



AmInvestment Bank

Company report

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

15 June 2023

Earnings to gain traction in 2HFY23 from a slow 1QFY23

BUY

(Maintained)

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Rationale for Report: Company Update

| | |
|------------------|---------------|
| Price | RM1.21 |
| Fair Value | RM1.81 |
| 52-week High/Low | RM1.37/RM1.05 |

Key Changes

| | |
|------------|---|
| Fair value | ↔ |
| EPS | ↔ |

| YE to Dec | FY22 | FY23F | FY24F | FY25F |
|-------------------------------|--------|---------|---------|---------|
| Revenue (RM mil) | 868.1 | 1,039.1 | 1,205.5 | 1,386.3 |
| Core net profit (RM mil) | 170.7 | 206.3 | 235.1 | 277.3 |
| FD Core EPS (sen) | 20.4 | 24.6 | 28.1 | 33.1 |
| FD Core EPS growth (%) | (10.7) | 20.9 | 13.9 | 18.0 |
| Consensus Net Profit (RM mil) | - | - | - | - |
| DPS (sen) | 5.3 | 6.4 | 7.3 | 8.6 |
| PE (x) | 5.9 | 4.9 | 4.3 | 3.7 |
| EV/EBITDA (x) | 3.5 | 2.2 | 2.2 | 2.0 |
| Div yield (%) | 4.0 | 4.9 | 5.5 | 6.5 |
| ROE (%) | 18.0 | 17.7 | 15.9 | 14.9 |
| Net Gearing (%) | nm | nm | nm | nm |

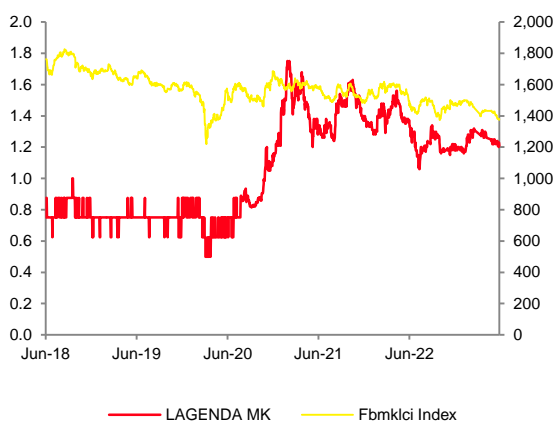
Stock and Financial Data

| | |
|------------------------------|---------|
| Shares Outstanding (million) | 837.3* |
| Market Cap (RM mil) | 1,013.2 |
| Book Value (RM/share) | 1.21 |
| P/BV (x) | 1.0 |
| ROE (%) | 18.0 |
| Net Gearing (%) | nm |

*before conversion of RCPS

| | |
|--------------------------|---|
| Major Shareholders | Lagenda Land (68.1%) Doh Properties (4.5%) Etiqua Life Insurance (1.5%) |
| Free Float | 25.9 |
| Avg Daily Value (RM mil) | 0.2 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|------|--------|
| Absolute (%) | (6.2) | 2.5 | (11.7) |
| Relative (%) | (2.3) | 9.9 | (4.1) |

