

**HLIB Research**

PP 9484/12/2012 (031413)

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**BUY** (Initiate)

**Fair Value** **RM2.01**
**Previously:** **N.A.**
**Current Price:** **RM1.65**

Capital upside	21.8%
Dividend yield	3.5%
Expected total return	25.3%

**Sector coverage:** Property

**Company description:** Lagenda involved in property development and construction businesses primarily focusing in providing affordable homes at ≤RM200k to cater the B40 and M40 income group.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	12.2	34.1	120.0
Relative	12.2	34.3	88.3

**Stock information**

Bloomberg ticker	LAGENDA MK
Bursa code	7179
Issued shares (m)	818
Market capitalisation (RM m)	1,351
3-mth average volume ('000)	3,854
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.M

**Major shareholders**

Lagenda Land	69.6%
Doh Propertie	4.6%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PAT – core (RM m)	140.9	219.3	264.6
FD EPS – core (sen)	12.4	19.3	23.3
FD P/E (x)	13.3	8.6	7.1

# Lagenda Properties

## Gunning the overlooked and underserved

We initiate coverage on Lagenda with a **BUY** rating and TP of RM2.01 (20% discount to RNAV of RM2.52), implying an upside potential of 21.8%. Our TP implies a forward P/E of 8x, lower than the average peers of c.10x. We project a 3-year earnings CAGR of 22.7%. In a nutshell, we like Lagenda for its exposure to the underserved affordable housing segment, stable clientele base (public sector workers with government financing access), low land cost, high booking conversion rate and superior margins.

**Poultry to property transformation.** Lagenda Properties is involved in property development and construction businesses. Its primary focus is to build affordable houses with sales price of ≤RM200k to cater the B40 and M40 income group. Its listing did not go through an IPO or a reverse takeover, but through embarking on a business model transformation since 2018 where the listed entity disposed its entire stake in its former poultry business and subsequently acquired property business.

**Proxy for affordable housing.** Notwithstanding the nationwide glut of overhang residential units, we believe there remains a strong demand for the underserved affordable housing segment (3Q20 residential transactions show 62.2% are priced <RM300k). Most of Lagenda's clientele are from the public sector (civil servants, police, army), which are able to get LPPSA financing (100% financing up to RM200k with minimum monthly income of RM1.7k), ensuing a high booking conversion rate (>90%) for Lagenda's properties. With low retrenchment probability within the public sector, we believe Lagenda's products are more resilient to the economic ebb and flows.

**Sustainable high profit margin.** While Lagenda's products are priced affordably at below RM200k, it is able to derive a 20-30% PAT margin as compared to 5-15% from other peers in affordable market range. We believe this high margin is sustainable (20.2% of PAT margin achieved in FY20) driven by Lagenda's ability to acquire sizeable lands at cost of c.RM2-3 psf, which is only 5-6% of GDV.

**Healthy project pipeline.** Lagenda currently has 2 flagship developments, notably, Bandar Baru Setia Awan Perdana (BBSAP) in Sitiawan and Lagenda Teluk Intan (LTI) in Teluk Intan, Perak. The company has a total landbank of over 2,274 acres with a total remaining GDV of RM4.1bn to be developed for the next 5 years. Judging from the pace of recent acquisitions and developments, we believe there is more to come from the company with its aspiration to grow. Lagenda aims to launch 1 new township annually with target launches including 2021 in Tapah and 2022 in Sungai Petani. Concurrently, Lagenda is looking at launching new phases of current township in Sitiawan & Teluk Intan.

**>20% earnings growth per annum over the next 2 years.** We estimate FY21-FY23 to register a profit of RM219.3m (+55.7% YoY), RM264.6m (+20.6 YoY) and RM319.6m (+20.8% YoY) supported by new sales of c.RM1bn per year and unbilled sales of RM502m (which should provide earnings visibility for at least 2-3 quarters). Current bookings remain encouraging with RM280.6m registered as of mid-March 2021. Lagenda aims to launch 1 township annually with capacity to build 6-8k units of houses. Each township should translate into RM1-1.5bn GDV each year.

**Initiate** coverage on Lagenda Properties with a **BUY** rating and TP of RM2.01, implying an upside potential of 21.8%. Our TP of **RM2.01** is based on 20% discount on estimated RNAV of RM2.52 per share. We like Lagenda for its strong take-up, fast project turnaround and superior margin given the low land cost (well below 10% of GDV). The company has outlined a dividend policy of 25-35% payout and still aiming for strong double digit growth for the next few years. As such, we are assuming 30% payout ratio, which translates to FY21-23 dividend yields of 3.5%, 4.2% and 5.1%.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	9.9	211.1	291.0	401.1	626.0
Receivables	20.6	237.3	309.0	386.4	421.0
Inventories	40.0	421.9	549.4	687.0	748.5
Others	58.9	302.8	304.1	306.1	308.2
<b>Assets</b>	<b>129.4</b>	<b>1,173.2</b>	<b>1,453.5</b>	<b>1,780.6</b>	<b>2,103.7</b>
Payables	64.3	290.2	377.8	472.5	514.8
Debt	-	222.2	222.2	222.2	222.2
Others	2.2	36.0	36.0	36.0	36.0
<b>Liabilities</b>	<b>66.5</b>	<b>548.4</b>	<b>636.1</b>	<b>730.7</b>	<b>773.0</b>
Shareholder's equity	62.9	624.8	817.5	1,049.9	1,330.7
Minority interest	-	7.8	7.8	7.8	7.8
<b>Equity</b>	<b>62.9</b>	<b>624.8</b>	<b>817.5</b>	<b>1,049.9</b>	<b>1,330.7</b>

### Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	13.7	212.4	299.2	360.9	436.1
D&A	3.9	1.5	1.5	1.6	1.8
Working capital	56.4	(13.2)	(111.5)	(120.4)	(53.8)
Taxation	(2.9)	(52.8)	(79.9)	(96.4)	(116.4)
Others	(58.3)	4.0	-	-	-
<b>CFO</b>	<b>12.8</b>	<b>151.9</b>	<b>109.4</b>	<b>145.8</b>	<b>267.6</b>
Capex	(2.0)	(2.2)	(2.9)	(3.6)	(3.9)
Others	(0.8)	10.0	-	-	-
<b>CFI</b>	<b>(2.9)</b>	<b>7.8</b>	<b>(2.9)</b>	<b>(3.6)</b>	<b>(3.9)</b>
Changes in debt	(0.6)	(14.8)	-	-	-
Shares issued	-	-	-	-	-
Dividends	-	-	(26.6)	(32.1)	(38.8)
Others	(5.0)	1.6	-	-	-
<b>CFF</b>	<b>(5.6)</b>	<b>(13.2)</b>	<b>(26.6)</b>	<b>(32.1)</b>	<b>(38.8)</b>
<b>Net cash flow</b>	<b>4.4</b>	<b>146.5</b>	<b>79.9</b>	<b>110.0</b>	<b>224.9</b>
Beginning cash	5.5	64.6	211.1	291.0	401.1
Ending cash	9.9	211.1	291.0	401.1	626.0

### Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
<b>Revenue</b>	<b>71.8</b>	<b>696.1</b>	<b>906.4</b>	<b>1133.5</b>	<b>1234.9</b>
Operating cost	(54.0)	(463.6)	(587.6)	(753.0)	(779.1)
<b>EBITDA</b>	<b>17.8</b>	<b>232.6</b>	<b>318.8</b>	<b>380.6</b>	<b>455.8</b>
D&A	(3.9)	(1.5)	(1.5)	(1.6)	(1.8)
Net Interest	(0.2)	(18.0)	(18.0)	(18.0)	(18.0)
<b>Pretax profit</b>	<b>13.7</b>	<b>212.4</b>	<b>299.2</b>	<b>360.9</b>	<b>436.1</b>
Taxation	(3.9)	(62.3)	(79.9)	(96.4)	(116.4)
Minority Interest	0.0	9.2	0.0	0.0	0.0
PATMI	9.8	140.9	219.3	264.6	319.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Earning</b>	<b>9.8</b>	<b>140.9</b>	<b>219.3</b>	<b>264.6</b>	<b>319.6</b>
Basic shares (m)	2678.2	460.7	460.7	460.7	460.7
Diluted shares (m)	2678.2	1137.9	1137.9	1137.9	1137.9
Consensus core PATMI			228.5	285.7	328.5
HLIB/ Consensus			96%	93%	97%

### Valuation ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Net DPS (sen)	0.0	2.5	5.8	7.0	8.4
Yield (%)	0.0	1.5	3.5	4.2	5.1
Core EPS (sen)	0.4	30.6	47.6	57.4	69.4
Fully Diluted EPS (sen)	0.4	12.4	19.3	23.3	28.1
P/E (x)	452.0	5.4	3.5	2.9	2.4
FD P/E (x)	452.0	13.3	8.6	7.1	5.9
Market capitalization (m)	4419.1	760.2	760.2	760.2	760.2
Net cash (m)	9.9	(11.1)	68.8	178.8	403.8
Net gearing (%)	CASH	0.02	CASH	CASH	CASH
BV / share	0.0	0.5	0.7	0.9	1.2
P/BV (x)	70.3	3.0	2.3	1.8	1.4
ROA (%)	7.6	12.0	15.1	14.9	15.2
ROE (%)	15.5	22.6	26.8	25.2	24.0
Enterprise value	4409.2	771.3	691.4	581.3	356.4
EV/ EBITDA (x)	247.5	3.3	2.2	1.5	0.8

### Margin ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
EBITDA Margin	24.8	33.4	35.2	33.6	36.9
PBT Margin	19.1	30.5	33.0	31.8	35.3
PATMI	13.6	20.2	24.2	23.3	25.9

# Background

## Transformation of Legenda Properties

**DBE Gurney Resources started as poultry company** founded by the Ding family by its former chairman Dato' Ding Chong Chow and his brother Ding Choon Yung in 1986, which includes poultry breeding, hatchery, processing and sale of chicken, and operation of F&B outlets, and was listed on Bursa Malaysia in 11 February 2004. In April 2015, the listed company proposed the issuance of the redeemable convertible notes (RCN) to raise up to RM50m and has signed a conditional subscription agreement with Advance Opportunities Fund and Advance Capital Partners Pte Ltd (ACP) to raise the amount in 4 tranches. It is learnt that ACP had sold a minor portion of the RCNs to the Doh Family (who are now the substantial shareholders of the listed company). Subsequently, Doh Properties (managed and owned by the Doh Family) emerged as a substantial shareholder of DBE Gurney Resources with an 8.76% stake via the conversion of RCNs in December 2017.

**Ventured into real estate.** In February 2018, the listed entity ventured onto the real estate scene after Doh Properties Holdings Sdn Bhd surfaced as its major shareholder. Doh Properties is the vehicle of the Doh brothers (Dato' Doh Jee Chai, Dato' Marcus Doh Tee Leong and Dato' Jimmy Doh Jee Ming) who are the sons of Dato' Doh Neng Chiong, a prominent Sitiawan businessman. The Doh family, well known among Sitiawan folk, has played a major role in shaping and developing the property sector there. As part of its transformation journey, the listed company's group MD at that time, Dato' Alex Ding Seng Huat, bought a 51% controlling stake in six wholly-owned subsidiaries (poultry related) of DBE Gurney for a combined RM32.6m cash and has granted a put option to DBE Gurney to sell all or part of the remaining 49% stake in the six companies at a total exercise price of up to RM9.8m. Likewise, DBE Gurney has also granted a call option to Dato' Alex to acquire all or part of the option shares at the exercise price.

**The listed entity then disposed the poultry business.** While the poultry business was bleeding cash, DBE Gurney's journey on property development business has borne fruit since its diversification, where it registered a profit of RM9.8m in FY19. So, in August 2020, the listed company completed its asset injection of Blossom Eastland Sdn Bhd, Rantau Urusan (M) Sdn Bhd, and Yik Wang Trading Sdn Bhd (owned by Doh Properties Holdings and Doh's family) for a combined amount of RM823m. As Dato' Alex acknowledged that DBE Gurney will be focusing more on the property business, subsequently on 28 September 2020, he acquired all the remaining 49% equity interest held by the listed entity. This essentially means that the listed company has fully exited the poultry business and continued to focus on property development as its main core business.

**Figure #1 Summary of the transformation journey**

1986s	•Ding family established a poultry business
2004	•Listed on Bursa Malaysia as DBE Gurney Resources
2015	•Issued RCNs and sold a small portion to Doh Family
2017	•Doh family increased its stake vis conversion of RCNs
2018	•The listed company involved in property development after Doh family became major shareholder
2019	•Ding family bought back 51% of poultry business and the listed company granted a call option to Ding family to acquire all or part of the option shares at the exercise price
July 2020	•The listed company acquired 3 companies under Doh Family
Aug 2020	•Completed acquisition of Doh family business into the listed entity
Sept 2020	•The listed company exercised the put option by the Ding Family and disposed the remaining 49% stake of poultry business •Fully exited poultry business •Rebranded as Legenda

Company

**Figure #2 Acquisition price (RM m)**

Purchase consideration	Blossom Eastland	Rantau Urusan (M)	Yik Wang Trading
Issuance of shares (m)	805.7		19.2
Issue price (RM per share)	0.7975		0.7975
Shares consideration	642.5		15.3
Add: Cash consideration		148.3	1.73 (Tranche 1)+ 15.4(Tranche 2)
Total purchase consideration	642.5	148.3	32.5
FY19 audited earnings	311.9	71.2	Profit Guarantee 5m in the next FYE
<b>Implied FY19 P/E</b>	<b>2.1</b>	<b>2.1</b>	<b>6.5</b>

Company

*Comment: The acquisition price translates to a trailing FY19 P/E of 2.1x for Blossom Eastland and Rantau Urusan (M) while 6.5x for Yik Wang Trading. Considering that DBE Gurney (Legenda) trading at an average P/E of 11.3x for FY19, we believe that the acquisition price worked out to be EPS accretive to shareholders*

**Rebranded as Legenda Properties, the affordable housing developer.** As the listed company has disposed its entire stakes of poultry business, the company has now rebranded itself as Legenda Properties. The company’s main business is in property development and construction, primarily focusing on providing affordable homes. The company is different from other property developers where its primary focus is to build cheap and affordable houses which are at average sales price of ≤RM200k to cater to the B40 and M40 income group predominantly from the civil servants, military and police. Its mission in making home ownership affordable for all Malaysians with commitment on developing homes ≤RM200k should be applauded towards creating and ensuring that everyone has a good, comfortable and safe place to live. Legenda’s main goal of building economical and affordable homes is to cater the B40 and M40 income group, is aligned with government’s objective in solving the nationwide housing affordability issue.

