

19 November 2020

Property | Real Estate

Matrix Concepts (MCH MK)

Buy (Maintained)

Progress Billings Picked Up Post MCO; Keep BUY

Target Price (Return): MYR2.22 (31.4%)
 Price: MYR1.69
 Market Cap: USD343m
 Avg Daily Turnover (MYR/USD) 0.44m/0.09m

- Maintain BUY and MYR2.22 TP, with 31% upside and 6.5% yield.** Matrix Concepts' 2QFY21 (Mar) results were within expectations. Construction works for all property projects accelerated post MCO to make up the loss in productivity in the previous quarter. New property sales were on track to hit management's MYR1bn target, as 1HFY21 sales have achieved MYR602m. Despite the recent surge in COVID-19 cases in Negeri Sembilan, management indicated that business operations are not affected. We expect construction works and property sales to normalise in the coming quarters.
- 2QFY21 results.** Sequential turnover recovered rapidly as construction works for property projects picked up materially after the Movement Control Order (MCO) and hence the progress billings. Meanwhile, the expansion in EBIT margin was partly due to higher-margin product mix as well as the reduction in physical marketing activities as the company switched to online marketing platforms to boost sales. Net gearing fell to 6% (1QFY21: 9%). A 3 sen single-tier second interim dividend was declared (1QFY21: 2 sen).
- Sales normalised in 2QFY21.** New property sales achieved MYR251.8m vs MYR350.3m in 1QFY21, bringing 1H total to MYR602.1m. The strong sales were largely due to the successful conversion of bookings that the company secured earlier into contractual sales. Affordable products were the best sellers, as new launch Laman Sendayan 1 (Precinct 4) hit a take-up rate of 99%. Sales for other projects also saw encouraging pick up, with Ara Sendayan Phase 2 (Precinct 2) hitting 67% take-up rate from 15% in 1Q, and Phase 5 (Precinct 3A1) reaching 89% from 64%. Sales for higher-end products such as Hijayu Resort Homes (Phase 5) were relatively slower, with a take-up rate of 62% from 57%.
- On track to hit MYR1bn sales target.** Given the sales momentum, we believe Matrix will be able to meet its MYR1bn sales target. We understand that the company still has a bookings backlog of over MYR200m, while it has also lined up about MYR750m worth of new launches in 2HFY21. These are mainly the affordable and affordable-premium products in Sendayan township projects.
- Forecasts.** As the progress billings have picked up better than expected and given the stronger profit margins, our earnings forecast is raised by 4% for FY21 and 11-14% for FY22-23. We expect FY22 earnings to be flat as we think property sales growth will likely be minimal next year. Unbilled sales declined to MYR1.07bn vs MYR1.18bn as at 1QFY21.
- Maintain TP.** Our TP is based on an unchanged 35% discount to RNAV.

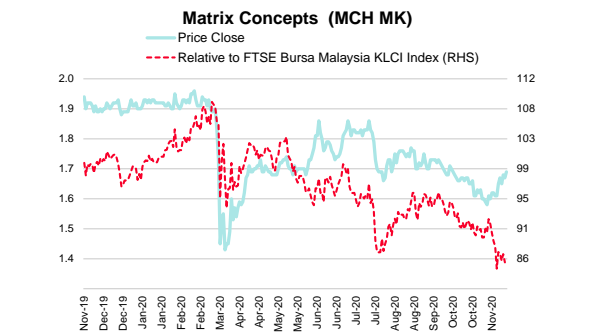
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.5)	2.4	(4.0)	0.6	(12.9)
Relative	(12.8)	(4.7)	(6.0)	(13.6)	(13.3)
52-wk Price low/high (MYR)	1.43 – 1.96				



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (MYRm)	1,048	1,282	1,163	1,174	1,243
Recurring net profit (MYRm)	218	232	235	235	245
Recurring net profit growth (%)	2.7	6.5	1.3	0.2	4.2
Recurring EPS (MYR)	0.29	0.29	0.28	0.28	0.29
DPS (MYR)	0.13	0.12	0.11	0.11	0.12
Recurring P/E (x)	5.86	5.86	5.96	6.04	5.85
P/B (x)	0.96	0.84	0.79	0.75	0.70
Dividend Yield (%)	7.5	6.8	6.5	6.5	7.1
Return on average equity (%)	17.2	15.8	13.9	12.8	12.4
Net debt to equity (%)	8.0	7.3	2.5	3.8	0.5

Source: Company data, RHB

Note:

