also on the lookout for industrial land as their STV landbank will only last 2-3 years. Since the company is comfortably in a net cash position, it has sufficient gearing headroom to landbank another fresh GDV of RM1.0b. We make no major changes to our earnings forecasts. At current levels, FY14E and FY15E dividend yields are attractive at 6.6% and 7.5%, respectively. Maintain OP with an unchanged TP of RM4.80.

Still focused on the affordable mass housing play. MATRIX has planned new residential and commercial project launches in FY14 with GDV close to RM700m. This excludes some RM416m worth of 'ready for sale' or completed projects, of which a major bulk is the STV industrial lots. Management continues to target buyers from the Klang Valley where affordability has become a big issue for the masses. Thus, they plan on increasing the Klang Valley-based buyers portion from 40% in FY13 to 50% in FY14 through more marketing and advertising campaigns in Klang Valley by creating awareness on the convenience of commuting between Seremban and Klang Valley by highlighting the tolerable travelling distance (approx. 50 mins). The company is also maintaining their affordable selling price tags of RM400k-500k/unit which are achievable "aspirations". Key projects in Bandar Sri Sendayan (BSS) include: (i) RM500k/unit for a 22x80 landed property with an average built up of 2700sf (Hijayu 1A), (ii) RM400k for a 20x80 landed property with an average built up of 2300sf (Hijayu 3A). Management did say that the impact of the government's property cooling measures on the sector could be felt as buyers are taking a 'wait and see' approach. However, this should not be a major concern for MATRIX given that they are catering to genuine buyer-occupiers with their affordable housing offerings.

Value creation and enhancement. We understand that the company is focusing on creating more value for its landbank by attracting more foreign-based high-impact industries into STV, increasing commercial activities via new retail contents and township amenities (refer below). Currently, Akashi Kikai and Hino Motor have started operations. To recap, during the initial phase of STV, land was priced at RM12psf before investments flowed in from high-impact industries. However, since the likes of Hino Motor, Messier Buggatti-Dowty, Akashi-Kikai started operations in STV, land prices have soared to RM40psf. Currently, the group has a balance of 243.7acres of landbank in STV, of which c. 200ac will be sold on an industrial lot basis over the next 2-3 years. The balance will be held back for later developments into semi-industrial lots, which will fetch higher returns and will be a good catchment of supporting industries catering to those in STV.

Matrix Global School and d'Tempat Country Club are part of the value-add activities to BSS. The group had set out a total capex requirement of RM190m for both these properties with RM130m for Matrix Global School and RM60m for d'Tempat Country Club. Having incurred RM66m capex on both of these properties in FY13, we would be expecting the balance RM124m to be incurred over the next 1.5 years. Its Matrix Global School is expected to be completed by year-end and commence operations by Jan-15.

More landbanking? The group has sufficient land for township development in Seremban from its acquisition of Labu and Rasah lands. However, the group is on the lookout for more industrial landbanks in the area. Based on their comfortable net cash position of 0.1x at 4Q13 and taking into account their CAPEX commitment, we believe the group can afford to spend c. RM100m on new landbanks while maintaining a net gearing ratio of less than 0.3x. Assuming land cost is 10% of GDV, this will add RM1b GDV to their remaining GDV of RM7.9b.

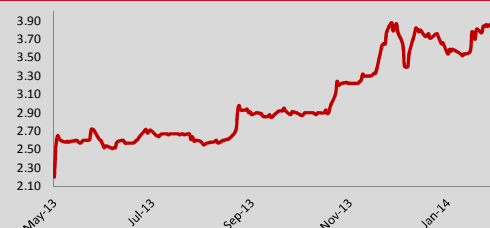
Maintain FY14E net profit based on sales assumptions of RM806m. For FY13, the group paid out 59% of net profit for dividends, which amounted to 30.4 sen per share; but it did include profits from the previous year as the company was only listed on 28th May 2013. The company has a minimum dividend policy of 40%. Going forward, we expect the group to pay out 45% of net profit or 25 sen dividend per share (6.6% yield) which we expect will be distributed on a quarterly basis.

Reiterate OUTPERFORM with unchanged TP of RM4.80 based on 20% discount to its DCF-driven RNAV @ 10% WACC. We continue to like MATRIX for its strong affordable housing market exposure, which will continue to enjoy resilient demand, low land cost which provides them a margin edge, industrial property exposure, which is enjoying a boom in Seremban given its proximity to Klang Valley. Furthermore, at current level, FY14-15E dividend yields are attractive at 6.6%-7.5%.

