



AmInvestment Bank

## Company report

# LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

22 Nov 2022

Expect more launches in 4QFY22

BUY

(Maintained)

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Rationale for report: Company results

Price	RM1.17
Fair Value	RM1.64
52-week High/Low	RM1.57/RM1.05

## Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	835.5	840.2	1,039.1	1,205.5
Core net profit (RM mil)	231.3	177.0	234.8	279.2
FD Core EPS (sen)	28.8	21.1	28.0	33.3
FD Core EPS growth (%)	35.9	(26.7)	32.7	18.9
Consensus Net Profit (RM mil)	-	223.5	264.0	312.5
DPS (sen)	6.5	5.5	7.3	8.7
PE (x)	4.1	5.5	4.2	3.5
EV/EBITDA (x)	2.9	3.1	2.1	1.4
Div yield (%)	5.6	4.7	6.2	7.4
ROE (%)	30.9	17.7	18.5	17.5
Net Gearing (%)	nm	nm	nm	nm

## Stock and Financial Data

Shares Outstanding (million)	837.3
Market Cap (RMmil)	979.7
Book Value (RM/share)	1.10
P/BV (x)	1.1
ROE (%)	30.9
Net Gearing (%)	nm
Major Shareholders	Lagenda Land (68.1%) Doh Properties (4.5%) Etiqa Life Insurance (1.5%)
Free Float	25.9
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(3.3)	(15.8)	(22.5)
Relative (%)	1.3	(9.6)	(18.5)



## Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with a lower fair value (FV) of RM1.64/share from RM1.82/share. Our FV is based on a higher discount rate of 30% (from 20% previously) to its RNAV (Exhibit 4), and a 3% premium to reflect its 4-star ESG rating (Exhibit 5).
  - Our higher discount rate stems from the lowering of FY22F/FY23F/FY24F core net profit (CNP) by 24%/13%/18% after taking into account the slower pace of new launches in FY22F-23F with the expectation of a potential deferral in the regulatory approval process for new projects, particularly for its new township outside of Perak.
  - Lagenda's 9MFY22 CNP of RM125mil was below expectations, making up 54% of our FY22F earnings and 56% of consensus.
  - The variance was mainly due to higher upfront cost incurred for its upcoming projects outside of Perak, coupled with an absence of new launches in 3QFY22.
  - Management is still committed to launch 2.7k units of properties in 4QFY22F which involve the projects in Sungai Petani (1,000 units), Bandar Baru Setia Awan Perdana (900 units) and Lagenda Teluk Intan (800 units).
  - YoY, Lagenda's 9MFY22 revenue improved 8% to RM632mil, as a result of higher sales of its completed inventories, coupled with pre-existing sales recognition for its ongoing project.
  - However, 9MFY22 CNP dropped 13% YoY due to upfront costs incurred in preparation for multi-state project launches in the coming quarters and a provision for prosperity tax of RM4.8mil.
- In addition, the lower CNP was caused by the change in sales mix in favour of its smaller-scale projects (mainly from Lagenda Tropika in Tapah), which carried a lower profit margin due to lack of economies of scale.
- QoQ, Lagenda's 3QFY22 revenue fell 30% while CNP declined 44%. This was mainly due to a weaker sales conversion from completed units as compared to 2QFY22, coupled with a prosperity tax provision.

