

27 August 2020

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Sales Remain Strong Despite MCO; Stay BUY

Target Price (Return): MYR2.22 (+28%)
 Price: MYR1.74
 Market Cap: USD348m
 Avg Daily Turnover (MYR/USD) 0.89m/0.21m

- **BUY, MYR2.22 TP, 28% upside with c.6% FY21F (Mar) yield.** Matrix Concepts' 1QFY21 results are within expectations. New property sales still came in strong at MYR350.3m, despite interruptions from the closure of sales galleries during the lockdown. While 1QFY21 earnings were affected, the company still declared a 2 sen interim DPS, translating to a payout ratio of 54%. MCH's ability to boost its payout ratio was largely backed by its strong balance sheet, with a net gearing of only 9%.

- **1QFY21 results review.** While turnover was largely affected by disruptions caused by the Movement Control Order (MCO), the EBIT margin recovered to 27%, from 20% in the previous quarter. This was mainly due to a higher-margin product mix from the residential development. Meanwhile, net gearing remained steady at 9%, vs 7% as at end-FY20. Despite the impact of the lockdown, a 2 sen first interim DPS was declared. Note that MCH's dividend payout ratio of 54% for the quarter was higher than its usual (minimum) 40% level.

- **MYR1bn of new sales in FY20.** New property sales were strong at MYR350.3m in 1QFY21, vs MYR87.3m in 4QFY20. The strong sales were largely due to the backlog of bookings that amounted to MYR700m – secured during the MCO – and the developer's sales team managed to convert these into contractual sales. In addition, the online stamping process has also helped to accelerate sales recognition. Due to the successful conversion (to sales), take-up rates for most projects were much higher – with Tiara Sendayan 5 (Precinct 5) hitting 100% from 88% in 4QFY20, while Hijayu Aman P1 reached 98% from 83% the quarter before. Tiara Sendayan 6 (Precinct 8), which was launched during the quarter, is 98%-sold.

- **Maintaining its MYR1bn sales target for FY21.** Sales in 2QFY21 will likely be slightly lower, due to the normalisation effect. MCH still has about MYR750m worth of properties to be launched in the remaining quarters. Its key focus is still on various township projects in Sendayan, as well as Bandar Sri Impian. The Laman Sendayan project, which had its maiden launch in 1QFY21, saw 100% bookings for Phase 1. As such, the subsequent Phases 2 and 3 will also be rolled out in the quarters ahead.

- **We make no changes to our earnings forecasts.** As a result of the encouraging sales in 1QFY21, unbilled sales rose to MYR1.18bn, from MYR1.02bn as at 4QFY20.

- **Maintain TP.** Our TP is based on an unchanged 35% discount to RNAV.

Analyst

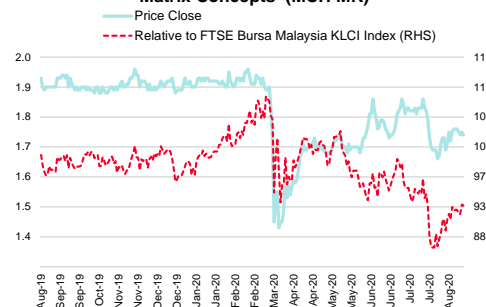
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.9)	(4.4)	2.4	(8.9)	(8.9)
Relative	(6.4)	(1.9)	(5.5)	(12.5)	(5.7)
52-wk Price low/high (MYR)					1.43 – 1.96

Matrix Concepts (MCH MK)



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (MYRm)	1,048	1,282	1,101	1,019	1,136
Recurring net profit (MYRm)	218	232	226	205	220
Recurring net profit growth (%)	2.7	6.5	(2.2)	(9.7)	7.7
Recurring EPS (MYR)	0.29	0.29	0.27	0.24	0.26
DPS (MYR)	0.13	0.12	0.11	0.10	0.11
Recurring P/E (x)	6.03	6.03	6.35	7.14	6.70
P/B (x)	0.99	0.87	0.82	0.78	0.74
Dividend Yield (%)	7.3	6.6	6.3	5.7	6.3
Return on average equity (%)	17.2	15.8	13.5	11.3	11.4
Net debt to equity (%)	8.0	7.3	1.2	1.3	0.1

