

16 April 2015

MATRIX CONCEPTS

Bonus Issue 2.0!

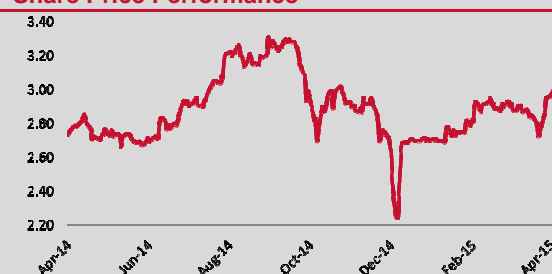
By **Adrian Ng** | adrian.ng@kenanga.com.my; **Sarah Lim** | sarahlim@kenanga.com.my

- News**
- Yesterday, MATRIX proposed a bonus issue of shares with a ratio of 1 bonus shares for every 6 shares held, and also bonus issue of free warrants on the basis of 1 free warrant for every 6 shares held.
- Comments**
- We are positive with MATRIX's proposed 1-for-6 bonus issue of shares and 1-for-6 bonus issue of free warrants corporate exercise, as this would further reward its existing shareholders at the same time increase its liquidity. To recap, this would be MATRIX's second round of bonus issue since its listing, the first round being the 1-for-2 bonus issue which was proposed exactly 1 year ago (Apr-14).
 - Pending Bursa and shareholders approvals, the proposed bonus issue of shares and free warrants corporate exercise is expected to be complete by 2H15. Post bonus issue, we would expect its share base to increase by 17% to 533.3m shares. Hence, the current share price would be adjusted from RM3.16 to RM2.71, while our Target Price will also be adjusted accordingly from RM3.05 to RM2.62.
 - Note that the free warrants exercise price has not been set. Assuming the Ex-Price of the warrant is based on a 20% premium to the last price, our FD RNAV would be reduced to RM3.68 from RM3.74 (post-bonus). However, we opt to keep our valuations unchanged for now pending the warrants price fixing.
- Outlook**
- We are expecting more landbanking newsflow from MATRIX as we believe that the company is still actively scouting for landbank replenishments, especially industrial landbanks closer to its existing development, i.e. Sendayan Tech Valley.
 - In terms of launches, management are still committed to launch RM1.1b worth of projects in FY15 consists of residential and products, i.e. Bandar Sri Sendayan, (GDV: RM670m), Taman Seri Impian (GDV: RM206m), Residency SIGC (GDV: RM229m). Out of the RM1.1b launches, approximately 58% are made up of residential products priced close to RM500.0k per unit excluding industrial land sales.
- Forecast**
- No changes to our FY15-16E earnings.
- Rating**
- Downgrade to MARKET PERFORM**
- Valuation**
- While we are positive with the proposed corporate exercise, we are downgrading MATRIX to MARKET PERFORM (previously, OUTPERFORM) with an unchanged Target Price of RM3.05 (ex-bonus, RM2.62). We believe it would be a good time to top slice given the sharp increase in share price by 15.7% over the last 11 days. At current prices, it's FY15-16E PER is 7.5x vs. mid-cap peers 6.0x-5.5x while net dividend yields of 6.0% is just a slight premium to its peer's average of 5.5%. Note that our applied FD RNAV discount of 30% for MATRIX is also one of the thinnest within our coverage (range:30%-72%, average:53%). Despite the downgrade in call, we still like MATRIX for its light balance sheet and affordable housing/industrial property positioning and we will review our call when valuations are more compelling, if there are new catalysts and of course, changes in sector dynamics.
- Risks to Our Call**
- Weaker-than-expected property sales.
 - Higher-than-expected sales and administrative costs.
 - Negative real estate policies.
 - Tighter lending environments.

