

Matrix Concepts (BUY↔, EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

February 27, 2014

Price Target: RM4.49 (↔)

Share price: RM3.78

Analyst briefing highlights

Highlights

- We attended MCH's quarterly investor's briefing and noted that it was well-attended by 40-50 fund managers and analysts. Key takeaways were:
- **FY13 financial highlights:** FY13 ended on a strong note, with 4Q net profit rising 12.3% qoq, driven mainly by increased take-up and progress billings from residential projects at Bandar Sri Sendeyan (BSS). 4Q has a favourable product mix from the higher-priced double-storey terraces (DST).
- **Sendayan Tech Valley (STV):** Sales of industrial plots in STV contributed to 21% of FY13 revenue, up from 17.5% in FY12. As this represents the highest-margin segment for BSS, earnings continuity is an issue. STV has balance of 244 acres worth RM377m, which we estimate will last another 2-3 years. Of note, STV has to-date attracted FDI worth RM2.8bn cumulatively. Indeed, the key re-rating catalyst for MCHB will be major land acquisitions, be it for STV or BSS as a whole.
- **Earnings visibility:** MCHB has RM1.2bn of pipeline, of which circa RM800m are from ongoing launches. Combined with RM437m in unbilled sales and soaring demand for industrial and residential properties in Seremban (average project take-up ex STV: 82%; STV industrial plots transacting at RM40-45 psf), we remain confident of the group's earnings outlook.
- **Adding value to BSS.** Matrix Global School is slated for completion by end 2014, with the first intake to commence in 2015. Meanwhile, MCBH is targeting a mid-2014 completion date for the club house.
- Slowdown in sales; escalation in construction and raw material costs; downturn in Seremban and Johor.
- Maintained.
- **BUY (↔)**
- **Positives:** Offers great exposure to the thriving satellite town of Seremban.
- **Negatives:** Lack of landbank diversification means the company's fate is completely tied to that of Seremban.
- Maintain TP at RM4.49 (35% discount to RNAV).
- We continue to favour MCH as one of our sector top picks on back of: (1) Our conviction that further upside remains thanks to escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Undemanding FY15E PER of 5.9x vs. more than 10x for mid to large-cap developers; and (3) Still attractive FY14E DY of 6.8%, based on 40% payout ratio.

Risks

Forecasts

Rating

Valuation

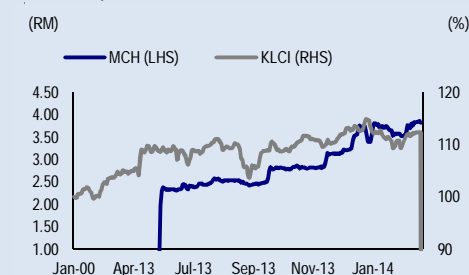
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KLCI	1822.6
Expected share price return	39.8%
Expected dividend return	9.8%
Expected total return	49.6%

Share price



Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	302
Market cap (RMm)	1,140
3-mth avg volume ('000)	746

Price Performance	1M	3M	12M
Absolute %	6.8	18.9	nm
Relative %	4.2	17.4	Nm

Major shareholders (%)

LEE TIAN HOCK	19.85
SHINING TERM SDN BHD	16.02
SUPREME INTEREST SDN BHD	5.04
TARGET VENUE SDN BHD	5.04

Summary Earnings Table

FYE 31 Dec (RM m)	2013A	2014E	2015E	2016E
Revenue	574.7	838.8	917.7	1,027.0
Reported net profit	152.9	168.8	192.4	273.0
Norm. net profit	152.9	168.8	192.4	273.0
Norm. EPS (sen)	50.8	56.1	63.9	90.6
EPS growth (%)	16.5	10.4	14.0	41.9
Norm. PER (x)	7.4	6.7	5.9	4.2
FD PER (x)	7.4	6.7	5.9	4.2
Net DPS (sen)	31.3	22.4	25.6	36.3
Dividend yield (%)	8.3	5.9	6.8	9.6
BVPS (RM)	1.8	2.2	2.6	3.1
P/B (x)	2.1	1.7	1.5	1.2

