

Matrix Concepts (BUY↔, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

February 13, 2015

Price Target: RM3.30 (↑)

Share price: RM2.90

FY14 Results Above Expectations
Results

- **Within Expectations:** Matrix's FY14 reported PATAMI of RM182.6m came in above expectations, accounting for 111.6% and 110.0% of ours and consensus' full year earnings, respectively.

Deviations

- Wider-than-expected margins from latest development properties launched.

Dividends

- Declared forth interim dividend of 5.25 sen/share as well as a special dividend of 1.25 sen/share, totalling FY14 dividend to 17.3 sen/share. This represents payout and yield of 35.4% and 6.0%, respectively.

Highlights

- **Yoy:** Revenue and PATAMI continued to record healthy growth on the back of higher sales in higher margins' residential and commercial property developments.
- **Qoq:** Revenue grew marginally by 1.5% from the group's recognition of land sale. In addition, the improved margins fetched by its recently launched development properties have resulted the group's PATAMI to grow further by 25.4% qoq.
- Matrix highlighted that it launched Hijayu 3A (phase 4) in 4QFY14 and targets to launch Hijayu 2 (Phase 1), Sendayan Merchant Square Shop Offices (Phase 1) and d'Tempat Country Club in 1QFY15. Matrix International School and matrix Private School has started operations in Sept 2014 and Jan 2015 respectively.
- We gathered that total new sales for FY14 was RM630.2m, of which RM208.7m were done in 4QFY14 (quarterly sales illustrated in Figure 4).
- As at FY14, the group's total unbilled sales stands at RM429.3m, representing 0.95x of FY14's property development revenue.

Forecasts

- FY15-16 forecasts are raised slightly by 3-4% on the back of better margins on the group's latest launched developments (Hijayu 3A in Bandar Sri Sendayan).

Rating
BUY ↔

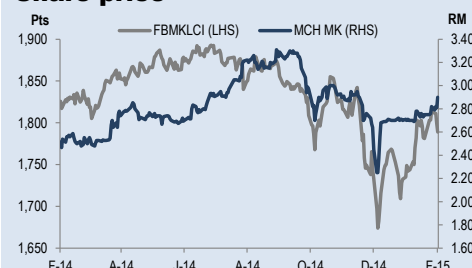
- **Positives:** 1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; (3) Undemanding FY15E P/E of 7.9x vs. more than 12-19x for mid to large-cap developers; and (4) Still attractive FY15E DY of 5.6%, based on 40% payout ratio.
- **Negatives:** (1) Lack of landbank diversification means the company's fate is completely tied to that of Seremban.

Valuation

- On the back of favourable results, our TP is raised slightly to RM3.30 (previously RM3.27), based on unchanged 30% discount to RNAV. This implies FY15E P/E of 7.9x, remains undemanding vs. 12-18x for mid to large-cap peers. Maintain **BUY**.

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KLCI	1,789.1
Expected share price return	13.8%
Expected dividend return	5.8%
Expected total return	19.6%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	457.9
Market cap (RMm)	1,327.9
3-mth avg volume ('000)	650.1
SC Syariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	7.0	0.0	15.4
Relative %	3.9	1.5	17.4

Major shareholders (%)

Lee Tian Hock	16.4
Shining Term Sdn Bhd	15.8
Supreme Interest Sdn Bhd	5.0

Summary Earnings Table

FYE 31 Dec (RM m)	2013A	2014A	2015E	2016E
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)	5.7	5.9	6.9	5.2
FD PER (x)	5.7	6.2	6.9	5.2
Net DPS (sen)	20.6	17.3	16.7	22.3
Div yield (%)	7.2	6.0	5.8	7.7
BVPS (RM)	1.8	1.8	1.7	2.0
P/B (x)	1.6	1.6	1.7	1.4

HLIB

Figure #1 Quarterly results comparison

FYE Dec	4Q13	3Q14	4Q14	Qoq (%)	Yoy (%)	Comments
Revenue	144.3	148.8	151.0	1.5	4.6	Yoy: Higher revenue on the back of the group's recognition under its land sales segment. Qoq: Higher revenue from higher sales recorded during the quarter.
Cost of Sales	-65.9	-65.1	-53.5	-17.7	-18.7	
Gross profit	78.5	83.8	97.5	16.4	24.3	Yoy: From sales of property developments which commands higher margin. Qoq: Margin expansion from the sale of development properties with better margins.
Other income	1.6	0.7	1.5	>100	-5.2	
Selling and marketing expenses	-2.9	-3.2	-3.3	3.2	16.7	
Administrative expenses	-20.2	-22.2	-21.4	-3.9	6.1	
Operating Profit	57.0	58.9	74.2	26.0	30.3	
Finance costs	-0.6	-0.5	-0.5	-3.2	-21.8	
Profit before taxation (PBT)	56.4	58.5	73.8	26.2	30.8	Filtered down from gross profit.
Income tax expense	-15.7	-13.4	-17.3	29.2	9.6	
Net profit	40.7	45.1	56.5	25.4	39.0	
PATAMI	40.7	45.1	56.5	25.4	39.0	Filtered down from PBT.
Minority interest	0.0	0.0	0.0	NM	NM	
EPS (sen)	9.0	10.5	12.4			
DPS (sen)	3.3	3.8	6.5			

