



AmInvestment Bank

Company report

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

06 Sep 2023

Acquires 3 Damansara Office Tower for RM52mil

BUY

(Maintained)

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Rationale for report: Company update

Price	RM1.34
Fair Value	RM1.79
52-week High/Low	RM1.35/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	159.9	197.4	232.9
FD Core EPS (sen)	20.4	19.1	23.6	27.8
FD Core EPS growth (%)	(10.7)	(6.3)	23.4	18.0
Consensus Net Profit (RM mil)	-	170.0	204.0	237.0
DPS (sen)	6.5	6.1	7.3	8.6
PE (x)	6.6	7.0	5.7	4.8
EV/EBITDA (x)	3.9	2.6	2.6	2.4
Div yield (%)	4.9	4.6	5.5	6.4
ROE (%)	18.0	14.1	14.2	13.7
Net Gearing (%)	nm	nm	nm	nm

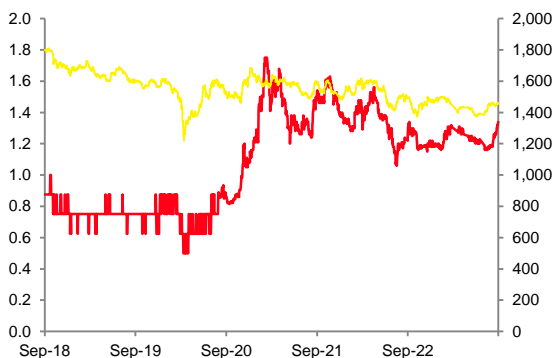
Stock and Financial Data

Shares Outstanding (million)	837.3
Market Cap (RMmil)	1,122.0
Book Value (RM/share)	1.21
P/BV (x)	1.1
ROE (%)	18.0
Net Gearing (%)	-

Major Shareholders	Lagenda Land (63.9%) Etiqa Life Insurance (1.5%) Doh Properties (1.1%)
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Free Float	33.4
Avg Daily Value (RMmil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	10.7	3.1	9.8
Relative (%)	5.1	3.0	12.5



— LAGENDA MK — Fbmkhci Index

Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with an unchanged fair value (FV) of RM1.79/share. 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.
- Lagenda's wholly-owned Lagenda Harta entered into an unconditional sale and purchase agreement (SPA) with Mtrustee (trustee for Capitaland Malaysia Trust) to acquire 3 Damansara Office Tower for RM52mil.
- 3 Damansara Office Tower is a 12-storey office building located in Petaling Jaya (Exhibits 1, 2). It is connected to a neighborhood mall, namely 3 Damansara mall and adjacent residential towers known as Tropics condominium.
- We lower our FY23F/FY24F/FY25F core net profit by 0.1%/0.4%/0.3% to account for the higher depreciation expense and finance cost associated with the acquisition of the office tower. Meanwhile, we also factor in the minimal contribution from rental income generated by external tenants, assuming a monthly rental rate of RM4 psf and occupancy rates of 75% in FY24F and 80% in FY25F.
- The proposed acquisition is expected to be completed in 1QFY24.
- The acquisition will be funded by a combination of internal generated fund (20%) and borrowings (80%). As at June 2023, Lagenda has RM300mil in cash with a net gearing ratio of 0.04x. Given its strong cash position and fast turnaround of projects, we expect the group will continue to maintain its net cash position subsequent to the acquisition.
- The acquisition price of RM52mil is 5% lower than its market value of RM55mil, as appraised by the valuer, Laurelcap.
- We deem the acquisition price of the office tower at RM514 psf to be fair, drawing a comparison to the asking price of nearby offices, which range from RM675 psf to RM1,029 psf (Exhibit 4).

