

26 May 2022

Property | Real Estate

## Matrix Concepts (MCH MK)

**Buy** (Maintained)

### Bonus Issue And Dividend To Support Valuations

Target Price (Return): MYR2.66 (12.7%)  
 Price (Market Cap): MYR2.36 (USD448m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.97m/0.23m

- **Maintain BUY and MYR2.66 TP, 13% upside and c.6% yield.** Matrix Concepts' 4QFY22 (Mar) results missed expectations, due mainly to slower construction progress as a result of labour shortage that is affecting many sectors. The company ended FY22 with property sales totalling MYR1.34bn, exceeding the initial target of MYR1.2bn. Also, Matrix announced a 1-for-2 bonus issue. Coupled with the 3.75 sen final dividend (full year 12.5 sen), investors' interest on this stock should remain strong.
- **4QFY22 results.** The industry-wide labour shortage issue has likewise affected Matrix's construction progress. The quarter also saw the impact of higher administrative and general expenses due to MYR12.04m write-off of certain plant and machinery related to the IBS facility. Meanwhile, other income was inflated by a MYR7.0m reversal of impairment as well as MYR9.0m reversal of overprovision of project cost. Overall profit margin was held up by higher sale of industrial properties in 4Q worth MYR65.6m. Full year 12.5 sen dividend represents a payout of 51%.
- **FY22 sales surpassed target.** New property sales achieved MYR346.4m vs MYR356.7m in 3QFY22. Full-year sales of MYR1.34bn was 12% higher from MYR1.2bn in FY21. Newly-launched phases in the existing townships remained well-received. Laman Sendayan 5, Bayu Sutera 1 Precinct 2B, and Tiara Sendayan 11 are already 80%, 95% and 100% sold.
- **Set the FY23 sales target at MYR1.3bn.** In view of the market headwinds, management hopes to repeat at least MYR1.3bn property sales in FY23. Apart from the usual affordable landed products, Matrix will also launch M333 St Kilda project (GDV: AUD80m) this month.
- **Bonus issue again.** Besides the consistent dividend delivery, we are also upbeat with the newly proposed 1-for-2 bonus issue, which is the fourth bonus issue since listing. The exercise is expected to be completed in 4QCY22.
- **Forecasts.** We revise down our FY23F-24F earnings slightly by 3-4% in view of the ongoing labour shortage issue. The M Greenvale project in Melbourne, which is already fully sold, will be recognised in 2QFY23 as the development will be completed in July 2022. Unbilled sales remained steady at MYR1.3bn, vs MYR1.27bn as at 4QFY22.
- **Maintain TP.** Our TP is based on 30% discount to RNAV, as well as 4% ESG premium given our ESG score of 3.20 for Matrix, using our in-house proprietary methodology.

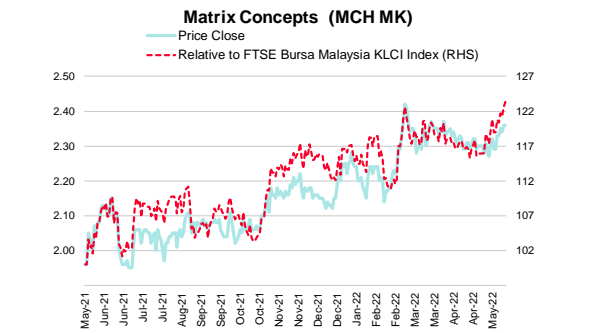
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.3	3.1	(0.4)	7.3	24.2
Relative	9.6	7.5	2.3	6.7	26.8
52-wk Price low/high (MYR)	1.95 – 2.42				



Source: Bloomberg

#### Overall ESG Score: 3.20 (out of 4)

##### E: GOOD

Matrix adopts various environmentally-sustainable initiatives, including recycling office and household waste and consuming renewable energy from TNB's solar PV system.

##### S: EXCELLENT

Matrix has constructed three public schools and numerous houses of worship for various religions. It is also a premier sponsor of the state's sports associations. The company is also involved in various CSR programs for cultural activities, education and community enrichment activities.

