

HLIB Research

PP 9484/12/2012 (031413)

Andrew Lim Ken-Wern
kwlim@hlib.hongleong.com.my

(603) 2083 1730

BUY (Maintain)

Target Price: **RM2.17**
Previously: **RM2.17**
Current Price: **RM1.95**

Capital upside	10.7%
Dividend yield	6.3%
Expected total return	17.0%

Sector coverage: Property

Company description: Matrix involves in property development and construction businesses primarily focus in Negeri Sembilan and Johor.

Share price


	1M	3M	12M
Absolute	-2.0	1.6	-9.3
Relative	-1.5	0.5	-0.3

Stock information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	753
Market cap (RM m)	1,476
3-mth avg. volume ('000)	270
SC Shariah-compliant	Yes

Major shareholders

Lee Tian Hock	15.4
Shining Term Sdn Bhd	14.1
KWSP	7.1

Earnings summary

	FY18	FY19f	FY20f
FYE (Mar)			
PATMI - core (RM m)	211.8	205.5	231.3
EPS - core (sen)	28.2	27.3	27.9
P/E (x)	7.0	7.2	7.0

Matrix Concepts Holdings

Funding the Iconic Twin Towers in PIK 2

Targeted to launch in 2HCY19, the Iconic Twin Towers project will be the first project to be developed within the IFD. Occupying 1.4 ha of land within Phase 1, the project will be constructed over a period of 3 years and command an estimated GDV of USD200m. The remaining land of 2.2 ha will be reserved for future developments (estimated GDV of USD300m) of Phase 1. We note that the expected increase in share base from the placement will fully offset the potential upside of the project to the TP. Maintain forecasts as we deem the earnings recognition of the project to be rather fluid at this juncture. Our BUY rating with unchanged TP of RM2.17 is based on a 25% discount to RNAV.

Details on PIK 2. Spanning over 2,350 hectares (ha) of land, PIK 2 is located next to the almost fully developed (c.90%) PIK 1. Within PIK 2 is an Islamic Financial District (IFD) which is part of an initiative by the Indonesian Government to champion the Islamic finance discipline. We understand that connectivity to PIK 2 has been established i.e. toll road and a train station connected from the Jakarta Airport.

Phase 1 of the JV project. Phase 1 of the project will be located within the IFD, occupying 3.6 ha of land with a development period of over 8 years and an estimated GDV of USD500m. We gather that the land cost for Phase 1 is c.50% of the PIK 1 prime land (Rp20m sqm compared to Rp40m sqm); this is largely due to the JV partner, BKS, being jointly owned by Salim Group and Agung Sedayu Group (master developer of PIK 2).

Iconic Twin Towers. We note that the capital raised from the proposed placement will be used to fund the entire 3.6 ha land cost and initial development cost of the Iconic Twin Towers project. Targeted to launch in 2HCY19, the project will be the first project to be developed within the IFD. Occupying 1.4 ha of land within Phase 1, the iconic twin towers will be constructed over a period of 3 years and command an estimated GDV of USD200m.

Other developments in Phase 1 to come. The remaining land of 2.2 ha will be reserved for future developments (estimated GDV of USD300m) of Phase 1, which has yet to be announced. We gather that proceeds from the Iconic Twin Towers project will be used to fund further developments of Phase 1; management does not foresee the need to further raise funds.

Outlook. We estimate the development will yield Matrix with a NPV of RM30m, assuming PBT margin of 18% at WACC of 10%. However, we calculate that the increase in RNAV/share will be fully offset by the increase in share base (EPS dilution of 9.1% arising from the proposed placement). Nonetheless, we remain positive on the long term outlook of the JV as this establishes a platform for opportunities to further develop projects in PIK 2. Note that only c.10%-15% of PIK 2 have been developed.

Forecast. Management expects contributions to come only in 2021, with further clarity to be given on the matter moving forward. As such, we maintain our forecasts as we deem the earnings recognition of the project to be rather fluid at this juncture.

