

20 Feb 2020

Buy

Price
 RM1.95

Target Price
 RM2.25

Market Data

Bloomberg Code	MCH MK
No. of shares (m)	822.8
Market cap (RMm)	1,604.5
52-week high/low (RM)	2.00 / 1.87
Avg daily turnover (RMm)	0.6
KLCI (pts)	1,534.2

Source: Bloomberg, KAF

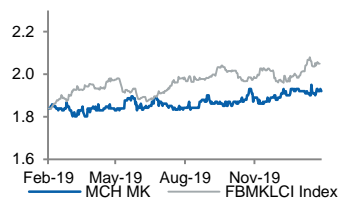
Major Shareholder (%)

Dato' Lee Tian Hock	(34.7%)
EPF	(8.1%)
Asia Core Properties	(4.4%)
Free Float	439.9

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	0.5	3.2	(0.9)
Rel Market (%)	5.2	7.4	10.3



Source: Bloomberg, KAF

Analyst

Izzul Hakim Abdul Molob
 (603) 2171 0502
 izzul@kaf.com.my

Matrix Concepts

Above expectations

We maintain our Buy recommendation on Matrix Concepts (MCH) with an unchanged TP of RM2.25 based on 25% discount to our RNAV of RM3.01. The group is confident it will achieve its year-end sales target of RM1.3b as it managed to rake in sales of RM946m in 9M20. As of end-Dec 2019, it had unbilled sales of RM1.2b, or 1.2x revenue. MCH is trading at a PBR of 1.0x FY20F and PRNAV of 0.6x FY20F, at a premium to the industry. We believe the premium is justifiable given its strong balance sheet, stable earnings, and high dividend yields.

Financial Highlights

FYE Mar	2017	2018	2019	2020F	2021F
Revenue (RMm)	775	818	1,046	1,054	1,150
Core net profit (RMm)	185	213	218	229	237
Core EPS (Sen)	31.5	28.2	28.8	25.7	26.6
EPS growth (%)	(31.2)	(10.4)	2.1	(10.8)	3.7
DPS (Sen)	13.8	12.8	12.6	11.2	11.6
Core PE (x)	6.2	6.9	6.8	7.6	7.3
Div yield (%)	7.1	6.6	6.5	5.7	6.0
ROE (%)	19.4	19.1	17.2	15.2	13.5
Net Gearing (%)	15.3	2.9	7.4	6.2	4.1
PBV(x)	1.1	1.2	1.1	1.0	0.9

Source: Company, KAF

9M20 results review. MCH reported net profit of RM179m, +18% yoy, in 9M20. Earnings were ahead of our expectations, making up 82% (consensus: 78%) of our full-year net profit forecast of RM218m. Earnings were lifted from a higher contribution from industrial segment by 66% yoy. As the industrial segment generally has a better margin than residential, it lifted the group earnings in 9M20. Industrial segment made up c. 11% (9M19: c. 7%) of MCH's revenue in 9M20.

Maintain sales target. As of end-Dec 2019, the group had raked in RM946m worth of sales, or 73% of its sales target of RM1.3b in FY20F. Although sales were slightly below its year-end target, the management is confident of achieving and maintaining its sales target of RM1.3b. The sales would potentially be secured from its primary project in Sendayans, from its recent launches of Hijayu Aman P2 and Hijayu Resorts Homes. In addition, the group is launching additional phases worth RM255m GDV in the Sendayan area in 4Q20. The phases in Sendayans were well received by buyers. The group's 1H20 launches in the said area enjoyed c. 29-98% of take-up rates.

Healthy unbilled sales. The group has healthy unbilled sales. As of end of Dec-19, it had unbilled sales of RM1.2b or 1.2x of revenue. That is, the unbilled sales should last the group at least 1.2 years. We believe that healthy unbilled sales are crucial during a soft period as they help to cushion cash flow while developers try to generate new sales. As almost all of MCH's projects are located in Malaysia, unbilled sales can be recognised progressively. Hence, this would further support cash flow generation.

Strong balance sheet. MCH's balance sheet remains strong with a net gearing of 7% in 3Q20. MCH has consistently reported a low net gearing ratio (lower than the industry's average of >30%). We are of the view that being less geared makes a developer less vulnerable to market/economic uncertainty as it is less impacted by lower financing costs. Inversely, when the property market recovers, MCH looks set to exploit any opportunities for future expansion from its strong balance sheet position.

Healthy inventory level. MCH had unsold completed inventory worth RM49m or c. 4% of its annual sales. MCH has, in fact, consistently recorded a healthier inventory level than its peers with an inventory-to-sales ratio of less than 10% (industry's 5-year average: 28%). Its fast-moving inventory was also illustrated in its days of inventory outstanding (DIO) of 56 days (peers' range: 134-240 days). The healthy inventory-level trend is due to its price-point strategy.