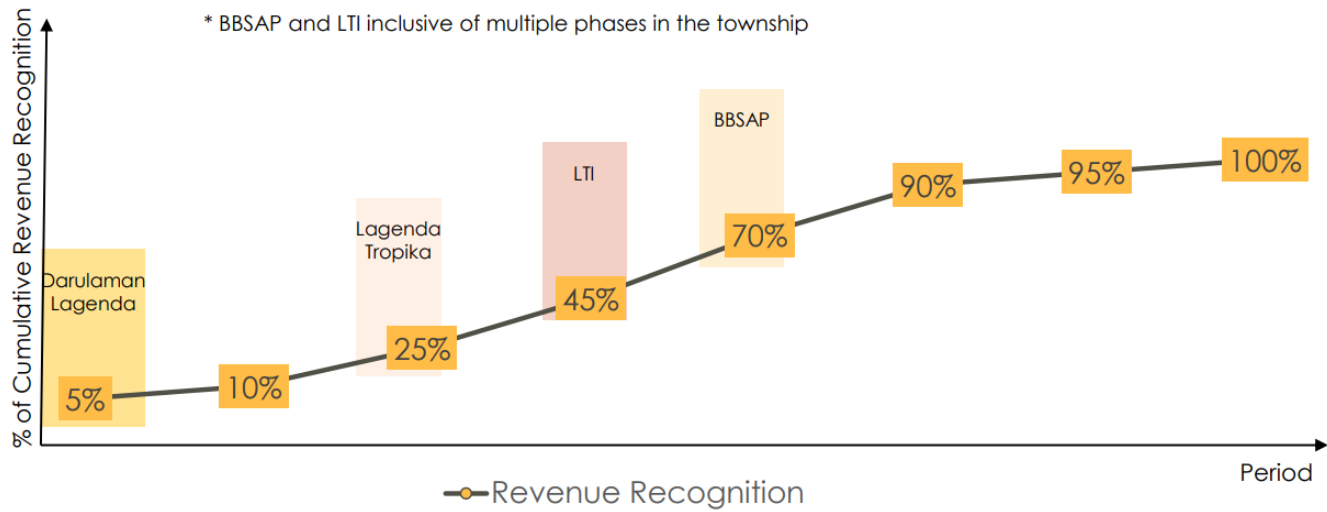


Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with an unchanged fair value (FV) of RM1.81/share. Our FV is based on a discount rate of 30% to our RNAV (Exhibit 10), and a 3% premium to reflect its 4-star ESG rating (Exhibit 11).
- The FV implies an FY24F PE of 6x, at parity to the current average of smaller cap property stocks.
- We also maintain our earnings forecast following our recent meet up with Lagenda's management for updates. Here are the key takeaways:
 - Lagenda experienced a slower revenue recognition in 1QFY23 due to the early stages of construction works for Darulaman Lagenda in Kedah and Lagenda Tropika in Tapah (Exhibits 1, 2). Nevertheless, we believe that moving forward construction progress will accelerate with the return of foreign labour and the adoption of industrialised building system (IBS). Hence, Lagenda's revenue and earnings are expected to improve in the 2HFY23 to catch up from a slow 1QFY23.
 - To recap, Lagenda is partnering Inta Bina to roll out IBS for its recently launched projects, namely BBSAP 4B, LT13A/3B and Darulaman Lagenda. This is expected to lead to a shortening of the construction period to 1.5-2 years from 2-2.5 years previously. As such, we believe that 60%-70% of its 1QFY23 unbilled sales amounting to RM782mil will be recognised in FY23.
 - Out of the RM384mil in gross development value (GDV) of project that was launched in Darulaman Lagenda, Kedah, RM175mil (46%) were sold while RM173mil (45%) had been booked. Given the overwhelming response in Darulaman Lagenda, Lagenda is planning to expand its presence in Kedah either through the acquisition of additional land banks or by entering joint ventures with the local land owners in the near term.
 - In Kampung Tersusun, Lagenda intends to offer a home package with both land sale and optional building packages. This provides the buyers with the flexibility to purchase lands starting from the lowest price of RM80,000 for lots measuring 50' x 90' and construct their own residential properties at any time.
 - Prior to the official launches of Kampung Tersusun land in 3QFY23, Lagenda has received >400 registrations of interest out of the total FY23F planned launches of 1,200 lots (Exhibit 8).

- vi. The land sale in Kampung Tersusun with a potential gross profit margin of 70% (average selling prices of RM17 psf vs. land cost of RM5 psf) may provide further upside to Lagenda's earnings in FY23-FY25 given that the revenue from land sales will be recognised immediately upon signing of the sales and purchase agreement. Notably, the buyers, mainly government servants will be entitled to the Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA) financing to purchase the Kampung Tersusun lands.
- vii. Lagenda was included into the FTSE4Good and F4GBMS indices in the recent semi-annual review. The inclusion will be effective from 19th June 2023, and this reflects Lagenda's commitment to sustainability and efforts to embed ESG into its business strategies over the long term.
- We have seen a growth trajectory in Lagenda's sales, unbilled sales and booking (Exhibits 5, 6) since 3QFY22 associated with the higher new launches starting from 2QFY22 (Exhibit 7). We believe that the bulk of bookings secured in 1QFY23 (RM433mil) will be converted into sales. This is in view that most of its target customers are public servants with a higher sales conversion rate of 90% compared to the 50-60% seen for buyers from the private sector. Given the high take-up rate of its projects (Exhibit 2), its 1QFY23 completed and unsold inventories were low at RM33mil.
 - With the expectation of the group ramping up its new launches amounting to RM1.2bil in the remaining quarters of FY23, we remain optimistic on the growth of Lagenda's property sales and revenue in FY23.
 - We continue to like Lagenda due to the company's niche focus in the underserved landed affordable housing developments in second-tier states targeting the large population of B40 and M40 income groups.
 - The stock currently trades at a compelling FY24F PE of 4x vs. the industry average of 9x while FY24F dividend yields are attractive at 6%.

