APEX SECURITIES

APEX SECURITIES BERHAD (47680-X)

(Formerly known as JF APEX SECURITIES BERHAD)

BUY

Initiate Coverage

Lagenda Properties Berhad

Current Price RM 1.24

Fair Value RM 1.52

"Profits with Purpose: Serving the Underserved"

Company Description

Lagenda Properties Berhad specialises in developing affordable landed properties and integrated townships to the B40 and M40 income groups in Malaysia.

Stock Data

Bursa / Bloomberg code	7179 / LAGENDA MK
Board / Sector	Main / Property
Syariah Compliant status	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆
MSCI ESG Rating	N.S.
S&P Global ESG Rank	N/A
Sustainalytics Risk Score	N/A
Issued shares (m)	837.3
Market cap. (RM'm)	1,038.3
52-week price Range	RM1.13 - RM1.34
Beta (against KLCI)	0.79
3-m Average Daily Volume	0.26m
3-m Average Daily Value	RM0.32m

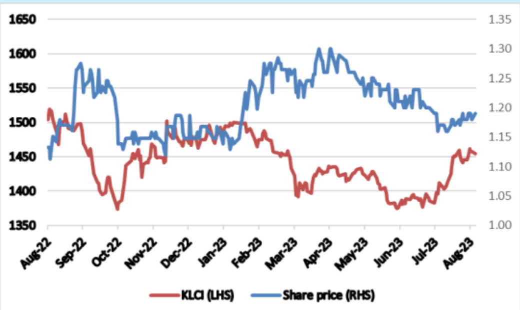
Share Performance

	1m	3m	12m
Absolute (%)	1.7	-1.7	-1.7
Relative (%-pts)	-1.2	-4.5	1.9

Major Shareholders

	%
LAGENDA LAND SDN BHD	63.9
DOH PROPERTIES H SDN	4.5
ETIQA LIFE INSU	1.5

Historical Charts



Source: Bloomberg

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Investment Highlights

- **Unaffordability Housing Woes.** The demand for affordable housing remains neglected while unsold units in other segments remain high as they exceed affordability levels. Limited transportation access and low demand for high-rise properties contribute to oversupply. Insufficient supply of affordable housing despite strong demand, but a shift towards affordability is emerging. House price-to-income ratio worsened, indicating rising prices and declining incomes.

- **An Equitable Pricing Method.** Recognising the unaffordability issue, Lagenda employs a pricing strategy to address the critical issue of affordable housing in Malaysia. They recognize the importance of making homeownership attainable for the B40 income group, and to achieve this, they have adopted a reverse engineering approach. Instead of setting prices arbitrarily, Lagenda determines housing prices based on the income and affordability of their target buyers, being the B40 group, in the vicinity of their projects

- **Better Deals in the Backwoods.** The Group's success in achieving a 20%+ profit margin despite offering affordable products is attributed to its strategic advantages. These include acquiring large parcels of low-cost land in non-urban areas, in-house construction capabilities, strategic partnerships, and achieving economies of scale through developing over 10,000 units in their key townships, distinguishing them from competitors.

- **Low-risk Buyer Profile.** Lagenda targets the B40 public sector employees, with 80% of buyers coming from this group. They benefit from stable incomes and government-assisted financing, resulting in a high conversion rate. A large exposure customer base in the public sector provides stability and shields Lagenda against economic downturns.

- **Steady track record and Revenue visibility.** The Group's ongoing projects have a strong track record, having launched over 20,000 units across multiple townships. Currently, four key projects are in progress, with impressive take-up rates. The total GDV launched for these ongoing projects is RM4.4b, and unbilled sales of RM811.2m as of 30 June 2023 ensure earnings visibility for the coming years.

- **Adequate Landbank and Prospect Launches.** Lagenda's extensive landbank of 4,700 acres across Malaysia sets the stage for future projects. Recently, they acquired 1075.5 acres in Kulai, Johor. They plan to launch new townships annually, aiming for

7,300 units in 2023. The total remaining GDV for the remaining landbank and future launches is at RM12.7 billion.

- **Resilient Revenue Growth.** Lagenda has managed to triumph above the challenges of Covid and dampened sentiment of the property market achieving double-digit topline growth throughout 2020 and 2021. However, FY22's performance was subdued at 3.8%. We forecast a conservative revenue growth of 10%-15% for the coming years driven by the near completion of certain projects while being offset by new ones.

- **Viable Earnings.** The Group's earnings have been observed to grow at a CAGR of 15.8% since its turnaround from loss-making, increasing from RM95.9m in FY19 to RM178.1m in FY22. We project a moderate escalation in earnings induced by higher interest rate costs.

- **Profound Margins.** Gross Profit margins have achieved a historical average of over 35% while Net Profit margins have managed to sustain an average above 20%.

- **Net Cash Position.** Their Net Gearing Ratio has been in a downslope and has managed to achieve -0.1x in FY22 which also signifies the Group's capacity for new ventures. The Group is dedicated to keeping its net gearing below 0.5x.

- **Average ROE >20%.** Lagenda has delivered an average performance of more than 20% ROE over the last five years, denoting a well-managed business.

- **Steady Dividends.** The Group has a dividend policy of paying out at least 25.0% of its yearly net profit. We estimate a 3.5% and 4.2% dividend yield for FY23f and FY24f based on the minimum payout ratio.

Valuation / Recommendation

- We arrive at a fair value of RM1.52 based on a 20% discount on Lagenda's estimated RNAV. The target price represents a 22.3% potential upside from its current price of RM1.24 and an 18.0% forward PE discount against its peers. We also project a 4.2% return from dividends in FY24f based on its 25% payout ratio dividend policy.

Risks

- Low Barriers of Entry.

- Inability to acquire a suitable landbank.

- Unexpected Rise in Costs.

- Changes in Government Policies.

Background

Lagenda Properties Bhd was a poultry company founded by the Ding family in 1986 called DBE Gurney Resources. Over the years, it expanded its operations to include poultry breeding, processing, F&B outlets, and real estate. In 2015, the company issued redeemable convertible notes to raise funds and attracted the interest of the Doh Family, who later became substantial shareholders. In 2018, Doh Properties Holdings emerged as the major shareholder and ventured into property development. Subsequently, the company disposed of its poultry business and focused solely on real estate.

