

**Matrix Concepts (BUY↔, EPS ↔)**

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

February 16, 2015

Price Target: RM3.30 (↔)

Share price: RM2.93

**Sustainable Growth for 2015**
**Highlights**

- We attended MCHB's briefing and below are the key takeaways:
- Bandar Sri Sendayan (BSS) remains the largest contributor to the group. The township launched RM575m worth of projects throughout FY14 with average take-up rate of 76.1% of its going projects. Lower take-up was due to progressive take-up rates from its new launches (Hijayu 3A, phase 3 and 4).
- Matrix plans to promote its private and international schools once the final portion of the development is complete in May 2015. In order to breakeven, the group has to have at least 1,000 students enrolled, of which management do not see difficulties in reaching that by end-FY15.
- We believe Matrix's future earnings growth is sustainable given its large landbank of more than 1,300 acres to be developed across 8 years (est. GDV of RM6.4bn). For FY15 alone, the group targets to launch RM1.1bn worth of projects.
- With high-capex phase coming to an end (development of school and clubhouse), Matrix guided that capex for FY15 would be low at approximately RM20-30m. Management assured that dividend policy of minimum 40% remains intact.
- The group targets RM700m worth of sales for FY15 (flattish yoy), of which RM600 would be under residential and commercial and remaining RM100m for industrial land sales. However, management is positive that Matrix would be able to surpass the RM100m sales target for land sales.
- To meet regulations for low-cost housing developments, Matrix plans to purchase a 20-acre land by end-2015 to develop 600 units of landed low-cost houses across 3 years. Due to lower house prices, management shared that the group could incur losses of RM9m cumulatively for the mentioned 600 units.
- However, we do not see this as a significant setback and this could potentially be offset by the higher margins fetched by its upcoming projects which comprises more mid- to high-end developments.
- Maintained.

**Forecasts**
**Rating**
**BUY ↔**

- **Positives:** 1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; (3) Undemanding FY15E P/E; and (4) Still attractive FY15E DY.
- **Negatives:** Lack of landbank diversification means the company's fate is completely tied to that of Seremban.
- We maintain our TP at **RM3.30** (unchanged 30% discount to RNAV), which implies FY15E P/E of 7.9x.

**Valuation**
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KLCI	1,818.4
Expected share price return	29.4%
Expected dividend return	5.5%
Expected total return	34.9%

**Share price**

**Information**

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	456.9
Market cap (RMm)	1,320.6
3-mth avg volume ('000)	741.0
SC Syariah-compliant	Yes

<b>Price Performance</b>	1M	3M	12M
Absolute %	4.7	-11.3	41.7
Relative %	3.0	-9.0	40.2

**Major shareholders (%)**

Lee Tian Hock	18.6
Shining Term Sdn Bhd	15.9
Supreme Interest Sdn Bhd	5.0

**Summary Earnings Table**

FYE 31 Dec	2013A	2014A	2015E	2016E
<b>(RM m)</b>				
Revenue	574.7	598.3	689.3	955.3
Rep net profit	152.9	182.6	190.4	255.0
Norm. net profit	152.9	182.6	190.4	255.0
Norm. EPS (sen)	50.8	48.9	41.6	55.8
EPS growth (%)	16.5	-3.7	-6.5	34.0
Norm. PER (x)	5.8	6.0	7.0	5.3
FD PER (x)	5.8	6.3	7.0	5.3
Net DPS (sen)	20.6	17.3	16.7	22.3
Div yield (%)	7.0	5.9	5.7	7.6
BVPS (RM)	1.8	1.8	1.7	2.0
P/B (x)	1.6	1.6	1.7	1.5

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**Figure #1 RNAV table**

Project profits - DCF				RMm
<b>Sendayan</b>				
- Residential				321.55
- Commercial				716.28
- On-going				8.90
<b>Seremban (ex-Sendayan)</b>				
- Residential				105.89
- Commercial				1.54
<b>Johor</b>				
- Residential				51.90
- Commercial				27.90
- On-going				4.75
Unbilled Sales				46.23
<b>Landbank revaluation surplus</b>				
		<b>Mkt price</b>	<b>Book value</b>	
	<b>Acres</b>	<b>(RM psf)</b>	<b>(RM psf)</b>	
Sendayan Tech Valley	200.00	45.00	9.00	313.63
<b>Total Surplus</b>				<b>1,598.57</b>
Total Equity				582.00
<b>Total RNAV</b>				<b>2,180.57</b>
Shares outstanding (m)				457.22
<b>RNAV per share (RM)</b>				<b>4.77</b>
ESOS proceeds *				35.46
Diluted share base (m)				469.82
<b>Diluted RNAV per share (RM)</b>				<b>4.72</b>
Discount to RNAV				30.0%
<b>Target Price (RM)</b>				<b>3.30</b>

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## Financial Projections for Matrix Concepts (TP: RM3.30)

### Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
<b>Revenue</b>	<b>456.1</b>	<b>574.7</b>	<b>598.3</b>	<b>689.3</b>	<b>955.3</b>
COGS	-263.3	-305.0	-274.7	-352.0	-478.4
<b>Gross profit</b>	<b>192.7</b>	<b>269.7</b>	<b>323.6</b>	<b>333.9</b>	<b>448.6</b>
Opex	-46.6	-64.9	-74.2	-76.5	-105.0
Depreciation	-2.3	0.0	-3.0	-2.0	-2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Finance costs	-1.0	-1.4	-1.7	-0.9	-0.9
Associates	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>142.8</b>	<b>207.2</b>	<b>244.8</b>	<b>258.0</b>	<b>345.6</b>
Taxation	-39.3	-54.3	-62.1	-67.6	-90.6
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>103.5</b>	<b>152.9</b>	<b>182.6</b>	<b>190.4</b>	<b>255.0</b>
Basic shares (m)	237.5	301.2	373.3	457.2	457.2
<b>Basic EPS (sen)</b>	<b>43.6</b>	<b>50.8</b>	<b>48.9</b>	<b>41.6</b>	<b>55.8</b>

### Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Inventories	2.4	1.6	2.1	0.6	0.8
Trade & other rec	101.0	140.8	79.5	82.0	113.6
Cash	168.2	115.9	96.9	93.3	170.4
<b>Current Assets</b>	<b>679.4</b>	<b>702.1</b>	<b>744.7</b>	<b>619.7</b>	<b>728.6</b>
PPE	11.5	11.9	183.9	204.9	299.8
Investment properties	1.4	67.7	1.1	67.7	67.7
Development props	30.3	111.9	60.4	111.9	111.9
<b>Total assets</b>	<b>724.6</b>	<b>900.5</b>	<b>996.2</b>	<b>1,010.9</b>	<b>1,214.8</b>
Shr Holder funds	479.4	552.4	686.0	767.8	920.8
<b>Total Equity</b>	<b>479.4</b>	<b>552.4</b>	<b>686.0</b>	<b>767.8</b>	<b>920.8</b>
Long-term borrowings	17.6	15.3	35.8	17.6	17.6
Short-term borrowings	3.9	35.2	42.3	0.0	0.0

### Assumption metrics

FYE 31 Dec (RM m)	2015E	2016E
Gross margin	48.4	47.0
PBT margin	37.4	36.2
Net margin	27.6	26.7

### Valuation ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Reported basic EPS (sen)	43.6	50.8	48.9	41.6	55.8
Norm. basic EPS (sen)	43.6	50.8	48.9	41.6	55.8
Norm. FD EPS (sen)	43.6	50.8	46.3	41.6	55.8
Price	2.9	2.9	2.9	2.9	2.9
PER (x)	6.6	5.7	6.0	6.9	5.2
Net DPS (sen)	0.0	20.6	17.3	16.7	22.3
Net DY (%)	0.0	7.2	5.9	5.8	7.7
NTA/ share (sen)	201.9	183.4	183.8	167.9	201.4
P/NTA (x)	1.4	1.6	1.6	1.7	1.4
Enterprise value	537.2	802.0	1,075.1	1,241.0	1,164.0
EV/ EBITDA (x)	3.7	3.8	4.3	4.8	3.4
ROE (%)	21.6	27.7	26.6	24.8	27.7
Net gearing (x)	-0.3	-0.1	0.0	-0.1	-0.2
BVPS (RM)	2.0	1.8	1.8	1.7	2.0

### Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
PAT	103.5	152.9	182.6	190.4	255.0
Depreciation	2.3	0.0	-3.0	2.0	2.0
Amortisation	0.0	0.0	0.0	0.0	0.0
Working cap & others	-10.9	18.5	-49.6	3.1	19.0
<b>Operating cashflow</b>	<b>94.9</b>	<b>171.4</b>	<b>130.0</b>	<b>195.5</b>	<b>276.1</b>
Capex	-100.0	-100.0	-109.8	-98.0	-97.0
<b>Investing Cashflow</b>	<b>-100.0</b>	<b>-100.0</b>	<b>-93.2</b>	<b>-98.0</b>	<b>-97.0</b>
Issue of shares	0	0	0	0	0
Dividends	0	-94	-78	-76	-102
Others	0	0	31	0	0
<b>Financing cashflow</b>	<b>0.0</b>	<b>-98.1</b>	<b>-46.9</b>	<b>-76.1</b>	<b>-102.0</b>
<b>Net cash flow</b>	<b>-5.1</b>	<b>-26.7</b>	<b>-10.1</b>	<b>21.3</b>	<b>77.1</b>

### Quarterly financial summary

FYE 31 Dec (RM m)	4Q13	1Q14	2Q14	3Q14	4Q14
<b>Revenue</b>	<b>144.3</b>	<b>134.7</b>	<b>163.7</b>	<b>148.8</b>	<b>151.0</b>
Cost of sales	-65.9	-66.9	-89.2	-65.1	-53.5
<b>Gross profit</b>	<b>78.5</b>	<b>67.8</b>	<b>74.6</b>	<b>83.8</b>	<b>97.5</b>
Selling and mktg expenses	-2.9	-3.4	-2.6	-3.2	-3.3
Administrative expenses	-20.2	-10.7	-13.9	-22.2	-21.4
Operating Profit	57.0	54.4	58.9	58.9	74.2
Pretax profit	56.4	54.0	58.6	58.5	73.8
<b>Net profit</b>	<b>40.7</b>	<b>38.6</b>	<b>42.4</b>	<b>45.1</b>	<b>56.5</b>
Basic shares (m)	300.8	301.8	303.5	428.4	457.0
Basic EPS (sen)	13.5	12.8	14.0	10.5	12.4
DPS (sen)	5.0	5.0	3.8	3.8	6.5
FCF/ share (sen)	-37.4	28.4	-14.2	-2.7	7.7
Net cash/ share (sen)	21.6	26.8	8.5	0.0	4.1

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<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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