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Capital Market Navigator

| 22nd August 2023

| MALAYSIA COMPANY UPDATE |

LAGENDA PROPERTIES BERHAD (LAGENDA MK)

RATING

: BUY

TARGET PRICE

: RM1.55

CLOSING PRICE (21st August 2023)

: RM1.24

Lagenda Properties Berhad 2QFY23 Results Update

- Lagenda's 2QFY23 results were below our expectations. The deviation is due to slower-than-expected construction billing.
- We cut our earnings forecast to reflect the slower construction recognition.
- Maintain BUY rating with a higher TP RM1.55 (Previously RM1.54).

Below expectations. 1HFY23 headline profit of RM72m was below our expectation, which accounted for 30% of our previous full year forecast. The deviation against our forecast was due to the slower-than-expected construction billing as Lagenda transitions from traditional construction methods to Industrialised Building Systems (IBS) for newer projects (Lagenda Teluk Intan and Darulaman Lagenda in Kedah).

YoY. 2QFY23 revenue contracted 24% YoY to RM258.5m, dragged by slower revenue recognition. Similarly, PAT contracted 34.4% YoY in line with the lower revenue.

Revenue Visibility. 1HFY23 recorded a higher confirmed sales of RM507m, which surpassed 1HFY22 of RM357m (+42% YoY). Unbilled sales stood at RM811.2m, providing strong revenue visibility once construction pace pick up.

Price Chart



Source: Bloomberg

Price Fundamentals

| | |
|---------------------------------|------|
| Market Capitalization (RM' bil) | 1.04 |
| 52-Week High (RM) | 1.34 |
| 52-Week Low (RM) | 1.13 |

Major Shareholders

| | |
|----------------------------------|-------|
| Lagenda Land Sdn. Bhd. | 63.9% |
| Setia Awan Plantation Sdn. Bhd. | 4.5% |
| Kenanga Investors Berhad | 2.3% |
| Kenanga Islamic Investors Berhad | 1.8% |

Source: Bursamarketplace, Bloomberg as at 21st August 2023

| Financial Summary (RM '000) | FY2020 | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
|-----------------------------|---------|----------|----------|----------|-----------|-----------|
| Revenue | 697,612 | 835,578 | 866,940 | 935,500 | 1,230,175 | 1,468,211 |
| EBITDA | 227,877 | 294,526 | 270,182 | 290,521 | 380,189 | 445,263 |
| Net Profit | 151,687 | 201,466 | 178,226 | 184,880 | 227,199 | 268,447 |
| EPS (sen) | 57.8 | 25.1 | 21.3 | 22.1 | 27.1 | 32.1 |
| EPS Growth (%) | 38.2% | -56.6% | -15.2% | 3.7% | 22.9% | 18.2% |
| P/E (x) | 2.1 | 4.9 | 5.8 | 5.6 | 4.6 | 3.9 |
| DPS (sen) | 2.5 | 6.5 | 6.5 | 5.5 | 6.8 | 8.0 |
| Dividend Yield (%) | 2.0% | 5.2% | 5.2% | 4.5% | 5.5% | 6.5% |
| BPS (sen) | 238.8 | 109.8 | 121.4 | 140.2 | 159.2 | 183.1 |
| P/B (x) | 0.5 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 |
| ROE (%) | 30.1% | 26.7% | 18.8% | 16.9% | 18.1% | 18.7% |
| Net Gearing (x) | 0.06 | Net Cash | Net Cash | Net Cash | 0.4 | 0.3 |