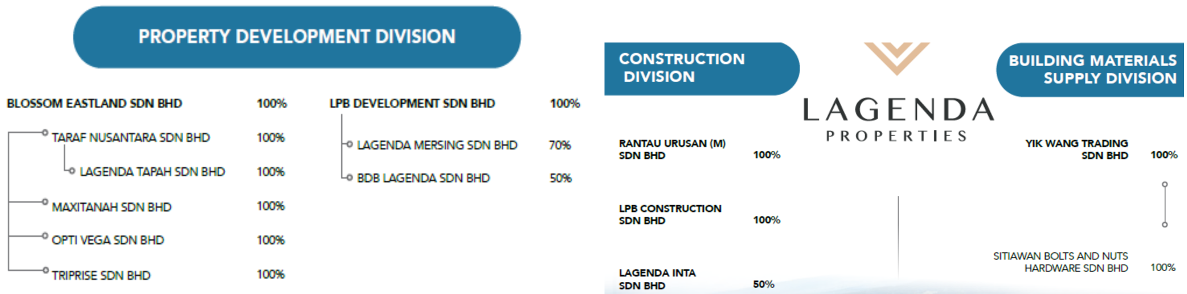
The company was rebranded as Lagenda Properties, emphasizing affordable housing for the B40 income group. Their goal aligns with the government's goal of addressing housing affordability. The Doh family has experience in construction and property development and Lagenda started its journey in affordable housing in 2016. Lagenda was listed by way of a reverse takeover exercise into the poultry company, DBE Gurney in 2020 and assumed the listing status of DBE Gurney. The poultry business was disposed of and during the RTO, the key assets injected were the affordable townships in Sitiawan (Bandar Baru Setia Awan Perdana) and Teluk Intan (Lagenda Teluk Intan).

Business Overview

Lagenda Properties Berhad specializes in affordable landed homes and integrated townships. Their focus is on creating self-sustaining communities with community-based facilities and public amenities that cater to the needs of Malaysian homebuyers in the B40 income group. The company prioritizes affordability by reverse engineering home prices based on local income classifications. Their townships feature various facilities like clubhouses, pools, gyms, multipurpose halls, football fields, and badminton courts, promoting socialization and community building. This approach and competitive pricing have resulted in strong demand and high take-up rates.

In addition to property development, Lagenda Properties Berhad has an internal construction arm and a building materials supply subsidiary. The construction arm allows them to handle a portion of their construction works and reduce reliance on external subcontractors. Meanwhile, its building materials supply division purchases construction materials directly from manufacturers or wholesalers, cutting out intermediaries and improving cost management. This integrated approach helps maintain affordability while ensuring healthy profit margins for the company.

Corporate Structure



Source: Lagenda Properties Berhad

Investment Thesis

Neglected Demand for Affordable Housing. According to Bank Negara Malaysia's Financial Stability Review (Second Half of 2022) despite some improvements, there are still risks in the property sector due to ongoing imbalances in housing demand and supply. Although the number of unsold units has decreased, it remains high with a significant portion remaining unsold for more than three years. The main reason for this is that house prices exceeded the affordability levels of many households, particularly in key states. Additionally, limited access to public transportation and low demand for high-rise properties in certain areas contribute to the oversupply issue. Moreover, the supply of affordable housing in the first half of 2022 has been insufficient, despite strong demand from potential buyers but a shift in the incoming supply of newly launched residential properties towards the affordability range below RM300k has started to grow. BNM's affordable housing metric also illustrates the worsened condition of house prices in Malaysia with the house price to income ratio increasing from 4.1x in 2019 to 4.7x in 2020 as house prices continued to rise while income remained stagnant.

Innovative House Pricing Strategy. Recognizing the critical issue of affordable housing in Malaysia, Lagenda's commitment is to contribute to the solution by adopting a reverse engineering pricing approach. Lagenda will determine house prices based on the affordability of the target buyers, considering factors such as the monthly loan repayment over 35 years, which should not exceed 30% of the buyer's median income, with an interest rate of 3.5%. Through this method, they aim to ensure that their homes are within reach for the B40 income group and make homeownership more attainable for Malaysians.

Figure 1: Housing Price Mismatch by State compiled in 2022

		A	B	Price Mismatch
State	Population w/out House Ownership	B40 Maximum Affordability*	Average Housing Price (Q4 2021)	A – B
Selangor	491,799 (30.3%)	RM 338,019	RM525,827	-RM187,784
Pahang	89,483 (24.1%)	RM 218,974	RM249,637	-RM30,639
Sabah	169,134 (24.1%)	RM 177,357	RM374,313	-RM196,908
Johor	217,148 (22.5%)	RM 266,907	RM389,371	-RM122,464
Pulau Pinang	103,327 (21.1%)	RM 263,495	RM397,370	-RM133,802
Negeri Sembilan	61,570 (21.1%)	RM 203,247	RM265,679	-RM62,360
Perak	120,721 (18.2%)	RM 189,697	RM249,343	-RM59,598
Malacca	39,584 (16.5%)	RM 240,751	RM245,440	-RM4,593
Perlis	9,546 (15.7%)	RM 193,568	RM239,030	-RM45,583
Kedah	80,554 (15.5%)	RM 195,020	RM236,050	-RM41,078
Kelantan	54,239 (15.3%)	RM 166,953	RM243,869	-RM76,844
Terengganu	35,357 (13.5%)	RM 244,864	RM286,413	-RM41,646
Sarawak	95,530 (14.4%)	RM 184,374	RM362,916	-RM178,470
Kuala Lumpur	177,738 (36.7%)	RM 387,863	RM767,288	-RM379,377
Putrajaya	20,121 (84.9%)	RM 432,625	RM681,226	-RM248,601
Labuan	12,982 (39.7%)	RM 265,189	RM367,004	-RM101,767
Malaysia	**1,778,833 (23.0%)**	**RM229,862**	**RM388,954**	**-RM159,140**

Source: Lagenda Properties Berhad (BNM and DOSM)

