

Matrix Concepts (BUY ↔, EPS ↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

February 25, 2016

Price Target: RM2.90 (↔)

Share price: RM2.37

Resilient Township Developer
Results

- **Slightly Above Expectations:** Matrix's 12MFY15 PATAMI increased 17% YoY to RM213m, accounting for 104% and 101% of ours and consensus' full year earnings, respectively.

Deviations

- Better than expected billing recognition.

Dividends

- Declared final dividend of 3.75 sen/share, bringing 12MFY15 total dividend to 14.4 sen/share, translating to 6% yield.

Highlights

- Despite challenging property market outlook, new sales for 4QFY15 amounted to RM194m, bringing 12M15 sales to a record high of RM806m (+28% YoY), beating our full year sales estimate of RM720m.
- Matrix is one of the few developers that manage to exceed their full year sales target. We attribute this to the focus on affordable mass market with pricing range below RM600k coupled with the trend of property development migrating towards KL South region due to scarcity of land in KL Central.
- Suriaman 1 Phase 1 & 2 (average selling price of RM560k onwards) which was launched in 3Q15 and 4Q16 respectively enjoyed good take up rate of 58%. Hijaya 3B also achieved a commendable take up rate of 92% since launched in 2Q15.
- Going into 2016, Matrix targets to launch RM1bn worth of new projects. Kota Gadong Perdana project which comprises of 3200 units of affordable house priced below RM400k to be launched in 3Q16 will help to sustain sales.
- Unbilled sales remain healthy at RM633m representing 0.9x of FY15's property development revenue.
- FY15 earnings were increased by 18% to factor in 15M of financial results due to change in the financial year end from Dec to March.

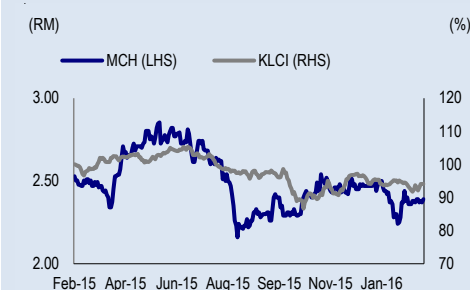
Forecasts
Rating
BUY (↔)

- **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; and (3) Still attractive FY16E DY of 7.2%.
- **Negatives:** (1) Lack of landbank diversification means the company's fate is completely tied to that of Seremban.
- Our TP is maintained at RM2.90 (unchanged 20% discount to RNAV). Maintain **BUY**. Dividend yield is one of the highest in the sector at 7.2%.

Valuation
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KLCI	1,664.2
Expected share price return	22.4%
Expected dividend return	7.2%
Expected total return	29.6%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	461.7
Market cap (RMm)	1,332
3-mth avg volume ('000)	257
SC Syariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	3.0	-3.7	-5.8
Relative %	0.6	-2.9	2.9

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)	2014A	2015*	2016E	2017E
Revenue	599	820	768	808
EBITDA	247	339	317	315
Norm. net profit	182	242	235	233
Norm. EPS (sen)	40	44	43	42
Norm. PER (x)	5.9	5.4	5.6	5.6
BVPS (RM)	1.46	1.50	1.76	2.01
P/B (x)	1.63	1.58	1.35	1.18
ROA (%)	42.1	51.0	36.5	30.6
ROE (%)	27.5	29.3	24.3	21.1
Yield (%)	6.3	6.1	7.2	7.2

HLIB

*15M of financial result

Quarterly results comparison

FYE Dec	4Q14	3Q15	4Q15	Qoq (%)	Yoy (%)	Comments
Revenue	151.0	121.4	141.5	16.6	(6.3)	YoY: Due to decrease in contribution from the sales of industrial properties and sales of land. QoQ: Due to higher contribution from property development.
Cost of Sales	(53.5)	(53.1)	(63.6)	19.8	18.9	
Gross profit	97.5	68.3	77.9	14.1	(20.1)	
Selling and marketing expenses	(3.3)	(2.7)	(2.6)	(2.8)	(23.0)	
Administrative expenses	(21.4)	(26.7)	(26.2)	(1.5)	22.7	
Other Income	0.0	0.3	0.4	37.0	6,300.0	
Operating Profit	72.8	39.3	49.5	26.1	(31.9)	YoY: Fell mainly due to decrease in contribution from the sales of industrial properties and sales of land, which generally commanded a better profit margin.
Interest Income	1.5	0.8	0.8	(3.2)	(44.0)	
Finance costs	(0.5)	0.1	(0.8)	(1,047.1)	82.3	
Net Interest	1.0	0.9	(0.0)	(100.4)	(100.4)	
JV	-	-	-	-	-	
Profit before taxation (PBT)	73.8	40.2	49.5	23.2	(32.9)	Filtered down from gross profit.
Income tax expense	(17.3)	(9.1)	(12.7)	39.1	(26.5)	
MI	-	-	-	-	-	
PATAMI	56.5	31.1	36.8	18.5	(34.8)	Filtered down from PBT.