HLIB

Figure #1 RNAV table

Project profits - DCF		RMm		
Sendayan				
- Residential		282.13		
- Commercial		775.71		
- Industrial		18.50		
- On-going		41.92		
- Unbilled Sales		46.56		
Seremban (ex-Sendayan)				
- Residential		82.36		
- Commercial		1.57		
Johor				
- Residential		34.16		
- Commercial		29.85		
- On-going		3.98		
- Unbilled Sales		6.38		
Landbank revaluation surplus				
	Acres	Mkt price (RM psf)	Book value (RM psf)	
Sendayan Tech Valley	200.00	35.00	9.00	226.51
Total Surplus		1,549.63		
Total Equity		552.36		
Total RNAV		2,101.99		
Shares outstanding (m)		301.17		
RNAV per share (RM)		6.98		
ESOS proceeds *		2.23		
Diluted share base (m)		304.62		
Diluted RNAV per share (RM)		6.91		
Discount to RNAV		35.0%		
Target Price (RM)		4.49		

Source: HLIB

Figure #2 Sector peers comparison table

	Mkt Cap (RM m)	Price	Target (RM)	+/- (%)	Rec.	EPS (sen)		P/E (x)		P/B (x)		ROE (%)		Net DY (%)
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
UEM Sunrise	9,529	2.10	2.23	6.1	HOLD	11.9	14.5	17.7	14.4	1.3	1.2	8.0	9.2	1.4
IOI Properties	8,389	2.59	4.01	54.6	BUY	26.0	30.4	10.0	8.5	0.8	0.7	7.6	8.4	1.1
SP Setia	7,155	2.91	2.91	-0.2	HOLD	18.9	26.4	15.4	11.0	1.2	1.1	7.8	10.4	5.2
IGB	3,533	2.62	na	na	na	15.3	16.3	17.1	16.1	0.8	0.7	5.0	5.1	2.7
IJM Land	4,084	2.62	na	na	na	19.8	23.8	13.2	11.0	1.3	1.2	10.6	11.3	2.1
Mah Sing	2,926	2.07	2.12	2.4	HOLD	20.9	23.0	9.9	9.0	0.5	0.5	23.0	22.8	4.0
KSL	943	2.44	2.04	-16.2	SELL	88.0	62.5	2.8	3.9	0.0	0.0	19.4	19.4	0.0
YNH Property	740	1.78	1.77	-0.6	HOLD	12.5	14.1	14.3	12.6	0.9	0.9	6.5	7.4	2.2
Matrix	1,155	3.83	4.47	16.8	BUY	50.4	56.6	7.6	6.8	2.1	1.8	28.2	26.6	8.2
Glomac	807	1.11	1.15	3.4	HOLD	18.1	20.9	6.1	5.3	0.9	0.8	16.0	16.3	3.7
Average								11.1	10.2	1.0	0.9	13.5	13.6	3.1

Source: HLIB, Bloomberg

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue	456.1	574.7	838.8	917.7	1,027.0
COGS	-263.3	-305.0	-614.2	-662.8	-731.5
Gross profit	192.7	269.7	260.0	284.5	383.5
Opex	-46.6	-64.9	-37.0	-31.3	-24.7
Depreciation	-2.3	0.0	-2.0	-2.0	-2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Finance costs	-1.0	-1.4	-0.9	-0.9	-0.9
Associates	0.0	0.0	0.0	0.0	0.0
Pretax profit	142.8	207.2	225.1	256.5	364.0
Taxation	-39.3	-54.3	-56.3	-64.1	-91.0
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit	103.5	152.9	168.8	192.4	273.0
Basic shares (m)	237.5	301.2	301.2	301.2	301.2
Basic EPS (sen)	43.6	50.8	56.1	63.9	90.6

Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Inventories	2.4	1.6	1.0	1.1	1.2
Trade & other receivable	101.0	140.8	99.8	109.2	122.1
Cash	168.2	115.9	130.0	154.1	230.3
Current Assets	679.4	702.1	674.6	708.2	797.4
PPE	11.5	11.9	108.9	204.9	299.8
Investment properties	1.4	67.7	67.7	67.7	67.7
Development properties	30.3	111.9	111.9	111.9	111.9
Total assets	724.6	900.5	969.9	1,099.4	1,283.6
Shr Holder funds	479.4	552.4	653.6	769.1	932.9
Total Equity	479.4	552.4	653.6	769.1	932.9
Long-term borrowings	17.6	15.3	17.6	17.6	17.6
Short-term borrowings	3.9	35.2	0.0	0.0	0.0

Assumption metrics

FYE 31 Dec (RM m)	2014E	2015E	2016E
Gross margin	31.0	31.0	37.3
PBT margin	26.8	28.0	35.4
Net margin	20.1	21.0	26.6

Source: Company, HLIB

Valuation ratios

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Reported basic EPS (sen)	43.6	50.8	56.1	63.9	90.6
Norm. basic EPS (sen)	43.6	50.8	56.1	63.9	90.6
Norm. FD EPS (sen)	43.6	50.8	56.1	63.9	90.6
Price	3.8	3.8	3.8	3.8	3.8
PER (x)	8.7	7.4	6.7	5.9	4.2
Net DPS (sen)	0.0	31.3	22.4	25.6	36.3
Net DY (%)	0.0	8.3	5.9	6.8	9.6
NTA/ share (sen)	201.9	183.4	217.0	255.4	309.7
P/NTA (x)	1.9	2.1	1.7	1.5	1.2
Enterprise value	751.0	1,073.0	1,026.0	1,001.9	925.8
EV/ EBITDA (x)	5.1	5.1	4.6	4.0	2.6
ROE (%)	21.6	27.7	25.8	25.0	29.3
Net gearing (x)	-0.3	-0.1	-0.2	-0.2	-0.2
BVPS (RM)	2.0	1.8	2.2	2.6	3.1

Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
PAT	103.5	152.9	168.8	192.4	273.0
Depreciation	2.3	0.0	2.0	2.0	2.0
Amortisation	0.0	0.0	0.0	0.0	0.0
Working cap & others	-10.9	18.5	9.8	4.6	7.3
Operating cashflow	94.9	171.4	180.6	199.1	282.3
Capex	-100.0	-100.0	-99.0	-98.0	-97.0
Investing Cashflow	-100.0	-100.0	-99.0	-98.0	-97.0
Issue of shares	0	0	0	0	0
Dividends	0	-94	-68	-77	-109
Others	0	0	0	0	0
Financing cashflow	0.0	-98.1	-67.5	-77.0	-109.2
Net cash flow	-5.1	-26.7	14.1	24.1	76.1

Quarterly financial summary

FYE 31 Dec (RM m)	1Q13	2Q13	3Q13	4Q13
Revenue	155.6	147.3	127.4	144.3
Cost of sales	-81.1	-93.7	-64.3	-65.9
Gross profit	74.5	53.6	63.1	78.5
Selling and marketing ex	-2.3	-1.5	-1.3	-2.9
Administrative expenses	-10.8	-11.6	-14.5	-20.2
Operating Profit	61.7	40.9	49.0	57.0
Prelax profit	61.5	40.6	48.7	53.4
Net profit	46.0	30.0	36.2	40.7
Basic shares (m)	72.1	228.8	300.3	300.8
Basic EPS (sen)	63.7	13.1	12.1	13.5
DPS (sen)	10.1	5.3	10.0	5.0
FCF/ share (sen)	12.7	17.1	11.6	-37.4
Net cash/ share (sen)	24.3	81.5	63.9	21.6

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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.
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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