Figure 2: Income Groups by State

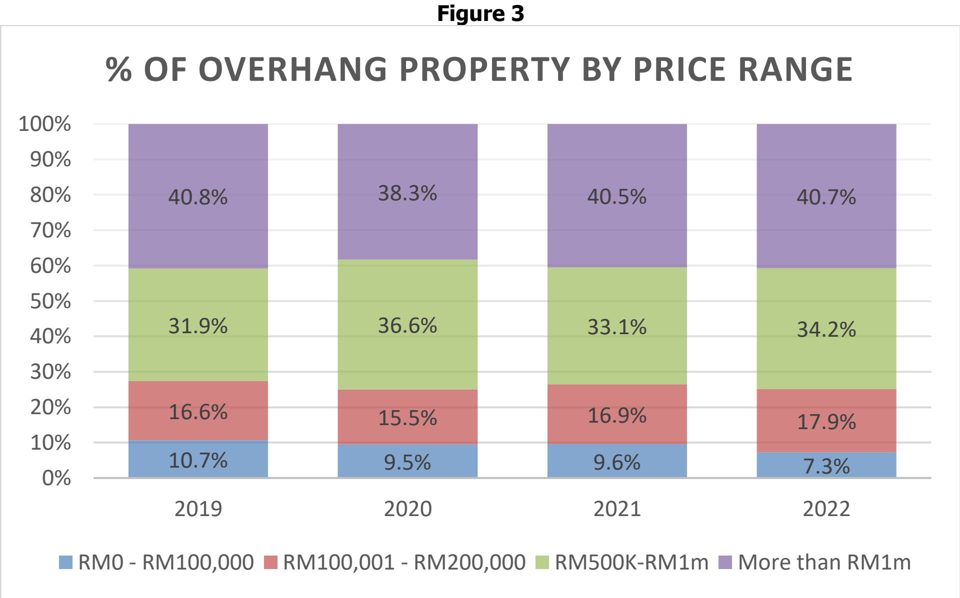
State	No. of HH ('000)	No. of B40 ('000)	Median Income	B40	M40	T20
Selangor	1,707.2	1,097.7	7,300	64.3%	27.6%	8.1%
Sarawak	647.3	418.2	3,831	64.6%	28.8%	6.6%
Sabah	547.1	337.6	3,773	61.7%	32.4%	5.9%
W.P. Kuala Lumpur	505.8	326.7	9,093	64.6%	26.6%	8.8%
Perak	**658.2**	**298.2**	**3,759**	**45.3%**	**38.8%**	**15.9%**
Pulau Pinang	476.7	269.3	5,474	56.5%	30.9%	12.6%
Terengganu	265.0	176.0	4,790	66.4%	27.3%	6.3%
Pahang	**355.9**	**159.1**	**4,033**	**44.7%**	**42.4%**	**12.9%**
Negeri Sembilan	283.3	119.0	4,478	42.0%	43.3%	14.7%
Johor	**913.7**	**111.5**	**5,690**	**12.2%**	**48.1%**	**39.7%**
Kelantan	349.5	98.6	3,010	28.2%	46.0%	25.8%
Melaka	235.5	82.4	5,447	35.0%	49.4%	15.6%
Kedah	**516.0**	**65.5**	**3,829**	**12.7%**	**51.1%**	**36.2%**
Perlis	60.4	31.6	4,043	52.4%	37.2%	10.4%
W.P. Putrajaya	35.1	25.9	9,743	73.8%	19.1%	7.1%
W.P. Labuan	23.1	15.5	6,126	67.0%	26.3%	6.7%
Malaysia	7,579.8	3,630.7	5,209	47.9%	36.6%	15.5%

Source: DOSM 2020, Apex Securities

Industry Overview

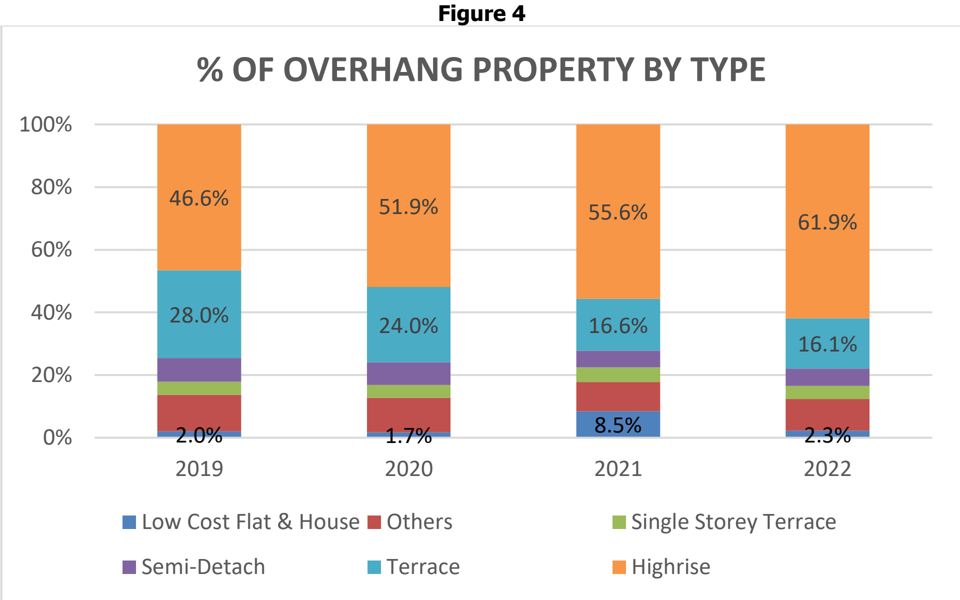
Demand for affordable housing continues to show resilience. Based on the latest available data in 2022, the number of overhang residential units stands at 27.7k units, a significant drop from 2021's figure of 36.9k units. Among these overhang units, 74.9% are priced above RM500k, with high-rise units accounting for 61.9% and terrace houses comprising 16.1%, while overhang numbers for low-cost flats and houses remain at a small percentage. Meanwhile, the number of property transactions has improved from 198.8k units to 243.3k units from 2020 to 2021. Notably, 55.7% of these transactions were for houses priced below RM300k, indicating the enduring demand for affordable homes within this price range.