**Extensive development experience.** The company has an extensive experience in the trading of building materials, construction and property development since 1970s. Its current managing director, Dato’ Jimmy Doh Jee Ming, inherited the construction company business from his father, where his father started to venture out into affordable housing in 1980s. The company’s affordable township started in Sitiawan and Teluk Intan, Perak, and eventually all these companies and projects were injected into Legenda in August 2020 when their diversification journey was completed.

**Figure #3 Key milestone of company under Doh Family**

- 1970s • Doh family established a construction company
- 1980s • First venture into affordable homes
  - Developed more than 400 houses, with prices starting at RM32,000, in Sitiawan, Perak.
- 1990s • Established trading of building materials and hardware company
- 2000s • Completed various property developments projects
  - Residential properties (i.e. apartment, hotel-style residence, bungalows, semi-d, terrace houses & condominium)
  - Hotel, mall, shophouses & office tower
- 2014 • Established Taraf Nusantara Sdn Bhd (property development arm) – first venture into the development of affordable township
- End 2016 • Launched 1st phase of maiden flagship affordable township Bandar Baru Setia Awan Perdana (BBSAP)
- Mar 2019 • Launched 1st phase of second (2nd) affordable township Legenda Teluk Intan (LTI)
- Aug 2020 • Completed asset injection exercise and listed on Bursa Malaysia

Company

**On-going projects & unbilled sales.** Lagenda currently has 2 flagship developments, notably, Bandar Baru Setia Awan Perdana (BBSAP) in Sitiawan and Lagenda Teluk Intan (LTI) in Teluk Intan, Perak. BBSAP is a 1,012 acres affordable housing township development with a GDV worth RM1.4bn (remaining GDV of RM512m). Its Phase 1 has been completed with a 100% take up rate on a single/double storey house with a starting price of RM135k for a 1000 sq ft house. Meanwhile, LTI is a 1,158 acre affordable housing development located in Teluk Intan Perak with a GDV worth of RM1.2bn (remaining GDV of RM781.1m). Besides these 2 major township, Lagenda also has new phases for other existing smaller projects to be launched with total remaining GDV of approximately RM286.6m, namely, Setia Residence, Taman Mulia, and Taman Tronoh Arkasia. Lagenda’s current unbilled sales stands at RM502m, representing a cover ratio of 0.72x.

**Figure #4 Bandar Baru Setia Awan Perdana (BBSAP)**

On-going/Future	Phase 1C (completed Feb 2020)	Phase 1D (completed Feb 2020)	Phase 2A & 2C	Phase 2D	Phase 2B (launched)	Phase 3A	Phase 3B (launched)
Description	Residential development: • 1,476 units of single-storey cluster house • 16 units of single-storey detached houses	Mixed development: • 1,555 units of single-storey terraced house • 28 units of double storey terraced shop offices • 1 vacant commercial lot	Mixed development: • 219 units of double-storey terraced shop office • 996 units of single-storey cluster semi-detached house • 6 units of single-storey semidetached house • 15 units of single-storey detached house • 1 plot of commercial land & 1 plot of petrol station land	A parcel of residential land approved for the development of: • 1,160 units of single-storey cluster semidetached houses • 8 units of single-storey detached houses	Residential development: • 829 units of single-storey terraced houses	A parcel of residential development land currently pending approval for: • 1,074 units of singlestorey terrace houses • 53 units of single storey shop-offices • 1 vacant commercial plot	Residential development: • 1,241 units of single-storey terraced houses • 2 units of single-storey semi-detached houses
Total GDV (RM m)	283.6	271.5	301.1	282.2	161.0	217.4	245.9
Unbilled Sales (RM m)	-	-	71.6	54.6	32.3	10.1	83.7
Remaining GDV (RM m)	-	-	81.6	186.7	18.8	188.7	36.2
Total GDC (RM m)	182.4	170.8	145.3	148.9	103.0	151.5	149.8
Expected GDP (RM m)	101.2	100.7	155.9	133.3	58.0	65.9	96.1
Land Area (Acres)	70.6	52.4	121.3	104.5	60.6	73.3	70.9
Take Up Rate/ Completion Rate	100% / 100%	99.2% / 100%	Phase 2A: TBD Phase 2C: 95.0% / 70.0%	56.0% / 18.0%	95% / 100%	47.0% / 20.0%	93% / 45.0%
Commencement / Expected Completion	Feb 2017 / Completed	Feb 2017 / Completed	Phase 2A: TBD Phase 2C: Oct 2018/May 2021	Feb 2020 / May 2022	Feb 2018 / Completed	Jun 2020 / Jun 2022	Jan 2019 / Aug 2021

Company

**Figure #5** **Legenda Teluk Intan**

On-going/Future	Phase 1	Phase 2	Phase 3A	Phase 3B
Description	On-going: 1,843 units of terraced and cluster house & 4 units of TNB substation  Future launches: • 137 shop units; 7 house units; 4 agricultural lands; 1 unit Main Distribution Substation (PPU)	Vacant development land consists of 18 block parcels of development land approved for the development of: • 2,667 units of singlestorey terraced houses	Vacant development land consists of 8 block parcels of development of • 1,080 units of cluster houses • 18 units of detached houses	Vacant development land consists of 8 block parcels of development land; proposed for the development of • 775 units of terraced houses together with additional 28 parcels of agricultural plots
Total GDV (RM m)	377.7	445.2	217.5	137.8
Unbilled Sales (RM m)	127.6	56.2	N/A	N/A
Remaining GDV (RM m)	41.1	395.3	211.0	133.7
Total GDC (RM m)	220.4	363.6	164.1	109.9
Expected GDP (RM m)	157.2	81.7	53.4	27.8
Land Area (Acres)	123.8	189.1	86.3	85.3
Take Up Rate/ Completion Rate	97% / 55.0%	68.0% / 20.0%	N/A	N/A
Commencement / Expected Completion	Mar 2019 / July 2021	June 2020 / May 2023	1QFY21 / Oct 2023	1QFY21 / Oct 2023

Company

**Figure #6** **Other Ongoing Projects**

	Taman Bemban Indah	Pangsapuri Seri Iskandar	Taman Desa Harmoni	Pangkalan Prisma	Taman Bemban Permai
Location	Batu Gajah, Perak	Seri Iskandar, Perak	Seri Iskandar, Perak	Batu Gajah, Perak	Batu Gajah, Perak
Total GDV (RM m)	73.6	82.7	29.1	112.0	56.6
Unbilled Sales (RM m)	20.4	-	-	36.6	8.8
Remaining GDV (RM m)	33.7	-	-	33.0	44.3
Land Size (acres)	28	10	9.3	17.23	25
No of units	• 237 units single-storey terrace house • 50 units single-storey semi-detached house • 5 units single-storey detached house	• 2 blocks of 8-storey building with a total of 780 units of apartments	• 10 units semi-detached house • 85 units of terrace house • 19 units of shop house	• 268 single-storey terrace houses • 177 units of double-storey terrace houses • 37 units of double-storey shop houses	• 303 units single storey terrace house
Launch date	June 2019	Sept 2016	Sept 2017	July 2019	July 2020
Completion date	4Q2021	Completed	Completed	4Q2021	4Q2022
Take up rate	70.5%	100%	100%	78.9%	19.1%
Completion rate	78.0%	Completed	Completed	71.0%	2.0%

Company

**Past projects.** Legenda has completed several residential projects namely (i) Taman Desa Harmoni, a residential development project located in Seri Iskandar, Perak, comprising various types of single story house and shop houses, where it was launched in Sept 2017 and has been fully sold and completed, and (ii) Pangsapuri Seri Iskandar, an 8-storey apartment that was launched in Sept 2016 which has also been fully sold and completed.