OUTPERFORM ↔

Price: RM3.78
Target Price: RM4.80 ↔

Share Price Performance



KLCI	1,822.55
YTD KLCI chg	-2.4%
YTD stock price chg	10.9%

Stock Information

Bloomberg Ticker	MCH MK Equity
Market Cap (RM m)	1,140.3
Issued shares	301.7
52-week range (H)	3.91
52-week range (L)	2.17
3-mth avg daily vol:	745,838
Free Float	59%
Beta	N.A.

Major Shareholders

HOCK LEE TIAN	19.9%
SHINING TERM SDN BHD	16.0%
SUPREME INTEREST SDN	5.0%

Summary Earnings Table

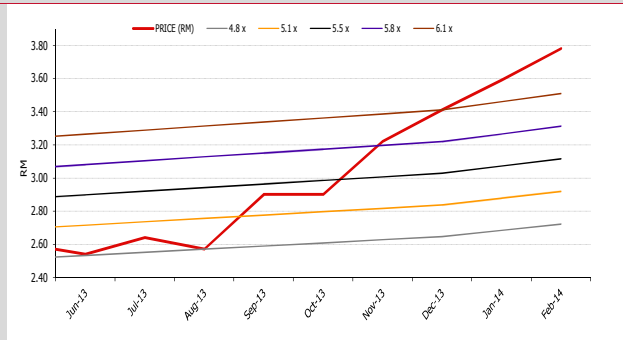
FYE Dec (RM m)	2013A	2014E	2015E
Turnover	574.7	647.3	725.1
EBIT	208.6	226.7	257.8
PBT	207.2	225.9	256.6
Net Profit (NP)	152.9	167.2	190.2
Consensus (CNP)	n.a.	162.7	202.8
Earnings Revision	n.a.	0.0%	-3.0%
EPS (sen)	50.8	55.5	63.2
EPS growth (%)	48%	9%	14%
NDPS (sen)	30.4	25.0	28.4
BV/Share (RM)	1.83	2.14	2.49
PER (x)	7.4	6.8	6.0
Price/BV (x)	2.1	1.8	1.5
Net Gearing (x)	(0.12)	0.07	0.04
Dividend Yield (%)	8.0	6.6	7.5

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Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM'm)	2011A	2012A	2013A	2014E	2015E
Revenue	624.3	456.1	574.7	647.3	725.1	Growth					
EBITDA	108.9	146.1	211.2	231.0	263.0	Turnover (%)	219%	-27%	26%	13%	12%
Depreciation	(2.0)	(2.3)	(2.6)	(4.3)	(5.2)	EBITDA (%)	232%	34%	45%	9%	14%
Operating Profit	106.9	143.8	208.6	226.7	257.8	Operating Profit (%)	245%	34%	45%	9%	14%
Interest Exp	(0.6)	(1.0)	(1.4)	(0.8)	(1.2)	PBT (%)	255%	34%	45%	9%	14%
PBT	106.3	142.8	207.2	225.9	256.6	Core Net Profit (%)	238%	49%	48%	9%	14%
Taxation	(26.4)	(39.3)	(54.3)	(58.7)	(66.4)	Profitability					
Minority Interest	(10.5)	0.0	0.0	0.0	0.0	EBITDA Margin	17%	32%	37%	36%	36%
Net Profit	69.4	103.5	152.9	167.2	190.2	Operating Margin	17%	32%	36%	35%	36%
Core Net Profit	69.4	103.5	152.9	167.2	190.2	PBT Margin	17%	31%	36%	35%	35%
						Core Net Margin	11%	23%	27%	26%	26%
						Effective Tax Rate	25%	28%	25%	26%	26%
						ROA	12%	17%	19%	17%	16%
						ROE	32%	29%	30%	28%	27%
						DuPont Analysis					
						Net Margin (%)	11%	23%	27%	26%	26%
						Leverage Factor (x)	2.1	1.5	1.6	1.7	1.7
						ROE (%)	32%	29%	30%	28%	27%
						Leverage					
						Debt/Asset (x)	0.03	0.01	0.06	0.14	0.13
						Debt/Equity (x)	0.07	0.02	0.09	0.24	0.21
						(Net Cash)/Debt	306.8	(75.6)	(96.7)	38.0	25.1
						Net Debt/Equity (x)	0.01	(0.16)	(0.12)	0.07	0.04
						Valuations					
						EPS (sen)	23.0	34.4	50.8	55.5	63.2
						NDPS (sen)	6.7	8.6	30.4	25.0	28.4
						BVPS (RM)	0.79	1.57	1.83	2.14	2.49
						PER (x)	16.4	11.0	7.4	6.8	6.0
						N. Div. Yield (%)	1.8	2.3	8.0	6.6	7.5
						PBV (x)	4.8	2.4	2.1	1.8	1.5
						EV/EBITDA (x)	n.a.	n.a.	5.1	5.1	4.4

