

21 November 2019

Property | Real Estate

## Matrix Concepts (MCH MK)

**Buy** (Maintained)

### Sales And Earnings Still Resilient; BUY

Target Price (Return)	MYR2.20 (+16%)
Price:	MYR1.90
Market Cap:	USD376m
Avg Daily Turnover (MYR/USD)	0.63m/0.15m

- Maintain BUY, unchanged MYR2.20 TP** implies 16% upside, with 7% FY20F (Mar) yield. Matrix Concepts' 2QFY20 results are in line, and it should be on track to hit its MYR1.3bn sales target for FY20 – as 1H sales have already reached MYR666m. Going forward, it will continue to expand affordable product offerings by converting its Sendayan TechPark into a new residential development. Pending finalisation of the plan, we think this should boost its overall GDV.
- 2QFY20 results review.** The QoQ and YoY revenue growth was mainly due to higher billings from ongoing township projects in Sendayan, as well as its maiden high-rise project – Chambers KL. EBIT margin stabilised at 28-30%, as construction works for the new township projects progressed to more advanced stages. Net gearing is at 2%. Just like in 1QFY20, a 3 sen first interim DPS was declared.
- Better property sales in 2QFY20.** New property sales in 2QFY20 were at MYR346.4m, vs MYR319.2m in 1QFY20. Out of the total sales of MYR665.6m in 1HFY20, about MYR116m came from industrial land sales (at Sendayan TechValley). Demand for affordable homes and township properties remained resilient. The take-up rates for Hijayu Aman P1 and Tiara Sendayan 4 (Precinct 3), which were rolled out last quarter, increased to 43% and 89%, from 13% and 13% in 1QFY20. Chambers KL is now 65%-sold (by GDV). So far in 1H, Matrix Concepts has already launched MYR743.3m in properties – and there are still units worth MYR500m to be launched in 2HFY20. As for its M. Greenvale project in Melbourne, 24 out of 70 residential lots have been sold. These are targeted to be handed over in Dec 2020.
- Converting Sendayan TechPark into a residential development.** Management plans to convert Sendayan TechPark, which was supposed to be a 116-acre industrial project (land lots), into a residential township. In view of the success of and demand for mid-range properties in the first four phases in Tiara Sendayan, this new project will replicate the design, concept and pricing of Tiara Sendayan. The conversion premium is likely to be very minimal, and the resulting GDV for the residential development should be much higher. This new project is slated for its maiden launch in 2H of 2020.
- We make no changes to our earnings forecasts.** The bulk of revenue recognition from the MYR116m industrial land sale will likely take place in 3QFY20-4QFY20. Unbilled sales were largely unchanged at MYR1.21bn (vs MYR1.239bn as at 1QFY20).
- Our TP stays at MYR2.20,** based on an unchanged 30% discount to RNAV.

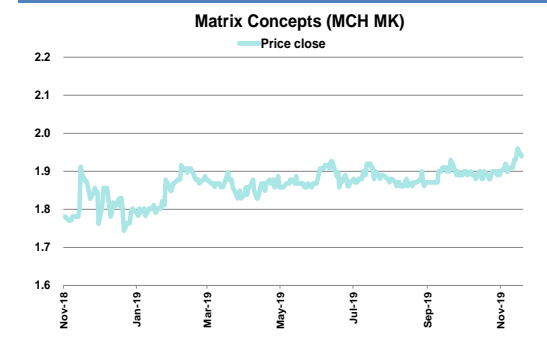
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.8	1.6	2.1	0.1	(3.4)
Relative	7.7	(1.7)	1.2	(0.3)	1.3
52-wk Price low/high (MYR)	1.828 – 2.027				



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	0.13	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	6.6	6.8	7.4
Return on average equity (%)	19.0	17.2	15.8	14.6	14.8
Net debt to equity (%)	2.9	8.0	2.9	2.5	1.5
Interest coverage (x)	65.19	173.53	45.02	47.12	51.11

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
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
<b>Matrix Concepts</b>	DPS (MYR)	0.13	0.13	0.13	0.13	0.14
MCH MK	BVPS (MYR)	1.81	1.76	1.93	2.07	2.21
	ROE (%)	18.99	17.19	15.81	14.62	14.75
	ROA (%)	13.11	11.63	10.81	10.46	10.73
<b>Valuation basis</b>						
Based on 30% discount to RNAV						
<b>Key drivers</b>	<b>Valuation metrics</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22</b>
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	6.58	6.84	7.37
	EV/EBITDA (x)	5.1	5.3	4.7	4.5	4.1
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22</b>
The downside risks include:	Total turnover	812	1,048	1,086	1,147	1,211
i. Worse-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
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22</b>
Matrix Concepts is a Negeri Sembilan-based developer. The group concentrates mainly on developing residential and commercial properties, as well as selling industrial land. 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)	(150)
	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	90
	Ending balance cash	201	434	642	831	921
	<b>Balance sheet (MYRm)</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22</b>
	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
	<b>Key metrics</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22</b>
	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	44.7	44.8	44.7

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)	Comments
Turnover	253.3	248.5	282.7	13.8	11.6	483.4	531.2	9.9	The increase in turnover was due to higher billings from projects in Sendayan, as well as the maiden high-rise project in Chambers KL. Industrial land sales contributed MYR19m to 1HFY20 revenue.
EBIT	75.4	74.0	79.4	7.3	5.2	144.3	153.4		
EBIT margin (%)	29.8	29.8	28.1			29.9	28.9		
Net interest	(1.0)	(1.0)	0.1	(109.7)	(110.2)	(1.9)	(0.9)	(51.4)	
Pretax profit	74.4	73.0	79.5	8.9	6.8	142.4	152.4	7.1	
Pretax margin (%)	29.4	29.4	28.1			29.5	28.7		
Taxation	(21.5)	(18.4)	(20.7)	12.5	(3.6)	(39.3)	(39.1)	(0.4)	
Tax rate (%)	28.9	25.2	26.1			27.6	25.7		
Minority interest	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0		
Net profit	52.9	54.5	58.7	7.7	11.0	103.1	113.3	9.9	Within expectations
Net margin (%)	20.9	22.0	20.8			21.3	0.0		
EPS (sen)	7.0	7.1	7.4			13.7	14.5		
Gross DPS (sen)	3.3	3.0	3.0			6.5	6.0		
NTA/share (MYR)	1.7	1.8	1.9			3.3	3.7		

Source: Company data, RHB

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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
Cheras	5.2	400.0	100%	22.1
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	52	45	10	59.5
Sendayan TechPark	95	40	13	54.4
Sendayan TechValley 3	85	45	15	83.3
Unbilled sales				200.0
Total				1,321.2
Shareholders' fund				1,205.0
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
Placement proceeds				147.0
Total RNAV				2,854.6
Share base (incl. warrants and placement)				907.3
RNAV/share				3.15
Discount				30%
Target price				2.20

Source: RHB

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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