EXHIBIT 1: PROPERTY DEVELOPMENT REVENUE RECOGNITION (S CURVE)



Source: Lagenda

EXHIBIT 2: CONSTRUCTION PROGRESS OF ONGOING PROJECTS AS AT 1QFY23

Bandar Baru Setia Awan Perdana, Perak

| Ongoing Phases | Total Unit | Estimated GDV (RM mil) | % Completion | Take-up (%) | Remark |
|----------------|------------|------------------------|--------------|-------------|--------------------|
| 2D | 1,168 | 234 | 97 | 97 | |
| 3A | 1,074 | 215 | 97 | | |
| 3C | 412 | 82 | 93 | | |
| 4A | 668 | 134 | 34 | 84 | |
| 4B | 900 | 180 | 0 | N/A | launched in Jan'23 |

Lagenda Teluk Intan, Perak

| Ongoing Phases | Total Unit | Estimated GDV (RM mil) | % Completion | Take-up (%) | Remark |
|----------------|------------|------------------------|--------------|-------------|--------------------|
| 2 | 2,667 | 533 | 72 | 99 | |
| 3A | 1,080 | 216 | 8 | 46 | |
| 3B | 800 | 160 | 0 | N/A | launched in Jan'23 |

Darulaman Lagenda, Kedah

| Ongoing Phases | Total Unit | Estimated GDV (RM mil) | % Completion | Take-up (%) | Remark |
|----------------|------------|------------------------|--------------|-------------|--------|
| 1 | 282 | 62 | 3 | 94 | |
| 2 | 1,131 | 322 | 1 | | |

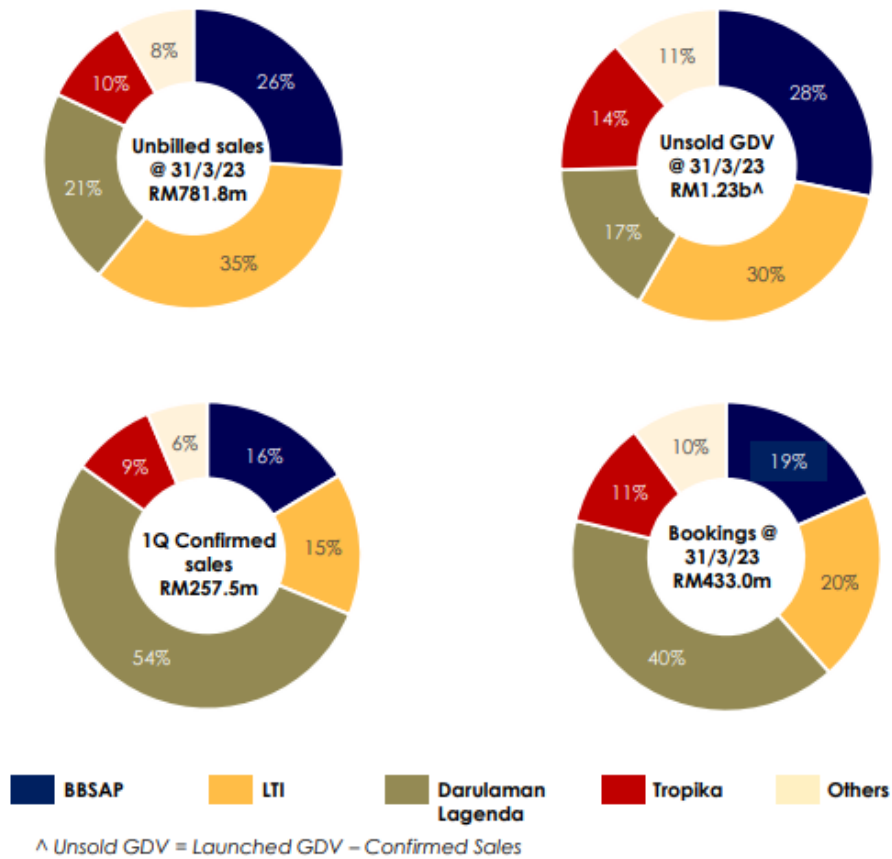
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Lagenda Tropika, Tapah, Perak

| Ongoing Phases | Total Unit | Estimated GDV (RM mil) | % Completion | Take-up (%) | Remark |
|----------------|------------|------------------------|--------------|-------------|--------|
| 1 | 1,481 | 294 | 42 | 57 | |