MARKET PERFORM

Cum-Price/Ex-Price: **RM3.16/RM2.71** ↓
Cum-TP/Ex-TP: **RM3.05/RM2.62** ↔

Share Price Performance



KLCI	1,840.13
YTD KLCI chg	4.5%
YTD stock price chg	17.6%

Stock Information

Bloomberg Ticker	MCH MK Equity
Market Cap (RM m)	1,458.1
Issued shares	461.4
52-week range (H)	3.31
52-week range (L)	2.19
3-mth avg daily vol:	525,398
Free Float	63%
Beta	1.0

Major Shareholders

TIAN HOCK LEE	16.4%
SHINING TERM SDN BHD	15.8%
SUPREME INTEREST SDN	5.0%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	598	627	639
EBIT	246	257	258
PBT	245	257	258
Net Profit (NP)	183	190	191
Consensus (CNP)	n.a.	197	220
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	40.4	42.1	42.2
EPS growth (%)	19%	4%	0%
NDPS (sen)	17.4	18.9	19.0
BV/Share (RM)	1.52	1.75	1.98
PER (x)	7.8	7.5	7.5
Price/BV (x)	2.08	1.81	1.59
Net Gearing (x)	0.0	0.0	0.0
Dividend Yield (%)	5.5	6.0	6.0

16 April 2015

RNAV							
	Stake	Remaining GDV*** (RM'm)	Remaining Net Profit*** (RM'm)	Start of DCF	Assumed durations (years)	WACC (%)	NPV (RM m) ***
On-going Projects							
BSS	100%	770	162	2,013	2	10%	120
STV 1&2	100%	786	165	2,013	3	10%	150
TSI	100%	223	47	2,013	1	10%	35
Taman Desa Port Dickson 3	100%	6	1	2,013	2	10%	1
Lobak Commerical Centre (Phase 1)	100%	16	3	2,013	3	10%	3
Unbilled sales	100%	593	124	2,013	2	10%	108
Pipeline Projects							
BSS	100%	4,771	1,013	2,014	8	10%	526
TSI	100%	891	187	2,014	8	10%	97
Kota Gadong Perdana	100%	926	195	2,016	3	10%	108
Third 9 Residence	100%	145	30	2,014	2	10%	21
Lobak Commercial Centre	100%	29	6	2,013	4	10%	4
Labu Land	100%	760	160	2,015	4	10%	85
Rasah Kemayan Land	100%	800	168	2,016	3	10%	85
KL land (near PWTC)	100%	250	53	2,014	4	10%	36
Sendayan Tech Park	100%	170	36	0	3	10%	27
Agriculture land for future industrial use (STV3)	100%	110	23	0	3	10%	14
Replenish	100%	1,720	335		10	10%	137
*** after shareholding							
Other lands		NBV (RM'm)	NBV (RM psf)		Market Price (RM'm)	Market Price (RM psf)	Market Value RM'm)
Lot No. 769, Mukim Pasir Panjang, Port Dickson	100%	2	2		3	3	2
Lot No. 847, Mukim Pasir Panjang, Port Dickson	100%	0	1		3	5	3
Revised Asset Value							1,561
Shareholder's equity (as at 30 June 2013)							540
RNAV							2,101
RNAV per share (RM)							MYR 4.60
No of paid-up shares ('m)							457.1
Dilution impact on RNAV*							66.2
Diluted RNAV per share (RM)*							MYR 4.36
Diluted No of shares ('m)*							496.8
% Discount to RNAV							30%
TARGET PRICE							MYR 3.05

Source: Kenanga Research

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16 April 2015

Pre-Bonus Issue

Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM'm)	2012A	2013A	2014A	2015E	2016E
Revenue	456	575	598	627	639	Growth					
EBITDA	146	211	249	260	261	Turnover (%)	-27%	26%	4%	5%	2%
Depreciation	-2	-3	-3	-3	-3	EBITDA (%)	34%	45%	18%	4%	1%
Operating Profit	144	209	246	257	258	Operating Profit (%)	34%	45%	18%	4%	1%
Interest Exp	-1	-1	-2	-1	-1	PBT (%)	34%	45%	18%	5%	1%
PBT	143	207	245	257	258	Core Net Profit (%)	49%	48%	19%	4%	0%
Taxation	-39	-54	-62	-66	-67	Profitability					
Minority Interest	0	0	0	0	0	EBITDA Margin	32%	37%	42%	41%	41%
Net Profit	103	153	183	190	191	Operating Margin	32%	36%	41%	41%	40%
Core Net Profit	103	153	183	190	191	PBT Margin	31%	36%	41%	41%	40%
						Core Net Margin	23%	27%	31%	30%	30%
						Effective Tax Rate	28%	25%	26%	26%	26%
						ROA	17%	19%	19%	18%	17%
						ROE	29%	30%	29%	26%	23%
						DuPont Analysis					
						Net Margin (%)	23%	27%	31%	30%	30%
						Leverage Factor (x)	1.5	1.6	1.5	1.4	1.3
						ROE (%)	29%	30%	29%	26%	23%
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1
						(Net Cash)/Debt	-75.6	-96.7	-25.6	-41.2	-38.4
						Net Debt/Equity (x)	-0.2	-0.1	0.0	0.0	0.0
						Valuations					
						EPS (sen)	22.9	33.8	40.4	42.1	42.2
						NDPS (sen)	5.7	30.4	17.4	18.9	19.0
						BVPS (RM)	1.05	1.22	1.52	1.75	1.98
						PER (x)	13.79	9.34	7.82	7.51	7.49
						N. Div. Yield (%)	1.8	9.6	5.5	6.0	6.0
						PBV (x)	3.02	2.58	2.08	1.81	1.59
						EV/EBITDA (x)	0.0	6.5	5.6	5.3	5.3