**Landbank & future project.** The company now has a total landbank of over 2,274 acres with a total remaining GDV of RM4.1bn to be developed for the next 5 years. Judging from the pace of recent acquisitions and developments, we believe there is more to come from the company with its aspiration to grow. Legenda aims to launch 1 new township annually located in its existing landbank in Sitiawan and Teluk Intan as well as in its new landbank in Tapah, Perak and Sungai Petani, Kedah. Each unit will be priced below RM200k, which translates into total GDV of RM1.5-2bn per township and has a burn rate of c.5 years per township.

**Figure #7 Land Banks Details**

Project	Future Launches / Potential GDV	Market Value (RM m)	Land Size (acres)	Land Tenure	Land Type	Land Status	
						with Approval	Vacant
BBSAP	2021 - 2000 units / RM380m	108.5	459	Freehold	Residential Agriculture		Yes
Lagenda Teluk Intan	2021 (3A & 3B) – 1,900units / RM361m 2022 – 4,000units / RM760m	155.8	673	Leasehold	Agriculture	Yes	Yes
Tajah, Perak	2021 – 1,200units / RM180m	29.8	• 623 (100% owned)	Leasehold	Agriculture		Yes
	2022 – 2,000units / RM300m	N/A	• 229 (JV with MajuPerak)	Leasehold	Agriculture	Yes	
Sungai Petani, Kedah	RM565m	N/A	• 299.99 (JV with BDB)	Freehold	Residential Commercial	Yes	Yes
Taman Mulia Phase 5	N/A	55.3	13	Freehold	Residential Agriculture	Yes	Yes
Sungai Wangi	N/A	5.3	10	Freehold	Residential		Yes
Kampar	N/A	13	28	Freehold	Residential		Yes
Teluk Rubiah	N/A	2.3	9	Freehold	Residential		Yes

Company

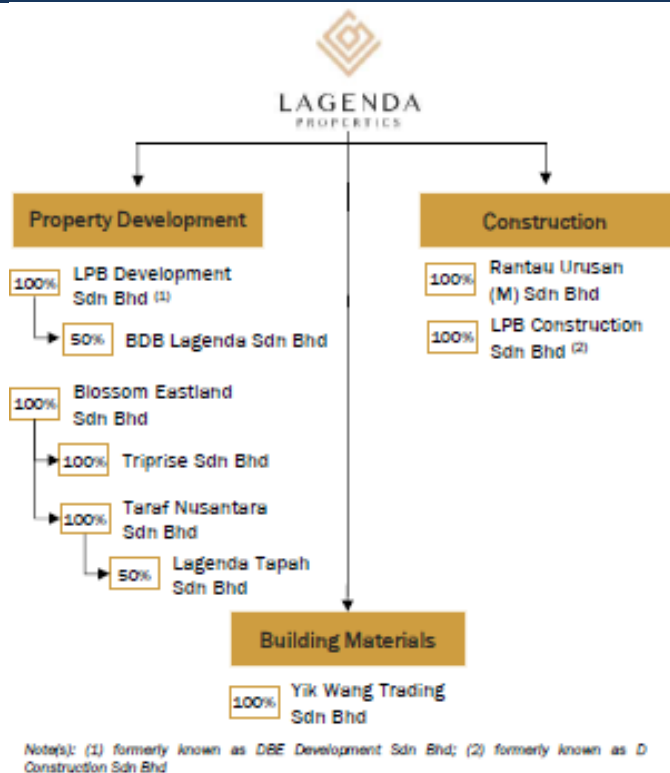
### Key Management

**Figure #8 Key management personnel**

Name	Position	Description
Dato' Doh Jee Ming	Managing Director	<ul style="list-style-type: none"> <li>Rich experience in the property development and construction business with proven execution capabilities.</li> <li>&gt;17 years of top-level management experience.</li> <li>Life corporate member of the Perak Chinese Chamber of Commerce and Industry</li> </ul>
Lee Wei Jin	Chief Finance Officer	<ul style="list-style-type: none"> <li>A Chartered Accountant with the MIA.</li> <li>&gt;14 years of experience.</li> <li>Joined a listed property developer in 2012 as an Assistant Finance Manager, responsible for the overall finance and accounting matters which includes development projects in Penang, Klang Valley and Singapore</li> </ul>
Lew Hoy Kong	Project Head	<ul style="list-style-type: none"> <li>&gt;24 years of civil &amp; structural engineering experience.</li> <li>Senior Project Manager for Paramount Properties Development (2013), General Manager - Property Development Division of Pulai Group (2016), General Manager – Property, for PRG Holdings Bhd (2018).</li> </ul>