Source: Lagenda, AmlInvestment Bank Bhd

EXHIBIT 3: OPERATING DATA IN 1QFY23 (BY PERCENTAGES BASED ON PROJECTS)



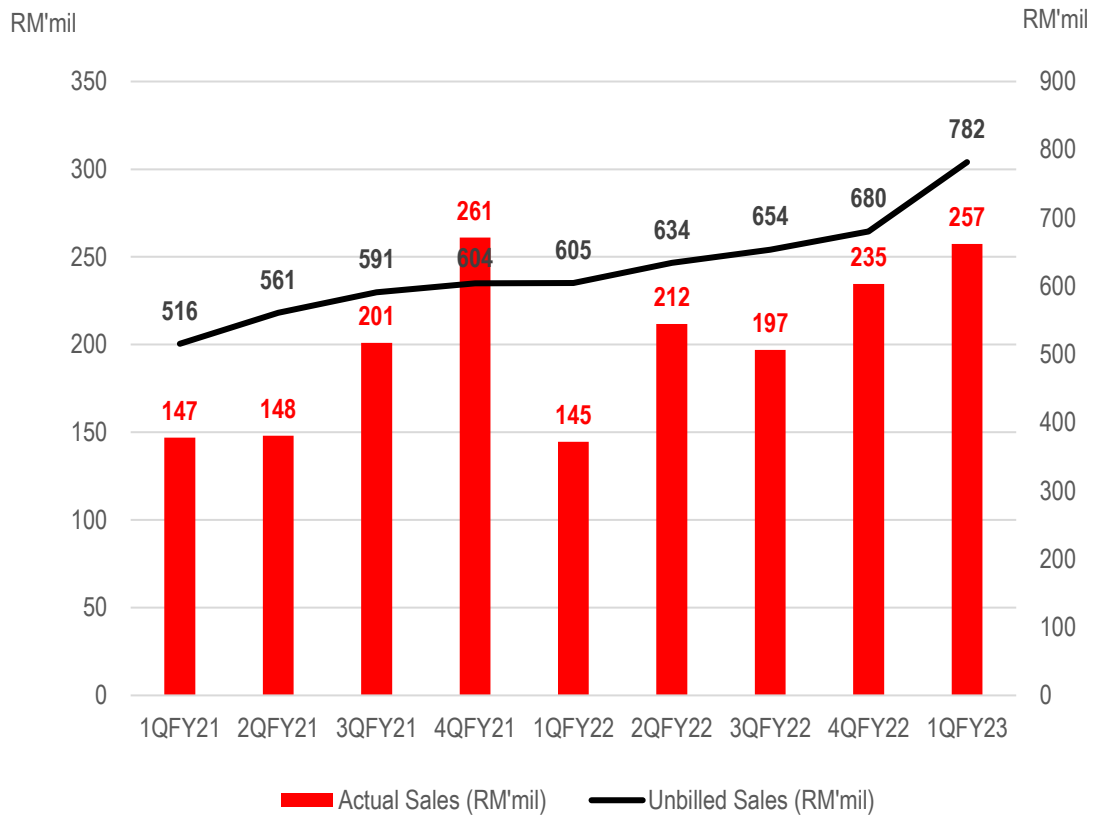
Source: Lagenda, AmlInvestment Bank Bhd

EXHIBIT 4: OPERATING DATA IN 1QFY23 (IN RM MILLION)

| Township (RM mil) | Unbilled sales | Unsold GDV | Confirmed sales | Bookings |
|-------------------|----------------|--------------|-----------------|------------|
| BBSAP | 203 | 344 | 41 | 82 |
| LTI | 274 | 369 | 39 | 87 |
| Darulaman Lagenda | 164 | 209 | 139 | 173 |
| Tropika | 78 | 172 | 23 | 48 |
| Others | 63 | 135 | 15 | 43 |
| Total | 782 | 1,230 | 258 | 433 |

