

**Matrix Concepts (BUY↔, EPS ↔)**

INDUSTRY: NEUTRAL

NEWSBREAK

April 22, 2015

Price Target: RM3.30 (↔)

Share price: RM3.10

**Expansion in Klang Valley**
**News**

- MCHB announced a proposed acquisition of 5.8-acre land cum approved residential development project in Puchong, next to SetiaWalk, for RM95m from IRDK Ventures Sdn Bhd.
- The approved project, comprising 318 units of high-rise condominiums and 28 units of four-storey link villas, is currently undergoing preliminary earthworks and piling works. The acquisition is targeted for completion by 3QFY15.

**Comments**

- We are not entirely surprise by the announcement as we understand the group has been on the lookout in expanding its footprint outside Seremban and Kluang.
- We gather that the current GDV of the project is RM500m, based on approved density of 60 units/acre. We understand that MCH intends to increase the density to 80-90 units/acre, which could increase total units to 464-522 from 346 currently. Assuming similar ratio of GDV/unit, the potential GDV of the revised development could increase to RM670-754m.
- We view the pricing of RM95m (or RM375psf) to be fair as it accounts for 19% of total GDV, in line with the industry rule of thumb of 20%. Furthermore, upon regulatory approvals for higher density/acre, the group's total costs/GDV would be lower. Turnaround of the project will also be faster given that it already has approvals for development.
- Based on the approved project details, we opined that the project would be a high-end development and the estimated construction period would be 4 years.
- However, our concern lies on the take-up rate of the development given the high-end nature of the project, coupled with the already bleak property sector outlook.
- This acquisition would turn MCH from net cash to net debt with net gearing of 0.1x. Despite this, the group's balance sheet remains healthy with room for more acquisitions (if any) before reaches net gearing level of 0.5x.

**Risks**

- Slowdown in sales;
- Escalation in construction costs;
- Raw material costs; and
- Downturn in Seremban and Johor.
- Maintained.

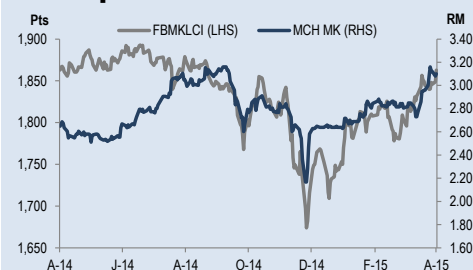
**Forecasts**
**Rating**
**BUY ↔**

- 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 of **RM3.30** (30% discount to RNAV), which implies FY15E P/E of 7.9x. Maintain **BUY**.

**Valuation**
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|                             |         |
|-----------------------------|---------|
| KLCI                        | 1,862.8 |
| Expected share price return | 6.5%    |
| Expected dividend return    | 5.4%    |
| Expected total return       | 11.9%   |

**Share price**

**Information**

|                         |         |
|-------------------------|---------|
| Bloomberg Ticker        | MCH MK  |
| Bursa Code              | 5236    |
| Issued Shares (m)       | 461.5   |
| Market cap (RMm)        | 1,430.6 |
| 3-mth avg volume ('000) | 619.3   |
| SC Shariah-Compliant    | Yes     |

|                          |     |      |      |
|--------------------------|-----|------|------|
| <b>Price Performance</b> | 1M  | 3M   | 12M  |
| Absolute %               | 8.5 | 15.3 | 10.7 |
| Relative %               | 5.2 | 10.1 | 10.7 |

**Major shareholders (%)**

|                          |      |
|--------------------------|------|
| Tian Hock Lee            | 18.7 |
| Shining Term Sdn Bhd     | 18.9 |
| 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)     | 6.1   | 6.0   | 7.4   | 5.6   |
| FD PER (x)        | 6.1   | 6.3   | 7.4   | 5.6   |
| Net DPS (sen)     | 20.6  | 17.3  | 16.7  | 22.3  |
| Div yield (%)     | 6.6   | 5.9   | 5.4   | 7.2   |
| BVPS (RM)         | 1.8   | 1.8   | 1.7   | 2.0   |
| P/B (x)           | 1.7   | 1.6   | 1.8   | 1.5   |

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**Figure #1 RNAV table**

| Project profits - DCF               |              |                               |                                | RMm             |
|-------------------------------------|--------------|-------------------------------|--------------------------------|-----------------|
| <b>Sendayan</b>                     |              |                               |                                |                 |
| - Residential                       |              |                               |                                | 321.55          |
| - Commercial                        |              |                               |                                | 716.28          |
| - On-going                          |              |                               |                                | 8.90            |
| <b>Seremban (ex-Sendayan)</b>       |              |                               |                                |                 |
| - Residential                       |              |                               |                                | 105.89          |
| - Commercial                        |              |                               |                                | 1.54            |
| <b>Johor</b>                        |              |                               |                                |                 |
| - Residential                       |              |                               |                                | 51.90           |
| - Commercial                        |              |                               |                                | 27.90           |
| - On-going                          |              |                               |                                | 4.75            |
| Unbilled Sales                      |              |                               |                                | 46.23           |
| <b>Landbank revaluation surplus</b> |              |                               |                                |                 |
|                                     | <b>Acres</b> | <b>Mkt price<br/>(RM psf)</b> | <b>Book value<br/>(RM psf)</b> |                 |
| Sendayan Tech Valley                | 200.00       | 45.00                         | 9.00                           | 313.63          |
| <b>Total Surplus</b>                |              |                               |                                | <b>1,598.57</b> |
| Total Equity                        |              |                               |                                | 582.00          |
| <b>Total RNAV</b>                   |              |                               |                                | <b>2,180.57</b> |
| Shares outstanding (m)              |              |                               |                                | 457.22          |
| <b>RNAV per share (RM)</b>          |              |                               |                                | <b>4.77</b>     |
| ESOS proceeds *                     |              |                               |                                | 35.46           |
| Diluted share base (m)              |              |                               |                                | 469.82          |
| <b>Diluted RNAV per share (RM)</b>  |              |                               |                                | <b>4.72</b>     |
| Discount to RNAV                    |              |                               |                                | 30.0%           |
| <b>Target Price (RM)</b>            |              |                               |                                | <b>3.30</b>     |

