

24 March 2021

# Lagenda Properties Berhad

## A Rare Find in the Property Sector

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### INVESTMENT MERIT

**LAGENDA is a Perak-based affordable housing developer, with products priced between RM150-200k per unit. While other developers are struggling with inventory overhangs, LAGENDA is thriving in the current market. Its township developments are able to fetch PAT margins of 25-30% - well above peers of normally single-digit margins. Moving forward, we see huge growth potential for LAGENDA as it plans to launch at least one township per year. We expect these new launches to achieve near full take-up in 12-18 months given the strong demand. TRADING BUY with a fair value of RM2.20.**

**Pure-play affordable housing developer.** LAGENDA is a Perak-based property developer purely specialising in affordable housing, with its products priced between RM150-200k per unit. The company's track record includes two affordable townships in Perak namely: (i) Bandar Baru Setia Awan Perdana (BBSAP), with a total launched GDV of ~RM1.9b, and (ii) Lagenda Teluk Intan (LTI), with a total launched GDV of ~RM1.2b.

**Went under the radar.** LAGENDA was only listed on Bursa Malaysia in August 2020 via an asset injection exercise into D.B.E. Gurney Resources Berhad. As it was listed via a "backdoor" listing, instead of the conventional IPO route, the stock somehow slipped under the radar and still remains less-known among investors. In fact, based on our fund movement analysis of the stock, institutional participation of the share is still relatively low. As such, now would be an opportune time to buy into LAGENDA to be an early-bird investor of this thriving developer which is still largely unknown.

**A diamond in the rough.** While other property developers have been struggling with inventories overhangs and increasing demand for affordable housings, LAGENDA is thriving in the current climate. Its township projects are able to fetch PAT margins of 25-30%, versus other similarly priced affordable housing projects of around single-digit margins, despite its houses being priced at ~30% discounts against peers (other affordable housing projects typically range between RM200-500k per unit). This is achieved by the group's: (i) ability to acquire land bank at low costs of ~RM2-3 psf, which is around 5-6% of GDV, versus peers of typically mid-teens, (ii) in-sourcing of construction and building materials, and (iii) sheer economies of scale resulting in low infrastructure costs (e.g. roads, amenities etc) on a per unit basis.

**Huge growth potential ahead.** Going forward, the company is planning to launch at least one new township per year, in tandem with the nation's effort to address the affordable housing crisis. For FY21-22, the group has already planned new launches of ~RM1.1-1.4b per year. These will mainly be future phases of BBSAP and LTI, as well as an entirely new township in Tapah, Perak. In the coming years, LAGENDA is also seeking to venture outside of Perak via townships in Sungai Petani, Kedah as well as Pahang, and potentially even other states. Given the strong demand for affordable housing in its target markets, we believe these new townships should be able to achieve near full take-up within 12-18 months upon launching. A large majority of LAGENDA's buyer demographic are public sector employees under the age of 39 years old seeking to buy their first homes. As such, given its buyer demographics, many of LAGENDA buyers are able to obtain government assisted financing, 100% loan financing margin (i.e. 0% down-payment), with a loan approval rate of >90%.

	Rating	Fair Value
Last Price	-	RM1.50
Kenanga	<b>Trading Buy</b>	<b>RM2.20</b>
Consensus	-	-

### Stock Information

Shariah Status	Yes
Stock Name	Lagenda Properties Bhd
CAT Code	7179
Industry	Real Estate
Industry Sub-sector	Real Estate / Developer
YTD stock price chg	23.97%
Market Cap (RM m)	1,227.73
Issued shares (m)	818.49
52-week range (Hi)	1.8
52-week range (Low)	0.5
3-mth avg daily vol:	4,048,412
Free Float	22.9%
Beta	0.88
Altman's Z-score	3.13

### Major Shareholders

Lagenda Land Sdn Bhd	69.6%
Doh Properties Holdings	4.6%
Chew Soon Kui	0.4%

### Financials

FY Dec (RM'mil)	FY20A*	FY21E	FY22E
Revenue	696.1	880.0	1,080.0
PBT	212.4	293.3	360.0
Net profit	150.1	220.0	270.0
<b>Core net profit</b>	<b>159.0</b>	<b>220.0</b>	<b>270.0</b>
EPS (sen)	14.0	19.3	23.7
BV/Share (RM)	0.5	0.7	0.8
PER (x)	10.7	7.8	6.3
PBV (x)	2.8	2.2	1.8
DPS (sen)	2.5	5.8	7.1
Div. Yield (%)	1.7	3.9	4.7

\*Note that FY20A consists of earnings from D.B.E. Gurney Resources Berhad in the 1HFY20, amounting to RM44.6m.