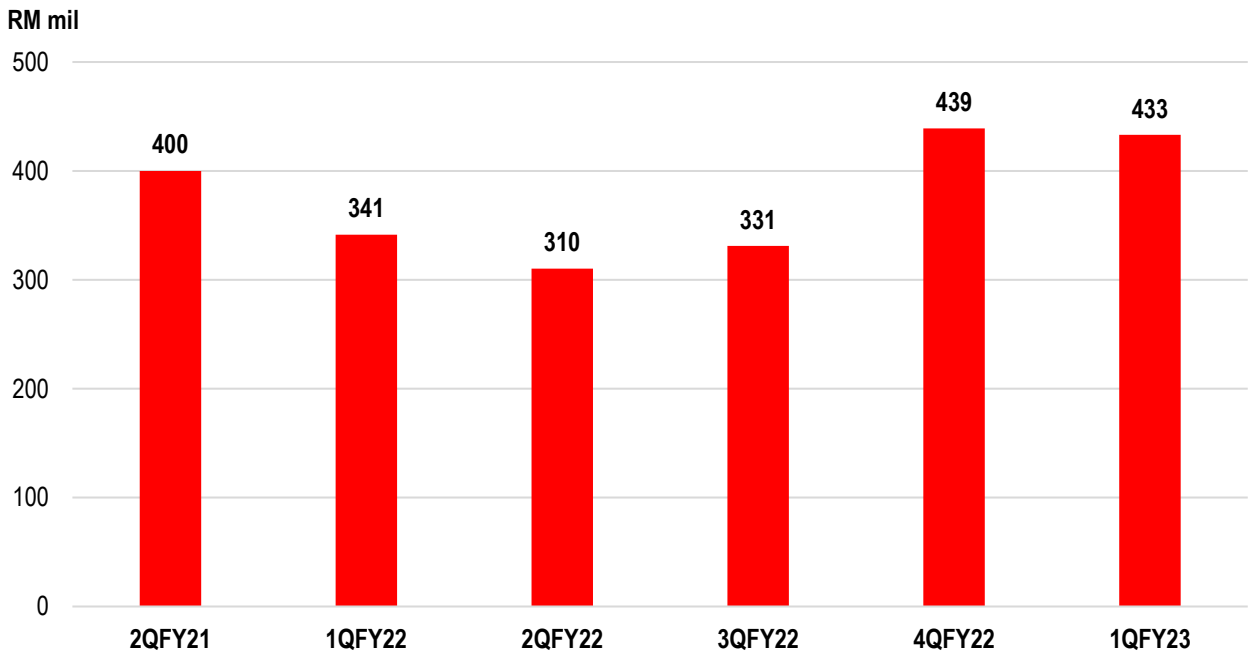
Source: Lagenda, AmlInvestment Bank Bhd

EXHIBIT 5: ACTUAL SALES AND UNBILLED SALES



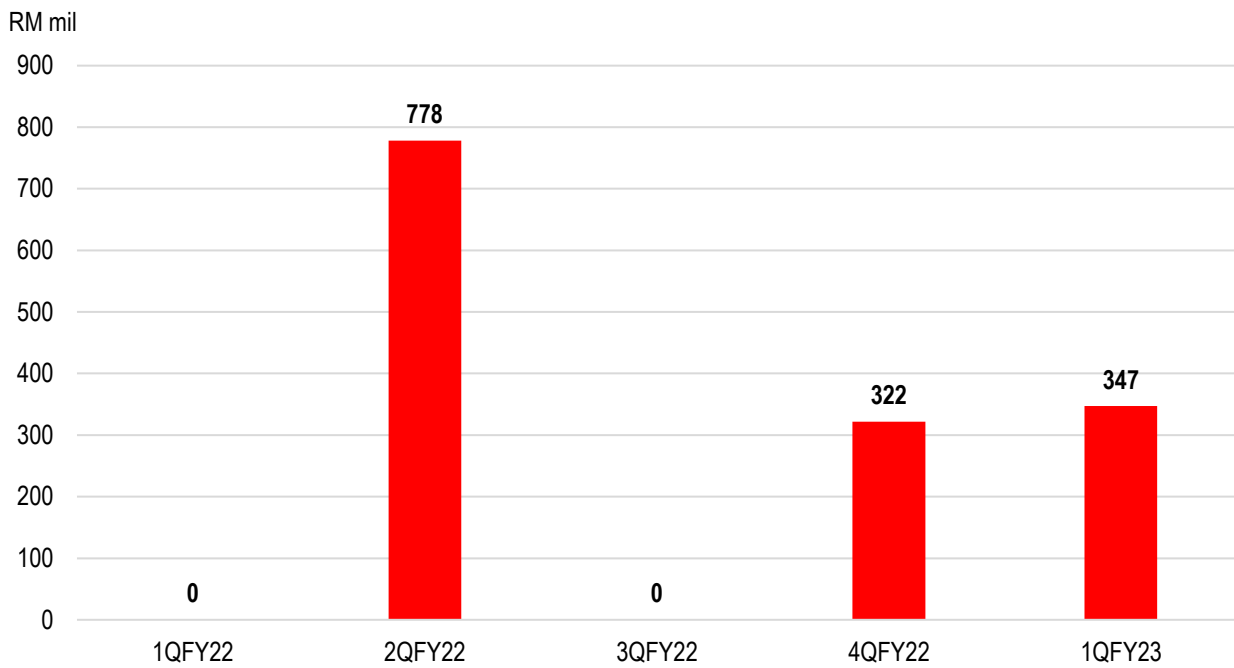
Source: AmInvestment Bank Bhd

EXHIBIT 6: BOOKINGS