Company

**Figure #9 Corporate Structure**



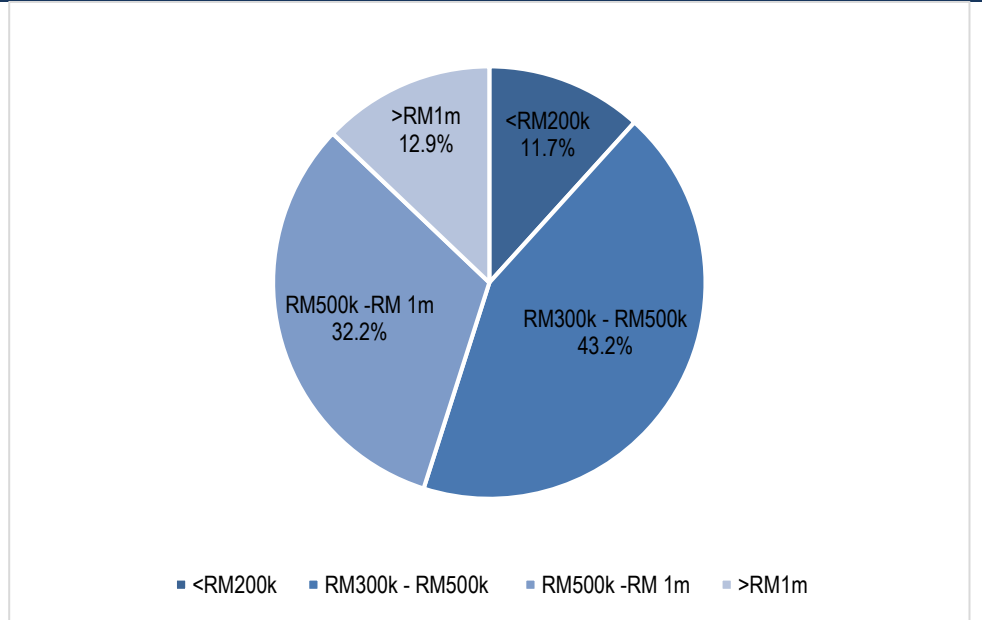
Company

# Investment Thesis

## Positive on affordable housing market landscape.

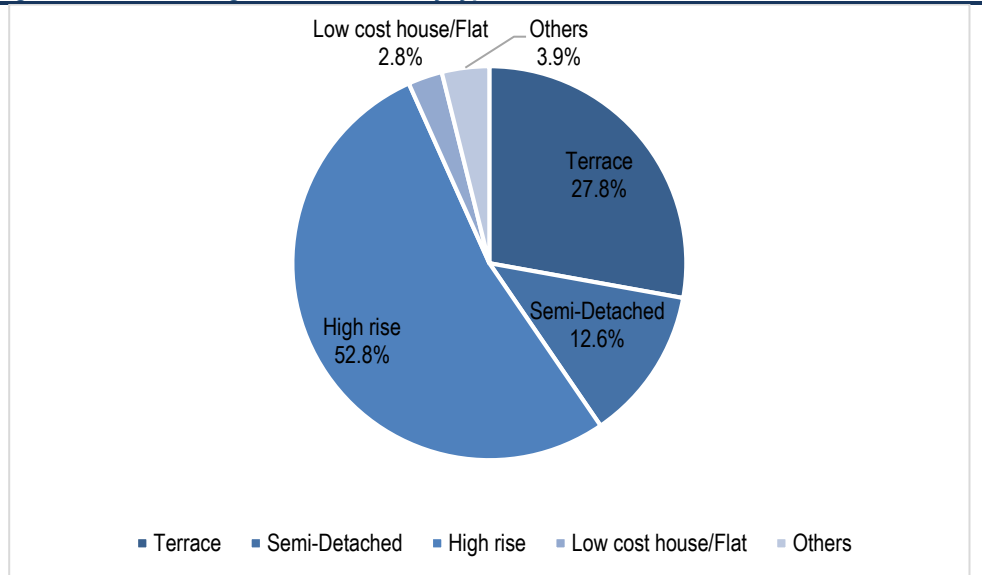
**Demand remains resilient for affordable housing.** The number of overhang residential units stands at 30,926 units in 3Q20 (latest data available) from 9,903 units back in 2015 (+212%), of which 54.9% of the units are priced above RM500k. High-rise units make up 52.8% of the total overhang units while 2-3 storey terrace houses make up 27.8%. 3Q20 residential transaction volumes showed 55,845 units being transacted, of which 62.2% of these transactions are for houses priced below RM300k, suggesting that the demand for affordable homes below RM300k has remained resilient despite in slowdown in the overall property market.

**Figure #10 Overhang residential units by price**



NAPIC, HLIB Research

**Figure #11 Overhang residential units by type**



NAPIC, HLIB Research

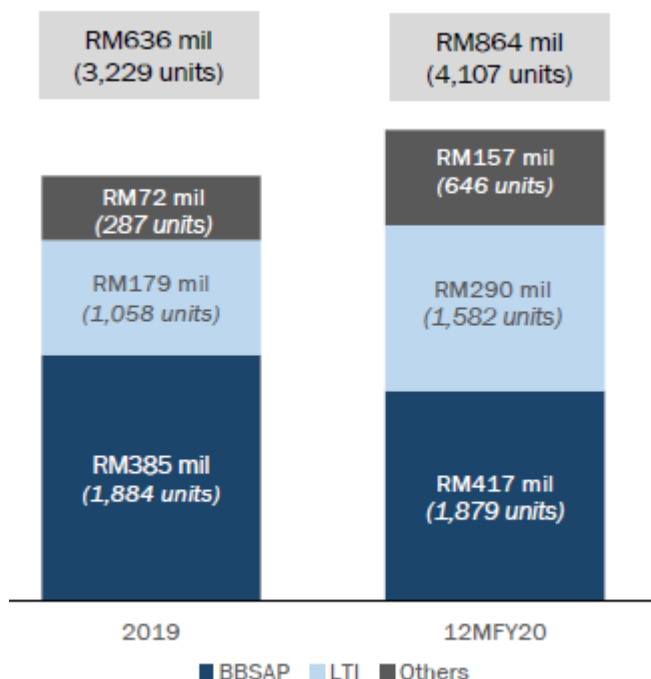
## Positioned to capitalize on untapped demand for affordable houses

**Proxy for affordable housing.** Notwithstanding the nationwide’s glut of overhang residential units, we believe there remains a strong demand for affordable housing despite the slowdown in the overall property market. As such, we believe Legenda is poised for a strong growth in the affordable housing market underpinned by the strong and inelastic demand for their affordable products from an underserved market (young civil servants in the B40 & M40 segment). Its flagship development BBSAP & LTI has been consistently delivering sales of c.2000 units per year per township with 8,037 units sold in BBSAP since end 2016 and 2,715 units sold in LTI since Mar 2019. For FY20, Legenda sold a total of 4,107 (+27% YoY) unit of properties or RM864m in value, of which 1,879



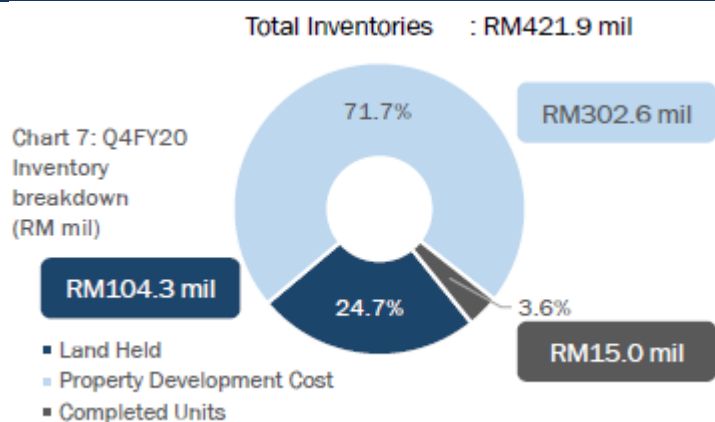
units (45.8%) was derived from BBSAP and 1,582 (38.5%) units from LTI. Whenever Lagenda launches a project, the company has a strong take up rate and is able to sell off everything within 12-18 months on average. Furthermore, Lagenda’s low unsold units (3.6% of total inventories of RM421.9m) also suggest that the company enjoys resilient demand for its products.