- Currently, the staff in Kuala Lumpur operates from the leased offices in Phileo Damansara. In line with its expansion initiative, Lagenda requires a larger office space to accommodate its growing workforce in Kuala Lumpur. The newly acquired 3 Damansara Office Tower is intended to serve as the company's future headquarters, replacing its current one in Manjung, Perak.
- Additionally, the acquisition will provide Lagenda with a source of recurring income, diversifying its revenue streams beyond its existing property development projects. Presently, the occupancy rate for 3 Damansara Office Tower stands at 30%. Lagenda plans to move in within the next 12 months, occupying 35% to 40% of the office spaces. This will push the occupancy rate of the office tower to 65%- 70%. Lagenda is actively negotiating with several potential tenants and has set a target of achieving an 80% occupancy rate by end of FY24, which is the breakeven point for the office tower.
- 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 6x vs. the industry average of 11x while dividend yields are attractive at 5.5%.

EXHIBIT 1: PHOTO OF 3 DAMANSARA OFFICE TOWER



Source: CapitaLand website

EXHIBIT 2: DETAILS OF THE ACQUIRED PROPERTY

Postal address	3 Damansara Office Tower, No. 3, Jalan SS20/27, 47400 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Type of title	Strata
Tenure	Freehold
Gross Floor Area	129,630 square feet
Net Lettable Area	101,246 square feet
Approximate age of building	14