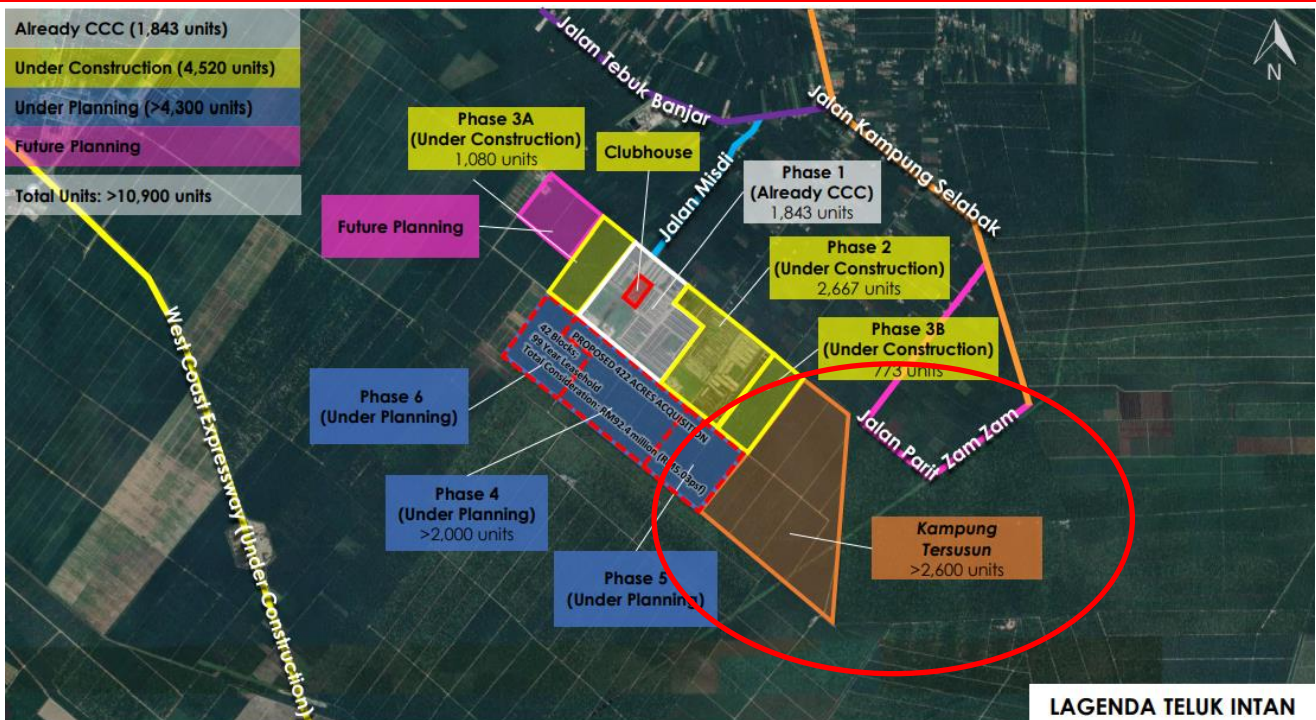
Source: AmInvestment Bank Bhd

EXHIBIT 7: NEW LAUNCHES



Source: AmlInvestment Bank Bhd

EXHIBIT 8: OVERALL LAYOUT OF LEGENDA TELUK INTAN (KAMPUNG TERSUSUN IN RED CIRCLE)



