



AmInvestment Bank

Company report

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

22 August 2023

Improving progress billing in 2HFY23 with adoption of IBS BUY

(Maintained)

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Rationale for Report: Company Results

Price	RM1.24
Fair Value	RM1.79
52-week High/Low	RM1.34/RM1.13

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	868.1	884.5	1,089.7	1,253.2
Core net profit (RM mil)	170.7	160.1	197.0	232.1
FD Core EPS (sen)	20.4	19.1	23.5	27.7
FD Core EPS growth (%)	(10.7)	(6.2)	23.0	17.8
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	6.5	6.1	7.3	8.6
PE (x)	6.1	6.5	5.3	4.5
EV/EBITDA (x)	3.6	2.3	2.4	2.3
Div yield (%)	4.9	4.6	5.5	6.5
ROE (%)	18.0	14.1	14.0	13.4
Net Gearing (%)	nm	nm	nm	nm

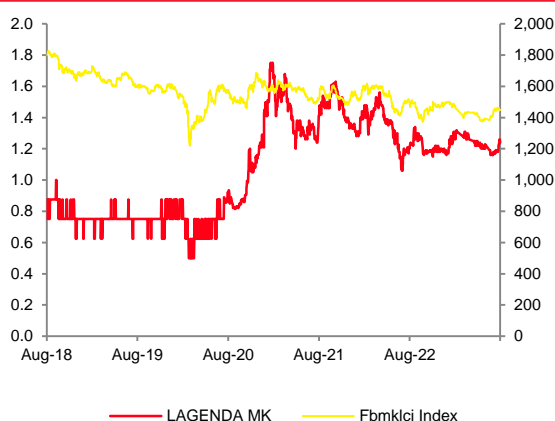
Stock and Financial Data

Shares Outstanding (million)	837.3*
Market Cap (RM mil)	1,038.3
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 (63.9%) Etiqa Life Insurance (1.5%) Doh Properties (1.1%)
Free Float	33.4
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(0.8)	(5.3)	2.5
Relative (%)	(2.3)	(3.8)	6.3



Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with a lower fair value (FV) of RM1.79/share (from RM1.81/share previously). Our FV is based on a discount rate of 30% to our RNAV (Exhibit 5), and a 3% premium to reflect its 4-star ESG rating (Exhibit 6).
- The FV implies an FY24F PE of 8x, at parity to the current average of smaller cap property stocks.
- The lower FV stems from the lowering of FY23F/FY24F/FY25F core net profit (CNP) by 22%/16%/16% after accounting for slower-than-expected progress billings owing to delayed construction progress, resulting in the possible deferment of launches. We expect that Lagenda to push the majority of its FY23F launches to 4QFY23 as opposed to our earlier assumption in 2Q-3QFY23.
- Lagenda's 1HFY23 core net profit (CNP) of RM68mil came in below expectation, making up 33% of our FY23F earnings.
- The variance to our forecast was mainly due to lower-than-expected revenue as a result of slower construction progress experienced during 1HFY23.
- We understand that Lagenda is currently transitioning from traditional construction methods to industrialised building systems (IBS) for its recently launched projects in Bandar Baru Setia Awan Perdana (BBSAP), Lagenda Teluk Intan (LTI) and Kedah Darulaman. This transition will temporarily lead to slower construction pace in 1HFY23.
- Nevertheless, we believe that construction progress will see a gradual improvement moving forward, driven by the full implementation of IBS in these projects. Hence, Lagenda's revenue and earnings are expected to improve in 2HFY23 to catch up from a slow 1HFY23.
- YoY, Lagenda's 1HFY23 revenue fell 16%, mainly due to lower revenue recognition from its newly-launched projects in BBSAP, LTI and Kedah Darulaman. These projects are still in the early stages of construction progress.
- Meanwhile, Lagenda's 1HFY23 CNP dropped 30% YoY, mainly attributable to the decline in revenue contribution from higher margin projects in BBSAP and LTI. The portion of revenue recognised from these higher margin projects was down to 48% in 1HFY23 from 63% in 1HFY22.

