



AmInvestment Bank

Company report

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

13 Oct 2022

Robust take up rate of affordable landed properties

BUY

(Maintained)

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Rationale for report: Company update

Price	RM1.23
Fair Value	RM1.82
52-week High/Low	RM1.65/RM1.05

Key Changes

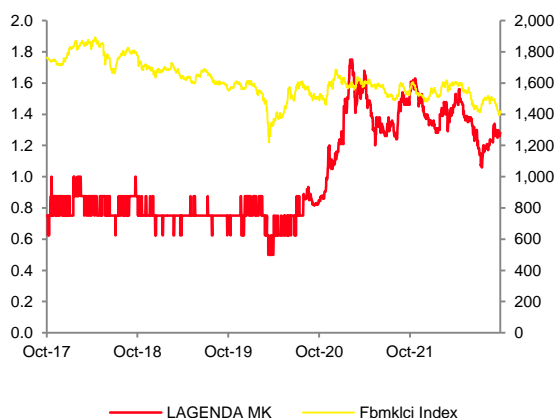
Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	835.5	1,068.8	1,217.4	1,484.3
Core net profit (RM mil)	200.5	232.1	269.0	339.9
FD Core EPS (sen)	25.0	27.7	32.1	40.6
FD Core EPS growth (%)	42.3	11.0	15.9	26.3
Consensus Net Profit (RM mil)	-	223.5	264.0	312.5
DPS (sen)	6.5	7.2	8.4	10.6
PE (x)	5.0	4.5	3.9	3.1
EV/EBITDA (x)	3.5	2.5	1.9	1.1
Div yield (%)	5.3	5.9	6.8	8.6
ROE (%)	26.8	22.5	19.9	19.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	837.0
Market Cap (RMmil)	1,029.5
Book Value (RM/share)	1.10
P/BV (x)	1.2
ROE (%)	26.8
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)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	4.1	(12.3)	(16.9)
Relative (%)	5.5	(1.5)	(10.5)



Investment Highlights

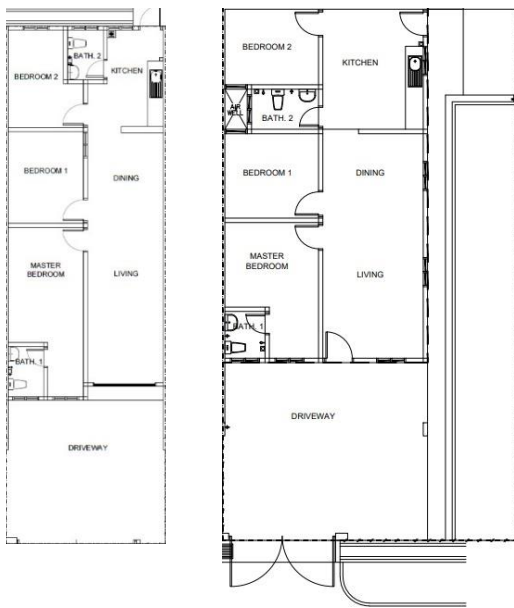
- We maintain BUY on Lagenda Properties (Lagenda) with an unchanged fair value (FV) of RM1.82/share based on its revised net asset value (RNAV) (Exhibit 16). Our FV reflects a 3% premium for a 4-star ESG rating (Exhibit 17).
- We also maintain our forecasts and sales take-up assumptions following our visit to Lagenda's townships in Perak, including the Bandar Baru Setia Awan Perdana (BBSAP) and Lagenda Teluk Intan (LTI).
- We had an aerial view of both BBSAP and LTI from a helicopter ride (Exhibits 8 & 12). Also, we were given a road tour of BBSAP. The visit reaffirmed our positive view on Lagenda's business model and we came away feeling impressed with Lagenda's ability to build a sustainable major township in a second-tier town with complementary facilities and amenities.
- Within its township, Lagenda offers 2 types of property, including single-storey terrace and semi-detached (semi-D) cluster houses. These properties have the same built-up areas, while the semi-D comes with extra land.
- The mass development of properties with the same design and layout provides Lagenda with economies of scale to drive down its costs. In addition, the project's quick turnaround (rapid launches and short construction period of 2 to 2.5 years) alleviates the need to incur higher holding cost for its landbank. These are expected to contribute to an impressive FY22F double-digit ROE of 23% vs. the industry range of 2-4%.
- To address the house affordability issue in Malaysia, Lagenda adopts a reverse engineering pricing method to match the instalment payment capabilities of B40 groups within the state. The pricing method has been proven to be successful as evidenced by its still resilient sales even during the pandemic period.
- The first phase of each township typically carries a lower margin. However, we expect a gradual improvement of gross profit margin (GPM) over the longer term. This is expected to be realised after more houses have been launched in the new townships with upward adjustments in pricing for later launches. Although houses in the new phases could be priced higher, demand is anticipated to be still strong due to its competitive pricing strategy.
- Lagenda's expansion plans are on track with the recent launch of the first phase of Darulaman Lagenda, Kedah in October 2022.
- The stock currently trades at a compelling FY23F PE of 4x vs. the industry's average of 10x, while dividend yields are attractive at 7%.