Quarterly (RM m)	3Q20	4Q20
Revenue	194.7	272.6
PBT	69.8	82.7
Net Profit	49.8	55.7
<b>Core Net Profit</b>	<b>49.8</b>	<b>64.6</b>
Core EPS (sen)	6.1	7.9
Core EPS Growth (%)	N.M.	29.6

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**Review of financial results.** Over the past two quarters of 3QFY20 and 4QFY20 (*company financials pre-3QFY20 are not relevant as the company was only listed in August 2020*), LAGENDA managed to achieve a core net profit of RM50m and RM64m, respectively (*note that 4QFY20 saw a one-off expense of RM9m resulting from impairments and deconsolidation costs from D.B.E. Gurney Resources Berhad, which we have already adjusted for*). Results were mainly driven by recognition of sales in BBSAP and LTI. Moving forward, we believe that our FY20E/FY21E earnings projection of RM220m/RM270m to be very achievable, driven by: (i) recognition of its unbilled sales of RM480m, and (ii) new sales of ~RM1b per year.

**Trading BUY, with a RNAV-derived fair value of RM2.20** (implying 9x PER on FY22E EPS). The stock is currently trading at 6x forward PER on FY22E EPS – heavily discounted against comparable peers’ average of ~10x forward PER. Additionally, LAGENDA also has superior dividend yields of ~4-5% (assuming a 30% pay-out ratio), against sector average of ~3%. Note that our valuation is based on a fully diluted share base, which has already factored in full conversion of warrants and RCPS.

**RNAV Valuation**

	<u>Outstanding GDV</u>	<u>NPV</u>
<u>Developments</u>	<u>RM m</u>	<u>RM m</u>
Bandar Baru Setia Awan Perdana (Phase 1 - 3)	935.9	241.9
Bandar Baru Setia Awan Perdana (future phases)	917.3	237.1
Legenda Teluk Intan (Phase 1 - 3)	1,121.7	289.9
Legenda Teluk Intan (future phases)	1,345.0	347.6
Tapah, Kedah (future township)	2,045.8	528.7
Sungai Petani, Kedah (future township)	1,800.0	465.2
Pahang Township (future township)	1,500.0	387.7
Tapah Lot 8746	380.0	98.2
Taman Mulia (Phase 3 - 4)	124.6	32.2
Setia Residence (Phase 6)	4.0	1.0
Taman Bemban Indah	60.7	15.7
Pengkalan Prisma	113.3	29.3
		<b>2,674.5</b>
		<u>Net Asset Value</u>
		<u>RM m</u>
<u>Land Banks</u>		
Taman Mulia: Phase 5		14.5
Setia Residence: Plot 438		0.6
Sungai Wangi: 8 parcels of agricultural land		5.3
Kampar: 7 contiguous parcels of agricultural land		13.0
Teluk Rubiah: 2 parcels of agricultural land		2.3
		<b>35.7</b>
<b>TOTAL</b>		<b>2,710.3</b>
Cash proceeds from private placement		93.5
Net debt		(38.1)
Warrants conversion proceeds		29.0
<b>TOTAL RNAV</b>		<b>2,794.7</b>
10% RNAV discount		(279.5)
<b>Fair Value</b>		<b>2,515.3</b>
FD Number of Shares (mil)		1,137.9
<b>Fair Value / share (RM)</b>		<b>2.20</b>