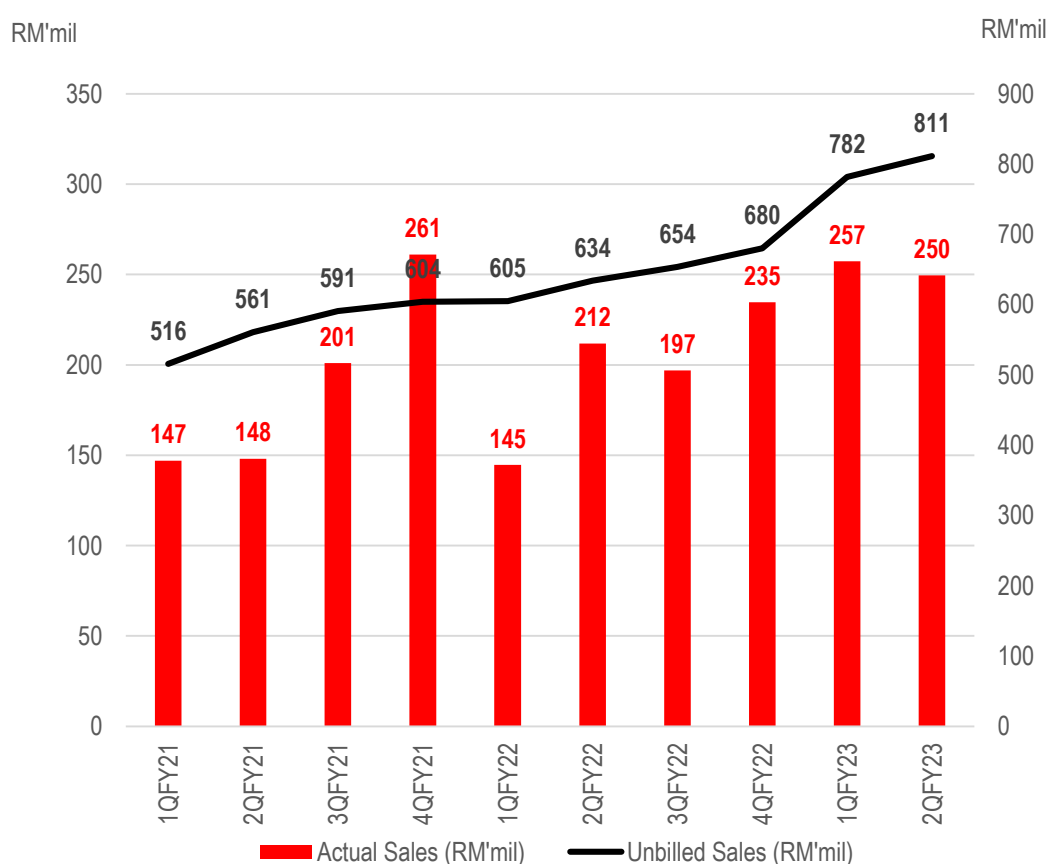
- QoQ, Lagenda's 2QFY23 revenue grew 9%, primarily attributed to higher sales conversion from booking, particularly from projects in Kedah Darulaman. However, its CNP fell 4% QoQ given the higher administrative expenses and lower revenue contribution from higher margin projects in BBSAP and LTI (45% in 2QFY23 vs. 50% in 1QFY23).
- In 1HFY23, Lagenda's new sales rose 42% YoY to RM507mil, attaining 56% of its FY23F sales target of RM900mil (Exhibit 2). We gather that 48% of its 1HFY23 sales were driven by the conversion of bookings in Kedah Darulaman Lagenda. Notably, Darulaman Lagenda has achieved an impressive take-up rate of 99% as at end-June 2023.
- The group has secured lower outstanding bookings of RM348mil (-20% QoQ) as at 30 June 2023 due to increased sales conversion and absence of launches in 2QFY23. We believe that the bulk of its booking will be converted to sales because the major buyer group comprising public servants typically have a higher sales conversion ratio of 90%.
- With no launches in 2QFY23, Lagenda's 1HFY23 launches of RM347mil (-50% YoY) were only 23% of its FY23F targeted launch of RM1.5bil. Management alluded that the majority of planned launches will take place in 4QFY23, with a primary focus on LTI, Lagenda Tapah and its new township in Mersing, Johor (Exhibit 3).
- As at end-June 2023, unbilled sales rose to RM811mil (+28% YoY, +4% QoQ), representing a cover ratio of 0.9x FY23F revenue (Exhibit 2). Driven by the fast turnaround of projects (2 to 2.5 years) and adoption of IBS in its newer projects, we expect Lagenda's unbilled sales to be mostly recognised in FY23F and FY24F.