Figure 3



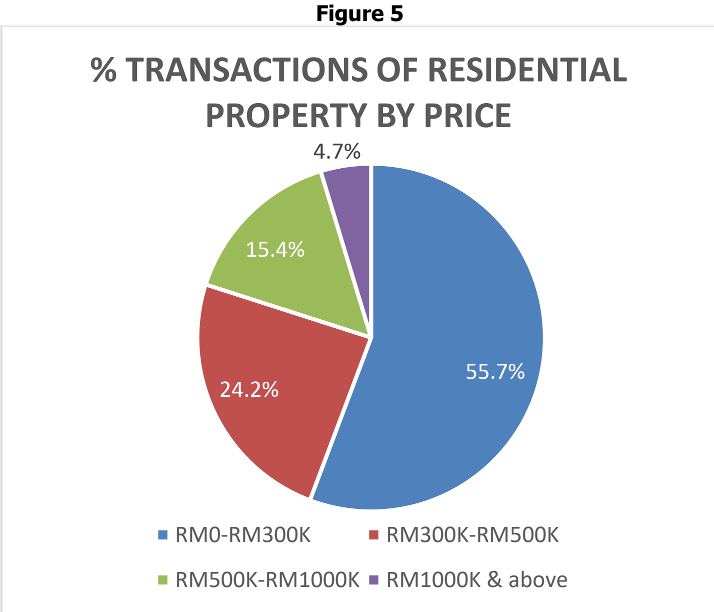
Source: NAPIC 2022, Apex Securities

Figure 4



Source: NAPIC 2022, Apex Securities

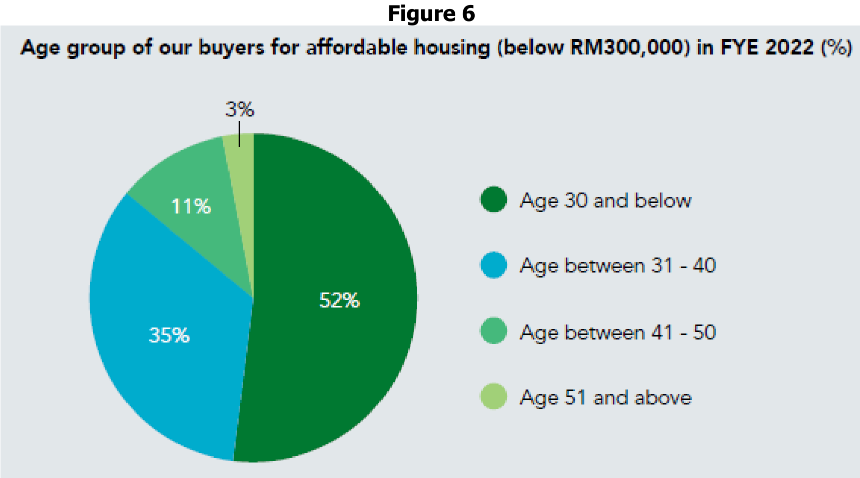
Figure 5



Source: NAPIC 2021, Apex Securities

Customer base mainly Civil Servants. Lagenda primarily focuses on providing affordable housing products tailored to the B40 group, particularly public sector employees who consider owning a home as a fundamental need. Around 80% of Lagenda's buyers come from the public sector, benefiting from stable incomes and government-assisted financing options. This advantageous financing scheme results in a high conversion rate of over 90% as many of them qualify for Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA) financing, which offers 100% financing at a fixed rate of up to RM200k, requiring a minimum monthly net income of RM1,700. Additionally, the stability of public sector employment reduces the risk of job loss during economic downturns, making Lagenda's products more resilient to fluctuating economic conditions.

Figure 6



Source: Lagenda Properties Berhad

Ongoing Projects with a Solid Track Record and Unbilled Sales. As of FY22, the Group has successfully launched more than 20,000 units of homes, through more than 10 projects launched in three townships. Currently, there are four key projects (BBSAP: Bandar Baru Setia Awan Perdana, LTI: Lagenda Teluk Intan, Darulaman, and Tropika) ongoing as of 1Q23. So far, each of these projects has achieved satisfying take-up rates. Notably, Darulaman has managed to achieve a 94% take-up rate despite only being launched late last year and is currently at 6% of its construction progress. The total gross development value (GDV) launched for these ongoing projects is RM4.4b. Meanwhile, unbilled sales stood at RM811.2m in 2Q23 providing earnings visibility for the next few years.

Figure 7: Projects Ongoing and Remaining GDV

1Q23	Remaining GDV (RM m)	Take Up Rate	Construction Progress
BBSAP	**1,209**		
Older Phases		97%	96%
Phase 4A		84%	54%
Phase 4B		Launched 1Q23	2%
LTI	**1,948**		
Older Phases		99%	78%
Phase 3A		46%	15%
Phase 3B		Launched 1Q23	3%
DARULAMAN	**535**		
Phase 1 & 2		94%	6%
TROPIKA	**216**		
Phase 1		57%	40%

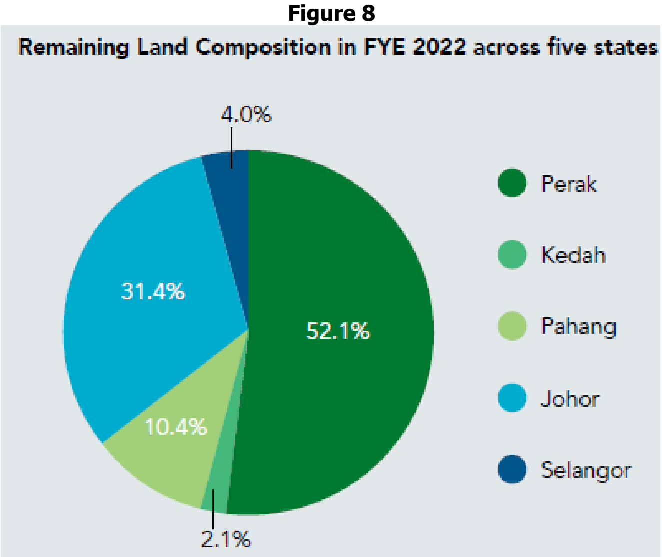
Project/Country	Estimated % for Remaining GDV
Kulai	31%
LTI	15%
TAPAH	13%
BBSAP	10%
KUANTAN	9%
MERSING	8%
Others	4%
DARULAMAN	4%
BERNAM JAYA	4%
TROPIKA	2%
Total	**100%**

Source: Lagenda Properties Berhad 1Q23

Penny-wise Land Purchases. Lagenda's competence to achieve a viable high-profit margin of over 20% despite offering affordable products priced below RM300k stems from Lagenda's strategic advantages which include acquiring sizable land at low costs of around RM2-9 per square foot in less prominent areas, which accounts for 5-10% of GDV. Additionally, Lagenda maximizes operating efficiency by in-sourcing construction and building materials capabilities. Furthermore, Lagenda has formed strategic partnerships through joint ventures (JVs) to access affordable land options and minimize upfront capital expenditure such as a JV with Inta Bina Group Berhad for its expertise in their industrialised building system (IBS). Additionally, their key townships comprise more than 10,000 units leading to better economies of scale akin to a manufacturing model. These factors contribute to Lagenda's ability to sustain a high-profit margin, setting it apart from its peers in the affordable housing market.