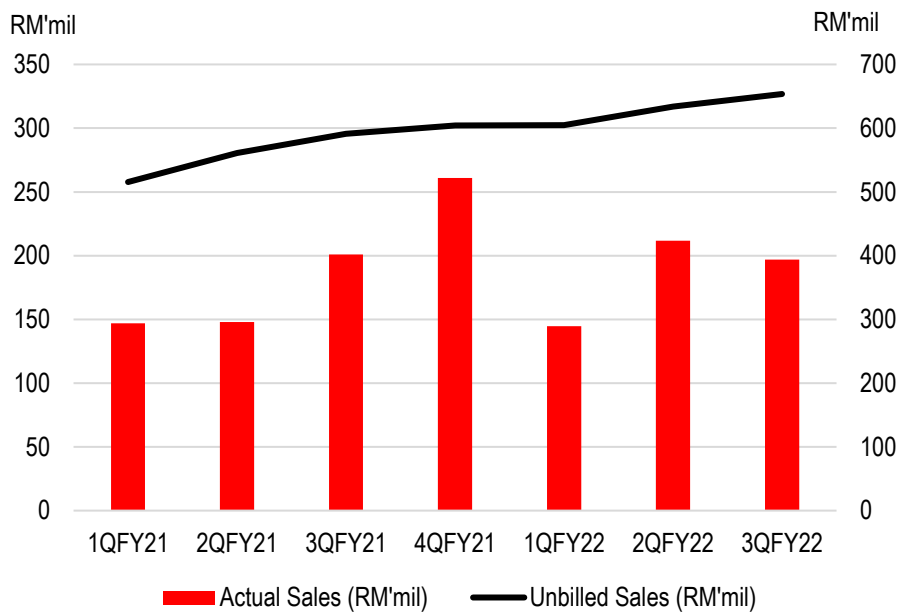
- Lagenda registered 9MFY22 new sales of RM553mil (+12% YoY), attaining 61% of its FY22F sales target of RM900mil (Exhibit 2). Given that all its 2HFY22 planned launches are scheduled to be launched in 4QFY22, we view that it would be tough for Lagenda to meet its FY22F sales target.
- The group has secured RM331mil bookings as at 30 September 2022, and remains focused on converting these into sales.
- As at end-September 2022, unbilled sales stood at RM654mil (+11% YoY, +3% QoQ), representing a cover ratio of 0.6x FY23F revenue (Exhibit 2). Driven by the fast turnaround of its projects (2 to 2.5 years), we expect its unbilled sales will mostly be recognised in FY23F.
- Lagenda also announced the adoption of a dividend policy, with a payout ratio of not less than 25% of its consolidated profit after tax and minority interest, which will be effective in FY22.
- We continue to like Lagenda due to the company's niche in the underserved landed affordable housing development in second-tier states with a large population of B40 and M40 income groups.
- The stock currently trades at a compelling FY23F PE of 4x vs. the industry average of 9x while FY23F dividend yields are attractive at 6%.
- Risks to our call are:
  - (i) weaker-than-expected property sales;
  - (ii) slower-than-expected progress billings due to Covid-19 related disruptions; and
  - (iii) lower-than-expected margins from higher building costs.

**EXHIBIT 1: EARNINGS SUMMARY**

YE to Dec (RM mil)	3QFY21	2QFY22	3QFY22	QoQ %	YoY %	9MFY21	9MFY22	YTD %
<b>Revenue</b>	<b>185.2</b>	<b>258.5</b>	<b>180.7</b>	<b>(30.1)</b>	<b>(2.4)</b>	<b>584.4</b>	<b>632.0</b>	<b>8.1</b>
Operating costs	(119.4)	(187.2)	(124.6)	(33.5)	4.3	(379.3)	(436.1)	15.0
<b>EBIT</b>	<b>65.8</b>	<b>71.3</b>	<b>56.1</b>	<b>(21.3)</b>	<b>(14.7)</b>	<b>205.1</b>	<b>195.9</b>	<b>(4.5)</b>
Net interest	(3.4)	(3.1)	(4.1)	31.2	21.0	(6.5)	(10.5)	63.0
<b>PBT</b>	<b>62.4</b>	<b>68.2</b>	<b>52.0</b>	<b>(23.7)</b>	<b>(16.6)</b>	<b>198.6</b>	<b>185.4</b>	<b>(6.7)</b>
Tax	(16.9)	(17.8)	(16.4)	(8.0)	(2.6)	(54.6)	(52.4)	(4.0)
MI	(0.0)	(0.0)	0.0	>100	>100	(0.0)	0.0	>100
<b>PATMI</b>	<b>45.5</b>	<b>50.3</b>	<b>35.7</b>	<b>(29.1)</b>	<b>(21.7)</b>	<b>144.0</b>	<b>133.0</b>	<b>(7.7)</b>
Exceptional (gains)/losses	0.0	(0.1)	(7.6)	(>100)	(>100)	0.0	(7.8)	(>100)
<b>Core PATMI</b>	<b>45.5</b>	<b>50.2</b>	<b>28.0</b>	<b>(44.2)</b>	<b>(38.5)</b>	<b>144.0</b>	<b>125.2</b>	<b>(13.1)</b>
EPS (sen)	5.7	6.0	3.3	(44.6)	(41.2)	18.0	15.0	(16.6)
EBIT Margin (%)	35.5	27.6	31.1	3.5	(4.5)	35.1	31.0	(4.1)
Effective tax rate (%)	27.0	26.2	31.6	5.4	4.5	27.5	28.3	0.8
Net Profit Margin (%)	24.6	19.5	19.7	0.3	(4.9)	24.6	21.0	(3.6)