- Lagenda declared its first interim dividend per share of 3.0 sen (flattish YoY) in 2QFY23, representing a 12-month trailing dividend yield of 5.2%.
- We continue to like Lagenda due to the company's niche in underserved landed affordable housing developments in second-tier states with a large population of B40 and M40 income groups.
- The stock currently trades at a compelling FY24F PE of 5x vs. the industry average of 11x while dividend yields are attractive at 6%.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	2QFY22	1QFY23	2QFY23	QoQ %	YoY %	1HFY22	1HFY23	YTD %
Revenue	258.5	181.0	196.4	8.5	(24.0)	451.3	377.3	(16.4)
Operating costs	(187.2)	(123.1)	(143.9)	16.9	(23.2)	(311.5)	(266.9)	(14.3)
EBIT	71.3	57.9	52.5	(9.3)	(26.4)	139.8	110.4	(21.0)
Net interest	(3.1)	(4.8)	(5.4)	12.2	72.5	(6.5)	(10.2)	57.1
PBT	68.2	53.1	47.1	(11.2)	(30.9)	133.3	100.2	(24.8)
Tax	(17.8)	(13.8)	(14.1)	2.3	(20.9)	(36.0)	(27.9)	(22.4)
MI	(0.0)	0.0	0.2	>100	>100	0.0	0.2	>100
PATMI	50.3	39.3	33.2	(15.6)	(34.1)	97.4	72.5	(25.5)
Exceptional (gains)/losses	(0.1)	(4.9)	(0.0)	(99.8)	n/m	(0.3)	(5.0)	>100
Core PATMI	50.2	34.4	33.2	(3.5)	(33.9)	97.1	67.6	(30.4)
EPS (sen)	6.0	4.1	4.0	(3.5)	(34.2)	11.6	8.1	(30.6)
EBIT Margin (%)	27.6	32.0	26.7	(5.2)	(0.8)	31.0	29.3	(1.7)
Effective tax rate (%)	26.2	26.0	29.9	4.0	3.8	27.0	27.8	0.9
Core Net Profit Margin (%)	19.4	19.0	16.9	(2.1)	(2.5)	21.5	17.9	(3.6)

