

Matrix Concepts (BUY↔, EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

April 16, 2015

Price Target: RM3.30 (↔)

Share price: RM3.16

Proposed Bonus Issue and Free Warrants
News

- Matrix proposed a bonus issue of up to 77.8m new shares on the basis of one bonus share for every 6 existing shares held.
- The group also proposed bonus issue of up to 77.8m free warrants on the basis of one warrant for every 6 existing shares held. The bonus shares will not be entitled for the free warrants.
- The proposals announced are expected to be completed by 2HFY15.

Highlights

- We are neutral to slightly positive on the proposed announcement as it would result in a larger share base capital, enhancing the liquidity and marketability of the shares.
- The proposed bonus issue of warrants would have a 5-year maturity period of which can be exercised at any time, commencing on and including the date of issuance.
- As for the impact towards share base, the minimum case scenario would enlarge Matrix's share base by 16.7% to 538.3m shares.
- Assuming all dilutive securities are exercised (maximum case scenario), the group's share base would increase to 622.7m shares.

Forecasts

- Maintained as the proposed corporate exercises does not result any significant changes to our forecasts.

Rating
BUY ↔

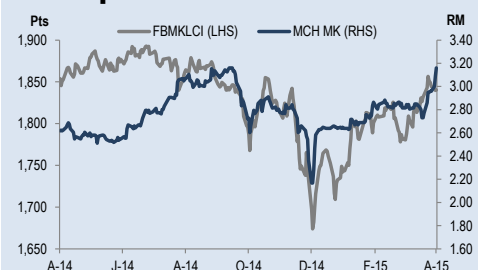
- Positives:** 1) Further upside from escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Optimism on its land replenishment for STV 3; (3) Undemanding FY15E P/E of 7.6x vs. more than 12-18x for mid to large-cap developers; and (4) Still attractive FY15E DY of 5.3%, based on 40% payout ratio.
- Negatives:** Lack of landbank diversification means the company's fate is completely tied to that of Seremban.

Valuation

- We maintain our TP at **RM3.30** (unchanged 30% discount to RNAV), which implies FY15E P/E of 7.9x.
- Post-bonus issue, out TP would be adjusted from RM3.30 to RM2.83.

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KLCI	1,840.1
Expected share price return	4.4%
Expected dividend return	5.3%
Expected total return	9.7%

Share price

Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	461.4
Market cap (RMm)	1,458.1
3-mth avg volume ('000)	525.4
SC Syariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute %	10.2	17.6	14.2
Relative %	6.9	12.1	14.9

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 (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)	6.2	6.5	7.6	5.7
FD PER (x)	6.2	6.8	7.6	5.7
Net DPS (sen)	20.6	17.3	16.7	22.3
Div yield (%)	6.5	5.5	5.3	7.1
BVPS (RM)	1.8	1.8	1.7	2.0
P/B (x)	1.7	1.7	1.9	1.6

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Figure #1 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				
		Mkt price	Book value	
	Acres	(RM psf)	(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

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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	3.2	3.2	3.2	3.2	3.2
PER (x)	7.3	6.2	6.5	7.6	5.7
Net DPS (sen)	0.0	20.6	17.3	16.7	22.3
Net DY (%)	0.0	6.5	5.5	5.3	7.1
NTA/ share (sen)	201.9	183.4	183.8	167.9	201.4
P/NTA (x)	1.6	1.7	1.7	1.9	1.6
Enterprise value	603.7	886.3	1,160.9	1,369.1	1,292.0
EV/ EBITDA (x)	4.1	4.2	4.7	5.3	3.8
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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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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