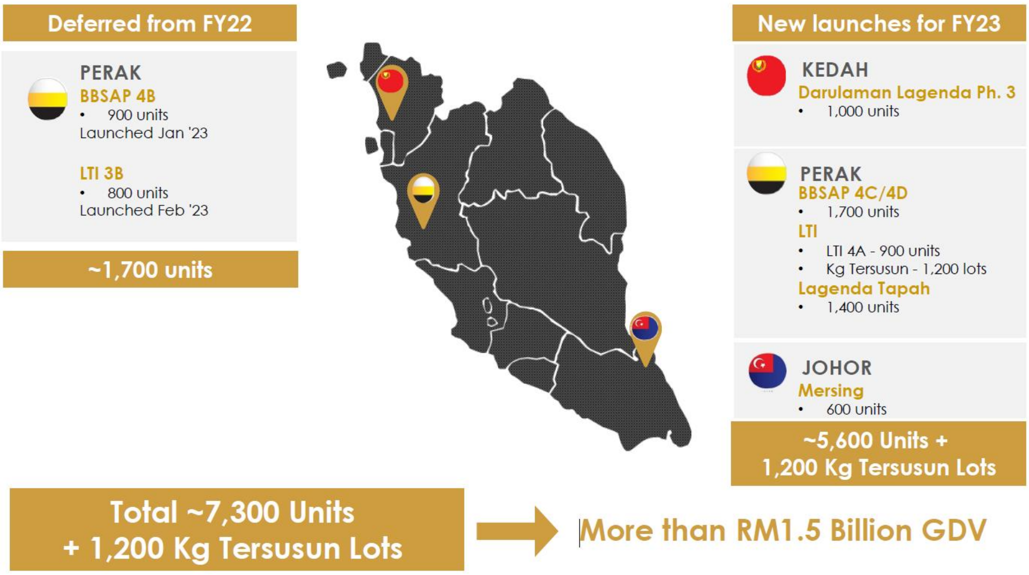
Landbank and Future Projects. As of the first quarter of 2023, Lagenda possesses an extensive landbank spanning nearly 4,700 acres across five states in Peninsular Malaysia. Recently, the company acquired a 1075.5-acre land in Kulai, Johor, at a rate of RM8.5 per square foot. This acquisition will be primarily funded through bank borrowings, and the repayment is expected to be completed by 2024. In addition to its ongoing township projects, Lagenda plans to launch at least one new township annually. In 2023, it aims to introduce over 7,300 housing units across three states, surpassing the 4,800 units launched in 2022. This includes the unveiling of new phases within existing projects and the development of a new township in Mersing, Johor, with an estimated gross development value (GDV) of RM1.5 billion. Consequently, Lagenda's total remaining GDV has reached RM12.7 billion.

Figure 8



Source: Lagenda Properties Berhad excluding Kulai land acquisition

Figure 9: Planned Unit of Launches and GDV in 2023



Source: Lagenda Properties Berhad

Directors and Senior Team Management

Retiring on March 30, 2019, **Admiral Tan Sri Dato Seri Panglima Dr Ahmad Kamarulzaman Hj Ahmad Badaruddin (R)** concluded a distinguished 42-year service as the 12th Chief of The Royal Malaysian Navy. Graduating with honours from Fu Hshing Kang Political Warfare College and earning a Master's in Defense Studies & International Relations from the National University Malaysia, Admiral Kamarulzaman furthered his education at institutions including Harvard Business School and University of Strathclyde Business School. His astute leadership fostered strong global political, corporate relationships and proficiency in risk management, cyber security, diplomacy, and corporate governance. The Admiral is the **Chairman** of Lagenda Properties Bhd and also sits on the boards of T7 Global Bhd, TRC Synergy Bhd, and holds interests in several private companies in food securities, healthcare, corporate advisory, construction, trading and logistics. He holds no Company shares, family ties, conflicts, recent convictions, or regulatory penalties.

Dato' Doh Jee Ming, a 43-year-old Malaysian, has extensive experience in the property development and construction industry and plays a hands-on role in the Group's businesses, contributing significantly to its success. He owns several private limited companies in Malaysia. He holds an MBA from the International Teaching University of Georgia and is a corporate member of the Perak Chinese Chamber of Commerce and Industry. As a **major shareholder**, he holds shares directly and indirectly through his interests in other companies. He was re-designated as an Executive Director in 2018 and later became the **Managing Director** in 2020. Apart from what has been disclosed, he has no family relationships or conflicts of interest with the company, no directorships in other public companies, and no criminal convictions or penalties imposed by regulatory bodies.

Lee Wei Jin, a 40-year-old Malaysian, began his career as an Auditor in a medium-sized audit firm. He gained experience leading audits for medium to large private and public listed companies in various industries. He also handled special assignments and corporate exercises. In 2012, he joined a property developer as an Assistant Finance Manager, overseeing finance and accounting matters for projects in multiple locations. He advanced to Finance Manager and later joined Blossom Eastland Sdn Bhd as Head of Finance. Currently, he serves as the **Chief Financial Officer**, managing the financial affairs of the Group and holding board positions in its subsidiaries.

Mohd Izuan Bin Yahya, a 37-year-old Malaysian, with over 13 years of experience in investments, corporate finance, and executing significant transactions, held the position of Vice President of Investments at Khazanah Nasional Berhad. There, he managed strategic investments in Iskandar Malaysia and PLUS highways. He has also served in various roles within MMC Corporation Berhad, QuantePhi Sdn Bhd, and Malaysia Airlines System Berhad. Currently, he is the **Head of Investments & Investor Relations** who leads the Group's land acquisition, business development, and corporate exercises.

