

30 August 2019

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Industrial Land Sale Revenue To Pick Up; BUY

| | |
|------------------------------|----------------|
| Target Price (Return) | MYR2.20 (+16%) |
| Price: | MYR1.90 |
| Market Cap: | USD354m |
| Avg Daily Turnover (MYR/USD) | 1.11m/0.26m |

- **Maintain BUY and new MYR2.20 TP from MYR2.42, 16% upside plus c.7% yield.** 1QFY20 (Mar) results came in below expectations, but full-year earnings should remain intact, as we expect some industrial land sales to kick in in the coming quarters. We understand Matrix Concepts may acquire some new land in the Klang Valley in the near term. As it gradually increases its exposure in the Kuala Lumpur area, we are somewhat concerned, given the challenging market conditions – particularly the high-rise segment.

- **1QFY20 results.** The drop in sequential earnings was largely due to lower billings from residential property development, absence of revenue recognition from industrial land sales, as well as higher sales and marketing expenses – this is as Matrix ramped up new launches. Overall profit margins stayed healthy, with EBIT margin hovering around 30%. A 3 sen first interim dividend was declared.

- **Encouraging sales in 1QFY20.** New property sales in 1QFY20 hit MYR319.2m (4QFY19: MYR157.7m). Of the former, c.MYR58m was contributed by industrial land sales, ie Sendayan TechValley. Sales for its key township projects are growing. The take-up rates for Ara Sendayan Phase 5 and Tiara Sendayan 3 (Precinct 4) increased to 48% and 99% from 11% and 28% in the previous quarter. A few new phases in these townships were rolled out recently, and some are already almost 30% sold. As for Chambers Kuala Lumpur, the take-up rate has reached 65%, and management indicated that the remaining units could be sold en bloc.

- **Decent bookings in Greenvale.** Matrix's second project in Melbourne – M Greenvale (GDV: MYR72m) – had its soft launch in April. Out of the 70 residential lots, about 20 were sold. These residential lots are targeted for handing over in Dec 2020. On the local front, management has lined up close to MYR1bn worth of new launches, comprising mainly of affordable residential products at Matrix's Bandar Sri Sendayan and Taman Seri Impian townships.

- **Forecasts.** We make no changes to our earnings forecasts. Management has targeted to close about MYR100m in industrial land sales in FY20, with revenue recognition possibly coming in between 2QFY20F and 3QFY20F. Unbilled sales stood at MYR1.239bn, largely unchanged from last quarter.

- **To reflect the potential downside risk to economic growth,** we lower our TP, which is based on a larger 30% discount to RNAV from 25%. We stick to our recommendation on this counter.

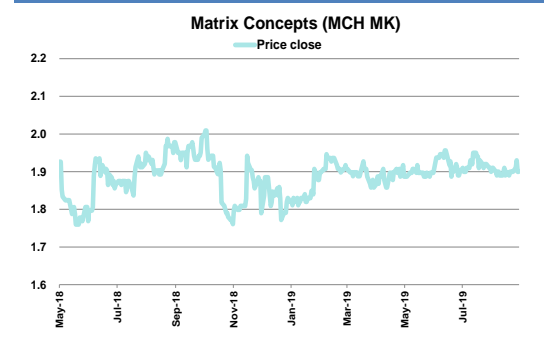
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|---------------|-------|-------|-------|-------|
| Absolute | 1.2 | (0.5) | (1.4) | (3.4) | (8.5) |
| Relative | 7.0 | 2.6 | 0.5 | 3.4 | 4.0 |
| 52-wk Price low/high (MYR) | 1.828 – 2.117 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 812.3 | 1047.9 | 1,086.1 | 1,147.0 | 1,210.6 |
| Recurring net profit (MYRm) | 211.8 | 217.6 | 231.3 | 244.0 | 267.0 |
| Recurring net profit growth (%) | 12.8 | 2.7 | 6.3 | 5.5 | 9.4 |
| Recurring EPS (MYR) | 0.32 | 0.29 | 0.28 | 0.29 | 0.31 |
| DPS (MYR) | 0.13 | 0.13 | 0.13 | 0.14 | 0.14 |
| Recurring P/E (x) | 6.0 | 6.6 | 6.8 | 6.5 | 6.1 |
| P/B (x) | 1.05 | 1.08 | 0.98 | 0.92 | 0.86 |
| Dividend Yield (%) | 6.8 | 6.7 | 6.8 | 7.1 | 7.4 |
| Return on average equity (%) | 19.0 | 17.2 | 15.8 | 14.7 | 14.8 |
| Net debt to equity (%) | 2.9 | 8.0 | 3.1 | 3.0 | 2.0 |
| Interest coverage (x) | 65.19 | 173.53 | 45.02 | 47.12 | 51.11 |