OVERVIEW OF LAGENDA'S TOWNSHIP

- *Focusing on landed properties - largely single-storey terrace and semi-D cluster house*

Lagenda offers 2 types of property within its township, which are the single-storey terrace and semi-D cluster house. The land size for its single-storey terrace house is 20' x 65' (or 1,300 sq ft.) whilst that for its semi-D is 33' x 65' (or 2,145 sq ft.). The built-up area of these two properties are identical, while the semi-D comes with extra land (Exhibits 1, 2, 3).

EXHIBIT 1: LAYOUT OF SINGLE-STOREY TERRACED (LEFT) AND SEMI-D (RIGHT)



Source: Lagenda, AmlInvestment Bank Bhd

EXHIBIT 2: FRONT VIEW OF SINGLE-STOREY TERRACED



Source: Lagenda, AmlInvestment Bank Bhd

EXHIBIT 3: FRONT VIEW OF SEMI-D



Source: Lagenda, AmlInvestment Bank Bhd

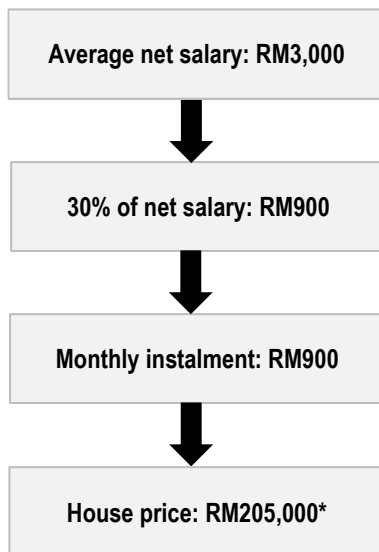
To entice more people into the township during the early stages, Lagenda introduced only the single-storey terrace house, which was priced competitively. The later phases will see Lagenda gradually expanding the development to include semi-Ds with higher pricing and better margins to the group. For illustrative purposes, the average price of single-storey terrace house in the latest phase is RM198K, while the semi-D is priced at RM246K.

Upon completion of the township, the proportion of single-storey terrace house to semi-D cluster homes in each township is anticipated to be 70:30.

- *Reverse engineering pricing to ensure property prices are affordable to B40s*

Lagenda's townships are concentrated in second-tier towns with a large population of the underserved B40 groups. To address house affordability issue of B40 groups, Lagenda adopts reverse engineering pricing to match instalment payment capabilities of B40 groups within the location (Exhibit 15).

According to Lagenda, a house is deemed affordable if its monthly instalment does not exceed 30% of the buyer's average net salary. For illustrative purpose, assuming the average net salary in a town is RM3,000 (interest rate: 4%, loan tenure: 35-year & margin of financing: 100%), the monthly repayment to own an affordable house will be RM900 (30% of RM3,000). The house will then be priced at RM205K by Lagenda. Pricing at a significant discount to market leading to comfortable monthly installments to purchasers have led to high loan approval rates of >90% for buyers who are civil servants.