Company; HLIB

Figure #2 Cumulative results comparison

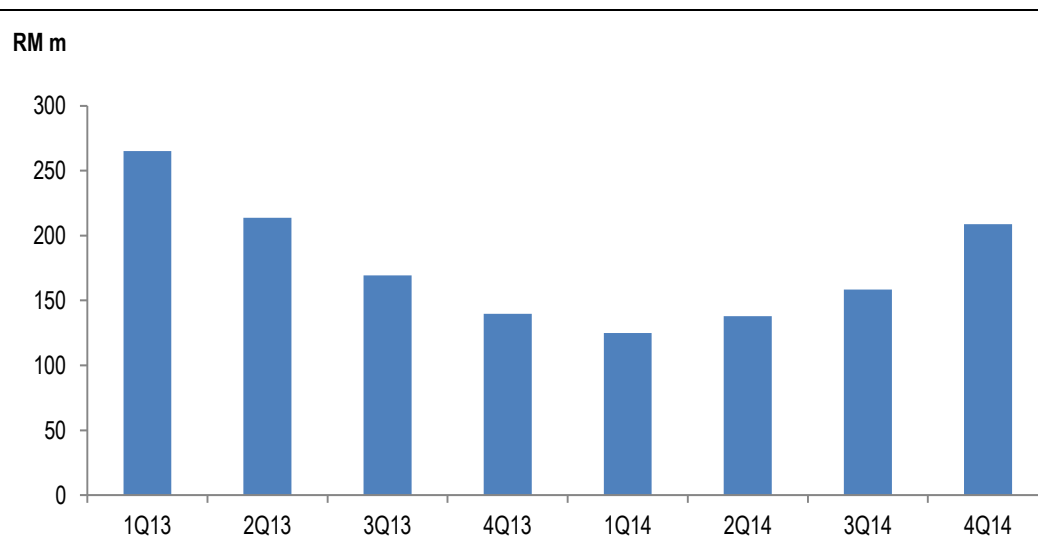
FYE Dec	FY13	FY14	YoY (%)	HLIB	% HLIB	Comments
Revenue	574.7	598.3	4.1	626.0	95.6	In-line
Cost of Sales	-305.0	-274.7	-9.9			
Gross profit	269.7	323.6	20.0			
Other income	3.8	3.6	-5.6			
Selling and marketing expenses	-7.9	-12.5	58.8			
Administrative expenses	-57.0	-68.2	19.6			
Operating Profit	208.6	246.5	18.2			
Finance costs	-1.4	-1.7	26.1			
Profit before taxation	207.2	244.8	18.1	222.0	110.2	Above expectations.
Income tax expense	-54.3	-62.1	14.4			
Net profit	152.9	182.6	19.4			
PATAMI	152.9	182.6	19.4	163.8	111.5	Above expectations.
Minority interest	0.0	0.0	NM			
EPS (sen)	68.0	45.4				
DPS (sen)	20.2	17.3				

Company; HLIB

Figure #3 RNAV table

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

HLIB

Figure #4 Matrix – Quarterly sales

Company; HLIB

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

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	456.1	574.7	598.3	689.3	955.3
COGS	-263.3	-305.0	-274.7	-352.0	-478.4
Gross profit	192.7	269.7	323.6	333.9	448.6
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
Pretax profit	142.8	207.2	244.8	258.0	345.6
Taxation	-39.3	-54.3	-62.1	-67.6	-90.6
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit	103.5	152.9	182.6	190.4	255.0
Basic shares (m)	237.5	301.2	373.3	457.2	457.2
Basic EPS (sen)	43.6	50.8	48.9	41.6	55.8

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
Current Assets	679.4	702.1	744.7	619.7	728.6
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
Total assets	724.6	900.5	996.2	1,010.9	1,214.8
Shr Holder funds	479.4	552.4	686.0	767.8	920.8
Total Equity	479.4	552.4	686.0	767.8	920.8
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	5.9	6.9	5.2
Net DPS (sen)	0.0	20.6	17.3	16.7	22.3
Net DY (%)	0.0	7.2	6.0	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	1,056.4	1,241.0	1,164.0
EV/ EBITDA (x)	3.7	3.8	4.2	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
Operating cashflow	94.9	171.4	130.0	195.5	276.1
Capex	-100.0	-100.0	-109.8	-98.0	-97.0
Investing Cashflow	-100.0	-100.0	-93.2	-98.0	-97.0
Issue of shares	0	0	0	0	0
Dividends	0	-94	-78	-76	-102
Others	0	0	31	0	0
Financing cashflow	0.0	-98.1	-46.9	-76.1	-102.0
Net cash flow	-5.1	-26.7	-10.1	21.3	77.1

Quarterly financial summary

FYE 31 Dec (RM m)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	144.3	134.7	163.7	148.8	151.0
Cost of sales	-65.9	-66.9	-89.2	-65.1	-53.5
Gross profit	78.5	67.8	74.6	83.8	97.5
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
Net profit	40.7	38.6	42.4	45.1	56.5
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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TRADING BUY	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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