

# MATRIX CONCEPTS

## Industrial Landbank Replenishment

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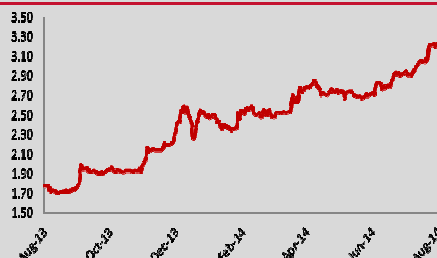
- News**
- Last Friday, Matrix Concepts (MATRIX) announced that it will be acquiring a parcel of industrial land measuring 164.0 acres in Seremban adjacent to Bandar Sri Sendayan for a total consideration of RM71.5m.
- Comments**
- We were not entirely surprised with this acquisition as we have highlighted in our previous report that MATRIX is actively looking for landbank replenishments in which we have already factored in RM2.0b worth of GDV replenishments. The following landbank replenishment will further beef up its existing industrial landbank of 1,000 acres by another 164 acres bringing it up to 1,164 acres of industrial landbank in Seremban.
  - The land has a potential project GDV of RM170.0m. We believe that the new land acquired would be sold on a developable land basis based on RM31.7 psf on a net land basis equivalent to 75% of gross land where we believe there would be ready buyers given that MATRIX's industrial land are highly sought after due to the infrastructure in Sendayan Tech Valley and its close proximity to Greater Klang Valley and KLIA.
  - We deem the acquisition price of RM10 psf (gross land basis) as fair. Assuming additional RM1-2 psf for basic infrastructure and earthwork costs, we reckon sale of developable industrial land would translates to gross margin of 36%-39% based on an estimated selling price of RM31.7 psf (net land basis equivalent to 75% of gross land), which is lower as compared to its previous land sale margin of 60%-70% as its costs are higher as compared to its existing industrial landbank that costs about RM3psf or RM9psf (inclusive of infra cost).
- Outlook**
- We believe that MATRIX will be able to sustain similar 2Q14 performance in subsequent quarters given that billings for some of its projects have already picked up pace. Its unbilled sales of RM434.7m would also provide at least one-year visibility for the group. Hence, we are maintaining our FY14E and FY15E earnings of RM167.2m and RM190.2m, respectively, underpinned by strong billings and sales take-up rates.
- Forecast**
- No changes to estimates as we have already imputed a potential land sale of RM150.0m for FY14, in which MATRIX could deliver with this latest land acquisition.
- Rating**
- Valuation**
- Maintain OUTPERFORM**
- We are reiterating our OUTPERFORM recommendation on MATRIX with an unchanged Target Price of RM3.48 based on our FD RNAV of RM4.35 with an unchanged discount of 20%. There are no changes to our Target Price as we have previously factored in RM2.0b worth of GDV replenishments as we expect the group to execute sizeable landbanking in Seremban over the next 12 months. Currently, we assume RM1.8b GDV replenishments after taking into account this new landbank.
  - We believe that MATRIX is well positioned in the affordable housing segment coupled with industrial developments within the Greater Klang Valley region.
- Risks to Our Call**
- Unable to meet sales targets or replenish landbank. Sector risks, including additional negative policies.

# OUTPERFORM ↔

Price: **RM3.25**

Target Price: **RM3.48** ↔

### Share Price Performance



KLCI	1,849.49
YTD KLCI chg	-0.9%
YTD stock price chg	43.0%

### Stock Information

Bloomberg Ticker	MCH MK Equity
Market Cap (RM m)	1,483.7
Issued shares	456.5
52-week range (H)	3.32
52-week range (L)	1.86
3-mth avg daily vol:	700,994
Free Float	60%
Beta	N.A.

### Major Shareholders

TIAN HOCK LEE	18.7%
SHINING TERM SDN BHD	15.9%
SUPREME INTEREST SDN	5.0%

### Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	574.7	647.3	725.1
EBIT	208.6	226.7	257.8
PBT	207.2	225.9	256.6
<b>Net Profit (NP)</b>	<b>152.9</b>	<b>167.2</b>	<b>190.2</b>
Consensus (CNP)	n.a.	166.0	190.0
Earnings Revision	n.a.	0.0%	-3.0%
EPS (sen)	33.8	37.0	42.1
EPS growth (%)	48%	9%	14%
NDPS (sen)	30.4	16.7	18.9
BV/Share (RM)	1.22	1.43	1.66
PER (x)	9.6	8.8	7.7
Price/BV (x)	2.7	2.3	2.0
Net Gearing (x)	(0.1)	0.1	0.0
Dividend Yield (%)	9.3	5.1	5.8