Maintain **BUY** with unchanged **TP** of **RM2.17** based on 25% discount to RNAV of RM2.90 after imputing the RNAV of the project but offset by the dilution of share base. We continue to like Matrix as it is well-positioned to ride on the affordable housing theme within its successful townships with cheap land cost and sustained property sales. This is supported by an attractive dividend yield of 6.3% for FY19 and 7.1% for FY20, being one of the highest in the sector.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance sheet

FYE Mar	FY17	FY18	FY19f	FY20f	FY21f
Fixed assets	235.7	235.6	235.5	235.4	235.3
Other long-term assets	10.9	16.4	16.4	16.4	16.4
Other short-term assets	0.0	0.0	0.0	0.0	0.0
Working capital	644.9	798.2	721.6	799.3	805.2
Receivables	266.8	154.2	241.4	267.4	269.3
Payables	214.3	172.3	271.1	300.3	302.5
Inventory	163.8	471.7	209.1	231.6	233.3
Net cash / (debt)	(156.9)	(35.1)	105.0	125.5	200.5
Cash	117.3	277.3	417.5	437.9	512.9
ST debt	92.9	150.5	150.5	150.5	150.5
LT debt	181.3	161.9	161.9	161.9	161.9
Equity	1024.0	1205.5	1318.6	1445.8	1589.3
Shareholders' funds	1024.0	1205.0	1318.1	1445.3	1588.8
Minorities	0.0	0.5	0.5	0.5	0.5
Other liabilities	(289.4)	(190.4)	(240.0)	(269.2)	(331.9)

Cashflow

FYE Mar	FY17	FY18	FY19f	FY20f	FY21f
EBIT	267.8	298.7	284.5	319.4	358.7
D&A	9.0	9.6	10.3	7.0	10.3
Working capital changes	(153.7)	(65.9)	27.0	(106.8)	(68.6)
Taxation	(75.0)	(82.2)	(76.0)	(85.5)	(96.5)
Others	9.0	0.8	(8.8)	(9.4)	(9.4)
Operating cashflow	53.5	160.7	237.0	128.0	194.6
Capex & acquisitions	(24.5)	(10.2)	(10.2)	(10.2)	(10.2)
Free cashflow	28.9	150.5	226.8	117.8	184.4
Others	(3.2)	(1.8)	5.8	6.8	8.0
Investing cashflow	(27.8)	(12.1)	(4.4)	(3.4)	(2.3)
Equity Raised	22.5	60.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	1.0	1.0
Net Borrowing	56.7	45.9	0.0	0.0	0.0
Financing cashflow	(4.0)	22.0	(92.5)	(104.1)	(117.4)
Net cashflow	21.8	170.6	140.1	20.5	75.0

Growth ratios

FYE Mar	FY17	FY18	FY19f	FY20f	FY21f
Sales Growth		4.8	21.8	10.8	0.7
Operating expenses		1.2	37.8	10.3	(4.1)
EBITDA Growth		11.4	(4.4)	11.8	11.9
PBT Growth		13.0	(4.3)	12.5	12.8
PATMI		14.3	(3.0)	12.5	12.8
Basic EPS Growth		14.3	(3.0)	2.3	12.8

Income statement

FYE Mar	FY17	FY18	FY19f	FY20f	FY21f
Revenue	775.0	812.3	989.6	1096.1	1104.1
Operating cost	(498.2)	(504.0)	(694.7)	(766.3)	(735.1)
EBITDA	276.8	308.3	294.9	329.8	369.0
D&A	(9.0)	(9.6)	(10.3)	(10.3)	(10.3)
Net Interest	(7.5)	(4.6)	(3.0)	(2.6)	(1.4)
JV & Associates	0.0	0.0	0.0	0.0	0.0
Pretax profit	260.3	294.1	281.5	316.9	357.3
Taxation	(75.0)	(82.2)	(76.0)	(85.5)	(96.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
PATAMI	185.3	211.8	205.5	231.3	260.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Earning	185.3	211.8	205.5	231.3	260.8
Basic shares (m)	752.2	752.2	752.2	827.8	827.8
Consensus core PATMI			230.0	253.5	267.0
HLIB/ Consensus			89%	91%	98%

Valuation ratios

FYE Mar	FY17	FY18	FY19f	FY20f	FY21f
Net DPS (sen)	11.0	12.9	12.3	12.6	14.2
FCF/ share (sen)	3.8	20.0	30.2	14.2	22.3
FCF yield (%)	2.0	10.2	15.4	7.3	11.4
Market capitalization (m)	1474.3	1474.3	1474.3	1622.5	1622.5
Net cash (m)	(156.9)	(35.1)	105.0	125.5	200.5
Core EPS (sen)	24.6	28.2	27.3	27.9	31.5
P/E (x)	8.0	7.0	7.2	7.0	6.2
Fully Diluted EPS (sen)	22.7	26.0	25.2	27.9	31.5
FD P/E (x)	8.6	7.5	7.8	7.0	6.2
BV / share	1.4	1.6	1.8	1.7	1.9
P/BV (x)	1.4	1.2	1.1	1.1	1.0
ROA (%)	23.3	18.3	18.4	19.5	20.6
ROE (%)	18.1	17.6	15.6	16.0	16.4
Enterprise value	1631.2	1509.4	1369.2	1497.0	1422.0
EV/ EBITDA (x)	5.9	4.9	4.6	4.5	3.9