Source: AmlInvestment Bank Bhd

**EXHIBIT 2: ACTUAL SALES AND UNBILLED SALES**



Source: AmlInvestment Bank Bhd

## EXHIBIT 3: PROJECT TIMELINE

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

Source: AmlInvestment Bank Bhd

## EXHIBIT 4: RNAV CALCULATIONS

	Outstanding GDV RM (mil)	NPV @ 8% RM mil
<b>Developments</b>		
BBSAP	636.3	165.2
Lagenda Teluk Intan	2,072.4	538.1
Lagenda Tapah -100% owned	2,134.7	563.4
Lagenda Sungai Petani (Kedah)	592.9	77.0
Lagenda Kuantan Township (Pahang)	1,260.0	327.1
Lagenda Mersing Township	985.0	168.0
Lagenda Bernam Jaya Township	500.0	76.6
Others	458.8	115.1
<b>Total NPV</b>		<b>2,030.5</b>
Net Cash / (Debt)		(50.8)
Other Assets		608.7
<b>Total</b>		<b>2,588.5</b>
No of shares		1,137.9
<b>RNAV/share (RM)</b>		<b>2.27</b>
Less 30% discount		(0.68)
<b>Fair Value (RM)</b>		<b>1.59</b>
(+) 3% premium for 4-star ESG rating		0.05
<b>Fair Value/share (RM) + ESG Premium</b>		<b>1.64</b>