Source: Company, PRSB

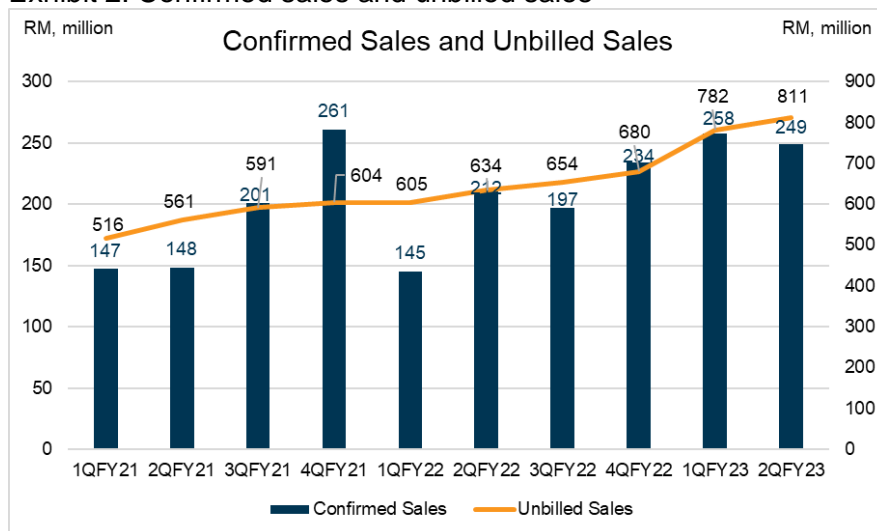
Revised forecasts. We cut down our FY23-25E earnings by 6–23% after factoring in a lower construction billing. However, we maintain our BUY rating with a higher Target Price of RM1.55 (previously RM1.54) pegged to a higher 7x PE multiple on FY2023E EPS. We believe Lagenda’s long term growth prospects remain attractive backed by its ongoing expansion in Kedah and Johor.

Exhibit 1: Results at a glance

| FYE December (RM,000) | 2QFY23 | 1QFY23 | 2QFY22 | QoQ change (%) | YoY change (%) |
|-----------------------|---------|---------|---------|------------------|------------------|
| Revenue | 196,383 | 180,952 | 258,546 | 8.5 | -24.0 |
| EBITDA | 53,757 | 58,957 | 72,131 | -8.8 | -25.5 |
| PAT | 33,033 | 39,304 | 50,356 | -16.0 | -34.4 |
| (%) | | | | QoQ change (ppt) | YoY change (ppt) |
| EBITDA margin | 27.37 | 32.58 | 27.90 | -5.2 | -0.5 |
| PAT margin | 16.82 | 21.72 | 19.48 | -4.9 | -2.7 |

