

Matrix Concepts (BUY↔, EPS ↔)

 INDUSTRY: NEUTRAL
 COMPANY INSIGHT/BRIEFING

 September 24, 2013
 Price Target: RM3.40 (↑)
 Share price: RM2.93

Gaining traction with investors

Highlights

- Share price has gained more than 10% last week, as investors begin to better appreciate MCH's growth and dividend story, and its net cash position. We now revisit its re-rating catalysts.
- Strong earnings visibility**, with unbilled sales now standing at RM362m (0.8x FY12 revenue).
- Expect margins expansion.** MCH's margins are highly sensitive to product mix, and we expect it to expand with time as MCH sell more high-margin industrial land and double-storey terrace houses. YTD, its gross margin is close to 40% and we expect it to rise with time as its land cost is already fully paid for at RM9psf.
- Revaluating the industrial land.** Previously our RNAV was conservative as we valued its 200 acres of industrial land plots in Sendayan Tech Valley (STV) at book value (RM9 psf). Now that investors have a better grasp of MCH's fundamentals, we incorporate this angle into our RNAV estimate.
- Room to upgrade.** Our RNAV estimate is still conservative as we are only imputing 30% GP margin for FY13-15. YTD, its GP margin has averaged 42%.
- Strong property prices in Seremban.** The asset class outlook in Seremban continues to be encouraging, with MCH's double storey terrace houses now fetching RM380k vs. RM300k last year. We believe a large part of this comes from new buyers from Klang Valley, now estimated to make up 40% of MCH's new sales.

Risks

- Slowdown in sales; escalation in construction and raw material costs; downturn in Seremban and Johor.

Forecasts

- Unchanged.

Rating

- BUY (↔)**
- Positives:** Offers great exposure to the thriving satellite town of Seremban and high dividend yield.
- Negatives:** Lack of landbank diversification means the company's fate is closely tied to that of Seremban, although we note that the recent maiden land acquisition in Klang Valley will mitigate some concerns.

Valuation

- The recent strong share price performance suggests MCH is rapidly gaining traction with investors. After factoring in a revaluation in industrial land in STV, our RNAV and TP are raised by 20% to RM4.58 and RM3.40 respectively, while our 25% discount to RNAV remains unchanged. We maintain our BUY recommendation on the stock.

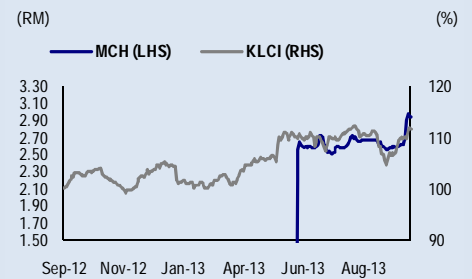
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KLCI	1796.4
Expected share price return	16.0%
Expected dividend return	7.8%
Expected total return	23.8%

Share price



Information

Bloomberg Ticker	MCH MK
Bursa Code	5236
Issued Shares (m)	300
Market cap (RMm)	880
3-mth avg volume ('000)	519

Price Performance	1M	3M	12M
Absolute %	12.7	12.3	nm
Relative %	8.0	8.6	Nm

Major shareholders (%)

LEE TIAN HOCK	19.96
SHINING TERM SDN BHD	16.11
MAGNITUDE POINT SDN BHD	6.37
SUPREME INTEREST SDN BHD	5.06
TARGET VENUE SDN BHD	5.06
AMBANG KUSSA	4.98

Summary Earnings Table

FYE 31 Dec (RM m)	2012A	2013E	2014E	2015E
Revenue	456.1	774.7	838.8	917.7
Reported net profit	103.5	151.2	170.4	193.9
Norm. net profit	103.5	151.2	170.4	193.9
Norm. EPS (sen)	43.6	50.4	56.8	64.6
EPS growth (%)	49.1	15.6	12.7	13.8
Norm. PER (x)	6.7	5.8	5.2	4.5
FD PER (x)	6.7	5.8	5.2	4.5
Net DPS (sen)	0.0	26.0	22.7	25.9
Dividend yield (%)	0.0	8.9	7.8	8.8
BVPS (RM)	2.0	1.8	2.2	2.6
P/B (x)	1.5	1.6	1.3	1.1

HLIB

Figure #1 RNAV table

Project profits - DCF		RMm		
Sendayan				
- Residential		126.96		
- Commercial		349.07		
- Industrial		8.33		
- On-going		18.86		
- Unbilled Sales		20.95		
Seremban (ex-Sendayan)				
- Residential		37.06		
- Commercial		0.71		
Johor				
- Residential		15.37		
- Commercial		13.43		
- On-going		1.79		
- Unbilled Sales		2.87		
Landbank revaluation surplus				
	Acres	Mkt price (RM psf)	Book value (RM psf)	
Sendayan Tech Valley	200.00	35.00	9.00	226.51
Total Surplus				821.91
Total Equity				552.59
Total RNAV				1,374.50
Shares outstanding (m)				300.00
RNAV per share (RM)				4.58
ESOS proceeds *				2.23
Diluted share base (m)				303.45
Diluted RNAV per share (RM)				4.54
Dicount to RNAV				25.0%
Target Price (RM)				3.40