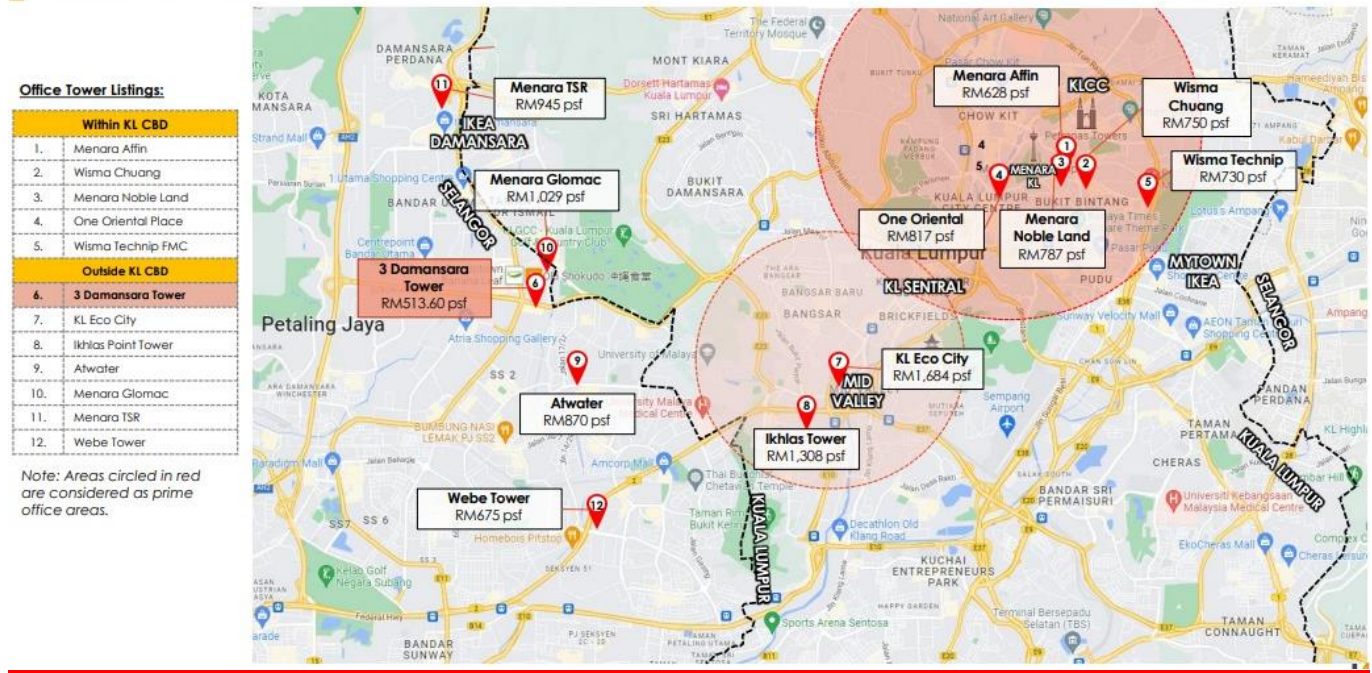
Source: Lagenda

EXHIBIT 3: MANNER OF SETTLEMENT OF DISPOSAL PRICE

	Amount (RM mil)	Percentage of disposal price (%)	Timing
Earnest Deposit	1.0	2	Upon acceptance of offer.
The balance of the deposit	4.2	8	Upon execution of the SPA.
Balance of the Disposal Price	46.8	90	On or before the expiry of 3 months from the date of the SPA
Total	52		

Source: Legenda

EXHIBIT 4: COMPARISON OF ASKING PRICE FOR SURROUNDING OFFICES



Source: Legenda

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)		152.9
Other Assets		529.0
Total		2,822.1
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: AmInvestment 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: AmInvestment Bank

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, 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	274.8	347.0	407.3
Depreciation/Amortisation	(2.4)	(3.3)	(3.5)	(4.0)	(4.5)
Operating income (EBIT)	291.1	266.1	271.3	343.0	402.8
Other income & associates	34.8	26.5	23.4	26.1	28.3
Net interest	(13.3)	(15.3)	(47.1)	(65.2)	(75.1)
Exceptional items	(17.2)	(7.0)	-	-	-
Pretax profit	277.9	250.8	224.2	277.9	327.7
Taxation	(77.4)	(73.1)	(64.2)	(80.4)	(94.7)
Minorities/pref dividends	-	-	-	-	-
Net profit	183.2	170.7	159.9	197.4	232.9
Core net profit	183.2	170.7	159.9	197.4	232.9
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	12.3	17.2	19.9	74.3	128.3
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	725.9	779.9
Cash & equivalent	191.5	383.6	711.6	814.5	737.6
Stock	462.1	488.8	470.9	522.0	659.0
Trade debtors	271.1	272.7	287.0	353.6	406.7
Other current assets	318.3	379.5	301.9	293.2	519.8
Total current assets	1,243.0	1,524.6	1,771.5	1,983.3	2,323.1
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	1,247.9	1,533.7	1,868.8
Minority interests	-	-	-	-	-
BV/share (RM)	1.10	1.21	1.49	1.83	2.23
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	277.9	250.8	224.2	277.9	327.7
Depreciation/Amortisation	2.4	3.3	3.5	4.0	4.5
Net change in working capital	(150.8)	(43.8)	71.9	(49.0)	(138.6)
Others	(94.5)	(94.3)	(111.3)	(145.6)	(169.8)
Cash flow from operations	35.0	116.0	188.3	87.2	23.8
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	4.7	7.8	-	(398.0)	-
Others	(44.8)	(45.8)	(5.9)	(57.9)	(5.9)
Cash flow from investing	(40.2)	(38.0)	(5.9)	(455.9)	(5.9)
Debt raised/(repaid)	(21.9)	181.9	181.9	543.5	(10.0)
Equity raised/(repaid)	97.6	18.6	-	-	-
Dividends paid	(53.4)	(63.9)	(60.1)	(71.9)	(84.8)
Others	97.6	18.6	-	-	-
Cash flow from financing	42.0	103.7	121.8	471.7	(94.8)
Net cash flow	36.8	181.7	304.2	102.9	(76.9)
Net cash/(debt) b/f	188.9	225.8	407.4	711.6	814.5
Net cash/(debt) c/f	225.8	407.4	711.6	814.5	737.6
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)	2.0	26.3	17.4
Pretax margin (%)	33.3	28.9	25.3	25.5	26.1
Net profit margin (%)	21.9	19.7	18.1	18.1	18.6
Interest cover (x)	21.9	17.4	5.8	5.3	5.4
Effective tax rate (%)	27.9	29.1	28.6	28.9	28.9
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	198	166	172
Creditors turnover (days)	80	76	79	80	90

Source: Company, AmlInvestment Bank Bhd estimates

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