Source: Company, PRSB

Exhibit 2: Confirmed sales and unbilled sales



Source: Company, PRSB

Exhibit 3: PE Band



Source: Company, PRSB

| Income Statement (RM,000) | FY2020 | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
|--|----------------|----------------|----------------|----------------|------------------|------------------|
| Revenue | 697,612 | 835,578 | 868,080 | 935,500 | 1,230,175 | 1,468,211 |
| COGS | -420,630 | -511,497 | -549,071 | -590,301 | -787,312 | -932,314 |
| Gross profits | 276,982 | 324,081 | 319,009 | 345,200 | 442,863 | 535,897 |
| SG&A | -57,880 | -68,880 | -79,864 | -88,557 | -111,406 | -136,941 |
| Other income | 7,002 | 36,928 | 26,917 | 29,631 | 43,216 | 39,687 |
| Operating profits | 226,105 | 292,129 | 266,062 | 286,274 | 374,673 | 438,644 |
| Share of results from associated companies and joint venture | -600 | - | 46 | - | - | - |
| Earnings before interest & tax (EBIT) | 225,504 | 292,129 | 266,108 | 286,274 | 374,673 | 438,644 |
| Finance cost | -9,562 | -13,050 | -15,298 | -26,245 | -55,125 | -61,082 |
| Profit before tax | 215,943 | 279,079 | 250,810 | 260,029 | 319,548 | 377,562 |
| Taxation | -64,256 | -77,613 | -73,074 | -75,148 | -92,349 | -109,115 |
| Profit for the year | 151,687 | 201,466 | 177,736 | 184,880 | 227,199 | 268,447 |
| Minority interests | 9,200 | -40 | 5,525 | -34 | -42 | -49 |
| Net profits ex-MI | 142,487 | 201,426 | 172,211 | 184,846 | 227,157 | 268,398 |
| Net profits ex-MI & extraordinary | 142,487 | 201,426 | 172,211 | 184,846 | 227,157 | 268,398 |
| % y-y | FY2020 | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
| Sales | 50.7% | 19.8% | 3.9% | 7.9% | 31.5% | 19.3% |
| COGS | 49.6% | 21.6% | 7.3% | 7.9% | 33.4% | 18.4% |
| Gross profits | 52.6% | 17.0% | -1.6% | 8.0% | 28.3% | 21.0% |
| SG&A | 72.1% | 19.0% | 15.9% | 8.0% | 25.8% | 22.9% |
| Operating profits | 50.5% | 29.2% | -8.9% | 7.3% | 30.9% | 17.1% |
| Earnings before interest & tax (EBIT) | 50.1% | 29.5% | -8.9% | 7.3% | 30.9% | 17.1% |
| EBITDA | 227,877 | 294,526 | 269,425 | 290,521 | 380,189 | 445,263 |
| EBITDA Growth | 50.1% | 29.2% | -8.5% | 7.5% | 30.9% | 17.1% |
| EBITDA Margin | 32.7% | 35.2% | 31.0% | 31.1% | 30.9% | 30.3% |
| Profit before tax | 54.0% | 29.2% | -10.1% | 3.4% | 22.9% | 18.2% |
| Taxation and zakat | 57.2% | 20.8% | -5.8% | 2.6% | 22.9% | 18.2% |
| Net profits ex-MI | 48.3% | 41.4% | -14.5% | 3.7% | 22.9% | 18.2% |
| As % of sales | FY2020 | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
| COGS | 60.3% | 61.2% | 63.3% | 63.1% | 64.0% | 63.5% |
| Gross profits | 39.7% | 38.8% | 36.7% | 36.9% | 36.0% | 36.5% |
| SG&A | 8.3% | 8.2% | 9.2% | 9.5% | 9.1% | 9.3% |
| Operating profits | 32.4% | 35.0% | 30.6% | 30.6% | 30.5% | 29.9% |
| Earnings before interest & tax (EBIT) | 32.3% | 35.0% | 30.7% | 30.6% | 30.5% | 29.9% |
| Profit before tax | 31.0% | 33.4% | 28.9% | 27.8% | 26.0% | 25.7% |
| Taxation | 29.8% | 27.8% | 29.1% | 28.9% | 28.9% | 28.9% |
| Net profits ex-MI | 20.4% | 24.1% | 19.8% | 19.8% | 18.5% | 18.3% |
| Depreciation & Amortisation | 0.3% | 0.3% | 0.4% | 0.3% | 0.3% | 0.3% |
| Capex | 0.1% | 5.3% | 5.3% | 5.2% | 38.9% | 5.9% |
| Depreciation & Amortisation | 1,772 | 2,396 | 3,363 | 4,247 | 5,516 | 6,620 |
| Capex | 1,022 | 44,477 | 45,825 | 48,617 | 478,982 | 86,696 |
| Shares out (FY-avg) | 262,339 | 802,299 | 836,689 | 837,327 | 837,327 | 837,327 |
| EPS (sen) | 57.82 | 25.11 | 21.24 | 22.08 | 27.13 | 32.06 |
| Core EPS (sen) | 54.31 | 25.11 | 20.58 | 22.08 | 27.13 | 32.05 |
| EPS Growth | 38.2% | -56.6% | -15.4% | 3.7% | 22.9% | 18.2% |
| DPS (sen) | 2.50 | 6.50 | 6.50 | 5.52 | 6.78 | 8.01 |
| Dividend payout | 4.6% | 25.9% | 31.6% | 25.0% | 25.0% | 25.0% |
| BPS (sen) | 238.76 | 109.76 | 121.39 | 140.18 | 159.18 | 183.10 |