Source: Legenda, AmlInvestment Bank Bhd

EXHIBIT 9: PROJECT TIMELINE

| Existing Township | Launch Date |
|---|-------------|
| Bandar Baru Setia Awan Perdana (BBSAP), Perak | 2016 |
| Lagenda Teluk Intan, Perak | 2018 |
| Lagenda Tropika (Tajah) , Perak | 2022 |
| Darulaman Lagenda, Sg. Petani, Kedah | 2022 |

| Upcoming Township | Estimated Launch Date |
|-----------------------|-----------------------|
| Mersing, Johor | 2023 |
| Penor, Pahang | 2024 |
| Bernam Jaya, Selangor | 2024 |
| Kulai, Johor | 2025 |

Source: AmlInvestment Bank Bhd

EXHIBIT 10: RNAV CALCULATIONS

| Developments | Outstanding GDV | NPV @ 8% |
|--|-----------------|----------------|
| | RM (mil) | RM mil |
| BBSAP | 636.3 | 150.2 |
| Lagenda Teluk Intan | 2,072.4 | 489.1 |
| Lagenda Tapah -100% owned | 2,134.7 | 512.2 |
| Lagenda Sungai Petani (Kedah) | 592.9 | 70.0 |
| Lagenda Kuantan Township (Pahang) | 1,260.0 | 297.4 |
| Lagenda Mersing Township | 985.0 | 152.7 |
| Lagenda Bernam Jaya Township | 500.0 | 67.2 |
| Lagenda Kulai Township | 4,000.0 | 296.6 |
| Others | 458.8 | 104.7 |
| Total NPV | | 2,140.2 |
| Net Cash / (Debt) | | 125.9 |
| Other Assets | | 589.0 |
| Total | | 2,855.2 |
| No of shares | | 1,137.9 |
| RNAV/share (RM) | | 2.51 |
| Less 30% discount | | (0.75) |
| Fair Value (RM) | | 1.76 |
| (+) 3% premium for 4-star ESG rating | | 0.05 |
| Fair Value/share (RM) + ESG Premium | | 1.81 |

Source: AmlInvestment Bank Bhd

EXHIBIT 11: ESG RATING

| Overall | ★ | ★ | ★ | ★ | ★ |
|---------------------------------|---|---|---|---|---|
| Zero-carbon initiatives | ★ | ★ | ★ | | |
| Work site safety | ★ | ★ | ★ | ★ | |
| Worker welfare | ★ | ★ | ★ | ★ | |
| Corporate social responsibility | ★ | ★ | ★ | | |
| Pollution control | ★ | ★ | ★ | | |
| Supply chain auditing | ★ | ★ | ★ | ★ | |
| Corruption-free pledge | ★ | ★ | ★ | | |
| Accessibility & transparency | ★ | ★ | ★ | ★ | ★ |