EXHIBIT 4: REVERSE ENGINEERING PRICING

*Assumption: interest rate: 4%, loan tenure: 35-year, margin of financing: 100%

Source: AmlInvestment Bank

□ Civil servants- key buyers of its properties

Lagenda's townships have a niche market, i.e. civil servants (who make up close of 70% of Lagenda's homebuyers) with stable incomes and strong job security that are less susceptible to economic cycles.

Its civil servant customers who hold permanent positions in the public sector are required to have at least 1 year of service to be able to obtain 100% financing at a fixed rate of 4% from Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA) (Exhibit 5). Hence, given these fixed rate mortgages, rising domestic interest rates are not expected to dampen demand for Lagenda's properties.

EXHIBIT 5: MAXIMUM LOAN ELIGIBILITY OF HOME FINANCING FOR PUBLIC SECTOR UNDER LPPSA

Net income (RM)	Maximum loan eligibility (RM)
6,500 and above	750,000
6,000	720,000
5,700	680,000
5,500	650,000
5,000	600,000
4,700	560,000
4,500	540,000
4,300	510,000
4,000	470,000
3,800	450,000
3,500	420,000
2,900	340,000
2,300	270,000
1,700 and below	200,000

Source: LPPSA

□ Resilient sales despite price increase

The first phase of the development of each township typically carries lower selling prices and margins. Nevertheless, Lagenda has room to increase the pricing in subsequent phases of the projects (Exhibit 6) due to the low starting price. With that, we expect a gradual improvement in GPM over the longer term after more houses have been launched in the new townships through the developer's upward pricing adjustments for later launches.

Previously, we were guided that the GPM of later phases of its developed township will be higher at 40%, vs 30%–35% in the early phase of development.

Demand for its existing projects (BBSAP 1D to 3C) is still robust in spite of rising selling prices, with an average take-up rate of 95% as of 30 June 2022. Meanwhile, the average take-up rate of LTI Phase 1 and 2 was at an impressive level of 94%.

EXHIBIT 6: SELLING PRICE OF SINGLE-STOREY TERRACE HOUSE

Project	Launch date	Average price per unit (RM)	Price increment (%)
BBSAP 1D	Feb-17	166,000	-
BBSAP 2B	Mar-18	183,000	10
BBSAP 3B	Feb-19	187,000	2
BBSAP 3A	Aug-20	192,000	3
BBSAP 3C	4Q2021	198,000	3

Project	Launch date	Average price per unit (RM)	Price increment (%)
LTI1	Nov-18	166,000	-
LTI2	Feb-20	176,000	6

Source: Lagenda, AmlInvestment Bank Bhd

□ On track to launch new township

Lagenda is aiming to launch at least one new township in secondary towns every year. In 2022, Lagenda launched 2 new townships, namely Lagenda Tropika in Perak and Darulaman Lagenda in Kedah. Moving forward, in 2023, Lagenda plans to launch another 3 townships in Johor, Pahang and Selangor (Exhibit 7).

EXHIBIT 7: PROJECT TIMELINE

Existing Township	Launch Year
BBSAP, Perak	2016
Lagenda Teluk Intan, Perak	2018
Lagenda Tropika, Perak	2022
Darulaman Lagenda, Sg. Petani, Kedah	2022
Upcoming Township	Estimated Launch Year
Mersing, Johor	2023
Penor, Pahang	2023
Bernam Jaya, Selangor	2023