**Figure #12 Lagenda’s yearly sales by value (RM mil) and units**



Company

**Figure #13 FY20 Inventory breakdown (RM mil)**

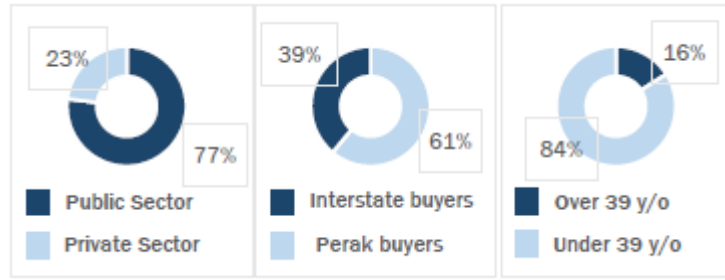


Company

**Sustainable high profit margin.** While Lagenda’s products are priced affordably at below RM200k (and at already a 30% discount to houses in major nearby township, i.e. Ipoh, Sitiawan & Teluk Intan), Lagenda is still able to derive a 20-30% PAT margin as compared to 5-15% from other peers in the affordable market range. We believe this high margin is sustainable (20.2% of PAT margin achieved in FY20) driven by Lagenda’s ability in acquiring sizeable land at low land cost of c.RM2-3 psf, which is only 5-6% of GDV as well as in-sourcing of construction & building materials capabilities that increases its operating efficiency. Recently, the company acquired a 623 acre land in Tapah, Perak for RM1.10 psf and has entered into various strategic partnerships (JV) to tap into cheap land and minimize upfront capital expenditure.

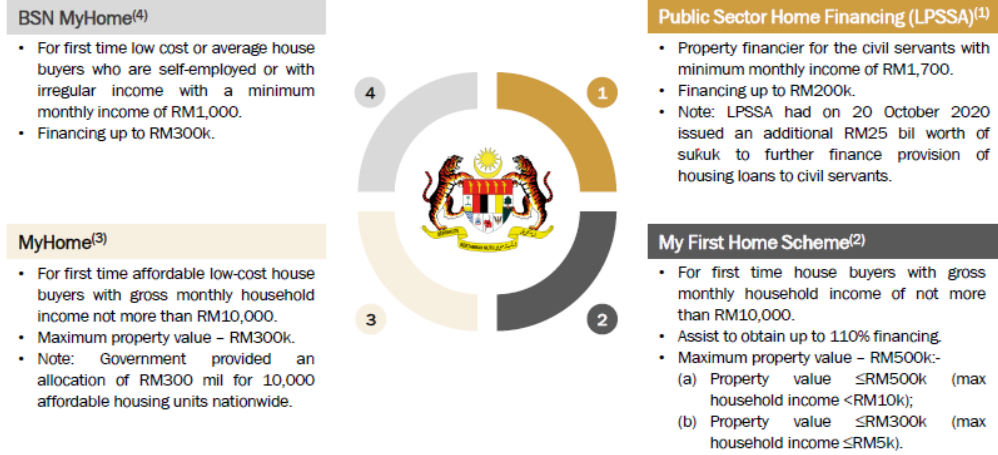
**Resilient products.** Its affordable products are catered mainly for public sector employees within the B40 group of first time home buyers who view a house as a basic necessity. c.80% of Lagenda’s buyers are from public sector (civil servants), which have a stable income profile and government assisted financing. As most of its clients are eligible for government scheme assisted financing, Lagenda are able to achieve a high conversion rate of >90%. Most of the clients are able to get the LPPSA financing where they are able to obtain 100% financing up to RM200k with a minimum monthly net income of RM1,700. Furthermore, as civil servants have a lower possibility of retrenchment during a recession, we believe Lagenda’s products are more resilient to the economic ebb and flows.

**Figure #14** Legenda's buyer demographic based on BBSAP township



Company

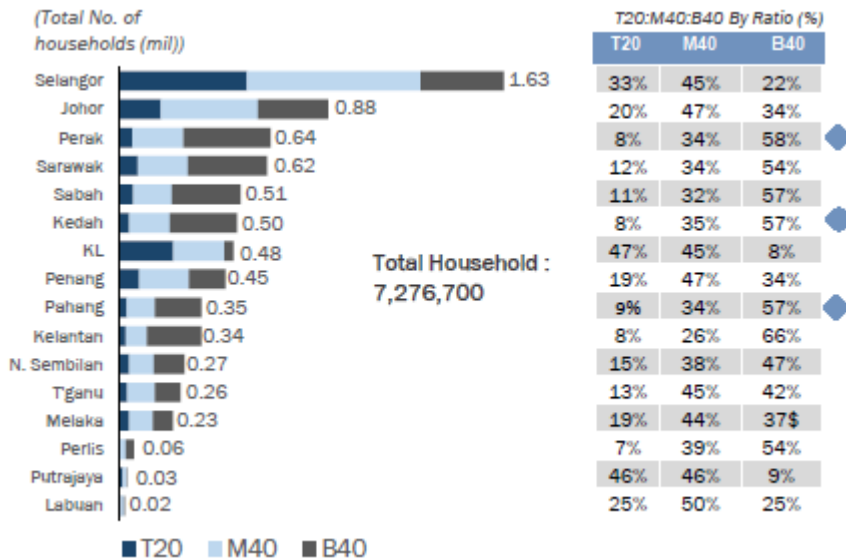
**Figure #15** Government's scheme available for B40 and M40 house buyers



Company

**Targeting affordable housing market outside Klang Valley.** 7 out of the 13 states in Malaysia has B40 households of >50% with a median income level of c.RM2k and maximum affordable financing of up to RM200k. Being a pure-play affordable housing developer targeting the B40 market, Legenda's products are well priced under the maximum affordable house price range for the B40 group. Currently, Legenda's township development are present in Perak and is looking to venture out to Kedah and Pahang, which are in Malaysia's top 4 B40 households states. The locations of its developments are inline with its trial and tested strategy, allowing the group to target the high percentage of B40 groups in the respective states.

**Figure #16** T20, M40, B40 household income by states



DOSM, Company

◆ Legenda's developments are within this states

**Figure #17 Household Income and Maximum Affordability by States**

State	Median HH income (1)		Maximum house price (2)	
	B40	M40	B40	M40
Wilayah Persekutuan Kuala Lumpur	6,623	12,068	534,450	973,841
Wilayah Persekutuan Labuan	4,272	7,889	344,734	636,612
Wilayah Persekutuan Putrajaya	5,976	11,574	482,240	933,977
Selangor	4,657	9,737	375,802	785,738
Johor	3,677	7,549	296,719	609,175
Pulau Pinang	3,631	7,264	293,007	586,177
Terengganu	3,372	6,539	272,107	527,672
Melaka	3,318	7,001	267,750	564,953
Pahang	3,017	5,133	243,460	414,213
Negeri Sembilan	2,801	5,866	226,030	473,363
Kedah	2,686	5,050	216,750	407,515
Perlis	2,665	5,377	215,055	433,903
Perak	2,614	5,041	210,939	406,789
Sarawak	2,541	5,478	205,049	442,053
Sabah	2,444	5,177	197,221	417,764
Kelantan	2,301	4,242	185,682	342,313

DOSM, Company

Note(s): (1) Household Income and Basic Amenities Survey Report 2019, Department of Statistic, Malaysia

(2) Maximum house price is based on a 30 year loan at 4% effective interest rate utilizing 35% of the household income

## Project pipeline looks healthy anchored by scalable landbank

**Expansion drive: Nationwide venture throughout Malaysia to address affordability issue.** After venturing into Sitiawan and Teluk Intan, Lagenda is exploring its 3<sup>rd</sup> township in Tapah with a potential GDV of c.RM2bn. This township is strategically located near matured residential developments and town with a good accessibility of public transport. The township is located about 7km from UiTM's Perak campus and also near to the planned relocation of Perak government agency offices.