<b>FD RNAV</b>							
	Stake	Remaining GDV*** (RM'm)	Remaining Net Profit*** (RM'm)	Start of DCF	Assumed durations (years)	WACC (%)	NPV (RM m)***
<b>On-going Projects</b>							
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 Commercial Centre (Phase 1)	100%	16	3	2,013	3	10%	3
Unbilled sales	100%	593	124	2,013	2	10%	108
<b>Pipeline Projects</b>							
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
Industrial Land	100%	170	36	2,014	3	10%	27
Replenish	100%	1,830	357	2,015	10	10%	146
*** after shareholding							
<b>Other lands</b>		<b>NBV (RM'm)</b>	<b>NBV (RM psf)</b>		<b>Market Price (RM'm)</b>	<b>Market Price (RM psf)</b>	<b>Market Value (RM'm)</b>
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
<b>Revised Asset Value</b>							<b>1,556</b>
Shareholder's equity (as at 30 June 2013)							540
<b>RNAV</b>							<b>2,096</b>
<b>RNAV per share (RM)</b>							<b>MYR 6.96</b>
No of paid-up shares ('m)							301.2
Dilution impact on RNAV*							66.2
<b>Diluted RNAV per share (RM)*</b>							<b>MYR 4.35</b>
Diluted No of shares ('m)*							496.8
<b>% Discount to RNAV</b>							<b>20%</b>
<b>TARGET PRICE</b>							<b>MYR 3.48</b>

Source: Kenanga Research

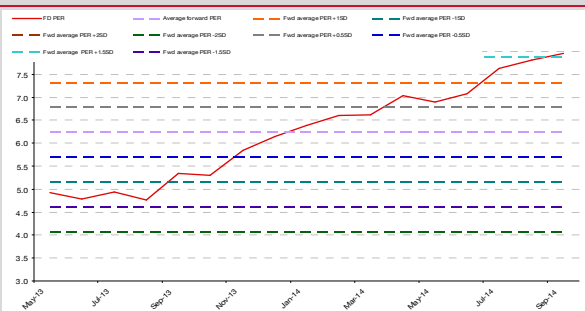
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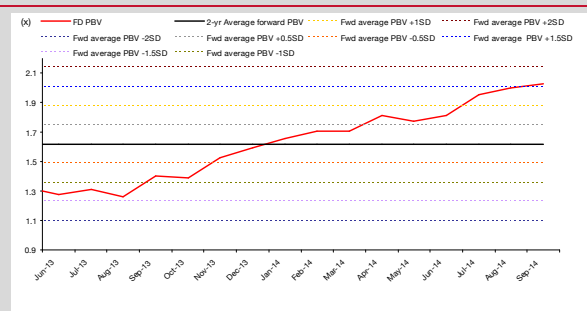
Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM'm)	2011A	2012A	2013A	2014E	2015E
Revenue	624.3	456.1	574.7	647.3	725.1	<b>Growth</b>					
EBITDA	108.9	146.1	211.2	231.0	263.0	Turnover (%)	219%	-27%	26%	13%	12%
Depreciation	(2.0)	(2.3)	(2.6)	(4.3)	(5.2)	EBITDA (%)	232%	34%	45%	9%	14%
Operating Profit	106.9	143.8	208.6	226.7	257.8	Operating Profit (%)	245%	34%	45%	9%	14%
Interest Exp	(0.6)	(1.0)	(1.4)	(0.8)	(1.2)	PBT (%)	255%	34%	45%	9%	14%
PBT	106.3	142.8	207.2	225.9	256.6	Core Net Profit (%)	238%	49%	48%	9%	14%
Taxation	(26.4)	(39.3)	(54.3)	(58.7)	(66.4)	<b>Profitability</b>					
Minority Interest	(10.5)	0.0	0.0	0.0	0.0	EBITDA Margin	17%	32%	37%	36%	36%
Net Profit	69.4	103.5	152.9	167.2	190.2	Operating Margin	17%	32%	36%	35%	36%
Core Net Profit	69.4	103.5	152.9	167.2	190.2	PBT Margin	17%	31%	36%	35%	35%
						Core Net Margin	11%	23%	27%	26%	26%
						Effective Tax Rate	25%	28%	25%	26%	26%
						ROA	12%	17%	19%	17%	16%
						ROE	32%	29%	30%	28%	27%
						<b>DuPont Analysis</b>					
						Net Margin (%)	11%	23%	27%	26%	26%
						Leverage Factor (x)	2.1	1.5	1.6	1.7	1.7
						ROE (%)	32%	29%	30%	28%	27%
						<b>Leverage</b>					
						Debt/Asset (x)	0.03	0.01	0.06	0.14	0.13
						Debt/Equity (x)	0.07	0.02	0.09	0.24	0.21
						(Net Cash)/Debt	306.8	(75.6)	(96.7)	38.0	25.1
						Net Debt/Equity (x)	0.01	(0.16)	(0.12)	0.07	0.04
						<b>Valuations</b>					
						EPS (sen)	15.4	22.9	33.8	37.0	42.1
						NDPS (sen)	4.5	5.7	30.4	16.7	18.9
						BVPS (RM)	0.53	1.05	1.22	1.43	1.66
						PER (x)	21.2	14.2	9.6	8.8	7.7
						N. Div. Yield (%)	1.4	1.8	9.3	5.1	5.8
						PBV (x)	6.2	3.1	2.7	2.3	2.0
						EV/EBITDA (x)	n.a.	n.a.	6.6	6.5	5.7