Source: AmlInvestment Bank Bhd

BANDAR BARU SETIA AWAN PERDANA (BBSAP), SITIAWAN

□ Maiden major township, BBSAP

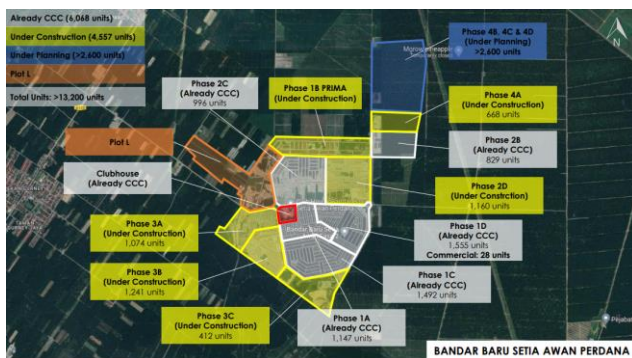
In 2016, Legenda launched its maiden township in Perak known as BBSAP. BBSAP is an affordable township with a size of 1,314 acres and a total gross development value (GDV) of RM2.6bil (Exhibits 8, 9). As of June 2022, Legenda has launched 77% of the total GDV or RM2bil worth of properties in BBSAP.

EXHIBIT 8: HELICOPTER VIEW OF BBSAP



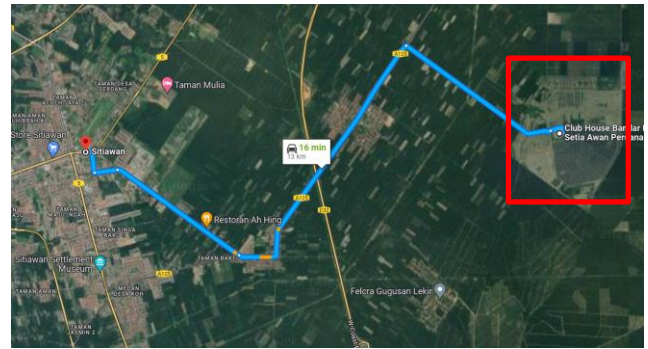
Source: Legenda, AmlInvestment Bank Bhd

EXHIBIT 9: OVERALL LAYOUT OF BBSAP



Source: Legenda, AmlInvestment Bank Bhd

EXHIBIT 10: DISTANCE OF BBSAP TO CITY



Source: Google Map

□ Sustaining township with complementary facilities

BBSAP is a self-sustaining township with commercial, residential and educational elements. The township is equipped with multipurpose and prayer hall, pool, clinic, petrol station, mosque, school as well as kindergarten.

The township also features a club house, known as Club House BBSAP. The club house comes with badminton courts and an Olympic-sized swimming pool (Exhibit 11). To maintain its concept of affordability, the club house membership cost only RM50 per household and is optional for residents.

EXHIBIT 11: CLUB HOUSE BBSAP



Source: Legenda, AmlInvestment Bank Bhd

BBSAP is strategically located next to the West Coast Expressway, a mere 90-minute drive from Kuala Lumpur and 30 minutes from the duty-free Pangkor Island. BBSAP is also 13km or 16 minutes away from the centre of Sitiawan, Manjung District, Perak (Exhibit 10).

LAGENDA TELUK INTAN

❑ **Second major township, Lagenda Teluk Intan**

In November 2018, Lagenda launched its second township in Teluk Intan, namely LTI (Exhibits 12, 14). LTI has a size of 1,584 acres and a total GDV of RM3.2bil. As of June 2022, Lagenda has launched 34% of total GDV or RM1.1bil worth of properties in LTI.

EXHIBIT 12: HELICOPTER VIEW OF LTI

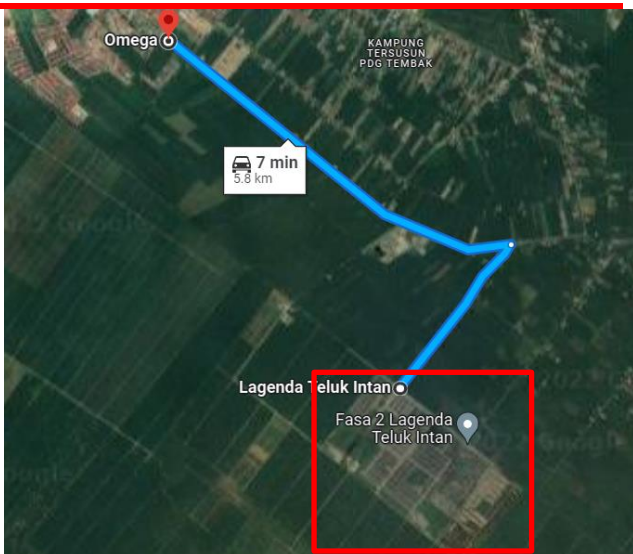


Source: Lagenda, AmlInvestment Bank Bhd

LTI is strategically located about 4km off the West Coast Expressway to its west and 6km or 7 minutes from Teluk Intan town centre (Exhibit 13).