Apart from that, on 6 April 2021, Lagenda has signed JVSA with Bina Darulaman Berhad to develop affordable housing on 230 acres land in Sungai Petani, Kedah. This earmarked as its 4<sup>th</sup> township and its first affordable housing project outside of Perak with a potential GDV of RM565m. The land is strategically located next to the North-South Expressway and a 10 min drive to Sg Petani city centre. Since the location is in close proximity to the border of Kedah and Penang, Lagenda aims to capture the migration market of Penang residents to Sg Petani Industrial area and Kulim High Tech.

**New land on the way.** Lagenda is aiming to venture into Pahang. This project in Pahang will be its 5<sup>th</sup> township and 2<sup>nd</sup> affordable housing project outside Perak. The land has an area of c.500 acres with a potential GDV of up to RM1bn. In a recent conversation with management, we understand this potential acquisition is making good progress. Management indicated that negotiation is still on-going on several salient terms of agreement.

**Figure #18 Project Pipeline**

**1) Sitiawan, Perak**

- 1. BBSAP
- 2. Taman Mulia
- 3. Setiawan Setia Residence
- + Next to West Coast Expressway
- + Near to Army/Navy base (Lumut Navy Base) & port industrial park (i.e. Sapura, Petronas, TNB) c.300k

**2) Teluk Intan, Perak**

**Lagenda Teluk Intan**

- + Next to West Coast Expressway
- + 10 mins to city centre
- + c.300k

**3) Tapah, Perak New**

- Land 1: 623.1 acres (100% owned)
- Land 2: 229.3 acres (JV with Majuperak Holdings)
- Potential GDV: c.RM2 bil
- Description: Both lands are adjacent to each other.
- ♦ Earmarked as the 3<sup>rd</sup> township for Lagenda.
- + Near matured residential developments & town
- + Good accessibility to public transport
- + UiTM presence & near to the planned relocation of Perak Government agency offices
- + Population of Bidor, Tapah & Kampar c.350k

+ Strategic Location    + Population    + University    + Expressway



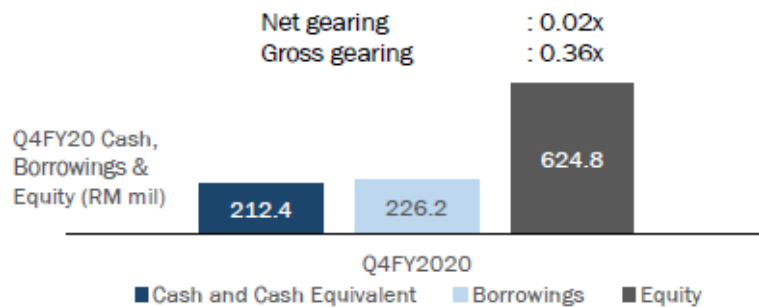
**4) Sungai Petani, Kedah New**

- Land acres: 230 acres
- Potential GDV: RM1.5 bil-RM1.8 bil
- ♦ Earmarked as 4<sup>th</sup> township & first affordable housing project outside of Perak.
- ♦ JV a stepping stone to extend into other parcels of land within the immediate vicinity.
- + Next to North-South Expressway (PLUS)
- + 10 mins drive to Sg Petani City Centre
- + To capture the migration of Penang residents to Sg Petani Industrial Area, Kulim Hi Tech. c.200k

Company

**Ready and willing to gear up.** As the company has recently completed its placement exercise (that raised RM134.4m), its net gearing is at a very low level of 0.02x. We understand from management that they are ready to gear up as part of their landbank diversification strategy. Based on our estimates, RM100m of acquisitions will bring their net gearing up to 0.18x, which is still relatively low for a Malaysian property developer. As the company is able to generate ample cash through its high margin products, we believe funding for their landbanking activities should not increase its gearing substantially. Furthermore, the company has an internal policy of gearing threshold of below 0.5x to ensure a healthy balance sheet.

**Figure #19 FY20 Cash, Borrowings & Equity (RM mil)**



Company

## Financials

**FY20 results snapshot.** Over the past two quarters of 3Q20 and 4Q20 (company financials pre-3Q20 are not relevant as the company was only injected in August 2020), Lagenda managed to achieve a core net profit of RM49.8m and RM46.5m respectively, contributed mainly by recognition of sales in BBSAP and LTI. PBT in 4Q20 increased 18.5% QoQ attributable to higher revenue from higher sales and higher progressive billings. However, core PATAMI decreased slightly by 6.6% due to higher MI (RM9.2m recognised in 4Q vs none in 3Q).

**Figure #20** Quarterly results comparison

FYE Dec (RM m)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Revenue	24.3	194.7	272.6	40.0%	1023.6%	71.8	696.1	869.2%
COGS	(16.1)	(102.4)	(172.9)	68.9%	972.0%	-50.2	-427.0	750.7%
Gross Profit	8.1	92.4	99.7	7.9%	1126.1%	21.6	269.1	1144.3%
Other income	0.0	4.3	9.5	120.1%	N.M.	0.1	14.1	N.M.
Other expenses	(2.5)	(18.6)	(20.1)	7.8%	693.2%	-7.8	-52.2	572.7%
EBIT	5.6	78.0	89.1	14.1%	1488.9%	14.0	231.0	1556.1%
Net Interest	0.0	(7.6)	(6.4)	-16.4%	N.M.	-0.2	-18.0	7296.7%
Share of result of associates	0.0	(0.6)	0.0	N.M.	N.M.	0.0	-0.6	N.M.
PBT	5.4	69.8	82.7	18.5%	1441.5%	13.7	212.4	1449.7%
Tax	(1.5)	(20.0)	(27.0)	35.2%	1695.0%	-3.9	-62.3	1486.2%
Minority Interest	0.0	0.0	9.2	N.M.	N.M.	0.0	9.2	N.M.
PATMI	3.9	49.8	46.5	-6.6%	1104.9%	9.8	140.9	1341.2%
Exceptionals	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.
Core PATMI	3.9	49.8	46.5	-6.6%	1104.9%	9.8	140.9	1341.2%
				<i>ppt change</i>				<i>ppt change</i>
EBIT margin	23.1%	40.1%	32.7%	-7.4	9.6	19.4%	33.2%	13.8
PBT margin	22.1%	35.8%	30.3%	-5.5	8.2	19.1%	30.5%	11.4
PATMI margin	15.9%	25.6%	17.1%	-8.5	1.2	13.6%	20.2%	6.6

Company; HLIB

**>20% earnings growth per annum over the next 2 years.** We expect the revenue to rise by 3-year CAGR of 15.4% in anticipation of continue strong new sales in FY21 and FY22, having achieved about RM864m sales in FY20. Moving forward, the company is targeting sales of RM900m-RM1bn in FY21 followed by RM1-1.2bn in FY22. In turn, we estimate FY21-23 to register a profit of RM219.3m (+55.7% YoY), RM264.6m (+20.6 YoY) and RM319.6m (+20.8% YoY). The 3 years earnings CAGR of 22.7% is forecasted mainly driven by the good take-up rate for its launches for the ongoing projects coupled with superior margin given the low land cost (well below 10% of GDV). Current bookings remain encouraging with RM280.6m has been registered as of mid-March 2021 (recalling that it has a high conversion rate of >90%). Lagenda aims to launch 1 township annually with capacity to build 6-8k units of houses. Each township should translate into RM1-1.5bn GDV per year. The sustainability of earnings is supported by the unbilled sales of RM502m as of 4Q20, which represents a cover ratio of 0.72x on FY20 revenue. We noted that the company has a cover ratio <1 essentially driven by the quick turnaround of its project. Unbilled sales should increase moving forward in tandem with the company new launches.

