



AmInvestment Bank

Company report

LAGENDA PROPERTIES

(LAGENDA MK EQUITY, LAGE.KL)

23 May 2023

Construction progress to accelerate in 2HFY23

BUY

(Maintained)

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Rationale for report: Company results

Price	RM1.24
Fair Value	RM1.81
52-week High/Low	RM1.39/RM1.05

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	868.1	1,039.1	1,205.5	1,386.3
Core net profit (RM mil)	170.7	206.3	235.1	277.3
FD Core EPS (sen)	20.4	24.6	28.1	33.1
FD Core EPS growth (%)	(10.7)	20.9	13.9	18.0
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	5.3	6.4	7.3	8.6
PE (x)	6.1	5.0	4.4	3.7
EV/EBITDA (x)	3.6	2.2	2.2	2.1
Div yield (%)	4.0	4.9	5.5	6.5
ROE (%)	18.0	17.7	15.9	14.9
Net Gearing (%)	nm	nm	nm	nm

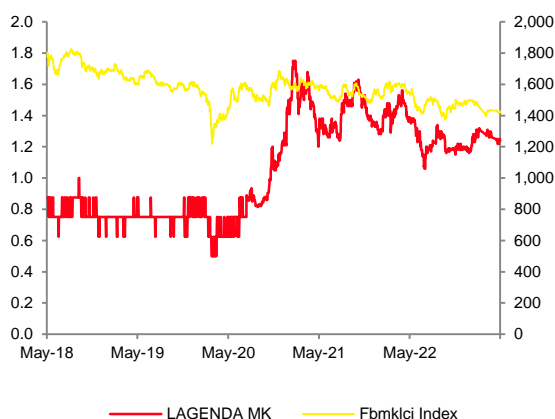
Stock and Financial Data

Shares Outstanding (million)	837.3*
Market Cap (RMmil)	1,038.3
Book Value (RM/share)	1.21
P/BV (x)	1.0
ROE (%)	18.0
Net Gearing (%)	nm

*before conversion of RCPS

Major Shareholders	Lagenda Land (68.1%) Doh Properties (4.5%) Etiqa Life Insurance (1.5%)
Free Float	25.9
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(1.6)	6.9	(10.8)
Relative (%)	1.5	8.6	(2.6)



Investment Highlights

- We maintain BUY on Lagenda Properties (Lagenda) with an unchanged fair value (FV) of RM1.81/share. Our FV is based on a discount rate of 30% to our RNAV (Exhibit 5), and a 3% premium to reflect its 4-star ESG rating (Exhibit 6).
- The FV implies an FY24F PE of 6x, at parity to the current average of smaller cap property stocks.
- Lagenda's 1QFY23 core net profit (CNP) of RM34mil made up 17% of our FY23F earnings. Nevertheless, we deem 1QFY23 earnings to be within expectation in view of the acceleration in construction progress for Darulaman Lagenda and Lagenda Tropika over the upcoming quarters. Both projects made first debuts in FY22 and were still in the early stages of construction in 1QFY23.
- This speeding up of construction progress will lead to improvement in progress billings, allowing revenue and earnings to catch up in 2HFY23. Hence, we have made no changes to our earnings forecasts.
- YoY, Lagenda's 1QFY23 revenue fell 6%, mainly due to lower revenue recognition from Bandar Baru Setia Awan Perdana (BBSAP) 2D, 3A and 3C given that construction works for these projects are at the tail end.
- Meanwhile, its CNP dropped 27% YoY, mainly attributable to the decline in revenue contribution from higher margin projects in BBSAP and Lagenda Teluk Intan (LTI). The portion of revenue recognised from these higher margin projects was down to 50% in 1QFY23 from 67% in 1QFY22.
- QoQ, Lagenda's 1QFY23 revenue and CNP both declined 23%. This was primarily attributed to lower recognition of revenue from projects that are nearing completion. Meanwhile, the newer projects (LTI 3B and Darulaman Lagenda Phase 1-2) were still in the early stages of construction progress in 1QFY23.
- In 1QFY23, Lagenda's new sales rose 78% YoY to RM257mil, attaining 29% of its FY23F sales target of RM900mil (Exhibit 2). We gather that >50% of its 1QFY23 sales were driven by the conversion of bookings in Darulaman Lagenda. Notably, Darulaman Lagenda has achieved an impressive take-up rate of 94% as at end-March 2023.

