

10 July 2020

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Solid Balance Sheet To Help Weather Headwinds

Target Price (Return): MYR2.22 (21.3%)
 Price: MYR1.83
 Market Cap: USD357m
 Avg Daily Turnover (MYR/USD) 0.74m/0.17m

- Maintain BUY, MYR2.22 TP, 21% upside with 6% FY21F (Mar) yield.** Matrix Concepts' 4QFY20 results are in line with our estimates. Just like its peers, management has pared down its sales target for FY21 to MYR1bn (flat YoY). We still like the stock, as its 40% dividend payout ratio is unchanged, backed by a solid balance sheet (net gearing is only at 7%). Matrix is one of the few developers under our coverage that offers a 6% yield.
- 4QFY20 results review.** While revenue grew QoQ, EBIT margin contracted to 20% in 4QFY20, vs 33% in 3QFY20. This was mainly due to the higher contributions from mid-range affordable property projects vs the higher industrial land sales of around MYR70m in the previous quarter. Matrix also recorded an impairment of MYR2.9m on D'Sora Hotel during the quarter. The company's effective tax rate increased, due to non-recognition of deferred tax assets for certain temporary differences and non-tax deductible expenses. A 2.5 sen fourth interim DPS was declared, bringing full-year DPS to 11.5 sen, vs 12.8 sen in FY19.
- The company's new property sales for 4QFY20 amounted to just MYR87.3m,** vs. MYR280.9m in 3QFY20. Full-year sales of MYR1.04bn implied a 20% YoY decline from FY19's MYR1.3bn. The weak sales in 4QFY20 was largely due to the closure of sales galleries and government offices during the Movement Control Order (MCO) period, so numerous signed sales and purchase agreements could not be sent for stamping. Take-up rates saw a mild improvement, with Tiara Sendayan 5's (Precinct 5) reaching 88% vs 55% in 3QFY20, while Hijayu Aman P1's was at 83% from 74% in 3QFY20.
- Targeting MYR1bn in sales for FY21.** Given the impact of the COVID-19 pandemic, management has set a MYR1bn sales target for FY21, on the back of MYR1.04bn worth of new launches. Matrix's key focus remains the affordable products in Tiara Sendayan and Bandar Sri Impian, as well as affordable-premium residential products, ie the Hijayu series in the Sendayan development. Property sales in 1QFY21 will likely be strong, due to the sales backlog during the MCO period.
- Forecasts.** We expect FY21 earnings growth to be flat, underpinned by MYR1.02bn in unbilled sales, vs MYR1.21bn as at 3QFY20. Earnings in FY22 will likely decrease YoY, due to the lower property sales expected this year. As such, we cut our FY22 earnings projection by 13%.
- Maintain TP.** Our RNAV estimate is updated to reflect the latest financial numbers. Our TP is unchanged at MYR2.22, but is now based on a higher discount to RNAV of 35% (from 30%) to better reflect the market risk.

Analyst

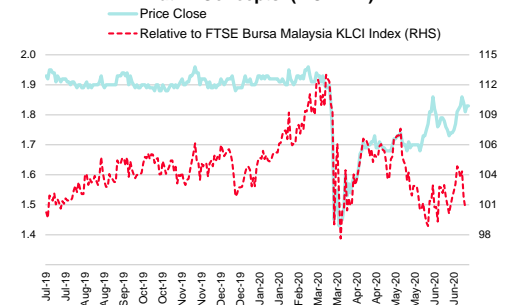
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.2)	(1.6)	7.0	(5.2)	(5.2)
Relative	(3.9)	(2.1)	(8.6)	(4.4)	0.7
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)	6.35	6.34	6.68	7.51	7.04
P/B (x)	1.04	0.91	0.86	0.82	0.78
Dividend Yield (%)	7.0	6.3	6.0	5.5	6.0
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.

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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)	6.35	6.34	6.68	7.51	7.04
ii. Land acquisitions.	P/B (x)	1.0	0.9	0.9	0.8	0.8
	Dividend Yield (%)	7.0	6.3	6.0	5.5	6.0
	EV/EBITDA (x)	1.57	1.59	1.39	1.35	1.28
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 selling 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: Quarterly results

FYE Mar (MYRm)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Turnover	278.9	279.0	472.1	69.2	69.3	1047.9	1282.3	22.4	The higher turnover in 4QFY20 was mainly contributed by Sendayan Development residential properties.
EBIT	82.5	91.9	95.7	4.2	16.0	299.3	340.9		The narrower margin in 4QFY20 was due to the lower-margin product mix (more affordable projects), while better margins in 3QFY20 stemmed from the recognition of industrial land sales made during the quarter.
EBIT margin (%)	29.6	32.9	20.3			28.6	26.6		
Net interest	1.0	(0.5)	(0.5)	(2.2)	(149.7)	(1.7)	(1.9)	10.6	
Pretax profit	83.5	91.4	95.2	4.2	14.1	297.6	339.0	13.9	Headline PBT in 4QFY20 included an impairment of MYR2.9m for D'sora Hotel.
Pretax margin (%)	29.9	32.7	20.2			28.4	26.4		
Taxation	(17.6)	(26.0)	(42.3)	62.6	140.1	(80.1)	(107.5)	34.2	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 (%)	21.1	28.5	44.4			26.9	31.7		
Minority interest	0.0	0.0	2.7	n.m.	n.m.	0.0	2.7		
Net profit	65.9	65.3	55.6	(14.9)	(15.6)	217.6	234.2	7.6	Within expectations.
Net margin (%)	23.6	23.4	11.8			20.8	18.3		
EPS (sen)	8.8	7.9	6.7			28.9	29.2		
Gross DPS (sen)	3.3	3.0	2.5			12.8	11.5		
NTA/share (MYR)	1.8	1.9	1.9			1.8	1.9		

Source: Company data, RHB

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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
Sendayan Icon Park	116.4	6,000.0	100%	
Iram Sendayan	65.8	420.0	100%	40.5
Kiara Sendayan	237	850.0	100%	77.8
Tiara Sendayan (Kota Gadong Perdana)	220.49	1,223.0	100%	114.4
Ara Sendayan (Rasah Kemayan land)	30.5	85.1	100%	12.4
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%	30.3
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 TechPark	95	40	13	54.4
Sendayan TechValley3	85	45	15	83.3

Total	1,157.2
Shareholders' fund	1,615.0
Warrants conversion (exercice price at MYR1.92)	123.6
ESOS proceeds	57.7
Placement proceeds	147.0
Total RNAV	3,100.5
Share base (incl. warrants and placement)	907.3
RNAV/share	3.42
Discount	35%
Target price	2.22

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-21	Buy	2.22	1.96
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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