Source: Kenanga Research

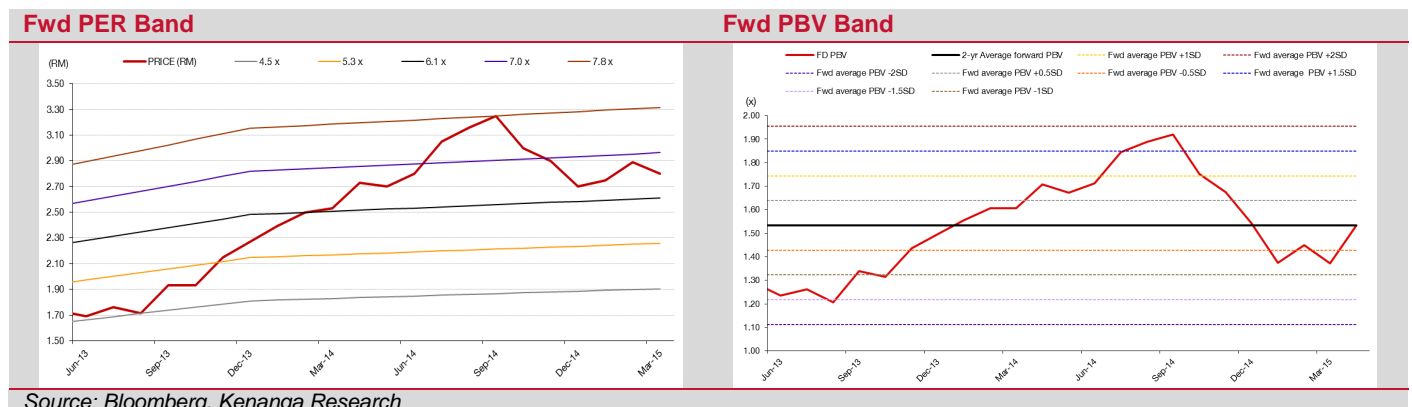
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16 April 2015

Post-Bonus Issue

Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM'm)	2012A	2013A	2014A	2015E	2016E
Revenue	456	575	598	627	639	Growth					
EBITDA	146	211	249	260	261	Turnover (%)	-27%	26%	4%	5%	2%
Depreciation	-2	-3	-3	-3	-3	EBITDA (%)	34%	45%	18%	4%	1%
Operating Profit	144	209	246	257	258	Operating Profit (%)	34%	45%	18%	4%	1%
Interest Exp	-1	-1	-2	-1	-1	PBT (%)	34%	45%	18%	5%	1%
PBT	143	207	245	257	258	Core Net Profit (%)	49%	48%	19%	4%	0%
Taxation	-39	-54	-62	-66	-67	Profitability					
Minority Interest	0	0	0	0	0	EBITDA Margin	32%	37%	42%	41%	41%
Net Profit	103	153	183	190	191	Operating Margin	32%	36%	41%	41%	40%
Core Net Profit	103	153	183	190	191	PBT Margin	31%	36%	41%	41%	40%
						Core Net Margin	23%	27%	31%	30%	30%
						Effective Tax Rate	28%	25%	26%	26%	26%
						ROA	17%	19%	19%	18%	17%
						ROE	29%	30%	29%	26%	23%
						DuPont Analysis					
						Net Margin (%)	23%	27%	31%	30%	30%
						Leverage Factor (x)	1.5	1.6	1.5	1.4	1.3
						ROE (%)	29%	30%	29%	26%	23%
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1
						(Net Cash)/Debt	-75.6	-96.7	-25.6	-41.2	-38.4
						Net Debt/Equity (x)	-0.2	-0.1	0.0	0.0	0.0
						Valuations					
						EPS (sen)	19.4	28.7	34.2	35.7	35.7
						NDPS (sen)	4.9	30.4	14.7	16.0	16.1
						BVPS (RM)	0.89	1.04	1.29	1.48	1.68
						PER (x)	13.96	9.45	7.91	7.60	7.59
						N. Div. Yield (%)	1.8	11.2	5.4	5.9	5.9
						PBV (x)	3.06	2.62	2.11	1.83	1.61
						EV/EBITDA (x)	0.0	6.5	5.7	5.4	5.4