##### G: GOOD

56% of Matrix's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. Matrix has both in-house and external investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (MYRm)	1,128	887	1,095	1,138	1,207
Recurring net profit (MYRm)	260	205	239	253	270
Recurring net profit growth (%)	12.2	(21.1)	16.7	5.6	6.7
Recurring EPS (MYR)	0.31	0.25	0.28	0.30	0.31
DPS (MYR)	0.12	0.13	0.14	0.15	0.16
Recurring P/E (x)	7.51	9.60	8.31	7.95	7.52
P/B (x)	1.08	1.03	0.98	0.93	0.89
Dividend Yield (%)	5.1	5.3	5.9	6.4	6.8
Return on average equity (%)	15.2	11.0	12.1	12.1	12.1
Net debt to equity (%)	5.9	4.6	6.5	5.8	6.2

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	Recurring EPS	0.31	0.25	0.28	0.30	0.31
Property	EPS	0.31	0.25	0.28	0.30	0.31
<b>Matrix Concepts</b>	DPS	0.12	0.13	0.14	0.15	0.16
MCH MK	BVPS	2.18	2.29	2.41	2.53	2.66
Buy	Return on average equity (%)	15.2	11.0	12.1	12.1	12.1
	Return on average assets (%)	10.6	8.1	9.0	8.9	9.1
<b>Valuation basis</b>						
30% discount to RNAV	<b>Valuation metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Recurring P/E (x)	7.51	9.60	8.31	7.95	7.52
	P/B (x)	1.1	1.0	1.0	0.9	0.9
	Dividend Yield (%)	5.1	5.3	5.9	6.4	6.8
	EV/EBITDA (x)	2.36	3.18	2.97	2.83	2.70
<b>Key drivers</b>						
New property and industrial land sales, landbank acquisitions	<b>Income statement (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Total turnover	1,128	887	1,095	1,138	1,207
	Gross profit	583	496	577	609	625
	EBITDA	355	281	337	356	380
	Operating profit	355	281	337	356	380
	Net interest	(25)	(13)	(14)	(15)	(15)
	Pre-tax profit	335	271	323	342	364
	Taxation	(84)	(70)	(84)	(89)	(95)
	Reported net profit	260	205	239	253	270
	Recurring net profit	260	205	239	253	270
<b>Key risks</b>						
Weaker-than-expected market conditions	<b>Cash flow (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Change in working capital	(167)	(78)	(170)	(53)	(65)
	Cash flow from operations	121	163	113	245	251
	Capex	0	(1)	(30)	(80)	(100)
	Cash flow from investing activities	1	(4)	(24)	(73)	(92)
	Dividends paid	(92)	(99)	(104)	(118)	(128)
	Cash flow from financing activities	(168)	(179)	(139)	(152)	(160)
	Cash at beginning of period	281	224	194	159	176
	Net change in cash	(46)	(20)	(50)	20	(1)
	Ending balance cash	235	203	144	179	175
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
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	Total cash and equivalents	224	194	159	176	170
	Total investments	1,118	1,116	1,131	1,196	1,280
	Total other assets	74	85	65	65	65
	Total assets	2,520	2,572	2,762	2,888	3,046
	Short-term debt	115	160	170	180	190
	Total long-term debt	215	121	121	121	121
	Total liabilities	726	673	742	743	768
	Shareholders' equity	1,805	1,910	2,032	2,157	2,289
	Minority interests	(11)	(12)	(12)	(12)	(12)
	Total equity	1,794	1,899	2,020	2,145	2,277
	Total liabilities & equity	2,520	2,572	2,762	2,888	3,046
	<b>Key metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Revenue growth (%)	(12.1)	(21.4)	23.4	4.0	6.0
	Recurring net profit growth (%)	12.2	(21.1)	16.7	5.6	6.7
	Recurrent EPS growth (%)	8.9	(21.8)	15.5	4.6	5.6
	Gross margin (%)	51.7	55.9	52.7	53.5	51.8
	Recurring net profit margin (%)	23.0	23.1	21.9	22.2	22.3
	Dividend payout ratio (%)	38.2	50.9	49.3	50.5	51.0

