

3 October 2018

Property | Real Estate

Matrix Concepts

Buy (Maintained)

Target Price: MYR2.40

Price: MYR2.11

Market Cap: USD385m

Bloomberg Ticker: MCH MK

Proceeding With Indonesia Venture; BUY

Maintain BUY and MYR2.40 TP, 14% upside. We are positive on Matrix's JV to develop an Islamic financial district in Indonesia, backed by the country's biggest conglomerate: Salim Group. The signing of the JV agreement yesterday marks the maiden step for Matrix to enter the property market of the nation with the largest population in South-East Asia. The JV will require the company to inject share capital of MYR125m for a 30% stake – to be paid in two tranches. We think Matrix will likely finance it with a combination of internal funds, debt, and potential new equity. As the details on financing and project GDV have yet to be finalised, we keep our call and TP for now.

First project in Indonesia. Matrix Concepts announced yesterday that it had entered into a JV agreement with Bangun Kosambi Sukses (BKS) and Nikko Sekuritas Indonesia (NSI) to jointly develop an Islamic financial district on an 8.9-acre parcel of land in West Kosambi Village, Kosambi District, Tangerang Regency. BKS is owned by Salim Group, which is involved in the property development for PIK 2 Sedayu Indo City – spanning 1,000ha – in Indonesia. NSI is an investment banking firm.

Positive on the venture. We like Matrix's efforts in venturing overseas, as the Malaysian property market is undergoing a soft period. Over the longer run, the domestic market may also become more saturated with players. Indonesia – South-East Asia's most populous country – has market growth potential. While Street may be concerned with potential bureaucracy risks, etc, we are comforted by the JV being backed by the largest conglomerate in Indonesia: Salim Group. Moreover, according to the announcement, Matrix may also be developing other projects in Indonesia besides this Islamic financial district.

We note that the JV agreement contains a few conditions, including the approval from several ministries, for the change in the composition of the shareholders of JV company Fin Centerindo Satu.

MYR124m capital injection. The proposed Islamic financial district is spearheaded by the Indonesian Government, in view of its large Muslim population. While the GDV of the project, as well as the development components, were not disclosed at this time, the JV requires Matrix to inject MYR125m in share capital for a 30% stake (BKS: 40%, NSI: 30%). The first tranche (MYR65m) will be paid in six months – the second tranche (MYR60m) will be paid after that.

Given Matrix's current net gearing of 6% as well as its new project in Australia (small-scale), we believe management will likely fund the required financing with debt and new equity, apart from internal funds. Nevertheless, we believe the potential interest expenses and dilution from new equity should be manageable for the company, especially in the initial few years. Having said that, Matrix may become more conservative on its dividend payout ratio, which will likely be kept below 40% (its policy) going forward.

Maintain BUY. As the details on financing as well as the project's GDV/phases/development components have yet to be revealed, we keep our earnings forecasts and RNAV estimates unchanged. Our TP remains at MYR2.40, based on a 25% discount to RNAV.

Forecasts and Valuations	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (MYRm)	780	812	892	970	1067
Reported net profit (MYRm)	188	212	228	249	272
Recurring net profit (MYRm)	188	212	228	249	272
Recurring net profit growth (%)	(28.1)	12.8	7.5	9.5	9.0
Recurring EPS (MYR)	0.33	0.32	0.34	0.36	0.39
DPS (MYR)	0.14	0.13	0.14	0.15	0.16
Recurring P/E (x)	6.4	6.6	6.3	5.8	5.4
P/B (x)	1.18	1.17	1.07	0.98	0.90
Dividend Yield (%)	6.5	6.1	6.6	7.1	7.6
Return on average equity (%)	19.7	19.0	17.9	17.7	17.4
Return on average assets (%)	13.4	13.1	12.8	12.9	12.9
Net debt to equity (%)	15.3	2.9	0.3	Net cash	Net cash
Our vs consensus EPS (adjusted) (%)			(3.3)	2.5	(1.6)

Source: Company data, RHB

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Figure 1: RNAV estimates

Projects	Remaining landbank (acres)	GDV (MYR m)	Stake	NPV @ 9%
<i>Bandar Sri Sendayan, Negeri Sembilan</i>				
Ongoing & future developments	917.7	2,917.0	100%	239.0
New land in BSS	194.0	1,200.0	100%	81.3
Taman Seri Impian, Kluang, Johor	169	940.7	100%	103.5
KL land	1.1	400	100%	33.0
Tiara Sendayan (Kota Gadong Perdana)	227.1	1490	100%	115.6
Residensi SIGC (Third 9 Residence)	41.8	105	100%	4.9
Lobak Commercial Centre	7.3	29.3	100%	2.6
Labu land	236.9	760	100%	87.4
Ara Sendayan (Rasah Kemayan land)	194.4	950	100%	136.7
Puchong	5.8	500	100%	42.2
Australia	n.a.	94.5	100%	9.4

	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley 1 & 2	66.4	45	10	75.9
Sendayan TechPark	123	40	13	70.5
Sendayan TechValley 3	85	45	15	83.3
Unbilled sales				186.7
Total				1,272.0
Shareholders' fund				1,205.0
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
Total RNAV				2,658.4
Share base (incl. warrants)				832.3
RNAV/share				3.19
Discount				25%
Target price				2.40

Source: RHB

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