Source: AmlInvestment Bank Bhd

## EXHIBIT 5: 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 6: FINANCIAL DATA**

<b>Income Statement (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue	696.1	835.5	840.2	1,039.1	1,205.5
<b>EBITDA</b>	<b>262.0</b>	<b>324.3</b>	<b>288.8</b>	<b>358.2</b>	<b>416.1</b>
Depreciation/Amortisation	(1.8)	(2.4)	(3.0)	(3.5)	(4.0)
Operating income (EBIT)	260.3	321.9	285.8	354.7	412.1
Other income & associates	(9.5)	(1.3)	(1.3)	(1.3)	(1.3)
Net interest	(18.0)	(13.3)	(46.6)	(45.7)	(44.8)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>241.6</b>	<b>308.6</b>	<b>239.1</b>	<b>308.9</b>	<b>367.3</b>
Taxation	(62.3)	(77.4)	(62.2)	(74.1)	(88.2)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>170.1</b>	<b>231.3</b>	<b>177.0</b>	<b>234.8</b>	<b>279.2</b>
Core net profit	170.1	231.3	177.0	234.8	279.2
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Fixed assets	13.5	12.3	11.9	10.9	9.3
Intangible assets	24.5	25.6	25.6	25.6	25.6
Other long-term assets	110.5	139.0	139.0	139.0	139.0
<b>Total non-current assets</b>	<b>173.6</b>	<b>199.3</b>	<b>198.8</b>	<b>197.8</b>	<b>196.3</b>
Cash & equivalent	214.3	191.5	289.4	398.5	570.1
Stock	361.4	462.1	462.1	462.1	462.1
Trade debtors	203.3	271.1	271.1	271.1	271.1
Other current assets	209.8	318.3	533.8	659.5	803.3
<b>Total current assets</b>	<b>988.8</b>	<b>1,243.0</b>	<b>1,556.3</b>	<b>1,791.1</b>	<b>2,106.6</b>
Trade creditors	182.7	182.0	182.0	182.0	182.0
Short-term borrowings	41.5	40.9	35.9	30.9	25.9
Other current liabilities	112.4	176.8	176.8	176.8	176.8
<b>Total current liabilities</b>	<b>336.7</b>	<b>399.7</b>	<b>394.7</b>	<b>389.7</b>	<b>384.7</b>
Long-term borrowings	180.7	159.1	200.1	195.1	190.1
Other long-term liabilities	18.7	3.8	3.8	3.8	3.8
<b>Total long-term liabilities</b>	<b>199.4</b>	<b>162.9</b>	<b>203.9</b>	<b>198.9</b>	<b>193.9</b>
<b>Shareholders' funds</b>	<b>618.5</b>	<b>879.7</b>	<b>1,124.1</b>	<b>1,421.2</b>	<b>1,764.7</b>
Minority interests	7.8	-	-	-	-
BV/share (RM)	0.76	1.10	1.34	1.70	2.11
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Pretax profit	241.6	308.6	239.1	308.9	367.3
Depreciation/Amortisation	1.8	2.4	3.0	3.5	4.0
<b>Net change in working capital</b>	<b>39.2</b>	<b>(150.8)</b>	-	-	<b>27.3</b>
Others	(64.4)	(125.3)	(155.4)	(165.6)	(177.8)
<b>Cash flow from operations</b>	<b>218.2</b>	<b>35.0</b>	<b>86.7</b>	<b>146.8</b>	<b>220.8</b>
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(118.7)	4.7	-	-	-
Others	13.7	(44.8)	(2.0)	(2.0)	(2.0)
<b>Cash flow from investing</b>	<b>(104.9)</b>	<b>(40.2)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>
Debt raised/(repaid)	98.4	(21.9)	24.1	24.1	24.1
Equity raised/(repaid)	39.3	97.6	-	-	-
Dividends paid	(15.9)	(53.4)	(45.2)	(59.9)	(71.3)
Others	(48.3)	97.6	-	-	-
<b>Cash flow from financing</b>	<b>11.1</b>	<b>42.0</b>	<b>(21.1)</b>	<b>(35.8)</b>	<b>(47.2)</b>
<b>Net cash flow</b>	<b>124.3</b>	<b>36.8</b>	<b>63.7</b>	<b>109.0</b>	<b>171.7</b>
<b>Net cash/(debt) b/f</b>	<b>64.6</b>	<b>188.9</b>	<b>225.8</b>	<b>289.4</b>	<b>398.5</b>
<b>Net cash/(debt) c/f</b>	<b>188.9</b>	<b>225.8</b>	<b>289.4</b>	<b>398.5</b>	<b>570.1</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue growth (%)	869.2	20.0	0.6	23.7	16.0
EBITDA growth (%)	1,183.8	23.8	(11.0)	24.0	16.2
Pretax margin (%)	34.7	36.9	28.5	29.7	30.5
Net profit margin (%)	24.4	27.7	21.1	22.6	23.2
Interest cover (x)	14.4	24.3	6.1	7.8	9.2
Effective tax rate (%)	25.8	25.1	26.0	24.0	24.0
Dividend payout (%)	11.8	22.5	26.0	26.0	26.0
Debtors turnover (days)	56	104	118	95	82
Stock turnover (days)	105	180	201	162	140
Creditors turnover (days)	56	80	79	64	55

Source: Company, AmlInvestment Bank Bhd estimates

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