Earnings revision. As a result of higher contribution from the industrial segment, the group reported a better EBITDA margin of 31% (9M19: 29%). Our revised EBITDA margin assumption in FY20F is now 31% with a +5% impact on our earnings forecast in FY20F. The adjustment has translated to a revised RNAV of RM3.01 (from RM3.00). Due to marginal impact on RNAV and while maintaining the 25% discount to RNAV, our TP is unchanged at RM2.25.

Valuation. MCH is trading at a PBR of 1.0x FY20F and PRNAV of 0.6x FY20F, at a premium to the industry. We believe the premium is justifiable given its strong balance sheet, stable earnings, and high dividend yields. Maintain Buy.

Exhibit 1: Quarterly trend (before revision)

Year to 31 December	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	% chg		Cumulative			KAF	
RM m	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	qoq	yoy	9M19	9M20	% chg	2020F	9M/F
Revenue	230	253	286	279	249	283	279	(1)	(2)	769	810	5	1,054	77%
Cost of sales	(110)	(126)	(157)	(152)	(123)	(144)	(123)	(14)	(22)	(393)	(390)	(1)	(527)	74%
Gross profit	120	127	128	127	126	139	156	12	21	376	421	12	526	80%
Other income	1	1	1	5	2	1	1	60	(10)	3	4	54	8	53%
OPEX	(51)	(52)	(56)	(48)	(53)	(59)	(64)	8	16	(158)	(176)	11	(228)	77%
EBITDA	70	76	74	84	75	80	93	16	25	220	248	13	306	81%
Depreciation	(2)	(3)	(3)	(3)	(3)	(3)	(3)	1	(4)	(8)	(8)	2	(11)	74%
Amortisation	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBIT	68	74	71	81	73	78	90	16	26	213	240	13	295	81%
Interest income	1	2	1	1	1	2	2	4	39	4	5	15	7	72%
Finance costs	(1)	(1)	(1)	1	(1)	0	(0)	(594)	(37)	(3)	(1)	(47)	(5)	29%
Associates	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBT	68	74	72	83	73	79	91	15	27	214	244	14	297	82%
Taxation	(18)	(21)	(23)	(18)	(18)	(21)	(26)	26	12	(62)	(65)	4	(79)	82%
Profit (before MI)	50	53	49	66	55	59	65	11	34	152	179	18	217	82%
El	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	-	-	-	-	-	-	-	nm	nm	0	0	nm	(0)	0%
Net profit	50	53	49	66	55	59	65	11	34	152	179	18	218	82%
Distribution to perp sukuk	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Core net profit	50	53	49	66	55	59	65	11	34	152	179	18	218	82%

Source: Company, KAF

Exhibit 2: Quarterly trend (after revision)

Year to 31 December	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	% chg		Cumulative			KAF	
RM m	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	qoq	yoy	9M19	9M20	% chg	2020F	9M/F
Revenue	230	253	286	279	249	283	279	(1)	(2)	769	810	5	1,054	77%
Cost of sales	(110)	(126)	(157)	(152)	(123)	(144)	(123)	(14)	(22)	(393)	(390)	(1)	(527)	74%
Gross profit	120	127	128	127	126	139	156	12	21	376	421	12	526	80%
Other income	1	1	1	5	2	1	1	60	(10)	3	4	54	23	18%
OPEX	(51)	(52)	(56)	(48)	(53)	(59)	(64)	8	16	(158)	(176)	11	(228)	77%
EBITDA	70	76	74	84	75	80	93	16	25	220	248	13	321	77%
Depreciation	(2)	(3)	(3)	(3)	(3)	(3)	(3)	1	(4)	(8)	(8)	2	(11)	74%
Amortisation	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBIT	68	74	71	81	73	78	90	16	26	213	240	13	310	77%
Interest income	1	2	1	1	1	2	2	4	39	4	5	15	7	72%
Finance costs	(1)	(1)	(1)	1	(1)	0	(0)	(594)	(37)	(3)	(1)	(47)	(5)	29%
Associates	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
EBT	68	74	72	83	73	79	91	15	27	214	244	14	312	78%
Taxation	(18)	(21)	(23)	(18)	(18)	(21)	(26)	26	12	(62)	(65)	4	(83)	78%
Profit (before MI)	50	53	49	66	55	59	65	11	34	152	179	18	229	78%
El	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Non-controlling interest	-	-	-	-	-	-	-	nm	nm	0	0	nm	(0)	0%
Net profit	50	53	49	66	55	59	65	11	34	152	179	18	229	78%
Distribution to perp sukuk	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Distribution to perp securities	-	-	-	-	-	-	-	nm	nm	0	0	nm	0	nm
Core net profit	50	53	49	66	55	59	65	11	34	152	179	18	229	78%

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)