Company; HLIB

Figure #1 Cumulative results comparison

FYE Dec	12M14	12M15	Yoy (%)	Comments
Revenue	598.3	700.9	17.2	Due to higher contribution from property development offsetting slightly by declined in industrial and land sales.
Cost of Sales	(274.7)	(304.6)	10.9	
Gross profit	323.6	396.3	22.5	Better development margin.
Selling and marketing expenses	(12.5)	(18.4)	47.4	
Administrative expenses	(68.2)	(92.7)	35.9	
Other Income	0.9	1.2	35.3	
Operating Profit	243.8	286.4	17.5	
Interest Income	2.7	3.0	13.0	
Finance costs	(1.7)	(3.0)	73.9	
Net Interest	1.0	0.0	(95.2)	
JV	-	-	-	
Profit before taxation (PBT)	244.8	286.5	17.0	Filtered down from gross profit.
Income tax expense	(62.1)	(73.2)	17.9	
MI	-	-	-	
PATAMI	182.6	213.2	16.8	Filtered down from PBT.

Company; HLIB

Figure #2 RNAV table

Projects	Stake (%)	NPV (RM m)
Ongoing		
BSS	100%	10.4
TSI	100%	6.7
STV 1 and 2	100%	111.0
Unbilled Sales	100%	83.5
Future		
BSS	100%	775.1
TSI	100%	141.6
STP	100%	59.8
STV 3	100%	38.7
Residency SIGC	100%	36.4
Kota Gadong Perdana	100%	54.2
KL High Rise Mixed Development	100%	57.9
Lobak Commercial Centre	100%	4.6
NPV		1,379.9
Shareholder Funds as of 1Q15		758.3
Net cash/(debt) as of 1Q15		(31.6)
RNAV		2,106.6
Wa proceed		185.6
Total RNAV		2,292.2
Total Diluted Shares		631.5
RNAV/share		3.6
Discount		20%
Discounted RNAV		1,833.8
Discounted RNAV/Share		2.90

Company, HLIB

Figure #3 HLIB vs. Consensus

RMm	2015E			2016E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	819.7	716.2	14.5	767.5	754.0	1.8
EPS (sen)	242.4	210.8	15.0	235.0	217.8	7.9

HLIB; Bloomberg

Figure #4 Peer Comparison

Company	Current Px	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield		Unbilled Sales Coverage (x)
							CY15	CY16	CY15	CY16	CY15	CY16	
IOI PROPERTIES	2.08	Buy	2.77	33%	9,175.5	(51.2)	15.1	12.1	0.58	0.56	2.0	2.5	1.0
UEM SUNRISE BHD	1.02	Sell	0.94	-8%	4,628.2	(67.3)	19.2	11.5	0.71	0.68	1.6	2.6	2.4
SP SETIA BHD	2.89	Hold	3.47	20%	7,596.0	(41.8)	9.5	10.6	1.16	1.09	4.2	3.8	2.7
MAH SING GROUP	1.29	Hold	1.40	9%	3,108.1	(44.8)	8.4	7.5	0.99	0.92	4.7	5.3	1.8
SUNWAY BHD	3	Buy	3.63	21%	5,339.8	0.0	9.3	9.2	0.85	0.80	16.0	4.0	1.4
MATRIX CONCEPTS	2.37	Buy	2.90	23%	1,332.4	(34.7)	5.4	5.6	1.58	1.35	6.1	7.2	1.1
TAMBUN	1.35	Hold	1.39	3%	572.9	(41.9)	5.9	6.8	1.43	1.38	6.8	5.9	0.8
YNH PROPERTY BHD	1.99	Hold	1.85	-7%	808.1	(46.3)	32.7	20.6	0.91	0.82	0.6	1.0	0.0
GLOMAC BHD	0.85	Hold	0.89	5%	615.9	(52.2)	7.7	6.9	0.63	0.59	5.0	5.2	1.5
ECO WORLD DEVELO	1.29	NR			3,049.9	(43.9)	56.1	21.5	0.85	0.83	-	-	2.5
Average						(42.4)	16.9	11.2	0.97	0.90	4.7	3.7	1.5