Margin ratios

FYE Mar	FY17	FY18	FY19f	FY20f	FY21f
Margins (%)					
EBITDA Margin	35.7	38.0	29.8	30.1	33.4
EBIT Margin	34.6	36.8	28.8	29.1	32.5
PBT Margin	33.6	36.2	28.5	28.9	32.4
PATMI	23.9	26.1	20.8	21.1	23.6

Projects	Stake (%)	NPV (RM m)
Ongoing		
BSS	100%	4.3
TSI	100%	2.8
STV 1 and 2	100%	73.0
Unbilled Sales	100%	67.7
Future		
BSS	100%	576.9
TSI	100%	168.3
STP	100%	54.0
STV 3	100%	27.3
Residency SIGC	100%	27.3
Kota Gadong Perdana	100%	164.2
Puchong	100%	30.7
KL High Rise Mixed Development	100%	41.1
Lobak Commercial Centre	100%	41.1
Carnegie, Australia	100%	5.0
NPV		1,282.9
Shareholder Funds as of 4Q18		1,205.0
Net cash/(debt) as of 4Q18		(277.3)
RNAV		2,210.6
Wa proceed		185.6
Total RNAV		2,396.2
Total Diluted Shares		827.8
RNAV/share		2.89
Discount		25%
Discounted RNAV		1,797.1
Discounted RNAV/Share		2.17

Company, HLIB

Figure #2 PIK 2 overview



Company

Figure #3 Phase 1 of the JV project (located within the IFD)

CBD 21 & 22 LOCATION

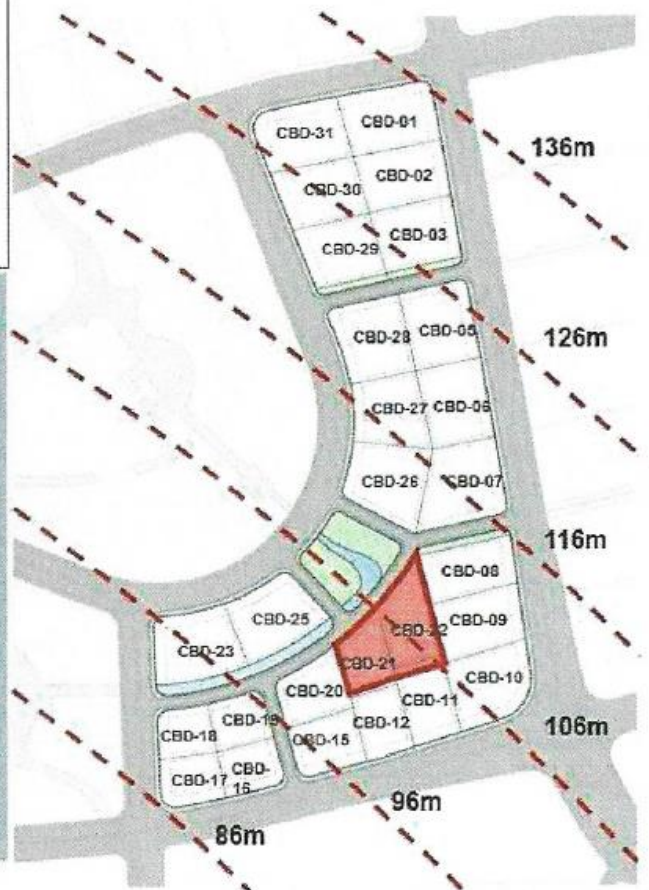


LEGEND

1. Hotel Waterfront Leisure Street	15 Waterfront Community
2. Beach Plaza/Pier	16 Professional Gateway
3. Central Lake	17 Senior Living & Health Care
4. Greenbelt Eco Park	18 University
5. Beach Boardwalk	19 Residential
6. Shopping Mall	20 Mixed-use
7. Service apartment	21 Resort Residential
8. Welcoming Fountain	22 Resort Hotel
9. Opera House	23 Hospital
10. Exhibition Center	24 Headquarter Building
11. Innovation Center	25 Bank
12. 4-star Hotel	26 Insurance
13. 5-star Hotel	
14. 3-star Hotel	



Masterplan by RTKL



0 50 100 200m
NORT

Company

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 18 March 2019, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 18 March 2019, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next -12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next -12 months.