Source: Company data, RHB

30 August 2019

Property | Real Estate

Financial Exhibits

| Asia | Financial summary | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Malaysia | Core EPS (MYR) | 0.32 | 0.29 | 0.28 | 0.29 | 0.31 |
| Property | EPS (MYR) | 0.32 | 0.29 | 0.28 | 0.29 | 0.31 |
| Matrix Concepts | DPS (MYR) | 0.13 | 0.13 | 0.13 | 0.14 | 0.14 |
| MCH MK | BVPS (MYR) | 1.81 | 1.76 | 1.93 | 2.06 | 2.20 |
| | ROE (%) | 18.99 | 17.19 | 15.83 | 14.68 | 14.82 |
| | ROA (%) | 13.11 | 11.63 | 10.82 | 10.49 | 10.77 |
| Valuation basis | | | | | | |
| Based on 30% discount to RNAV | | | | | | |
| Key drivers | Valuation metrics | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
| Our FY20-22 forecasts are driven by: | Core P/E (x) | 6.0 | 6.6 | 6.8 | 6.5 | 6.1 |
| i. Sales from new projects and existing stocks; | P/B (x) | 1.0 | 1.1 | 1.0 | 0.9 | 0.9 |
| ii. Unbilled sales. | Dividend yield (%) | 6.76 | 6.71 | 6.84 | 7.11 | 7.37 |
| | EV/EBITDA (x) | 5.1 | 5.3 | 4.7 | 4.5 | 4.1 |
| Key risks | Income statement (MYRm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
| The downside risks include: | Total turnover | 812 | 1,048 | 1,086 | 1,147 | 1,211 |
| i. Worst-than-expected economic growth; | Gross profit | 497 | 508 | 541 | 562 | 593 |
| ii. Delay in launches; | EBITDA | 308 | 310 | 336 | 349 | 379 |
| iii. Cancellation of infrastructure projects. | Operating profit | 299 | 299 | 324 | 337 | 365 |
| | Net interest | (5) | (2) | (7) | (7) | (7) |
| | Exceptional items | - | - | - | - | - |
| | Pre-tax profit | 294 | 298 | 317 | 334 | 366 |
| | Taxation | (82) | (80) | (86) | (90) | (99) |
| | Net profit | 212 | 218 | 231 | 244 | 267 |
| | Core net profit | 212 | 218 | 231 | 244 | 267 |
| Company Profile | Cash flow (MYRm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
| Matrix is a Negeri Sembilan-based developer. The group concentrates mainly on developing residential and commercial properties, as well as industrial land sales. Bandar Sri Sendayan and Taman Seri Impian are its flagship township projects. | Cash flow from operations | 25 | 192 | 214 | 228 | 253 |
| | Capex | (27) | (30) | (100) | (35) | (34) |
| | Cash flow from investing activities | 26 | (30) | (100) | (35) | (34) |
| | Cash flow from financing activities | (36) | 71 | 94 | (4) | (13) |
| | Cash at beginning of period | 187 | 201 | 434 | 642 | 831 |
| | Net change in cash | 13 | 234 | 208 | 189 | 206 |
| | Ending balance cash | 201 | 434 | 642 | 831 | 1,037 |
| | Balance sheet (MYRm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
| | Total cash and equivalents | 277 | 257 | 307 | 305 | 321 |
| | Tangible fixed assets | 567 | 722 | 730 | 818 | 904 |
| | Intangible assets | - | - | - | - | - |
| | Total investments | 235 | 255 | 415 | 445 | 475 |
| | Total other assets | 642 | 787 | 801 | 830 | 860 |
| | Total assets | 1,721 | 2,021 | 2,254 | 2,399 | 2,561 |
| | Short-term debt | 151 | 161 | 166 | 176 | 186 |
| | Total long-term debt | 162 | 202 | 192 | 182 | 172 |
| | Total liabilities | 516 | 694 | 656 | 670 | 685 |
| | Shareholders' equity | 1,205 | 1,326 | 1,597 | 1,727 | 1,875 |
| | Minority interests | 1 | 1 | 1 | 1 | 1 |
| | Total equity | 1,206 | 1,327 | 1,598 | 1,728 | 1,876 |
| | Total liabilities & equity | 1,721 | 2,021 | 2,254 | 2,399 | 2,561 |
| | Key metrics | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
| | Revenue growth (%) | 4.1 | 29.0 | 3.6 | 5.6 | 5.5 |
| | Core net profit growth (%) | 12.8 | 2.7 | 6.3 | 5.5 | 9.4 |
| | Core EPS growth (%) | (3.1) | (9.3) | (3.1) | 3.9 | 7.8 |
| | Gross margin (%) | 61.2 | 48.4 | 49.8 | 49.0 | 49.0 |
| | Core net profit margin (%) | 26.1 | 20.8 | 21.3 | 21.3 | 22.1 |
| | Dividend payout ratio (%) | 40.4 | 44.2 | 46.5 | 46.5 | 44.7 |