Teluk Intan is the largest town in Hilir Perak district and the 3rd largest town in the state of Perak with an estimated population of 120K, half of the total population in Hilir Perak district.

EXHIBIT 13: DISTANCE OF LTI TO CITY



Source: Google Map

Lagenda also provides various facilities and amenities in LTI, including multipurpose hall, prayer hall, petrol station, mosque, school and kindergarten.

EXHIBIT 14: OVERALL LAYOUT OF LTI



Source: Lagenda, AmlInvestment Bank Bhd

❑ **Kampung Tersusun Land – home package with land sale and building packages**

In Kampung Tersusun, Lagenda intends to offer a home package with both land sale and optional building packages (Exhibit 14). With this package, buyers can purchase the land at price starting at RM80,000 per lot (with a land size starting at 50' x 90') and construct the building at any time.

The buyer can also opt to engage Lagenda's construction arm to build their own houses, which would provide further upside to Lagenda's income. We anticipate that there will be over 2,600 plots in total, with an estimated GDV of RM540mil.

The target group of buyers are those B40 and M40 groups that are currently staying in the major city, who wish to build their own homes in accessible smaller townships after retirement. This can also cater for the needs of homebuyers who wish to build their own uniquely-designed houses.

For a pure land sale, we believe the GPM will be higher at 70% with average selling prices of RM17 per sq ft. vs. land cost of RM5 per sq ft.

Aside from that, the sale of land by lots are not subject to progress billing. Hence, it speeds up revenue recognition and cash inflow from the land. This quick cash conversion gives Lagenda more financial headroom to gear up for upcoming potential land acquisitions without having to engage in additional fund raising activity.

EXHIBIT 15: HOUSE PRICES AND AFFORDABILITY IN MALAYSIA

State	Population without House Ownership		A	B	Price Mismatch	Severely Unaffordable (>RM100k mismatch)	Seriously Unaffordable (<RM100k mismatch)	Affordable (<RM30k mismatch)
	Number of population	%	B40 Maximum Affordability (RM)	Average Housing Price (Q4 2021) (RM)	A-B			
Selangor	491,799	30.3	338,019	525,827	-187,808	✓		
Pahang	89,483	24.1	218,974	249,637	-30,663		✓	
Sabah	169,134	24.1	177,357	374,313	-196,956	✓		
Johor	217,148	22.5	266,907	389,371	-122,464	✓		
Pulau Pinang	103,327	21.1	263,495	397,370	-133,875	✓		
Negeri Sembilan	61,570	21.1	203,247	265,679	-62,432		✓	
Perak	120,721	18.2	189,697	249,343	-59,646		✓	
Malacca	39,584	16.5	240,751	245,440	-4,689			✓
Perlis	9,546	15.7	193,568	239,030	-45,462		✓	
Kedah	80,554	15.5	195,020	236,050	-41,030		✓	
Kelantan	54,239	15.3	166,953	243,869	-76,916		✓	
Terengganu	35,357	13.5	244,864	286,413	-41,549		✓	
Sarawak	95,530	14.4	184,374	362,916	-178,542	✓		
Kuala Lumpur	177,738	36.7	387,863	767,288	-379,425	✓		
Putrajaya	20,121	84.9	432,625	681,226	-248,601	✓		
Labuan	12,982	39.7	265,189	367,004	-101,815	✓		
Malaysia	1,778,833	23	229,862	388,954	-159,092	✓		