Source: Kenanga Research

## Fwd PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

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### Peer Comparison

NAME	Price (19/9/14)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY13/14	FY14/15	FY15/16	(%)	(%)	(x)	FY13/14	FY14/15	FY15/16	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>															
UEM Sunrise*	1.87	8,485	18.5	16.0	21.8	2.1%	10.2%	1.3	459.1	528.8	389.9	15.2%	-26.3%	2.05	MARKET PERFORM
IOI Properties*	2.73	8,843	18.5	15.4	14.5	2.9%	4.3%	0.8	479.2	573.0	611.0	19.6%	6.6%	2.80	OUTPERFORM
SP Setia*	3.27	8,300	19.2	24.7	15.9	3.1%	8.7%	1.3	417.9	325.3	504.6	-22.2%	55.1%	3.30	MARKET PERFORM
Sunway Berhad	3.36	5,790	12.0	10.7	10.1	2.3%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.87	OUTPERFORM
IJM Land*	3.23	5,035	15.0	13.7	12.6	1.9%	17.7%	1.4	335.2	368.0	400.2	9.8%	8.7%	3.55	ACCEPT OFFER
Mah Sing Group	2.42	3,571	12.2	10.2	8.9	3.9%	17.6%	1.6	280.6	334.6	385.5	19.2%	15.2%	3.05	OUTPERFORM
UOA Development*	2.09	2,991	8.1	10.0	8.3	6.7%	16.0%	1.1	344.6	280.8	336.2	-18.5%	19.7%	2.00	MARKET PERFORM
Tropicana	1.36	1,863	10.4	6.5	7.3	3.1%	15.3%	0.5	145.3	233.1	207.3	60.4%	-11.1%	1.40	MARKET PERFORM
Matrix Concepts	3.25	1,484	9.6	8.8	7.7	5.1%	29.8%	2.3	152.9	167.2	190.2	9.4%	13.8%	3.48	OUTPERFORM
Crescendo*	2.81	639	7.6	7.6	6.9	5.4%	18.4%	0.8	84.2	84.4	93.2	0.3%	10.5%	3.15	OUTPERFORM
Hua Yang	2.40	634	7.7	6.2	5.6	5.5%	22.8%	1.4	82.2	102.9	113.7	25.2%	10.5%	2.60	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
<b>CONSENSUS NUMBERS</b>															
BERJAYA LAND BHD	0.85	4,230	41.9	N.A.	N.A.	N.A.	1.9%	0.8	101.0	N.A.	N.A.	N.A.	N.A.	0.93	NEUTRAL
IGB CORPORATION BHD	2.88	3,845	17.5	16.9	16.0	2.3%	5.3%	0.9	220.3	226.9	240.3	3.0%	5.9%	3.14	NEUTRAL
YNH PROPERTY BHD	2.08	851	18.1	12.6	11.6	2.3%	5.7%	1.0	47.1	67.5	73.7	43.5%	9.1%	2.22	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.96	792	36.3	N.A.	39.8	N.A.	3.2%	0.8	21.8	N.A.	19.9	N.A.	N.A.	N.A.	BUY
GLOMAC BHD	1.15	836	7.7	7.1	6.3	4.4%	12.9%	0.9	108.4	117.7	133.0	8.7%	13.0%	1.23	BUY
KSL HOLDINGS BHD	4.67	1,805	9.1	6.0	7.0	3.4%	14.9%	1.3	198.1	301.4	258.9	52.1%	-14.1%	N.A.	BUY
PARAMOUNT CORP BHD	1.57	663	8.6	9.2	9.2	5.7%	9.1%	0.8	77.0	71.8	71.8	-6.8%	0.0%	1.76	BUY
IVORY PROPERTIES GROUP BHD	0.59	263	11.0	N.A.	N.A.	N.A.	1.5%	0.7	23.9	N.A.	N.A.	N.A.	N.A.	N.A.	BUY
TAMBUN INDAH LAND BHD	2.46	1,012	10.2	10.3	8.5	3.9%	30.3%	2.9	99.2	97.9	118.4	-1.3%	21.0%	2.78	BUY

Source: Kenanga Research

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**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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