



AmInvestment Bank

Company report

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

14 Feb 2023

Acquires huge Kulai land for RM398mil

BUY

(Maintained)

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03-2036 2299

Rationale for report: Company update

Price	RM1.27
Fair Value	RM1.82
52-week High/Low	RM1.57/RM1.05

Key Changes

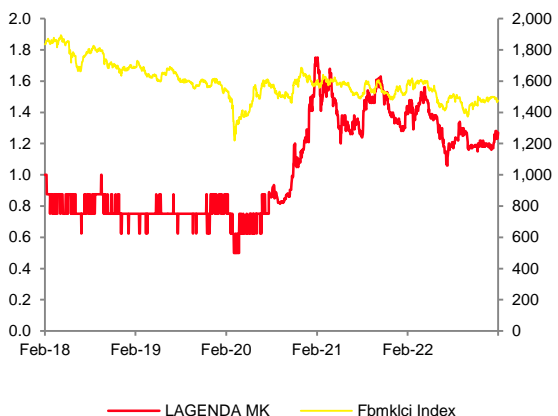
Fair value	↑
EPS	↓

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	254.9
FD Core EPS (sen)	28.8	21.1	28.0	30.4
FD Core EPS growth (%)	35.9	(26.7)	32.7	8.5
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	6.5	5.5	7.3	7.9
PE (x)	4.4	6.0	4.5	4.2
EV/EBITDA (x)	3.2	3.4	2.4	2.8
Div yield (%)	5.1	4.3	5.7	6.2
ROE (%)	30.9	17.7	18.5	16.0
Net Gearing (%)	nm	nm	nm	5.0

Stock and Financial Data

Shares Outstanding (million)	837.3
Market Cap (RMmil)	1,063.4
Book Value (RM/share)	1.10
P/BV (x)	1.2
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)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	6.7	5.0	(11.8)
Relative (%)	6.2	7.2	(5.6)



Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with a higher fair value (FV) of RM1.82/share (from RM1.64/share previously) after factoring in future earnings contribution from the development of the recently acquired Kulai land. Our FV is based on a 30% discount to its RNAV and 3% premium to reflect its 4-star ESG rating (Exhibits 7 & 8).
- While maintaining FY23F earnings, we lower FY24F core net profit by 3% to incorporate higher finance cost from the increase in borrowings to fund the Kulai land acquisition. Notably, 90% of the purchase consideration (largely funded by borrowings) is expected to be settled by 1QFY24 (Exhibit 3).
- Lagenda kicked off its first land deal in 2023 with a proposed acquisition of 2 parcels of freehold vacant land totaling 1,075 acres in Kulai, Johor for RM398mil cash (37% of market cap) from PNB's wholly-owned Seriemas Development (Exhibits 1 & 2).
- The acquisition will be funded by a combination of bank borrowings (80%) and internally generated funds (20%). Post-acquisition, we expect the group's FY24F net gearing ratio to increase to 0.05x from a net cash position.
- The proposed acquisition is subject to the approvals being obtained from the shareholders of Lagenda, Estate Land Board and Economic Planning Unit (Exhibit 4).
- Upon completion of the acquisition, Lagenda's accumulated landbank will substantively increase by 29% to 4,801 acres from 3,726 acres.
- The acquisition price translates to RM8.50 psf and implies a cost-to-GDV ratio of 10%, which is below the industry's average land cost-to-GDV ratio of 15%-20%.
- Based on our channel checks, the asking price for agricultural lands surrounding the areas ranges from RM10 psf to RM16 psf. Hence, we deem the acquisition price to be fair.
- The Kulai township is planned as a mixed-use development comprising of 12,000 residential units accompanied by commercial portions. Hence, Lagenda is required to pay for the conversion premium (15% of land value) for the change of land use from agricultural to residential.
- Prior to receiving the planning approval, we expect that the layout and property types of its residential units will be similar to those of its existing townships, which are single-storey terrace and semi-D cluster houses.