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 12: FINANCIAL DATA

| Income Statement (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 835.5 | 868.1 | 1,039.1 | 1,205.5 | 1,386.3 |
| EBITDA | 293.5 | 269.4 | 338.6 | 408.1 | 471.2 |
| Depreciation/Amortisation | (2.4) | (3.3) | (3.5) | (4.0) | (4.5) |
| Operating income (EBIT) | 291.1 | 266.1 | 335.1 | 404.1 | 466.7 |
| Other income & associates | 34.8 | 26.5 | 30.1 | 33.0 | 36.3 |
| Net interest | (13.3) | (15.3) | (63.6) | (94.7) | (101.8) |
| Exceptional items | (17.2) | (7.0) | - | - | - |
| Pretax profit | 277.9 | 250.8 | 271.5 | 309.3 | 364.9 |
| Taxation | (77.4) | (73.1) | (65.2) | (74.2) | (87.6) |
| Minorities/pref dividends | - | - | - | - | - |
| Net profit | 183.2 | 170.7 | 206.3 | 235.1 | 277.3 |
| Core net profit | 183.2 | 170.7 | 206.3 | 235.1 | 277.3 |
| Balance Sheet (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Fixed assets | 12.3 | 17.2 | 19.9 | 22.3 | 24.3 |
| Intangible assets | 25.6 | 25.6 | 25.6 | 25.6 | 25.6 |
| Other long-term assets | 139.0 | 203.8 | 203.8 | 601.8 | 601.8 |
| Total non-current assets | 199.3 | 270.8 | 273.5 | 673.9 | 675.9 |
| Cash & equivalent | 191.5 | 383.6 | 583.2 | 725.4 | 636.2 |
| Stock | 462.1 | 488.8 | 555.6 | 589.0 | 736.3 |
| Trade debtors | 271.1 | 272.7 | 337.2 | 391.2 | 449.9 |
| Other current assets | 318.3 | 379.5 | 389.7 | 478.8 | 824.6 |
| Total current assets | 1,243.0 | 1,524.6 | 1,865.7 | 2,184.4 | 2,646.9 |
| Trade creditors | 182.0 | 178.8 | 239.0 | 301.2 | 376.5 |
| Short-term borrowings | 40.9 | 82.1 | 77.1 | 72.1 | 67.1 |
| Other current liabilities | 176.8 | 211.8 | 211.8 | 211.8 | 211.8 |
| Total current liabilities | 399.7 | 472.7 | 527.9 | 585.0 | 655.3 |
| Long-term borrowings | 159.1 | 300.9 | 295.9 | 610.9 | 605.9 |
| Other long-term liabilities | 3.8 | 6.2 | 6.2 | 6.2 | 6.2 |
| Total long-term liabilities | 162.9 | 307.1 | 302.1 | 617.1 | 612.1 |
| Shareholders' funds | 879.7 | 1,015.7 | 1,309.3 | 1,656.2 | 2,055.3 |
| Minority interests | - | - | - | - | - |
| BV/share (RM) | 1.10 | 1.21 | 1.56 | 1.98 | 2.45 |
| Cash Flow (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Pretax profit | 277.9 | 250.8 | 271.5 | 309.3 | 364.9 |
| Depreciation/Amortisation | 2.4 | 3.3 | 3.5 | 4.0 | 4.5 |
| Net change in working capital | (150.8) | (43.8) | (69.2) | (12.1) | (149.5) |
| Others | (94.5) | (94.3) | (128.8) | (169.0) | (189.4) |
| Cash flow from operations | 35.0 | 116.0 | 77.0 | 132.3 | 30.5 |
| Capital expenditure | - | - | - | - | - |
| Net investments & sale of fixed assets | 4.7 | 7.8 | - | (398.0) | - |
| Others | (44.8) | (45.8) | (5.9) | (5.9) | (5.9) |
| Cash flow from investing | (40.2) | (38.0) | (5.9) | (403.9) | (5.9) |
| Debt raised/(repaid) | (21.9) | 181.9 | 181.9 | 501.9 | (10.0) |
| Equity raised/(repaid) | 97.6 | 18.6 | - | - | - |
| Dividends paid | (53.4) | (63.9) | (77.2) | (88.0) | (103.8) |
| Others | 97.6 | 18.6 | - | - | - |
| Cash flow from financing | 42.0 | 103.7 | 104.7 | 413.9 | (113.8) |
| Net cash flow | 36.8 | 181.7 | 175.7 | 142.2 | (89.2) |
| Net cash/(debt) b/f | 188.9 | 225.8 | 407.4 | 583.2 | 725.4 |
| Net cash/(debt) c/f | 225.8 | 407.4 | 583.2 | 725.4 | 636.2 |
| Key Ratios (YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Revenue growth (%) | 20.0 | 3.9 | 19.7 | 16.0 | 15.0 |
| EBITDA growth (%) | 12.0 | (8.2) | 25.7 | 20.5 | 15.5 |
| Pretax margin (%) | 33.3 | 28.9 | 26.1 | 25.7 | 26.3 |
| Net profit margin (%) | 21.9 | 19.7 | 19.9 | 19.5 | 20.0 |
| Interest cover (x) | 21.9 | 17.4 | 5.3 | 4.3 | 4.6 |
| Effective tax rate (%) | 27.9 | 29.1 | 24.0 | 24.0 | 24.0 |
| Dividend payout (%) | 28.5 | 26.0 | 26.0 | 26.0 | 26.0 |
| Debtors turnover (days) | 104 | 114 | 107 | 110 | 111 |
| Stock turnover (days) | 180 | 200 | 183 | 173 | 174 |
| Creditors turnover (days) | 80 | 76 | 73 | 82 | 89 |

Source: Company, AmlInvestment Bank Bhd estimates

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