Source: Company, compiled by PRSB

| Balance sheet (RM,000) | FY2020 | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Current assets | 988,828 | 1,248,586 | 1,524,571 | 1,895,195 | 2,556,878 | 2,798,143 |
| Cash and deposits | 188,930 | 225,778 | 407,446 | 475,341 | 479,010 | 595,255 |
| Receivables | 203,346 | 271,075 | 272,650 | 412,820 | 508,351 | 570,256 |
| Other receivables | 32,294 | 53,294 | 40,797 | 87,390 | 116,573 | -41,802 |
| Inventories | 361,434 | 472,184 | 488,809 | 493,658 | 924,068 | 1,053,186 |
| Contract assets | 177,474 | 222,671 | 280,519 | 384,257 | 483,018 | 569,981 |
| Others | 25,350 | 3,585 | 34,350 | 41,729 | 45,858 | 51,267 |
| Long-term assets | 173,584 | 199,612 | 270,849 | 325,072 | 802,522 | 631,709 |
| PPE | 8,949 | 11,054 | 17,227 | 20,761 | 26,676 | 32,540 |
| Land held and cost for property development | 110,510 | 139,021 | 203,849 | 254,904 | 726,438 | 549,639 |
| Investment properties | 9,514 | 22,922 | 23,652 | 23,287 | 23,287 | 23,409 |
| Intangible/Goodwill | 24,506 | 25,576 | 25,576 | 25,576 | 25,576 | 25,576 |
| Others | 20,105 | 1,038 | 545 | 545 | 545 | 545 |
| Total assets | 1,162,413 | 1,448,198 | 1,795,420 | 2,220,267 | 3,359,400 | 3,429,852 |
| Current liabilities | 336,677 | 401,693 | 472,656 | 722,351 | 1,259,181 | 1,105,460 |
| Trade payables | 182,714 | 195,493 | 178,806 | 323,041 | 378,127 | 429,126 |
| Other payables | 81,698 | 142,450 | 200,219 | 228,866 | 648,890 | 362,617 |
| Short-term borrowings | 41,528 | 40,861 | 82,083 | 146,408 | 205,791 | 286,398 |
| Contract liabilities | 3,797 | 2,701 | 5,853 | 5,616 | 6,353 | 8,402 |
| Lease liabilities | 1,310 | 1,771 | 1,769 | 3,095 | 4,109 | 5,436 |
| Current tax payable | 25,630 | 18,417 | 3,926 | 15,326 | 15,911 | 13,481 |
| Long-term Liabilities | 199,386 | 165,883 | 307,092 | 324,152 | 767,372 | 791,273 |
| Long-term borrowings | 180,687 | 159,138 | 300,905 | 306,111 | 752,017 | 773,110 |
| Payables | 13,808 | 2,792 | - | 10,918 | 6,417 | 7,706 |
| Lease liabilities | 2,655 | 3,030 | 4,924 | 5,963 | 7,578 | 9,316 |
| Deferred tax liabilities | 2,236 | 923 | 1,263 | 1,160 | 1,360 | 1,141 |
| Total Liabilities | 536,063 | 567,575 | 779,748 | 1,046,503 | 2,026,553 | 1,896,733 |
| Total Equity | 626,349 | 880,623 | 1,015,672 | 1,173,764 | 1,332,847 | 1,533,119 |
| Common stock/Share capital | 220,520 | 314,551 | 333,171 | 333,171 | 333,171 | 333,171 |
| Retained earnings | 398,018 | 566,078 | 665,792 | 821,613 | 991,980 | 1,193,279 |
| Non-controlling interests | 7,811 | -5 | -8 | 18,980 | 7,696 | 6,670 |
| Others | - | - | 16,717 | - | - | - |
| Total liabilities & Total Equity | 1,162,413 | 1,448,198 | 1,795,420 | 2,220,267 | 3,359,400 | 3,429,852 |
| Interest-bearing debt | 223,525 | 201,769 | 384,757 | 455,614 | 961,917 | 1,064,943 |
| Net interest-bearing debt | 34,595 | -24,008 | -22,689 | -19,727 | 482,908 | 469,688 |
| Net debt to equity (%) | 5.5% | -2.7% | -2.2% | -1.7% | 36.2% | 30.6% |
| Cash and deposits (%) | 27.1% | 27.0% | 46.9% | 50.8% | 38.9% | 40.5% |
| Receivables (%) | 29.1% | 32.4% | 31.4% | 44.1% | 41.3% | 38.8% |
| Inventories (%) | 51.8% | 56.5% | 56.3% | 52.8% | 75.1% | 71.7% |
| Trade and other payables (%) | 26.2% | 23.4% | 24.3% | 24.6% | 24.1% | 24.3% |
| ATO (%) | 74.6% | 64.0% | 53.5% | 46.8% | 44.1% | 43.3% |
| ROE (%) | 30.1% | 26.7% | 18.2% | 16.9% | 18.1% | 18.7% |
| ROA (%) | 15.2% | 15.4% | 10.6% | 9.2% | 8.1% | 7.9% |