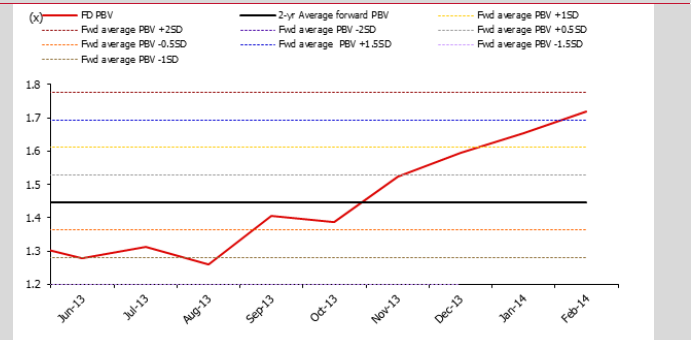
Source: Kenanga Research

Fwd PER Band



Source: Kenanga Research

Fwd PBV Band



NAME	Price (26/02/14)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY13/14 NP Growth (%)	FY14/15 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY12/13	FY13/14	FY14/15				FY12/13	FY13/14	FY14/15	(%)	(%)		
DEVELOPERS UNDER COVERAGE															
UEM Sunrise*	2.10	9,529	20.8	15.8	14.8	1.9%	10.2%	1.5	459.1	603.3	643.1	31.4%	6.6%	2.60	OUTPERFORM
IOI Properties	2.57	8324	15.4	14.4	11.7	0.7%	5.2%	0.8	538.9	580.0	711.4	7.6%	22.7%	3.68	OUTPERFORM
SP Setia	2.90	7,130	17.1	16.0	11.3	3.8%	8.7%	1.1	400.2	446.7	633.0	11.6%	41.7%	3.03	MARKET PERFORM
Sunway Berhad	2.88	4964	12.6	10.9	9.2	3.3%	16.1%	1.1	393.9	456.0	539.9	15.8%	18.4%	3.08	OUTPERFORM
IJM Land*	2.57	4,006	20.4	13.7	10.9	1.9%	8.5%	1.2	196.1	292.6	368.8	49.3%	26.0%	3.15	OUTPERFORM
Mah Sing Group	2.05	2,898	10.1	8.4	6.9	4.5%	19.9%	1.5	230.6	275.5	335.5	19.5%	21.8%	2.56	OUTPERFORM
UOA Development*	2.00	2,678	7.8	7.4	7.2	7.0%	16.0%	1.0	344.6	361.0	371.2	4.8%	2.8%	2.10	OUTPERFORM
Matrix Concepts	3.78	1,140	7.4	6.8	6.0	6.6%	29.8%	1.8	152.9	167.2	196.1	9.4%	17.3%	4.80	OUTPERFORM
Crescendo*	2.92	664	11.9	8.0	7.0	5.3%	9.7%	0.9	55.7	83.6	95.3	50.1%	14.0%	4.00	OUTPERFORM
Hua Yang	1.83	483	6.9	6.3	4.7	6.0%	23.5%	1.2	70.5	76.6	102.9	8.7%	34.4%	2.33	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.82	4,056	35.6	N.A.	N.A.	N.A.	2.2%	0.8	114.0	N.A.	N.A.	N.A.	N.A.	0.93	BUY
IGB CORPORATION BHD	2.63	3,546	17.5	16.1	15.5	2.7%	4.7%	0.9	202.4	219.8	229.2	8.6%	4.3%	3.55	BUY
YNH PROPERTY BHD	1.78	740	17.3	11.5	10.2	2.8%	5.6%	0.9	42.7	64.5	72.8	50.9%	12.9%	1.78	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.89	738	33.3	46.8	40.5	N.A.	2.5%	0.7	22.1	15.8	18.2	-28.8%	15.8%	1.00	NEUTRAL
GLOMAC BHD	1.10	799	6.7	6.0	5.3	5.0%	14.8%	0.9	119.0	133.7	151.2	12.4%	13.0%	1.23	BUY
KSL HOLDINGS BHD	2.42	935	5.4	5.5	6.2	1.2%	19.1%	0.7	172.5	170.0	150.7	-1.5%	-11.4%	2.04	BUY
PARAMOUNT CORP BHD	1.59	537	10.2	9.4	8.4	5.7%	7.5%	0.8	52.6	57.4	64.2	9.2%	11.8%	1.71	BUY
IVORY PROPERTIES GROUP BHD	0.63	278	49.2	N.A.	8.9	N.A.	1.5%	0.7	5.7	N.A.	31.2	N.A.	N.A.	N.A.	BUY
TAMBUN INDAH LAND BHD	1.74	687	8.9	7.6	5.5	4.8%	22.0%	2.1	77.2	90.8	124.3	17.6%	37.0%	1.86	BUY
Source: Kenanga Research															

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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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