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

27 August 2020

Property | Real Estate

Financial Exhibits

Asia	Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Malaysia	Recurring EPS	0.29	0.29	0.27	0.24	0.26
Property	EPS	0.29	0.29	0.27	0.24	0.26
Matrix Concepts	DPS	0.13	0.12	0.11	0.10	0.11
MCH MK	BVPS	1.76	2.01	2.12	2.23	2.36
Buy	Return on average equity (%)	17.2	15.8	13.5	11.3	11.4
	Return on average assets (%)	11.6	10.5	9.2	8.0	8.2
Valuation basis						
35% discount to RNAV						
Key drivers	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
i. New property and industrial land sales;	Recurring P/E (x)	6.03	6.03	6.35	7.14	6.70
ii. Landbank acquisitions.	P/B (x)	1.0	0.9	0.8	0.8	0.7
	Dividend Yield (%)	7.3	6.6	6.3	5.7	6.3
	EV/EBITDA (x)	1.34	1.38	1.16	1.09	1.03
Key risks	Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Weaker-than-expected market conditions	Total turnover	1,048	1,282	1,101	1,019	1,136
	Gross profit	508	590	536	506	542
	EBITDA	299	341	318	288	310
	Operating profit	299	341	318	288	310
	Net interest	(2)	(2)	(8)	(8)	(8)
	Pre-tax profit	298	339	310	280	302
	Taxation	(80)	(107)	(84)	(76)	(82)
	Reported net profit	218	232	226	205	220
	Recurring net profit	218	232	226	205	220
Company Profile	Cash flow (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Matrix Concepts is a Negeri Sembilan-based developer that currently has 2,732 acres of land, with a total portfolio GDV of MYR8.2bn. The group concentrates mainly on developing residential and commercial properties, as well as sells industrial land.	Change in working capital	(3)	(132)	74	41	(42)
	Cash flow from operations	255	141	343	289	223
	Capex	(166)	(20)	(380)	(150)	(50)
	Cash flow from investing activities	(184)	(17)	(406)	(175)	(74)
	Dividends paid	(86)	(96)	(92)	(91)	(84)
	Cash flow from financing activities	(74)	52	(129)	(127)	(119)
	Cash at beginning of period	277	257	281	378	374
	Net change in cash	(3)	176	(193)	(13)	30
	Ending balance cash	274	433	89	364	404
	Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total cash and equivalents	257	281	378	374	406
	Total investments	977	1,147	1,260	1,425	1,489
	Total other assets	23	19	19	19	19
	Total assets	2,021	2,402	2,502	2,600	2,769
	Short-term debt	161	135	145	155	165
	Total long-term debt	202	263	253	243	243
	Total liabilities	694	789	753	731	773
	Shareholders' equity	1,326	1,615	1,750	1,871	1,998
	Minority interests	1	(2)	(2)	(2)	(2)
	Total equity	1,327	1,613	1,749	1,869	1,996
	Total liabilities & equity	2,021	2,402	2,502	2,600	2,769
	Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Revenue growth (%)	29.0	22.4	(14.1)	(7.5)	11.5
	Recurring net profit growth (%)	2.7	6.5	(2.2)	(9.7)	7.7
	Recurrent EPS growth (%)	(9.3)	0.0	(5.1)	(11.0)	6.7
	Gross margin (%)	48.4	46.0	48.6	49.6	47.8
	Recurring net profit margin (%)	20.8	18.1	20.6	20.1	19.4
	Dividend payout ratio (%)	44.2	39.9	40.2	41.0	42.3

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Mar (MYRm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Turnover	248.5	472.1	162.0	(65.7)	(34.8)	The decrease in revenue was mainly due to the impact of COVID-19 and the MCO lockdown measures. Of the total revenue in 1QFY21, MYR140m was from residential properties, MYR2.8m from commercial properties, and MYR13m from industrial properties. The balance was from investment properties.
EBIT	74.0	95.7	42.9	(55.2)	(42.1)	The better margin this quarter was due to an improved product mix from residential development.
EBIT margin (%)	29.8	20.3	26.5			
Net interest	(1.0)	(0.5)	(0.2)	(68.9)	(85.5)	
Pretax profit	73.0	95.2	42.7	(55.1)	(41.4)	Headline PBT in 4QFY20 included an impairment of MYR2.9m for D'sora Hotel.
Pretax margin (%)	29.4	20.2	26.4			
Taxation	(18.4)	(42.3)	(12.8)	(69.7)	(30.3)	The higher effective tax rate was due to the non-recognition of deferred tax assets for certain temporary differences, and non-deductible expenses for tax purposes.
Tax rate (%)	25.2	44.4	30.0			
Minority interest	0.0	2.7	1.2	n.m.	n.m.	
Net profit	54.5	55.6	31.1	(44.1)	(43.1)	Within expectations
Net margin (%)	22.0	11.8	19.2			
EPS (sen)	7.1	6.7	3.7			
Gross DPS (sen)	3.0	2.5	2.0			
NTA/share (MYR)	1.8	1.9	2.0			

Source: Company data, RHB

27 August 2020

Property | Real Estate

Figure 2: RNAV estimate

Projects	Remaining landbank (acres)	GDV (MYR m)	Stake	NPV @ 9%
Bandar Sri Sendayan, Negeri Sembilan	657.0	4,233.4	100%	299.2
Irama Sendayan	65.8	420.0	100%	41.9
Kiara Sendayan	237	850.0	100%	80.4
Tiara Sendayan (Kota Gadong Perdana)	220.49	1,223.0	100%	121.1
Ara Sendayan (Rasah Kemayan land)	30.5	85.1	100%	12.4
Laman Sendayan	95	275.0	100%	38.3
Taman Seri Impian, Kluang, Johor	465.7	2,223.3	100%	254.9
Others	27.7	156.8	100%	6.9
Chambers KL	1.1	400.0	100%	32.3
Damansara Perdana	5.5	400.0	100%	22.0
Puchong	5.8	400.0	100%	21.7
Cheras	5.2	400.0	100%	22.5
Greenvale, Melbourne	n.a.	94.5	100%	8.6
Islamic Financial District, Jakarta	8.9	2,044.0	30%	49.0

	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley 1 & 2	52	45	10	59.5
Sendayan TechValley 3	85	45	15	83.3

Total				1,153.8
Shareholders' fund				1,615.0
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
Placement proceeds				147.0
Total RNAV				3,097.1
Share base (incl. warrants and placement)				907.3
RNAV/share				3.41
Discount				35%
Target price				2.22

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-09	Buy	2.22	1.83
2019-11-21	Buy	2.20	1.92
2019-06-03	Buy	2.42	1.97
2019-03-18	Buy	2.35	1.99
2019-02-21	Buy	2.40	1.97
2018-05-24	Buy	na	1.93
2018-05-23	Buy	2.40	1.92

Source: RHB, Bloomberg

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