Source: HLIB

Income statement

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Revenue	631.6	456.1	774.7	838.8	917.7
COGS	-475.8	-263.3	-575.0	-614.2	-662.8
Gross profit	155.7	192.7	240.2	260.0	284.5
Opex	-46.8	-46.6	-41.9	-37.0	-31.3
Depreciation	-2.0	-2.3	-2.0	-2.0	-2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Finance costs	-0.6	-1.0	-1.1	-0.9	-0.9
Associates	0.0	0.0	0.0	0.0	0.0
Pretax profit	106.3	142.8	201.5	227.2	258.6
Taxation	-26.4	-39.3	-50.4	-56.8	-64.6
Minorities	-10.5	0.0	0.0	0.0	0.0
Net profit	69.4	103.5	151.2	170.4	193.9
Basic shares (m)	237.5	237.5	300.0	300.0	300.0
Basic EPS (sen)	29.2	43.6	50.4	56.8	64.6

Balance sheet

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Inventories	0.8	2.4	0.9	1.0	1.1
Trade & other receivable	75.1	101.0	92.1	99.8	109.2
Cash	151.5	168.2	164.2	173.1	198.1
Current Assets	599.2	679.4	665.0	681.5	716.0
PPE	11.0	11.5	109.5	206.4	302.4
Investment properties	1.4	1.4	1.4	1.4	1.4
Development properties	30.2	30.3	30.3	30.3	30.3
Total assets	643.9	724.6	808.2	921.7	1,052.2
Shr Holder funds	375.1	479.1	552.3	654.5	770.9
Total Equity	375.1	479.4	552.6	654.8	771.2
Long-term borrowings	12.2	17.6	17.6	17.6	17.6
Short-term borrowings	0.0	3.9	0.0	0.0	0.0

Assumption metrics

FYE 31 Dec (RM m)	2013E	2014E	2015E
Gross margin	31.0	31.0	31.0
PBT margin	26.0	27.1	28.2
Net margin	19.5	20.3	21.1

Valuation ratios

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
Reported basic EPS (sen)	29.2	43.6	50.4	56.8	64.6
Norm. basic EPS (sen)	29.2	43.6	50.4	56.8	64.6
Norm. FD EPS (sen)	29.2	43.6	50.4	56.8	64.6
Price	2.9	2.9	2.9	2.9	2.9
PER (x)	10.0	6.7	5.8	5.2	4.5
Net DPS (sen)	0.0	0.0	26.0	22.7	25.9
Net DY (%)	0.0	0.0	8.9	7.8	8.8
NTA/ share (sen)	157.9	201.9	184.2	218.3	257.1
P/NTA (x)	1.9	1.5	1.6	1.3	1.1
Enterprise value	560.2	549.1	732.3	723.5	698.5
EV/ EBITDA (x)	5.1	3.8	3.7	3.2	2.8
ROE (%)	18.5	21.6	27.4	26.0	25.1
Net gearing (x)	-0.4	-0.3	-0.3	-0.2	-0.2
BVPS (RM)	1.6	2.0	1.8	2.2	2.6

Cashflow

FYE 31 Dec (RM m)	2011A	2012A	2013E	2014E	2015E
PAT		103.5	151.2	170.4	193.9
Depreciation		2.3	2.0	2.0	2.0
Amortisation		0.0	0.0	0.0	0.0
Working cap & others		-10.9	24.7	3.6	4.6
Operating cashflow		94.9	177.9	176.0	200.6
Capex		-100.0	-100.0	-99.0	-98.0
Investing Cashflow		-100.0	-100.0	-99.0	-98.0
Issue of shares		0	0	0	0
Dividends		0	-78	-68	-78
Others		0	0	0	0
Financing cashflow		0.0	-81.9	-68.1	-77.6
Net cash flow		-5.1	-4.0	8.8	25.0

Quarterly financial summary

FYE 31 Dec (RM m)	1Q13	2Q13
Revenue	147.3	0.0
Cost of sales	-93.7	0.0
Gross profit	53.6	0.0
Selling and marketing ex	-1.5	0.0
Administrative expenses	-11.6	0.0
Operating Profit	40.9	0.0
Pretax profit	40.6	0.0
Net profit	30.0	0.0
Basic shares (m)	72.1	228.8
Basic EPS (sen)	63.7	13.1
DPS (sen)	13.5	7.0
FCF/ share (sen)	12.7	17.1
Net cash/ share (sen)	24.3	81.5

Company, HLIB

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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NOT RATED	No research coverage, and report is intended purely for informational purposes.

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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.