Source: Lagenda

EXHIBIT 16: RNAV CALCULATIONS

Developments	Outstanding GDV	NPV @ 8%
	RM (mil)	RM mil
BBSAP	636.3	172.9
Lagenda Teluk Intan	2,072.4	563.0
Lagenda Tapah	2,134.7	585.9
Lagenda Sungai Petani (Kedah)	592.9	80.5
Lagenda Kuantan Township (Pahang)	1,260.0	342.3
Lagenda Mersing Township (Johor)	985.0	171.1
Lagenda Bernam Jaya Township (Selangor)	500.0	78.4
Others	458.8	124.3
Total NPV		2,118.3
Net Cash / (Debt)		(44.7)
Other Assets		454.9
Total		2,528.5
No of shares (mil)		1,137.9
RNAV/share (RM)		2.22
Less 20% discount		(0.46)
Fair Value/share (RM)		1.77
(+) 3% premium for 4-star ESG rating		0.05
Fair Value/share (RM) + ESG Premium		1.82

Source: AmlInvestment Bank Bhd

EXHIBIT 17: 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 18: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	696.1	835.5	1,068.8	1,217.4	1,484.3
EBITDA	232.8	293.5	363.3	403.2	496.1
Depreciation/Amortisation	(1.8)	(2.4)	(3.0)	(3.5)	(4.0)
Operating income (EBIT)	231.0	291.1	360.3	399.7	492.1
Other income & associates	4.6	34.8	38.5	42.4	46.8
Net interest	(18.0)	(13.3)	(46.6)	(45.7)	(44.8)
Exceptional items	-	-	-	-	-
Pretax profit	212.4	277.9	313.7	354.0	447.2
Taxation	(62.3)	(77.4)	(81.5)	(84.9)	(107.3)
Minorities/pref dividends	-	-	-	-	-
Net profit	140.9	200.5	232.1	269.0	339.9
Core net profit	140.9	200.5	232.1	269.0	339.9
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
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
Total non-current assets	173.6	199.3	198.8	197.8	196.3
Cash & equivalent	214.3	191.5	330.5	465.0	681.8
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
Total current assets	988.8	1,243.0	1,597.4	1,857.6	2,218.3
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
Total current liabilities	336.7	399.7	394.7	389.7	384.7
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
Total long-term liabilities	199.4	162.9	203.9	198.9	193.9
Shareholders' funds	618.5	879.7	1,184.2	1,517.5	1,925.1
Minority interests	7.8	-	-	-	-
BV/share (RM)	0.76	1.10	1.41	1.81	2.30
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	212.4	277.9	313.7	354.0	447.2
Depreciation/Amortisation	1.8	2.4	3.0	3.5	4.0
Net change in working capital	39.2	(150.8)	-	-	27.3
Others	(35.2)	(94.5)	(174.8)	(176.4)	(197.0)
Cash flow from operations	218.2	35.0	141.8	181.0	281.5
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(118.7)	4.7	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(104.9)	(40.2)	(2.0)	(2.0)	(2.0)
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)	(59.3)	(68.7)	(86.8)
Others	(48.3)	97.6	-	-	-
Cash flow from financing	11.1	42.0	(35.2)	(44.6)	(62.7)
Net cash flow	124.3	36.8	104.7	134.5	216.9
Net cash/(debt) b/f	64.6	188.9	225.8	330.5	465.0
Net cash/(debt) c/f	188.9	225.8	330.5	465.0	681.8
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	869.2	20.0	27.9	13.9	21.9
EBITDA growth (%)	1,040.6	26.1	23.8	11.0	23.0
Pretax margin (%)	30.5	33.3	29.3	29.1	30.1
Net profit margin (%)	20.2	24.0	21.7	22.1	22.9
Interest cover (x)	12.8	21.9	7.7	8.7	11.0
Effective tax rate (%)	29.3	27.9	26.0	24.0	24.0
Dividend payout (%)	14.2	26.0	26.0	26.0	26.0
Debtors turnover (days)	56	104	93	81	67
Stock turnover (days)	105	180	158	139	114
Creditors turnover (days)	56	80	62	55	45

Source: Company, AmlInvestment Bank Bhd estimates

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