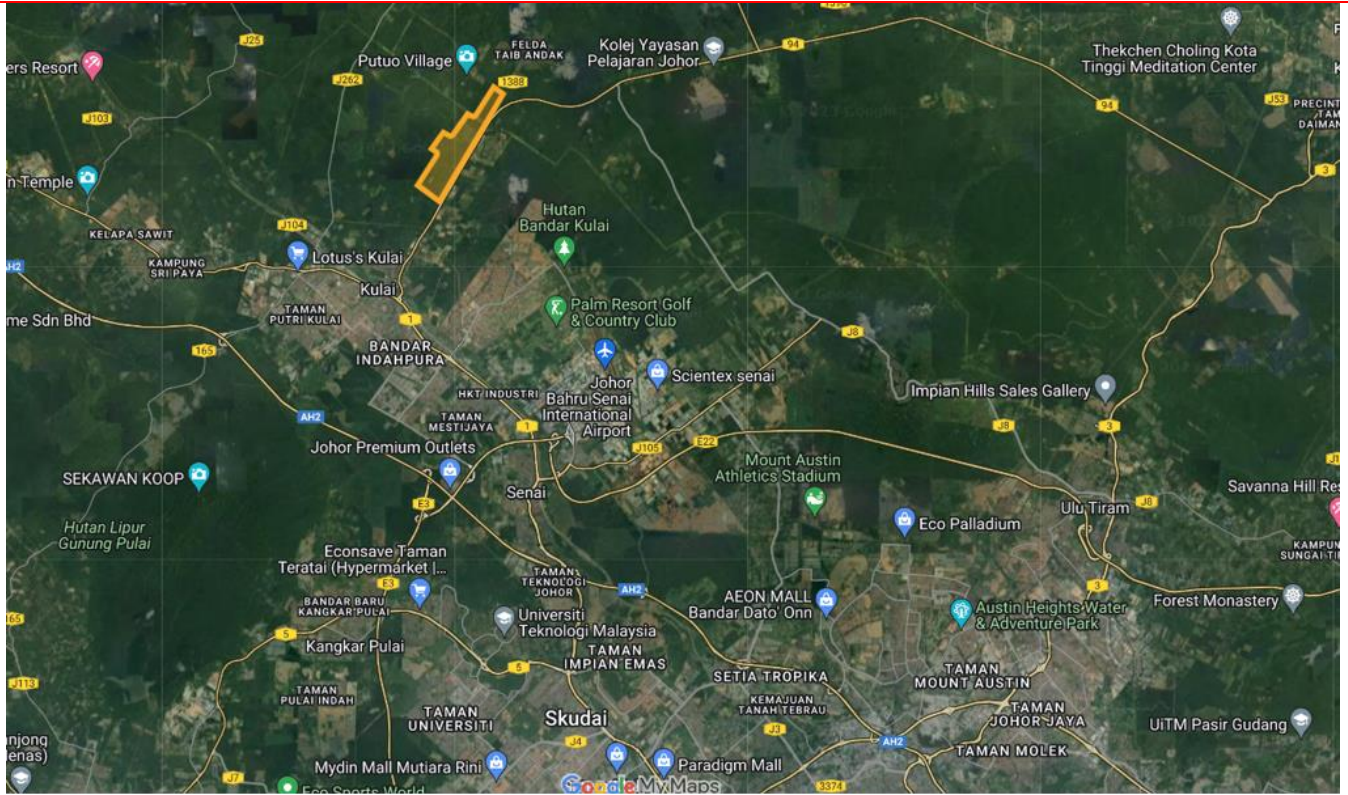
- Due to the higher B40 maximum affordability level in Johor as compared to Perak and Kedah (Exhibit 5), we believe that the average selling price per residential unit in Kulai township will be higher than its existing townships in these 2 states.
- Based on the estimated GDV of RM4bil, the average selling price is anticipated to be RM300K/unit.
- The township in Johor is scheduled to debut in FY25F. We estimate that the project could potentially contribute up to 20% of Lagenda's earnings from FY25F to FY32F.
- Johor has the highest residential overhang units in Malaysia with properties priced at <RM300K accounting for only 4% of the overhang residential units as at end 3QFY22. Meanwhile, residential properties priced between RM300K and RM500K made up of 8% of total unsold completed units.
- From 4QFY21 to 3QFY22, there were only 760 units of affordable housing launched vs. 12,800 transacted units. We believe that the lack of affordable house supply in Johor provides opportunity for Lagenda to penetrate the underserved B40s in Johor with competitive pricing strategies.
- Kulai land is strategically located within the proximity of multiple industrial parks and the region's economic hub of Johor Bahru. It is only 18km away from Senai International Airport with its associated logistics and industrial hubs and 39km away from Johor Bahru city centre.
- Overall, we are positive on the acquisition which is envisaged to help sustain Lagenda's property earnings over the medium and long term. The stock currently trades at a compelling FY24F PE of 4x vs. the industry average of 9x while FY24F dividend yields are attractive at 6%.
- We also 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.