Cheah Lye Aik, a 53-year-old Malaysian, with over 24 years of experience as a town planner, has expertise in various areas such as site appraisals, landscape design, project management, and market research. He joined Lagenda Group in 2020 as General Manager and now holds the position of **Head of Project Planning and Development**. In his current role, he is responsible for overseeing all project planning and development activities across the Group's projects.

Financial Forecast and Outlook

Income Statement					
FYE Dec (RM'm)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	835.6	866.9	989.6	1,088.3	1,235.4
Gross Profit	324.1	319.7	346.4	380.9	432.4
Operating profit	292.1	266.7	284.0	312.3	354.6
PBT	279.1	251.4	253.7	297.2	340.9
PAT	201.5	178.1	180.1	211.0	242.0
Core Earnings	201.5	178.1	180.1	211.0	242.0
Margins %					
Revenue Growth %	19.8%	3.7%	14.2%	10.0%	13.5%
Gross Profit	38.8%	36.9%	35.0%	35.0%	35.0%
Operating profit	35.0%	30.8%	28.7%	28.7%	28.7%
PBT	33.4%	29.0%	25.6%	27.3%	27.6%
PAT	24.1%	20.5%	18.2%	19.4%	19.6%
Core Earnings	24.1%	20.5%	18.2%	19.4%	19.6%

Balance Sheet					
FYE Dec (RM'm)	FY21	FY22	FY23F	FY24F	FY25F
Long Term Assets	34.0	40.9	45.1	50.4	56.5
Inventories	160.8	203.8	234.4	269.5	310.0
Others	26.6	26.1	25.6	25.6	25.6
Total NCA	**221.4**	**270.8**	**305.0**	**345.5**	**392.1**
Inventories	450.4	472.0	493.5	484.5	550.0
Receivables	324.3	314.0	350.3	385.2	437.3
Contract Assets	222.7	277.8	347.3	434.1	542.6
Cash	229.4	441.9	966.1	711.6	764.2
Total CA	**1,226.8**	**1,505.7**	**2,157.1**	**2,015.4**	**2,294.1**
Total Assets	**1,448.2**	**1,776.5**	**2,462.1**	**2,360.9**	**2,686.1**
Shareholder's Equity	**880.7**	**1,016.2**	**1,256.0**	**1,519.7**	**1,822.3**
Long Term Borrowings	159.1	188.6	227.6	322.4	290.2
Others	6.7	5.6	5.6	5.7	5.7
Total NCL	**165.8**	**194.2**	**233.2**	**328.1**	**295.8**
Payables	337.9	365.6	431.8	445.8	506.0
Short Term Borrowings	40.9	190.7	531.0	56.9	51.2
Others	22.9	9.8	10.1	10.5	10.8
Total CL	**401.7**	**566.1**	**972.9**	**513.1**	**568.0**
Total Liabilities	**567.5**	**760.3**	**1,206.1**	**841.2**	**863.9**
Total Equity and Liabilities	**1,448.2**	**1,776.5**	**2,462.1**	**2,360.9**	**2,686.1**

Cash Flow Statement					
FYE Dec (RM'm)	FY21	FY22	FY23F	FY24F	FY25F
PBT	279.1	251.4	253.7	297.2	340.9
D&A	2.4	3.4	4.5	5.4	6.5
Working Capital	(129.3)	(40.4)	(92.6)	(113.6)	(187.9)
Others	(95.1)	(96.3)	(88.4)	(88.8)	(85.0)
Net CFO	**57.1**	**118.1**	**77.2**	**100.2**	**74.5**
CAPEX	(1.9)	(4.9)	(4.1)	(4.9)	(5.9)
Others	(60.2)	(37.6)	(52.0)	(52.0)	(52.0)
CFI	**(62.1)**	**(42.5)**	**(56.1)**	**(56.9)**	**(57.9)**
Dividend	(52.7)	(62.3)	(45.0)	(52.7)	(60.5)
Raise/(Repay) Borrowings	(21.9)	182.9	379.3	(379.3)	(37.9)
Raise/(Repay) Equity	97.5	18.6	-	-	-
Others	19.2	(30.7)	(12.0)	(12.0)	(12.0)
CFF	**42.1**	**108.5**	**322.3**	**(444.0)**	**(110.4)**
Net Cash Flow	**37.1**	**184.2**	**343.3**	**(400.8)**	**(93.9)**
Beginning Cash	**190.6**	**227.7**	**411.9**	**755.2**	**354.4**
Ending Cash	**227.7**	**411.9**	**755.2**	**354.4**	**260.5**

Ratios	FY21	FY22	FY23F	FY24F	FY25F
Dividend Yield %	3.5%	4.3%	3.5%	4.2%	4.8%
EPS (Sen)	24.1	21.3	21.5	25.2	28.9
PE	6.3	7.1	7.0	6.0	5.2
Net Gearing (x)	0.0	-0.1	-0.2	-0.2	-0.2
P/BV	1.5	1.3	1.0	0.8	0.7
ROA	13.9%	10.0%	7.3%	8.9%	9.0%
ROE	22.9%	17.5%	14.3%	13.9%	13.3%
ROIC	18.6%	12.8%	8.9%	11.1%	11.2%
Receivable Days	118	103	100	100	100
Inventory Days	290	308	280	250	250
Payables Days	135	125	115	100	100
FCF (RM'm)	59.0	123.0	81.3	105.1	80.4
Cash Conversion Cycle (Days)	273	286	265	250	250

Source: Apex Securities, Lagenda Properties Berhad

An overview of its financials, Lagenda's revenue has performed strongly since the Reverse Takeover (RTO) from a poultry company to a property developer achieving a compounded annual growth rate (CAGR) of 40.7% over the past six years while net profit grew at a CAGR of 15.8% from FY19 to FY22. Its operating margins have managed to sustain pretty well above 35% for the time being for six years however we do notice that there is a slight decline in FY22 mainly due to the rise in costs.

Looking ahead, we expect the revenue growth to thrive in the coming years as more launches carry out, we estimate a 14.2% growth YoY in FY23 and 10.0% YoY in FY24 as we expect lesser recognition of revenue to take place from the Bandar Baru Setia Awan Perdana (BBSAP) project as it reaches its final phases.

For gross profit margins, we take a conservative stance to forecast a lower but consistent gross profit margin in the coming years due to the rising cost of raw materials while taking into account the Group's internal construction arm and building material division to provide cost efficiency. This would also bring the net profit margins to maintain around 19% each year.