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## Financial Projections for Matrix Concepts (TP: RM3.30)

### Income statement

| FYE 31 Dec (RM m)      | 2012A        | 2013A        | 2014A        | 2015E        | 2016E        |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>         | <b>456.1</b> | <b>574.7</b> | <b>598.3</b> | <b>689.3</b> | <b>955.3</b> |
| COGS                   | -263.3       | -305.0       | -274.7       | -352.0       | -478.4       |
| <b>Gross profit</b>    | <b>192.7</b> | <b>269.7</b> | <b>323.6</b> | <b>333.9</b> | <b>448.6</b> |
| 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          |
| <b>Pretax profit</b>   | <b>142.8</b> | <b>207.2</b> | <b>244.8</b> | <b>258.0</b> | <b>345.6</b> |
| Taxation               | -39.3        | -54.3        | -62.1        | -67.6        | -90.6        |
| Minorities             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Net profit</b>      | <b>103.5</b> | <b>152.9</b> | <b>182.6</b> | <b>190.4</b> | <b>255.0</b> |
| Basic shares (m)       | 237.5        | 301.2        | 373.3        | 457.2        | 457.2        |
| <b>Basic EPS (sen)</b> | <b>43.6</b>  | <b>50.8</b>  | <b>48.9</b>  | <b>41.6</b>  | <b>55.8</b>  |

### 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          |
| <b>Current Assets</b> | <b>679.4</b> | <b>702.1</b> | <b>744.7</b> | <b>619.7</b>   | <b>728.6</b>   |
| 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          |
| <b>Total assets</b>   | <b>724.6</b> | <b>900.5</b> | <b>996.2</b> | <b>1,010.9</b> | <b>1,214.8</b> |
| Shr Holder funds      | 479.4        | 552.4        | 686.0        | 767.8          | 920.8          |
| <b>Total Equity</b>   | <b>479.4</b> | <b>552.4</b> | <b>686.0</b> | <b>767.8</b>   | <b>920.8</b>   |
| 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                    | 3.1   | 3.1   | 2.9     | 3.1     | 3.1     |
| PER (x)                  | 7.1   | 6.1   | 6.0     | 7.4     | 5.6     |
| Net DPS (sen)            | 0.0   | 20.6  | 17.3    | 16.7    | 22.3    |
| Net DY (%)               | 0.0   | 6.6   | 5.9     | 5.4     | 7.2     |
| NTA/ share (sen)         | 201.9 | 183.4 | 183.8   | 167.9   | 201.4   |
| P/NTA (x)                | 1.5   | 1.7   | 1.6     | 1.8     | 1.5     |
| Enterprise value         | 589.5 | 868.2 | 1,075.1 | 1,341.6 | 1,264.6 |
| EV/EBITDA (x)            | 4.0   | 4.2   | 4.3     | 5.2     | 3.7     |
| 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          |
| <b>Operating cashflow</b> | <b>94.9</b>   | <b>171.4</b>  | <b>130.0</b> | <b>195.5</b> | <b>276.1</b>  |
| Capex                     | -100.0        | -100.0        | -109.8       | -98.0        | -97.0         |
| <b>Investing Cashflow</b> | <b>-100.0</b> | <b>-100.0</b> | <b>-93.2</b> | <b>-98.0</b> | <b>-97.0</b>  |
| Issue of shares           | 0             | 0             | 0            | 0            | 0             |
| Dividends                 | 0             | -94           | -78          | -76          | -102          |
| Others                    | 0             | 0             | 31           | 0            | 0             |
| <b>Financing cashflow</b> | <b>0.0</b>    | <b>-98.1</b>  | <b>-46.9</b> | <b>-76.1</b> | <b>-102.0</b> |
| <b>Net cash flow</b>      | <b>-5.1</b>   | <b>-26.7</b>  | <b>-10.1</b> | <b>21.3</b>  | <b>77.1</b>   |

### Quarterly financial summary

| FYE 31 Dec (RM m)         | 4Q13         | 1Q14         | 2Q14         | 3Q14         | 4Q14         |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>            | <b>144.3</b> | <b>134.7</b> | <b>163.7</b> | <b>148.8</b> | <b>151.0</b> |
| Cost of sales             | -65.9        | -66.9        | -89.2        | -65.1        | -53.5        |
| <b>Gross profit</b>       | <b>78.5</b>  | <b>67.8</b>  | <b>74.6</b>  | <b>83.8</b>  | <b>97.5</b>  |
| 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         |
| <b>Net profit</b>         | <b>40.7</b>  | <b>38.6</b>  | <b>42.4</b>  | <b>45.1</b>  | <b>56.5</b>  |
| 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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Published & Printed by  
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## Equity rating definitions

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.             |
| <b>TRADING BUY</b>  | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
| <b>HOLD</b>         | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.          |
| <b>TRADING SELL</b> | Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. |
| <b>SELL</b>         | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.                                     |
| <b>NOT RATED</b>    | No research coverage, and report is intended purely for informational purposes.  |

## Industry rating definitions

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.    |
| <b>NEUTRAL</b>     | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
| <b>UNDERWEIGHT</b> | The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.    |