

**Matrix Concepts (BUY↔↔, EPS ↔↔)**

 INDUSTRY: NEUTRAL  
 NEWSBREAK

March 21, 2014

Price Target: RM4.49 (↔↔)

Share price: RM3.78

**Adding value to Matrix Global Schools**
**News**

- MCHB, via its wholly-owned subsidiary Matrix Global Education Sdn Bhd ("MGE"), has entered into an Affiliation Agreement ("AA") with Ellesmere College Ltd ("ECL") from the UK.
- Under the AA, both parties will affiliate the following for a period of 3 years: (1) Sports affiliation, whereby ECL and Matrix Global Schools (MGS) will exchange sports skills via exchanges of students and their related activities; (2) Student exchange and staff immersion programmes; (3) ECL will be allowed to use interactive curriculum designed by MGS without payment, based on the Cambridge curriculum; and (4) Both parties will allow each other to use without payment the names of ECL and MGS and their respective logos.

**Financial impact**

- No direct financial impact, but this will be long-term positive for Matrix Global Schools and the sales and property prices in Bandar Seri Sendayan.

**Pros / cons**

- Allows MGE to leverage on the experience and branding of ECL to further enhance the quality and curriculum of its MGS group of schools, comprising Matrix Private School, Matrix International School and Matrix International Pre-School.
- We expect the schools to add value to BSS over the long-term, which bodes well for future sales and house prices.

**Risks**

- Slowdown in sales; escalation in construction and raw material costs; downturn in Seremban and Johor.

**Forecasts**
**Rating**

- 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.

**Valuation**

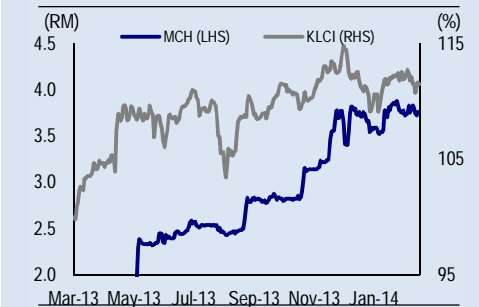
- Maintain TP at RM4.49 (35% discount to RNAV).
- We continue to favour MCH as one of our sector top picks on back of: (1) Our conviction that further upside remains thanks to escalating land prices in Seremban as more Greater KL residents continue to migrate to Seremban; (2) Undemanding FY15E PER of 5.9x vs. more than 10x for mid to large-cap developers; and (3) Still attractive FY15E DY of 6.8%, based on 40% payout ratio.

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KLCI	1818.2
Expected share price return	18.5%
Expected dividend return	1.6%
Expected total return	20.0%

**Share price**

**Information**

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	303
Market cap (RMm)	1,147
3-mth avg volume ('000)	664

Price Performance	1M	3M	12M
Absolute %	-1.3	1.6	nm
Relative %	-0.6	2.7	Nm

**Major shareholders (%)**

LEE TIAN HOCK	19.79
SHINING TERM SDN BHD	15.97
SUPREME INTEREST SDN BHD	5.02
TARGET VENUE SDN BHD	5.02

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

Source: HLIB

## Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
<b>Revenue</b>	<b>456.1</b>	<b>574.7</b>	<b>838.8</b>	<b>917.7</b>	<b>1,027.0</b>
COGS	-263.3	-305.0	-614.2	-662.8	-731.5
<b>Gross profit</b>	<b>192.7</b>	<b>269.7</b>	<b>260.0</b>	<b>284.5</b>	<b>383.5</b>
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
<b>Pretax profit</b>	<b>142.8</b>	<b>207.2</b>	<b>225.1</b>	<b>256.5</b>	<b>364.0</b>
Taxation	-39.3	-54.3	-56.3	-64.1	-91.0
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>103.5</b>	<b>152.9</b>	<b>168.8</b>	<b>192.4</b>	<b>273.0</b>
Basic shares (m)	237.5	301.2	301.2	301.2	301.2
<b>Basic EPS (sen)</b>	<b>43.6</b>	<b>50.8</b>	<b>56.1</b>	<b>63.9</b>	<b>90.6</b>

## 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
<b>Current Assets</b>	<b>679.4</b>	<b>702.1</b>	<b>674.6</b>	<b>708.2</b>	<b>797.4</b>
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
<b>Total assets</b>	<b>724.6</b>	<b>900.5</b>	<b>969.9</b>	<b>1,099.4</b>	<b>1,283.6</b>
Shr Holder funds	479.4	552.4	653.6	769.1	932.9
<b>Total Equity</b>	<b>479.4</b>	<b>552.4</b>	<b>653.6</b>	<b>769.1</b>	<b>932.9</b>
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
Reported basic EPS (sen)	43.6	50.8	56.1	63.9
Norm. basic EPS (sen)	43.6	50.8	56.1	63.9
Norm. FD EPS (sen)	43.6	50.8	56.1	63.9
Price	3.8	3.8	3.8	3.8
PER (x)	8.7	7.4	6.7	5.9
Net DPS (sen)	0.0	31.3	22.4	25.6
Net DY (%)	0.0	8.3	5.9	6.8
NTA/ share (sen)	201.9	183.4	217.0	255.4
P/NTA (x)	1.9	2.1	1.7	1.5
Enterprise value	751.0	1,073.0	1,026.0	1,001.9
EV/ EBITDA (x)	5.1	5.1	4.6	4.0
ROE (%)	21.6	27.7	25.8	25.0
Net gearing (x)	-0.3	-0.1	-0.2	-0.2
BVPS (RM)	2.0	1.8	2.2	2.6

## Cashflow

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

## Quarterly financial summary

FYE 31 Dec (RM m)	1Q13	2Q13	3Q13	4Q13
<b>Revenue</b>	<b>155.6</b>	<b>147.3</b>	<b>127.4</b>	<b>144.3</b>
Cost of sales	-81.1	-93.7	-64.3	-65.9
<b>Gross profit</b>	<b>74.5</b>	<b>53.6</b>	<b>63.1</b>	<b>78.5</b>
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
<b>Net profit</b>	<b>46.0</b>	<b>30.0</b>	<b>36.2</b>	<b>40.7</b>
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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