On its balance sheet, we forecast a jump in short-term borrowings in FY23 in accordance with the funding of the Kulai land acquisition with expectations of settlement by 2024. Net gearing ratio is observed to be declining and we expect it to be maintained at a healthy level for the Group to explore more suitable landbanks. Cash reserves have almost doubled from RM229.4m in FY21 to RM441.9m in FY22. For dividends, the Group targets to pay out at least 25% of its PAT. We forecast a dividend yield of 3.7% in FY23 and 4.3% in FY24.

The Group also portrays healthy financial ratios in ROA, ROE, and ROIC with each of them achieving over 10% over the past four years but each of them has met a decline in FY22. Moving forward, we forecast a cautious decline as we anticipate the Group to accumulate more assets in the years to come.

Recent Quarter Performance: 2Q23

FYE Dec (RM'm)	2Q23	1Q23	2Q22	qoq (%)	yoy (%)	1H23	1H22	yoy (%)
Revenue	196.4	181.0	258.5	8.5	(24.0)	377.4	451.3	(16.4)
GP	69.5	66.5	90.4	4.5	(23.1)	136.0	172.6	(21.2)
EBIT	52.3	57.8	71.3	(9.5)	(26.6)	110.1	139.9	(21.3)
PBT	47.2	53.1	68.2	(11.1)	(30.8)	100.3	133.4	(24.8)
PAT	33.1	39.3	50.4	(15.8)	(34.3)	72.4	97.5	(25.7)
Gross margin (%) / ppt	35.4	36.7	35.0	(1.4)	0.4	0.04	0.04	(2.2)
Operating margin (%) / ppt	26.6	31.9	27.6	(5.3)	(1.0)	29.2	31.0	(1.8)
PBT margin (%) / ppt	24.0	29.3	26.4	(5.3)	(2.4)	26.6	29.6	(3.0)

Source: Apex Securities, Lagenda Properties Berhad

Currently, we observed Lagenda's latest quarterly performance in 2Q23 to be acceptable, revenue was at RM196.4 (8.5% QoQ, -24.0% YoY) mainly contributed by higher sales conversion and higher completion of project work done on their newly launched projects namely the BBSAP, Lagenda Tropika, and Darulaman Lagenda. Meanwhile, 2Q23 net profit are at RM33.1m (-15.8% QoQ, -34.3% YoY) as earnings experienced an increase in the previous quarter primarily attributed to a revaluation surplus totalling to RM4.8m, the absence of that in 2Q23 is seen to have affected its EBIT margins performance. The cumulative quarterly performance has currently achieved 38.1%/40.1% of our forecasts for revenue/PAT.

Lagenda's residential properties sustained robust demand momentum throughout the second quarter of 2023. Notably, confirmed sales reached RM507.0m in the first half of the year, marking a significant 42% upsurge from the prior year's accomplishment. This surge was primarily attributed to the performance of Darulaman Lagenda in Kedah. Furthermore, the company's financial stability and future earnings prospects are underscored by an inventory of unbilled sales worth RM811.2m as of June 30, 2023. Additionally, bookings totalling RM347.6m establish a substantial groundwork for forthcoming sales opportunities.

Lagenda also paid a first interim single-tier dividend of 3.0 sen per ordinary share in the same quarter. This dividend, slated for disbursement on September 25, 2023, amounts to a total payout of RM25.1m. Notably, this represents a payout ratio of 35% for the six-month period ending on June 30, 2023.

The switch from conventional construction techniques to the adoption of Industrialised Building Systems (IBS) for its more recent undertakings in Teluk Intan and Kedah has brought about a momentary deceleration in construction progress, this was anticipated by Lagenda while they familiarized themselves with the novel approach. As a result of this transition, the recognition of revenue was comparatively lower than that of the preceding fiscal year. Nonetheless, they are currently advancing toward the complete integration of IBS across these projects, and they anticipate a marked acceleration in the pace of construction going forward.

Peer Comparison

NAME	Market Cap RM m	Current PER (x)	Forward PER (x)	Revenue RM m	Net profit RM m	Net profit margin (%)	ROE (%)	Net gearing (%)
UEM SUNRISE BHD	2,226	20.3	18.2	1,473.4	80.5	5.5	1.1	47.5
O.S.K. HOLDINGS BHD	2,206	9.2	5.1	1,320.9	427.2	32.3	8.0	40.2
MATRIX CONCEPTS HOLDINGS BHD	1,752	7.5	7.0	1,113.1	207.2	18.6	10.7	-4.6
MKH BHD	756	9.4	8.9	968.1	112.4	11.6	4.2	1.5
LAGENDA PROPERTIES BHD	**980**	**5.9**	**6.0**	**866.9**	**178.3**	**20.6**	**17.3**	**-5.5**
PARAMOUNT CORP BHD	542	7.4	7.9	847.5	60.2	7.1	4.7	41.8
AVERAGE*		**8.4**	**7.2**			**17.4**	**6.9**	

**Excluding Lagenda Properties Bhd*

Source: Apex Securities, Bloomberg

- For comparison, we have selected several property developers with revenue between RM600m and RM1.5b in line with our forecast revenue for Lagenda.
- Lagenda's net profit margin of 20.6% is higher than average and its ROE of 17.3% is the highest in the group with both measures excluding UEM.
- The gearing ratio for Lagenda is at -5.5X which is the lowest compared to its peers.
- Lower than average PE ratio of 5.9x which signifies hidden value in the company.
- Further comparison, Lagenda is currently trading at a PE that is also below the Bursa Property Index current PE of 14.7x.

Valuation / Recommendation

We arrive at a fair value of RM1.52 based on a 20% discount on Lagenda's estimated RNAV. The target price represents a 22.3% potential upside from its current price of RM1.24 and an 18.0% forward PE discount against its peers. We also project a 4.2% return from dividends in FY24f based on its 25% payout ratio dividend policy.

