

18 March 2019

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Entering New Market With Prudence; BUY

Target Price (Return)	MYR2.35 (+20%)
Price:	MYR1.96
Market Cap:	USD361m
Avg Daily Turnover (MYR/USD)	0.45m/0.11m

- Maintain BUY, MYR2.35 TP implies 20% upside and 7% FY19F yield.** After meeting with management last Friday, we believe investors should be more comfortable with Matrix's recent 10% placement exercise, as well as its involvement in north Jakarta's Islamic Financial District (IFD) development. This new venture, backed by a strong conglomerate, marks Matrix's entry into the growing Indonesian property market, which is supported by a huge population. Management also gave assurance on its consistent dividend payout ratio going forward.
- About PIK2.** Chairman Dato' Haji Mohamad Haslah and CFO Mr Louis Tan hosted a meeting last Friday to share further details on its JV project in Indonesia. The 3.6ha development is located within PIK2 Sedayu Indo City in North Jakarta. Both PIK1 and PIK 2 (Pulai Indah Kapuk) are developed by Agung Sedayu Group and Salim Group, and we understand that PIK1 (>2,000 ha) is almost fully developed – and is now a matured town. PIK2 (2,350 ha), undergoing land-clearing works now, is the next leg of development. It is easily accessible from all parts of Jakarta, and adjacent to the Soekarno-Hatta International Airport (only 7 minutes). PIK2 will feature more commercial, retail and leisure components. The Financial Centre in PIK2, where Matrix's 3.6ha site is located, covers 23.5 ha – comprising 12 ha for IFD and 11.5 ha for banking and insurance offices.
- Details of the project.** Matrix's IFD project (total GDV: USD500m) will be developed in two phases. Phase 1 includes the development of iconic twin towers (26 storeys each, combined GFA: 94,000 sqm), with a podium on 1.4 ha of land. The GDV is estimated at USD200m, with a gross margin of 40-50%, and is slated to be launched in 2H19. Management guided that the consortium will likely keep one office block for rental income and put another block up for *en bloc* sale. Its land cost in PIK2 is at USD1,400 psm, vs USD2,800 psm for prime land in PIK1. Given its track record in PIK1, management sees development prospects in PIK2.
- Financial management.** Admittedly, Matrix could have taken on additional borrowings to fund its equity participation in the JV (instead of placement), given its low gearing. However, Dato' Haslah explained that offshore borrowings in USD may expose the company to currency volatilities, while borrowings in IDR will be expensive due to the high interest rate. During the meeting, we were also reassured that the current equity injection is sufficient for the whole 3.6ha development, and the company should not need additional capital injection going forward.
- Dividend prospects.** Maiden earnings from Indonesia should come from FY21 onwards, and we already adjusted our forecast earlier. As for DPS, we tweak our FY20-21 forecast slightly as we now expect FY20 DPS to be flat from FY19. Given the dilution from the placement, our revised DPS forecast translates to a payout ratio of 47-48% vs 42-43% in the past. After our revision, the dividend yield is still attractive, at 6-7%.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	780.4	812.3	974.5	1,056.1	1,211.0
Recurring net profit (MYRm)	187.8	211.8	207.7	226.5	251.3
Recurring net profit growth (%)	(28.1)	12.8	(1.9)	9.0	11.0
Recurring EPS (MYR)	0.33	0.32	0.31	0.27	0.30
DPS (MYR)	0.14	0.13	0.13	0.13	0.14
Recurring P/E (x)	6.0	6.2	6.4	7.2	6.6
P/B (x)	1.09	1.08	1.01	1.02	0.95
Dividend Yield (%)	7.0	6.6	6.6	6.6	7.1
Return on average equity (%)	19.7	19.0	16.4	15.5	15.1
Net debt to equity (%)	15.3	2.9	4.8	(0.3)	2.3
Interest coverage (x)	37.83	65.19	49.84	49.95	50.23

Source: Company data, RHB

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Figure 1: Location of PIK2 and the surrounding amenities



Source: www.pik2-sedayuindo.com

Figure 2: Location of the Islamic Financial District



Source: Company

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Figure 3: RNAV estimate

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
Chambers KL	1.1	400.0	100%	33.0
Taman Desa PD 3	4.3	5.5	100%	
Tiara Sendayan (Kota Gadong Perdana)	227.1	1,490.0	100%	115.6
Residensi SIGC (Third 9 Residence)	41.8	105.0	100%	4.9
Lobak Commercial Centre	7.3	29.3	100%	2.6
Labu land	236.9	760.0	100%	87.4
Ara Sendayan (Rasah Kemayan land)	194.4	950.0	100%	136.7
Puchong	5.8	500.0	100%	42.2
Greenvale, Melbourne	n.a.	94.5	100%	9.4
Islamic Financial District, Jakarta	8.9	2,044.0	30%	43.1

	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				1,315.1
Shareholders' fund				1,205.0
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
Placement proceeds				147.0
Total RNAV				2,848.5
Share base (incl. warrants and placement)				907.3
RNAV/share				3.14
Discount				25%
Target price				2.35

Source: Company, RHB estimate

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