## Valuation & Recommendation

### Initiate with BUY, TP: RM2.01

We initiate coverage on Lagenda Properties with a BUY rating and TP of RM2.01, implying an upside potential of 21.8%. Our TP of RM2.01 is based on 20% discount on estimated RNAV of RM2.52 per share. Our TP implies a forward P/E of 8x on FY22f EPS which is lower than the average peers of forward PE of c.10x. FY20-FY23f earnings CAGR of 22.7% is forecasted, mainly driven by the good take-up for its launches for the ongoing projects coupled with superior margin given the low land cost (well below 10% of GDV). Besides, given that most infrastructure works are already in place and the experience of the company in construction business, we can expect a fast turnaround of its projects. As such, this justifies our 20% discount to its RNAV (vs c.35% discount given to affordable developers) to take into account Lagenda's high superior margin as mentioned above, as well as its ability to turnaround houses faster than peers. The company also has a high ROE of 22.6% in FY20 vs c.3% for other developers in our coverage.

## Dividend policy

**Decent payout.** Lagenda distributed c.20% of FY20 net profit as dividend to shareholders. For FY21 onwards, Lagenda is committed to distribute a payout ratio of 25-35% and is still aiming for strong double digit growth for the next few years. As such, we are forecasting FY21-23 DPS of 5.8 sen, 7.0 sen and 8.4 sen based on 30% payout ratio. This translates to FY21-23 dividend yield of 3.5%, 4.2% and 5.1%.

**Figure #21 RNAV Valuation**

Projects	Remaining GDV (RM m)	Stake (%)	NPV (RM m)
<b>Perak</b>		100%	1,506.0
Bandar Baru Setia Awan Perdana	529.7		
Lagenda Teluk Intan	834.8		
Tapah	1898.3		
Taman Mulia	120.9		
Setia Residence	38.8		
Taman Bambam Permai	44.3		
Taman Bambam Indah	33.7		
Pengkalan Prisma	33.0		
Taman Tronoh Akasia	16.2		
<b>Kedah</b>	1800	50%	425.5
<b>Pahang</b>	1000	100%	308.0
Total NPV			2,239.6
Shareholders funds			62.9
<b>RNAV</b>			<b>2,864.3</b>
Share base			1,137.9
RNAV/share			2.52
Discount			20%
<b>Discounted RNAV/share</b>			<b>2.01</b>

*Company, HLIB*

## ESG

### Environmental

**Energy Efficiency.** Lagenda aims to introduce green features into its buildings such as energy efficient design and features. Lagenda focuses on improving developments, by promoting high-ceiling structures to facilitate natural ventilation and lighting. Lagenda's apartment's common areas such as corridor and staircase are equipped with LED lighting.

**Waste management.** Lagenda's environmental impact can be significant with regard to resource consumption and waste generation, if they are not managed responsibly. In order to reduce construction waste, Lagenda utilises prefabricated materials at all its property development sites. The durability and fast installation of prefabricated material are other reasons for this method of choice. Lagenda practices waste segregation of recyclables and non-recyclables at construction sites and workers' quarters to minimise amount of waste sent to landfill. Recyclable waste is sold to a licensed recycling company.

**Water management.** Sustainable supply of water is vital to meet the growing demand of today and to counter the effect of extreme climate change such as dry hot weather. As such, Lagenda integrated rainwater collection and utilisation system (SPAH) in the planning and design of its semi-detached (semi-D) and bungalow houses. This initiative aims to utilise rainwater as an alternative water source to combat future water problems. Some of Lagenda's property designs have water conservation features such as dual flush water closet and Lagenda aims to install this feature in all its future projects. Lagenda also assures all construction sites practice reuse of water such as for washing of vehicle tyres before leaving the sites to minimise pollution in surrounding areas.

## Social

**Affordable housing.** As a property developer, Lagenda's aim is to increase the number of home owners in Perak. Its main goal of building economical and affordable homes of below RM200k, is to cater the B40 and M40 income group, that form the majority of Malaysia and is aligned with government's objective in solving the nationwide housing affordability issue via its practical design and cost-effective construction system. Its completed project includes this fully sold Pangsapuri Seri Iskandar, located at Bandar Seri Iskandar, Perak Tengah. This project includes 4 blocks of 8 storey-building comprising of 781 units, furnished with facilities such as a multipurpose hall, prayer room, toilets, a kindergarten and swimming pool. Other completed project includes Taman Desa Harmoni in Bota Besar, Perak Tengah, which consists of 10 units of Semi-D houses, 85 units of single-storey terrace houses and 19 commercial units.

**Quality and Customer Satisfaction.** Lagenda's property development division adheres to the Quality Assessment System in Construction Work (QLASSIC) standard, where QLASSIC measures and evaluates the workmanship quality of our building construction. Lagenda fulfils the relevant statutory and regulatory requirements and operate beyond compliance to meet customer expectations. In its efforts to improve the quality of workmanship, all of Lagenda's employees are required to attend related work seminars and workshops on a biannual basis. Lagenda adheres to SOPs and have inspectors on site to assess quality of its properties prior to handing over to purchasers and to ensure complaints concerning defects are addressed.

## Governance

**Board structure.** The Board currently has 5 members, comprising 2 Independent Non-Executive Directors and 3 Non-Independent Non-Executive Directors. The Chairman of the Board is a Non-Independent Non-Executive Director. The current composition of the Board is in compliance with Paragraph 15.02 of the MMLR of Bursa Securities. With its diversity of qualifications and skills, and the governance structure of the Board and its Committees, the Board has been able to provide clear and effective collective leadership to the Group and has delivered informed and independent judgment to the Group's strategy and performance to ensure that the highest standards of conduct and integrity are always at the core of the Group's undertakings. Independent Non-Executive Directors (INED) do not participate in the day-to-day management as well as the daily business of the Company. In staying clear of any potential conflict of interest situation, the Independent Directors remain in a position to fulfill their responsibility to provide a check and balance to the Board. They provide independent and objective views, advice and judgment which take into account the interests of the Group as well as shareholders and investors.

**Communication with shareholders and transparency.** Lagenda's board acknowledges the importance of regular communication with shareholders and the investing community to ensure that they are well informed of the activities and performance of the company. The communication channels include Lagenda's website, quarterly reports, annual reports, circulars, various disclosures and announcements on Bursa Malaysia.

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

**Sector rating guide**

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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