Source: Company, Kenanga Research

**Affordable Housing Developers – Selected Peers Comparison**

Name	Last Price (RM)	Market Cap (RM'mil)	Current FYE	PER (x) - Core Earnings			PBV (x)		Target Price (RM)	Rating
				Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.		
<b>LAGENDA</b>	<b>1.50</b>	<b>1,227.7</b>	<b>12/2021</b>	<b>10.7</b>	<b>7.8</b>	<b>7.1</b>	<b>2.8</b>	<b>2.2</b>	<b>2.20</b>	<b>TRADING BUY</b>
LBS	0.435	679.3	12/2021	16.8	10.6	11.4	0.5	0.5	NOT RATED	NOT RATED
MAHSING	0.820	1,990.7	12/2021	36.7	9.9	7.9	0.5	0.5	1.05	OUTPERFORM
GLOMAC	0.380	291.9	04/2021	19.0	15.2	11.2	0.3	0.3	NOT RATED	NOT RATED
SCIENTX	4.070	6,310.9	07/2021	15.1	13.9	12.6	2.3	2.0	3.75	MARKET PERFORM
MKH	1.470	848.8	09/2021	18.3	9.2	9.2	0.5	0.5	NOT RATED	NOT RATED
MATRIX	1.980	1,651.8	03/2021	6.9	7.2	6.5	0.9	0.9	NOT RATED	NOT RATED

Source: Bloomberg, Kenanga Research

Note: Forward numbers are based on Bloomberg Consensus.

**Other salient points**

**Strategic target markets.** Currently based in Perak, LAGENDA has plans to venture into Kedah and Pahang via the launching of new affordable townships. Being a pure-play affordable housing property developer targeting the B40 market, we believe locations of their new township launches are highly strategic, allowing the group to target the high percentage of B40 groups in the respective states (refer to table below). Based on breakdown of income level, Perak sees 58% of its population falling under the B40 category, with Kedah and Pahang both at 57%. As a comparison, Kuala Lumpur and Selangor has only 8% and 22%, respectively, under the B40 category.

**Breakdown of Income Level by State**

State	T20	M40	B40
Selangor	33%	45%	22%
Johor	20%	47%	34%
<b>Perak</b>	<b>8%</b>	<b>34%</b>	<b>58%</b>
Sarawak	12%	34%	54%
Sabah	11%	32%	57%
<b>Kedah</b>	<b>8%</b>	<b>35%</b>	<b>57%</b>
Kuala Lumpur	47%	45%	8%
Penang	19%	47%	34%
<b>Pahang</b>	<b>9%</b>	<b>34%</b>	<b>57%</b>
Kelantan	8%	26%	66%
Negeri Sembilan	15%	38%	47%
Terengganu	13%	45%	42%
Melaka	19%	44%	37%
Perlis	7%	39%	54%
Putrajaya	46%	46%	9%
Labuan	12%	50%	25%

Source: Company, Department of Statistics, Malaysia's Wages Survey Report

Note: LAGENDA's target markets highlighted in green

**Its products are very attractively priced.** Having its houses priced at RM150-200k per unit, we believe LAGENDA's affordable homes are very attractively priced – being well under the maximum affordable house price range for the B40 group of its target markets in Perak, Kedah and Pahang (refer table below). This ensures high take-up rate for its township launches. We expect its upcoming new launches to achieve near full take-up within 12-18 months.

**Breakdown of Income Level by State**

State	Median Household Income		Maximum Affordable House Price	
	B40	M40	B40	M40
Wilayah Persekutuan	5,607	6,730	425,456	543,069
Selangor	4,465	5,359	360,300	432,456
Johor	3,493	4,192	281,856	338,303
Melaka	3,453	4,145	278,665	334,472
Penang	2,786	3,345	224,857	269,888
Terengganu	2,901	3,482	234,082	280,962
Negeri Sembilan	2,830	3,396	228,348	274,078
Perlis	2,598	3,118	209,647	251,632
Sarawak	2,573	3,088	207,602	249,178
Sabah	2,540	3,049	204,959	246,006
<b>Perak</b>	<b>2,476</b>	<b>2,971</b>	<b>199,773</b>	<b>239,781</b>
<b>Pahang</b>	<b>2,459</b>	<b>2,951</b>	<b>198,427</b>	<b>238,165</b>
<b>Kedah</b>	<b>2,355</b>	<b>2,827</b>	<b>190,049</b>	<b>228,109</b>
Kelantan	1,903	2,284	153,545	184,295