EXHIBIT 1: DETAILS OF THE SUBJECT LANDS

	Land 1	Land 2
Property details	A piece of vacant land	A piece of vacant land
Title particulars	HSD 74877, PTD 112724 Mukim Senai, Daerah Kulai, Negeri Johor	HSD 74878, PTD 112725 Mukim Senai, Daerah Kulai, Negeri Johor
Tenure	Freehold	Freehold
Land area	309.9694 hectares/765.95 acres)	125.264 hectares/309.53 acres
Express conditions	None	None
Category of land use/planning details	None	None
Restrictions-in-interest	None	None
Encumbrances	None	None
Existing use	Palm oil plantation	Palm oil plantation

Source: Lagenda

EXHIBIT 2: LOCATION OF THE SUBJECT LAND (HIGHLIGHTED IN ORANGE)



Source: Google Map, AmlInvestment Bank

EXHIBIT 3: MODE OF SETTLEMENT

Payment Term	Timing of settlement	Purchase Consideration (RM'mil)
2% of Purchase Consideration	Upon execution of the letter of acceptance as earnest deposit.	8.0
8% of Purchase Consideration	Upon execution of the SPA as a balance deposit	31.8
90% of Purchase Consideration	Within 90 days from the date the SPA becomes unconditional	358.4
	Total	398.2

Source: Legenda

EXHIBIT 4: CONDITIONS PRECEDENT

No.	Conditions Precedent
1	The approval of shareholders of Legenda for the proposed acquisition at an EGM to be convened.
2	The approval of Estate Land Board for the transfer of the lands from Seriemas Development to Legenda Mersing.
3	The approval from Economic Planning Unit (EPU) as required under EPU Guidelines.

Source: Legenda

EXHIBIT 5: 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 6: PROJECT TIMELINE

Existing Township	Launch Date
Bandar Baru Setia Awan Perdana (BBSAP)	2016
Lagenda Teluk Intan	2018
Lagenda Tropika (Tajah)	2022
Darulaman Lagenda, Sg. Petani	2022
Upcoming Township	Estimated Launch Date
Mersing, Johor	2023
Penor, Pahang	2023
Bernam Jaya, Selangor	2023
Kulai, Johor	2025

Source: AmlInvestment Bank Bhd

EXHIBIT 7: RNAV CALCULATIONS

Developments	Outstanding GDV	NPV @ 8%
	RM (mil)	RM mil
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
Lagenda Kulai Township	4,000.0	296.6
Others	458.8	115.1
Total NPV		2,327.2
Net Cash / (Debt)		(50.8)
Other Assets		608.7
Total		2,885.1
No of shares		1,137.9
RNAV/share (RM)		2.54
Less 30% discount		(0.76)
Fair Value (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 8: 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 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	696.1	835.5	840.2	1,039.1	1,205.5
EBITDA	262.0	324.3	288.8	358.2	416.1
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)	(76.8)
Exceptional items	-	-	-	-	-
Pretax profit	241.6	308.6	239.1	308.9	335.3
Taxation	(62.3)	(77.4)	(62.2)	(74.1)	(80.5)
Minorities/pref dividends	-	-	-	-	-
Net profit	170.1	231.3	177.0	234.8	254.9
Core net profit	170.1	231.3	177.0	234.8	254.9
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	289.4	398.5	410.0
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	1,556.3	1,791.1	1,946.4
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	510.1
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	513.9
Shareholders' funds	618.5	879.7	1,124.1	1,421.2	1,771.0
Minority interests	7.8	-	-	-	-
BV/share (RM)	0.76	1.10	1.34	1.70	2.12
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	241.6	308.6	239.1	308.9	335.3
Depreciation/Amortisation	1.8	2.4	3.0	3.5	4.0
Net change in working capital	39.2	(150.8)	-	-	27.3
Others	(64.4)	(125.3)	(155.4)	(165.6)	(234.1)
Cash flow from operations	218.2	35.0	86.7	146.8	132.5
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(118.7)	4.7	-	-	(398.0)
Others	13.7	(44.8)	(2.0)	(2.0)	(2.0)
Cash flow from investing	(104.9)	(40.2)	(2.0)	(2.0)	(400.0)
Debt raised/(repaid)	98.4	(21.9)	24.1	24.1	344.1
Equity raised/(repaid)	39.3	97.6	-	-	-
Dividends paid	(15.9)	(53.4)	(45.2)	(59.9)	(65.1)
Others	(48.3)	97.6	-	-	-
Cash flow from financing	11.1	42.0	(21.1)	(35.8)	279.0
Net cash flow	124.3	36.8	63.7	109.0	11.6
Net cash/(debt) b/f	64.6	188.9	225.8	289.4	398.5
Net cash/(debt) c/f	188.9	225.8	289.4	398.5	410.0
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
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	27.8
Net profit margin (%)	24.4	27.7	21.1	22.6	21.1
Interest cover (x)	14.4	24.3	6.1	7.8	5.4
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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