Source: Company, compiled by PRSB

| Cash flow (RM,000) | FY2020 | FY2021 | FY2022 | FY2023E | FY2024E | FY2025E |
|---|-----------------|----------------|----------------|----------------|-----------------|-----------------|
| Operating cash flow | 218,203 | 56,834 | 116,040 | 89,306 | 71,255 | 194,886 |
| Pretax profits | 215,943 | 279,079 | 250,810 | 260,029 | 319,548 | 377,562 |
| Depreciation & Amortisation | 1,772 | 2,396 | 3,363 | 4,247 | 5,516 | 6,620 |
| Decrease in Account Receivable | 65,757 | 67,729 | 1,575 | 167,408 | 95,531 | 61,905 |
| Change in Inventories | 148,185 | 110,750 | 16,625 | 21,616 | 430,410 | 129,118 |
| Change in Account Payables | 75,363 | 12,779 | -16,687 | 144,229 | 55,086 | 50,999 |
| Changes in Contract assets | 63,682 | 45,197 | 57,848 | 106,457 | 98,761 | 86,963 |
| Changes in Contract liabilities | -640 | -1,096 | 3,152 | 2,563 | 737 | 2,049 |
| Interest Expense | 488 | 1,401 | 21,272 | 23,649 | 40,095 | 57,352 |
| Change in Working Capital (WC) | -202,901 | -211,992 | -89,584 | -148,689 | -568,879 | -224,938 |
| Taxes | 64,256 | 77,613 | 73,074 | 75,148 | 92,349 | 109,115 |
| Other | 267,156 | 63,563 | 3,253 | 25,219 | 367,323 | 87,406 |
| Investment cash flow | -104,947 | -62,099 | -38,031 | -69,582 | -504,802 | -112,214 |
| Capex | -1,022 | -44,477 | -45,825 | -48,617 | -478,982 | -86,696 |
| Investments | -129,439 | -18,042 | 7,655 | -20,965 | -25,820 | -25,517 |
| Proceed from disposal of PPE | 10,773 | 420 | 139 | - | - | - |
| Repayment from Director's related companies | 14,741 | - | - | - | - | - |
| Financial cash flow | 11,059 | 42,112 | 103,659 | 45,970 | 437,216 | 33,574 |
| Change in borrowings | 8,124 | -24,184 | 182,990 | 73,210 | 505,289 | 101,699 |
| Change in equity | 39,256 | 97,570 | 135,049 | 18,972 | -11,284 | -1,026 |
| Dividends paid | -15,857 | -52,717 | -63,867 | -46,212 | -56,789 | -67,099 |
| Other | -20,464 | 21,444 | -150,513 | - | - | - |
| Change in cash & equivalents | 124,316 | 36,847 | 181,668 | 65,694 | 3,669 | 116,246 |
| Cash & equivalent at FY-start | 64,615 | 188,930 | 225,778 | 409,647 | 475,341 | 479,010 |
| Cash & equivalent at FY-end | 188,930 | 225,778 | 407,446 | 475,341 | 479,010 | 595,255 |
| Free Cash Flow | 113,257 | -5,265 | 78,009 | 19,724 | -433,547 | 82,672 |

Source: Company, compiled by PRSB

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Materially mentioned issuers

| Issuer | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|--------|--------|-------|------------|--------------|---------------|-------------|
|--------|--------|-------|------------|--------------|---------------|-------------|

Due to time critical of this report, this information is unavailable at the time of publication.

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Equity:

BUY: Total stock return (including dividends) expected to exceed 20% annually;

O-PF: Total expected return below 20% annually but exceeding market return;

U-PF: Total expected return positive but below market return;

SELL: Total return expected to be negative.

For relative performance, we benchmark the 12-month total forecast return (including dividends) for the stock against the 12-month forecast return (including dividends) for the market on which the stock trades.

ETFs (Criteria applies to rating assignments from 16th December 2019):

STRONG BUY: Total return (including dividends) expected to exceed 20% annually;

BUY: Total expected return below 20% but exceed 5% or then 1-year rate, whichever is higher;

SELL: Total return of not more than 5% or then 1-year rate, whichever is higher.

The ratings are based on the forecast total return (including dividends) over the next 12 months.

Funds:

The rating a mathematical scoring system that include risks (standard deviation, Sharpe Ratio) and returns (1-year, 3-year, 5-year and consistency) BUY: Total return (including income distribution) is positive and above peers' average while risk factors are low;

O-PF: Total return is positive and above peers' average but has higher risk factors;

SELL: Total return is negative.

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