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

| FYE Mar (MYRm) | 1QFY19 | 4QFY19 | 1QFY20 | QoQ (%) | YoY (%) | Comments |
|--------------------------|--------------|--------------|--------------|---------------|------------|---|
| Turnover | 230.0 | 278.9 | 248.5 | (10.9) | 8.0 | The drop in sequential turnover was due to lower billings from residential property development and absence of industrial land sale recognition |
| EBIT | 68.9 | 82.5 | 74.0 | (10.3) | 7.4 | The drop in QoQ EBIT was partly due to higher sales and marketing expenses, as the company ramped up its launches |
| <i>EBIT margin (%)</i> | 29.9 | 29.6 | 29.8 | | | |
| Net interest | (0.9) | 1.0 | (1.0) | (206.2) | 10.1 | |
| Pretax profit | 68.0 | 83.5 | 73.0 | (12.6) | 7.4 | |
| <i>Pretax margin (%)</i> | 29.5 | 29.9 | 29.4 | | | |
| Taxation | (17.8) | (17.6) | (18.4) | 4.5 | 3.5 | |
| <i>Tax rate (%)</i> | 26.2 | 21.1 | 25.2 | | | |
| Minority interest | 0.0 | 0.0 | 0.0 | nm | nm | |
| Net profit | 50.2 | 65.9 | 54.5 | (17.2) | 8.8 | Below expectations |
| <i>Net margin (%)</i> | 21.8 | 23.6 | 22.0 | | | |
| EPS (sen) | 6.7 | 8.8 | 7.1 | | | |
| Gross DPS (sen) | 3.3 | 3.3 | 3.0 | | | |
| NTA/share (MYR) | 1.6 | 1.8 | 1.8 | | | |

Source: Company data, RHB

Figure 2: 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% | 224.6 |
| New land in BSS | 194.0 | 1,200.0 | 100% | 72.3 |
| Taman Seri Impian, Kluang, Johor | 169 | 940.7 | 100% | 96.7 |
| Taman Seri Impian Phase 2 | 309.5 | 1,200.0 | 100% | 95.9 |
| Chambers KL | 1.1 | 400.0 | 100% | 30.1 |
| Tiara Sendayan (Kota Gadong Perdana) | 227.1 | 1,490.0 | 100% | 108.1 |
| Residensi SIGC (Third 9 Residence) | 41.8 | 105.0 | 100% | 4.6 |
| Lobak Commercial Centre | 7.3 | 29.3 | 100% | 2.6 |
| Labu land | 236.9 | 760.0 | 100% | 72.7 |
| Ara Sendayan (Rasah Kemayan land) | 194.4 | 950.0 | 100% | 115.4 |
| Puchong | 5.8 | 500.0 | 100% | 32.1 |
| Greenvale, Melbourne | n.a. | 94.5 | 100% | 9.3 |
| Islamic Financial District, Jakarta | 8.9 | 2,044.0 | 30% | 37.5 |
| | | | | |
| | 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 | | | | 1,318.3 |
| Shareholders' fund | | | | 1,205.0 |
| Warrants conversion (exercice price at MYR1.92) | | | | 123.6 |
| ESOS proceeds | | | | 57.7 |
| Placement proceeds | | | | 147.0 |
| Total RNAV | | | | 2,851.7 |
| Share base (incl. warrants and placement) | | | | 907.3 |
| RNAV/share | | | | 3.14 |
| Discount | | | | 30% |
| Target price | | | | 2.20 |

Source: RHB

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 15% over the next 12 months |
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