Financial Projections for Matrix Concepts (TP: RM2.90)

Income statement

FYE 31 Dec (RM m)	2013A	2014A	2015A*	2016E	2017E
Revenue	574	599	820	768	808
Operating cost	-369	-352	-480	-450	-493
EBITDA	206	247	339	317	315
D&A	-3	-3	-7	-7	-7
Net Interest	2	0	-2	-1	-1
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
Pretax profit	205	245	330	309	307
Taxation	(53)	(62)	(88)	(74)	(74)
Minority Interest	-	-	-	-	-
PATAMI	152	182	242	235	233
Core Earning	152	182	242	235	233
Basic shares (m)	456	456	550	550	550
Basic EPS (sen)	33.3	40.0	44.0	42.7	42.4

Balance sheet

FYE 31 Dec (RM m)	2013A	2014A	2015A*	2016E	2017E
Fixed assets	80	192	184	178	171
Other long-term assets	22	7	7	7	7
Other short-term assets	0	0	0	0	0
Working capital	425	411	563	527	555
Receivables	147	135	185	173	183
Payables	277	274	375	351	370
Inventory	1	2	3	3	3
Net cash / (debt)	50	19	17	205	321
Cash	101	97	95	284	399
ST debt	40	50	50	50	50
LT debt	11	28	28	28	28
Shareholders' funds	529	664	827	968	1,108
Share capital	301	457	457	457	457
Reserves	228	207	370	511	651
Minorities	-	-	-	-	-
Other liabilities	47	-35	-55	-51	-54

Summary Earnings Table

Revenue	574	599	820	768	808
EBITDA	206	247	339	317	315
Net profit	152	182	242	235	233
P/E (x)	7.1	5.9	5.4	5.6	5.6
BV / share	1.2	1.5	1.5	1.8	2.0
P/BV (x)	1.9	1.6	1.6	1.3	1.2
ROA (%)	43.3	42.1	51.0	36.5	30.6
ROE (%)	28.6	27.5	29.3	24.3	21.1

*15M of financial result

Cashflow

FYE 31 Dec (RM m)	2013A	2014A	2015A*	2016E	2017E
EBIT	203	244	332	311	308
D&A	3	3	7	7	7
Working capital changes	(120)	(56)	(172)	41	(32)
Taxation	(53)	(62)	(88)	(74)	(74)
Others	4	8	(3)	(3)	(3)
Operating cashflow	40	136	76	281	206
Capex & acquisitions	-69	-116	0	0	0
Free cashflow	-30	20	76	281	206
Others	-15	17	1	2	2
Investing cashflow	-84	-100	1	2	2
Equity Raised	140	10	0	0	0
Others	0	0	0	0	0
Net Borrowing	-3	21	0	0	0
Financing cashflow	83	-47	-79	-94	-93
Net cashflow	38	(10)	(2)	189	115

Valuation ratios

Net DPS (sen)	0.00	0.00	0.00	1.00	1.00
FCF/ share (sen)	-6.49	4.35	13.86	50.99	37.44
FCF yield (%)	-2.7%	1.8%	5.8%	21.5%	15.8%
Market capitalization (m)	1,080	1,080	1,080	1,080	1,080
Net cash (m)	50	19	17	205	321
Enterprise value	1,030	1,062	1,063	875	760
EV/ EBITDA (x)	5.0	4.3	3.1	2.8	2.4

Growth margins ratios

Growth (%)					
Sales Growth		4.3	36.9	-6.4	5.3
Operating expenses		-4.5	36.5	-6.3	9.6
EBITDA Growth		20.2	37.4	-6.5	-0.9
PBT Growth		19.3	34.9	-6.3	-0.6
PATMI		20.2	33.0	-3.1	-0.6
Basic EPS Growth		20.2	10.1	-3.1	-0.6

Margins (%)

EBITDA Margin	35.8	41.2	41.4	41.4	38.9
PBT Margin	35.7	40.8	40.2	40.3	38.0
PATMI	26.4	30.4	29.6	30.6	28.9

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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.
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