Source: Kenanga Research



16 April 2015

Peer Comparison

NAME	Price (15/4/15)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY15/16 NP Growth (%)	FY16/17 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY14/15	FY15/16	FY16/17				FY14/15	FY15/16	FY16/17				
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.46	8,796	24.3	14.7	11.4	3.4%	6.8%	1.3	361.0	595.5	772.8	64.9%	29.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.15	8,125	17.0	19.5	18.5	3.2%	4.3%	0.7	479.2	414.0	439.0	-13.6%	6.0%	2.12	MARKET PERFORM
UEM SUNRISE BHD*	1.38	6,262	14.6	18.1	16.1	1.8%	7.8%	0.9	479.9	385.6	434.3	-19.7%	12.6%	1.47	MARKET PERFORM
SUNWAY BHD	3.75	6,493	10.9	10.7	10.4	2.8%	13.2%	1.0	592.2	606.3	620.5	2.4%	2.3%	3.76	OUTPERFORM
MAH SING GROUP BHD^	1.66	3,995	11.8	10.6	10.0	3.9%	16.1%	1.1	339.2	375.6	399.4	10.7%	6.3%	1.74	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.80	3,546	593.1	114.1	25.7	0.0%	7.9%	1.3	7.2	37.3	165.5	419.8%	343.8%	2.05	OUTPERFORM
UOA DEVELOPMENT BHD*	2.16	3,091	11.1	11.0	10.2	6.0%	12.2%	1.1	279.1	281.7	301.6	0.9%	7.1%	2.00	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.30	2,323	16.0	23.5	29.8	0.9%	2.6%	1.3	41.6	62.1	72.1	49.5%	16.1%	1.27	UNDERPERFORM
KSL HOLDINGS BHD	2.07	1,966	6.5	6.0	5.4	6.7%	15.3%	0.9	252.0	271.5	301.9	7.8%	11.2%	2.48	OUTPERFORM
TROPICANA CORP BHD	1.12	1,596	4.1	6.5	9.4	3.6%	11.9%	0.4	304.5	189.5	131.5	-37.7%	-30.6%	1.10	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD^^	2.71	1,458	7.9	7.6	7.6	5.9%	29.5%	1.8	182.6	190.2	190.5	4.1%	0.2%	2.62	MARKET PERFORM
CRESCENDO CORPORATION BHD*	2.40	546	12.7	12.3	12.0	3.2%	18.4%	0.6	43.3	44.5	45.7	2.7%	2.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.18	576	7.0	5.6	5.6	6.1%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.19	195	10.0	12.5	10.1	2.0%	8.9%	0.5	13.9	15.7	19.5	13.1%	23.8%	1.27	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.83	3,778	17.4	15.7	13.8	2.6%	5.0%	0.9	216.9	240.3	273.7	10.8%	13.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.94	797	17.3	12.5	9.5	2.2%	5.3%	0.9	45.9	63.7	84.2	38.6%	32.3%	1.58	SELL
GLOMAC BHD	0.97	701	8.8	9.8	7.3	4.4%	8.8%	0.8	79.5	71.2	95.9	-10.4%	34.7%	0.96	SELL
PARAMOUNT CORP BHD	1.65	697	10.0	10.3	9.7	4.8%	7.9%	0.8	69.6	67.6	71.8	-3.0%	6.3%	1.54	NEUTRAL
TAMBUN INDAH LAND BHD	1.76	742	7.0	6.3	5.8	5.5%	28.9%	1.9	106.3	118.0	127.7	11.1%	8.2%	2.15	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Last price and TP is Ex-rights and Ex-Bonus.

^^ Last price and TP is Ex-bonus

Source: Kenanga Research

16 April 2015

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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