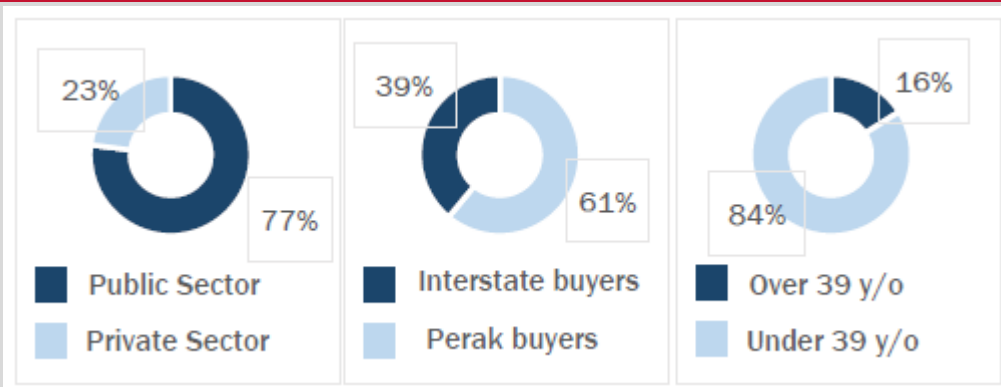
Source: Company, Department of Statistics, Malaysia's Wages Survey Report

Note:

- LAGENDA's target markets highlighted in green.
- Maximum affordable house prices are calculated based on a 30-year loan at 4% effective interest rate, utilising 35% of the household income.

**Buyer demographic allowing high conversion rate of >90%.** In terms of demographics, most of LAGENDA home buyers are public sector employees within the B40 group, under the age of 39 years old and seeking to buy their first homes. As such, a large portion of its buyers are eligible for government assisted schemes for house buying (refer to table below). This has allowed LAGENDA to achieve a high conversion rate of >90%, with most of its buyers having no difficulties in financing. A large portion of LAGENDA buyers, with the help of government schemes, are able to obtain 100% loan financing margin (i.e. 0% down-payment), with loan tenure of up to 35 years and age profile of up to 90 years old (versus 70 years old for conventional banks). This also prices its houses at an affordable monthly instalment of RM400-700 which are well within the affordability range of its target markets.

**LAGENDA's Buyer Demographic**



Source: Company

**Government Schemes Available to B40 and M40 House Buyers**

Government Schemes	Description
Public Sector Home Financing (LPSSA)	<ul style="list-style-type: none"> <li>• Property financier for civil servants with minimum monthly income of RM1,700</li> <li>• Financing of up to RM200k</li> <li>• Note: LPSSA had on 20 October 2020 issued an additional RM25b worth of Sukuk to further finance provisions of housing loans to civil servants</li> </ul>
My First Home Scheme	<ul style="list-style-type: none"> <li>• For first time house buyers with gross monthly income of not more than RM10,000</li> <li>• Assistance to obtain up to 110% financing</li> <li>• Maximum property value of RM500k:                             <ul style="list-style-type: none"> <li>○ Property value less than or equal to RM500k – maximum household income of RM10k</li> <li>○ Property value of less than or equal to RM300k – maximum household income of RM5k</li> </ul> </li> </ul>
MyHome	<ul style="list-style-type: none"> <li>• For first time affordable low-cost house buyers with gross monthly household income of not more than RM10,000.</li> <li>• Maximum property value – RM300k</li> <li>• Note: Government provided an allocation of RM300m for 10,000 affordable housing units nationwide</li> </ul>
BSN MyHome	<ul style="list-style-type: none"> <li>• For first time low cost or average house buyers who are self-employed or with irregular income with a minimum monthly income of RM1,000</li> <li>• Financing of up to RM300k</li> </ul>

Source: Company, LPPSA, SRP, KPKT, MyBSN

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