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE (MYRm)	Mar	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
Turnover		388.2	233.1	250.8	7.6	(35.4)	1,127.7	886.8	(21.4)	The slower revenue growth YoY was attributed to slower construction progress as a result of labour shortage.
EBIT		119.1	81.9	86.0	5.1	(27.7)	355.2	281.2		
EBIT margin (%)		30.7	35.1	34.3			31.5	31.7		
Net interest		(24.4)	(0.2)	(11.6)	n.m.	n.m.	(24.7)	(13.3)	(46.1)	
Pretax profit		95.2	82.6	75.1	(9.1)	(21.2)	335.1	270.7	(19.2)	
Pretax margin (%)		24.5	35.4	29.9			29.7	30.5		
Taxation		(21.8)	(23.5)	(14.4)	(38.8)	(34.0)	(84.3)	(70.0)	(16.9)	
Tax rate (%)		22.9	28.4	19.2			25.1	25.9		
Minority interest		5.0	1.4	0.4	n.m.	n.m.	9.1	4.4		
Net profit		78.5	60.5	61.1	1.0	(22.2)	259.9	205.0	(21.1)	Below expectations.
Net margin (%)		20.2	25.9	24.4			23.0	23.1		
EPS (sen)		9.4	7.3	7.3			31.2	24.6		
Gross DPS (sen)		4.0	3.8	3.8			12.0	12.5		
NTA/share (MYR)		2.2	2.2	2.3			2.2	2.3		

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%	344.6
Irama Sendayan	65.8	420.0	100%	43.9
Kiara Sendayan	237	850.0	100%	85.0
Tiara Sendayan (Kota Gadong Perdana)	220.49	1,223.0	100%	134.3
Ara Sendayan (Rasah Kemayan land)	30.5	85.1	100%	12.9
Laman Sendayan	95	275.0	100%	42.3
Taman Seri Impian, Kluang, Johor	465.7	2,223.3	100%	283.8
Others	27.7	156.8	100%	6.9
Chambers KL	1.1	400.0	100%	36.7
Damansara Perdana	5.5	400.0	100%	26.2
Puchong	5.8	400.0	100%	24.9
Cheras	5.2	375.0	100%	28.5
Greenvale, Melbourne	9.7	79.0	100%	7.6
St Kilda, Melbourne	0.6	240.0	100%	20.7
Islamic Financial District, Jakarta	8.9	2,044.0	30%	50.5

	Remaining landbank (acres)	Market price (MYR psf)	BV (MYR psf)	Net surplus
Sendayan TechValley 2	23	50	10	30.1
Total				1,178.8
Shareholders' fund				1,804.8
Warrants conversion (exercice price at MYR1.92)				123.6
ESOS proceeds				57.7
Placement proceeds				147.0
Total RNAV				3,312.0
Share base (incl. warrants and placement)				907.3
RNAV/share				3.65
Discount to RNAV				30%
Intrinsic value				2.56
ESG premium				4%
Target price				2.66

Source: RHB

## Recommendation Chart

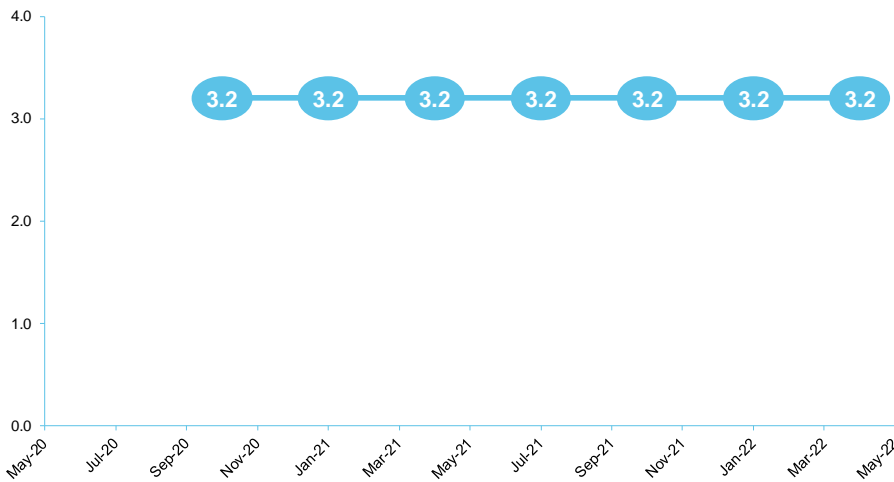


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-23	Buy	2.66	2.33
2021-11-25	Buy	2.47	2.20
2021-05-26	Buy	2.36	1.96
2019-12-16	Buy	2.22	1.92
2019-08-30	Buy	2.20	1.90
2019-06-03	Buy	2.42	1.97
2019-03-18	Buy	2.35	1.99

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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