Source: AmlInvestment Bank Bhd

EXHIBIT 2: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 3: PLANNED LAUNCHES IN 2023

State	Project	Unit	Launched
Perak	BBSAP 4B	900	Jan-23
	BBSAP 4C/4D	1,700	-
	LTI 3B	800	Feb-23
	LTI 4A	900	-
	Lagenda Tapah	1,400	-
Johor	Mersing	600	-
Kedah	Darulaman Lagenda Phase 3	1,000	-
Total unit		7,300	
Perak	Kg Tersusun (land sale)	1,200 lots	-

Source: AmlInvestment Bank Bhd

EXHIBIT 4: PROJECT TIMELINE

Existing Township	Launch Date
Bandar Baru Setia Awan Perdana (BBSAP)	2016
Lagenda Teluk Intan	2018
Lagenda Tropika (Tapah)	2022
Darulaman Lagenda, Sg. Petani	2022
Upcoming Township	Estimated Launch Date
Mersing, Johor	2023
Penor, Pahang	2024
Bernam Jaya, Selangor	2024
Kulai, Johor	2025

Source: AmlInvestment Bank Bhd

EXHIBIT 5: RNAV CALCULATIONS

Developments	Outstanding GDV RM (mil)	NPV @ 8% 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)		155.1
Other Assets		527.2
Total		2,822.5
No of shares		1,137.9
RNAV/share (RM)		2.48
Less 30% discount		(0.74)
Fair Value (RM)		1.74
(+) 3% premium for 4-star ESG rating		0.05
Fair Value/share (RM) + ESG Premium		1.79

Source: AmlInvestment Bank Bhd

EXHIBIT 6: 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 7: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	835.5	868.1	884.5	1,089.7	1,253.2
EBITDA	293.5	269.4	281.5	365.3	422.0
Depreciation/Amortisation	(2.4)	(3.3)	(3.5)	(4.0)	(4.5)
Operating income (EBIT)	291.1	266.1	278.0	361.3	417.5
Other income & associates	34.8	26.5	30.1	33.1	36.4
Net interest	(13.3)	(15.3)	(67.2)	(102.1)	(112.1)
Exceptional items	(17.2)	(7.0)	-	-	-
Pretax profit	277.9	250.8	210.8	259.2	305.5
Taxation	(77.4)	(73.1)	(50.6)	(62.2)	(73.3)
Net profit	183.2	170.7	160.1	197.0	232.1
Core net profit	183.2	170.7	160.1	197.0	232.1
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	696.8	762.6	653.4
Stock	462.1	488.8	465.7	527.2	659.0
Trade debtors	271.1	272.7	287.0	353.6	406.7
Other current assets	318.3	379.5	328.5	416.9	748.1
Total current assets	1,243.0	1,524.6	1,778.1	2,060.3	2,467.1
Trade creditors	182.0	178.8	206.1	274.5	343.2
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	495.0	558.4	622.0
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	1,254.5	1,558.8	1,908.8
Minority interests	-	-	-	-	-
BV/share (RM)	1.10	1.21	1.50	1.86	2.28
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	277.9	250.8	210.8	259.2	305.5
Depreciation/Amortisation	2.4	3.3	3.5	4.0	4.5
Net change in working capital	(150.8)	(43.8)	77.1	(59.4)	(133.4)
Others	(94.5)	(94.3)	(117.8)	(164.3)	(185.4)
Cash flow from operations	35.0	116.0	173.6	39.5	(8.8)
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)	(60.2)	(71.7)	(84.5)
Others	97.6	18.6	-	-	-
Cash flow from financing	42.0	103.7	121.7	430.2	(94.5)
Net cash flow	36.8	181.7	289.4	65.8	(109.2)
Net cash/(debt) b/f	188.9	225.8	407.4	696.8	762.6
Net cash/(debt) c/f	225.8	407.4	696.8	762.6	653.4
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	20.0	3.9	1.9	23.2	15.0
EBITDA growth (%)	12.0	(8.2)	4.5	29.8	15.5
Pretax margin (%)	33.3	28.9	23.8	23.8	24.4
Net profit margin (%)	21.9	19.7	18.1	18.1	18.5
Interest cover (x)	21.9	17.4	4.1	3.5	3.7
Effective tax rate (%)	27.9	29.1	24.0	24.0	24.0
Dividend payout (%)	28.5	31.9	32.0	31.0	31.0
Debtors turnover (days)	104	114	115	107	111
Stock turnover (days)	180	200	197	166	173
Creditors turnover (days)	80	76	79	80	90

Source: Company, AmlInvestment Bank Bhd estimates

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