RNAV Valuation Basis: Discount rate of 5.5%	Stake %	GDV (Current & Future Projects) RMm	DCF RMm
Local Projects			
BBSAP	100.0%	1,209.4	165.3
LTI	100.0%	1,947.7	246.5
TROPIKA	100.0%	216.4	31.2
DARULAMAN	50.0%	534.7	36.5
BERNAM JAYA	100.0%	521.9	75.2
TAPAH	100.0%	1,654.9	226.2
KUANTAN	100.0%	1,145.7	156.6
MERSING	100.0%	980.2	141.2
KULAI	100.0%	3,959.0	501.1
OTHERS	100.0%	560.1	80.7
Unbilled sales		781.8	106.9
Total			**1,767.4**
Net Cash as of 1Q23			14.2
Other Assets			270.8
RNAV			**2,052.4**
RCPS			209.9
RNAV post RCPS			**2,262.34**
Enlarged number of shares			1,193.6
Fully-diluted RNAV/share			**1.90**
Discount			**20%**
Discounted Fully-diluted RNAV/Share			**1.52**

Source: Apex Securities, Lagenda Properties Berhad

Key Risks

Low Barriers of Entry. The business of building affordable housing is perceived to be less attractive for many of the bigger players notably are less keen to develop properties in areas where Lagenda is involved in. However, we still believe Lagenda's business model is simple to imitate hence it still bears the risk for new players entering the field but it would still be a challenge to implement.

Inability to acquire a suitable landbank. Lagenda's ability to maintain this level of profitability and growth is mainly due to its low cost of landbanks. While they have an existing landbank, there is no guarantee of their ability to continue acquiring landbanks at strategic locations and favourable costs. Failure to do so could impact its ability to launch new projects while maintaining its financial performance.

Sudden rise in costs. Lagenda has its own internal construction arm and building material supply division that helps to control costs. However, unforeseen and persistent increases in construction costs can strain contractors' cash flow and resource availability, leading to delays and a negative reputation for the Group.

Changes in government policy. Government policies significantly influence Malaysia's property market. Negative changes in policies related to housing, land, development, or restrictions on property purchases can adversely affect market performance and property values. Regulatory measures impacting consumer sentiment or property values can delay Lagenda's development plans, affecting property types, selling prices, overall business, cash flow, and sales performance. A cut in hiring of civil workers may pose a threat to the Group as well but not in the short term.

SWOT Analysis

Strength	Weakness
• High focus on providing affordable housing to the B40 income group. • Strong ROE of over 15% compared to its peers. • Lesser impact from interest rate hikes and property overhang • Steady customer profile	• Low barriers of entry for new players. • Dependant on one type of customer profile
Opportunities	**Threats**
• Launching new developments and project phases in the next 3 years. • Increasing landbank for future projects.	• Delay in construction works. • Unanticipated increase in material and labour costs.

ESG

	Rating	Comments
Environmental	★★★★	Lagenda has integrated environmentally friendly practices into their development projects' design by installing over 3,000 units of rainwater harvesting systems, collaborated with solar companies to install solar PV systems in their townships, and planting over 23,000 trees.
Social	★★★	Lagenda practices providing a safe and healthy environment for its employees, and fair and equal opportunities for career advancement for all its employees.
Governance	★★★★	Lagenda has implemented policies that demonstrate its commitment to preventing bribery and corruption. The company also has a KPI to provide over 35,000 affordable homes by 2030 and has achieved 59.1% of it so far.
Overall Rating		
★★★★		

ESG Rating

★★★★★ : Among the top performers in its industry or peer group in ESG factors.
★★★★ : Above average in its industry or peer group in ESG factors.
★★★ : Has adequate ESG initiatives in place.
★★ : Has significant room for improvement in implementing ESG initiatives and practices.
★ : Poor in implementing ESG initiatives and practices.

BBSAP Site Visit

We recently managed to have a short tour at one of Lagenda's prominent projects which is the Bandar Baru Setia Awan Perdana (BBSAP) project. It was a worthwhile visit to see the ongoing project that reaching its final few phases as well as to witness the finished products of the township in person.

Photo 1: Scale Model of BBSAP

We were first brought to visit BBSAP's clubhouse which was built to create a more self-sustainable township and community. The clubhouse mainly consists of two amenities for the time being which is the Olympic-sized swimming pool and badminton/event hall. They are both open for public use and it is currently free for use for local residents of the BBSAP township but charges will be applied soon to both residents and outsiders to maintain the clubhouse. We noticed the clubhouse looks well-kept and maintained even though it has been built since 2021. Management mentioned that there is vacant land near the clubhouse which they are still planning and deciding to develop for the community.

Photo 2: BBSAP Clubhouse Olympic Sized Public Pool

Photo 3: BBSAP Clubhouse Public Badminton/Event Hall

Soon after, we were led to our first property which is a single-storey terrace house from their completed Phase 1 of the project, we were shown the corner lot version of it that has a large amount of land next to it, the usual units have a land area of 20' x 65', the unit comes with 3 bedrooms and 2 bathrooms. After exploring the unit, we feel that is suitable for a very small family with minimum space demands.

Photo 2: One of BBSAP's Irregular-Sized Corner Houses

After that, we were transported to Phase 2C's single-storey Semi-D cluster unit that has a larger land size of 40' x 80'. The impression met our expectations where the unit was more spacious than the previous property that we visited, we still believe it's suitable for a small family to live in and it felt more comfortable with the enlarged spaces of the property. Interestingly, we do observe that this type of unit comes with its own rainwater collector, management describes this as part of their ESG initiatives to promote an eco-friendlier and more sustainable environment for the residents.

Photo 3: BBSAP Semi-D House

Photo 4: Rainfall Collector

Throughout the journey, we also had a quick bypass of the township's other phases such as the single-storey semi-D cluster from Phase 2D and a vacant land that is being prepared for commercial development to further support the sustainability of the township. The traffic around the completed projects was comfortable at around 1 pm- 3 pm on a Tuesday, we did not experience any traffic congestion during those hours.

Overall, it was a beneficial experience to see the quality finishes of the properties, neighbouring facilities, and the sense of a journey around the township. We look forward to visiting the Group's other townships in the future.

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY	:The stock's total returns* are expected to exceed 10% within the next 12 months.
HOLD	:The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL	:The stock's total returns* are expected to be below -10% within the next 12 months.
TRADING BUY	:The stock's total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL	:The stock's total returns* are expected to be below -10% within the next 3 months.

*capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT	:The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
MARKETWEIGHT	:The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT	:The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

ESG RECOMMENDATIONS

☆☆☆☆	:Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	:Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	:Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	:Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

Source: Bursa Malaysia and FTSE Russell

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