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

Financial Exhibits

Asia	Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Malaysia	Recurring EPS	0.29	0.29	0.28	0.28	0.29
Property	EPS	0.29	0.29	0.28	0.28	0.29
Matrix Concepts	DPS	0.13	0.12	0.11	0.11	0.12
MCH MK	BVPS	1.76	2.01	2.13	2.26	2.41
Buy	Return on average equity (%)	17.2	15.8	13.9	12.8	12.4
	Return on average assets (%)	11.6	10.5	9.5	9.0	8.9
Valuation basis						
35% discount to RNAV						
Key drivers	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
New property and industrial land sales, landbank acquisitions	Recurring P/E (x)	5.86	5.86	5.96	6.04	5.85
	P/B (x)	1.0	0.8	0.8	0.7	0.7
	Dividend Yield (%)	7.5	6.8	6.5	6.5	7.1
	EV/EBITDA (x)	1.51	1.53	1.37	1.33	1.19
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	1,163	1,174	1,243
	Gross profit	508	590	553	556	584
	EBITDA	299	341	329	330	343
	Operating profit	299	341	329	330	343
	Net interest	(2)	(2)	(8)	(8)	(8)
	Pre-tax profit	298	339	321	322	335
	Taxation	(80)	(107)	(87)	(87)	(91)
	Reported net profit	218	232	235	235	245
	Recurring net profit	218	232	235	235	245
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 in developing residential and commercial properties, as well as industrial land sale	Change in working capital	(3)	(132)	43	(5)	(16)
	Cash flow from operations	255	141	320	273	273
	Capex	(166)	(20)	(380)	(150)	(50)
	Cash flow from investing activities	(184)	(17)	(406)	(175)	(74)
	Dividends paid	(86)	(96)	(92)	(91)	(92)
	Cash flow from financing activities	(74)	52	(129)	(127)	(127)
	Cash at beginning of period	277	257	281	355	326
	Net change in cash	(3)	176	(215)	(29)	72
	Ending balance cash	274	433	66	326	398
	Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total cash and equivalents	257	281	355	326	398
	Total investments	977	1,147	1,260	1,426	1,491
	Total other assets	23	19	19	19	19
	Total assets	2,021	2,402	2,527	2,673	2,844
	Short-term debt	161	135	145	155	165
	Total long-term debt	202	263	253	243	243
	Total liabilities	694	789	770	773	802
	Shareholders' equity	1,326	1,615	1,759	1,901	2,044
	Minority interests	1	(2)	(2)	(2)	(2)
	Total equity	1,327	1,613	1,757	1,899	2,042
	Total liabilities & equity	2,021	2,402	2,527	2,673	2,844
	Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Revenue growth (%)	29.0	22.4	(9.3)	1.0	5.8
	Recurring net profit growth (%)	2.7	6.5	1.3	0.2	4.2
	Recurrent EPS growth (%)	(9.3)	0.0	(1.7)	(1.3)	3.1
	Gross margin (%)	48.4	46.0	47.5	47.3	47.0
	Recurring net profit margin (%)	20.8	18.1	20.2	20.0	19.7
	Dividend payout ratio (%)	44.2	39.9	38.8	39.3	41.6

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)	Comments
Turnover	282.7	162.0	262.0	61.7	(7.3)	531.2	424.0	(20.2)	The increase in revenue QoQ was due to the swift pick up in construction progress post MCO as well as new launches during the quarter as a result of the disruptions in the previous quarter.
EBIT	79.4	42.9	102.6	139.4	29.3	153.4	145.5		The higher EBIT margin was partly due to the higher-margin product mix as well as the reduction in physical marketing events in compliance to SOPs, as the company embarked on online marketing activities.
<i>EBIT margin (%)</i>	<i>28.1</i>	<i>26.5</i>	<i>39.2</i>			<i>28.9</i>	<i>34.3</i>		
Net interest	0.1	(0.2)	(0.0)	(73.3)	(140.0)	(0.9)	(0.2)	(79.6)	
Pretax profit	79.5	42.7	102.6	140.1	29.1	152.4	145.3	(4.7)	
<i>Pretax margin (%)</i>	<i>28.1</i>	<i>26.4</i>	<i>39.2</i>			<i>28.7</i>	<i>34.3</i>		
Taxation	(20.7)	(12.8)	(29.1)	127.1	40.6	(39.1)	(42.0)	7.2	
<i>Tax rate (%)</i>	<i>26.1</i>	<i>30.0</i>	<i>28.4</i>			<i>25.7</i>	<i>28.9</i>		
Minority interest	0.0	1.2	1.6	n.m.	n.m.	0.0	2.7		
Net profit	58.7	31.1	75.1	141.7	27.8	113.3	106.1	(6.3)	Within expectations
<i>Net margin (%)</i>	<i>20.8</i>	<i>19.2</i>	<i>28.6</i>			<i>21.3</i>	<i>25.0</i>		
EPS (sen)	7.4	3.7	9.0			14.5	12.7		
Gross DPS (sen)	3.0	2.0	3.0			6.0	5.0		
NTA/share (MYR)	1.9	2.0	2.0			1.9	2.0		

Source: Company data, RHB

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
2019-12-16	Buy	2.22	1.92
2019-08-30	Buy	2.20	1.90
2019-06-03	Buy	2.42	1.97
2019-03-13	Buy	2.35	1.95
2018-08-28	Buy	2.40	2.10
2018-05-24	Buy	na	1.93
2018-05-23	Buy	2.40	1.92

Source: RHB, Bloomberg

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Analyst	Company
-	-

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