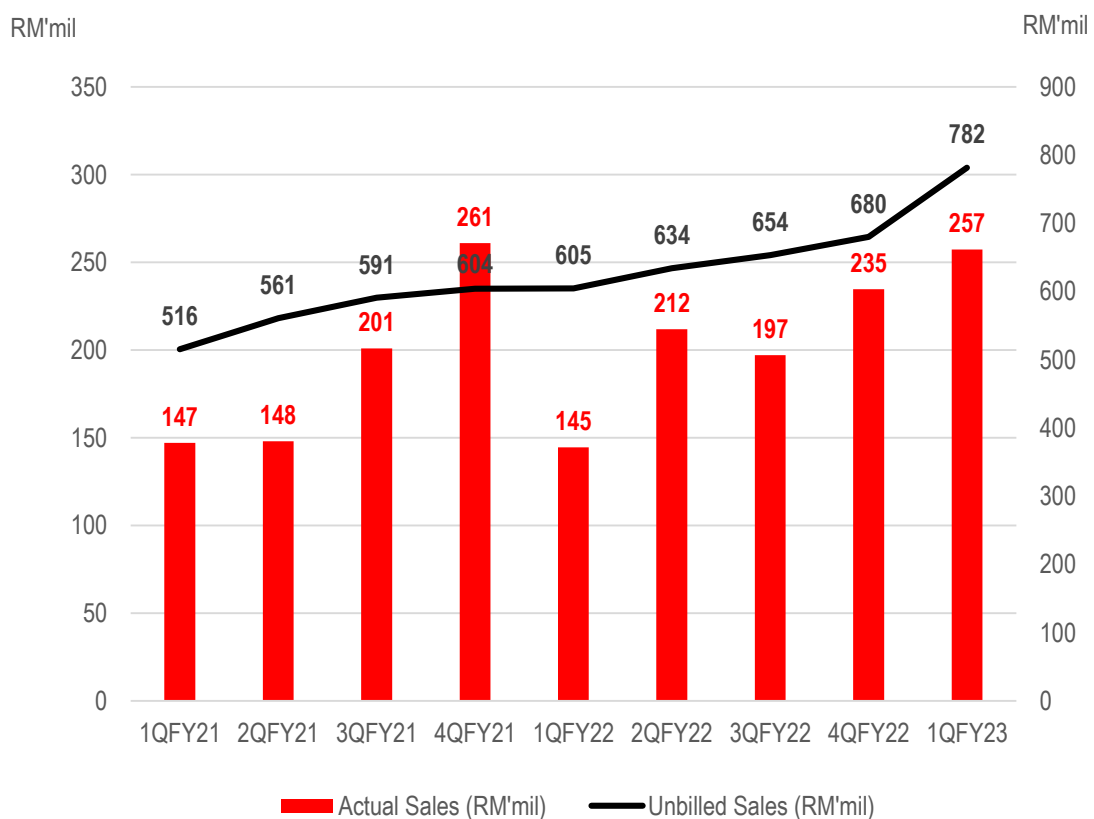
- The group has secured RM433mil bookings (+27% YoY) as at 31 March 2023, and remains focused on converting these into sales. We believe that the bulk of its booking will be converted to sales because the major buyer group comprising public servants typically have a higher sales conversion ratio of 90%.
- In 1QFY23, Lagenda launched 1,700 houses (GDV: RM347mil) in BBSAP 4B and LTI 3B, accounting for 23% of its FY23F targeted launch of RM1.5bil.
- As at end-March 2023, unbilled sales rose to RM782mil (+29% YoY, +15% QoQ), representing a cover ratio of 0.8x FY23F revenue (Exhibit 2). Driven by the fast turnaround of projects (2 to 2.5 years), we expect Lagenda's unbilled sales to be mostly recognised in FY23F.
- We continue to like Lagenda due to the company's niche in underserved landed affordable housing developments in second-tier states with a large population of B40 and M40 income groups.
- 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%.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	1QFY22	4QFY22	1QFY23	QoQ %	YoY %
Revenue	192.8	236.1	181.0	(23.3)	(6.1)
Operating costs	(124.3)	(165.9)	(123.1)	(25.8)	(1.0)
EBIT	68.5	70.2	57.9	(17.5)	(15.5)
Net interest	(3.4)	(4.8)	(4.8)	0.7	42.7
PBT	65.1	65.4	53.1	(18.9)	(18.5)
Tax	(18.1)	(20.7)	(13.8)	(33.3)	(23.9)
PATMI	47.0	44.8	39.3	(12.2)	(16.3)
Exceptional (gains)/losses	(0.1)	0.0	(4.9)	(>100)	n/m
Core PATMI	46.8	44.8	34.4	(23.3)	(26.6)
EPS (sen)	5.6	5.4	4.1	(24.6)	(26.7)
EBIT Margin (%)	35.5	29.7	32.0	2.2	(3.5)
Effective tax rate (%)	27.8	31.6	26.0	(5.6)	(1.9)
Core PATAMI Margin (%)	24.3	19.0	19.0	0.0	(5.3)

Source: AmlInvestment Bank Bhd

EXHIBIT 2: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 3: PLANNED LAUNCHES IN 2023

State	Project	Unit	Launched
Perak	BBSAP 4B	900	Yes (Jan-23)
	BBSAP 4C/4D	1,700	-
	LTI 3B	800	Yes (Feb-23)
	LTI 4A	900	-
	Lagenda Tapah	1,400	-
Johor	Mersing	600	-
Kedah	Darulaman Lagenda Phase 3	1,000	-
Total unit		7,300	
Perak	Kg Tersusun (land sale)	1,200 lots	-

Source: AmlInvestment Bank Bhd

EXHIBIT 4: PROJECT TIMELINE

Existing Township	Launch Date
Bandar Baru Setia Awan Perdana (BBSAP)	2016
Lagenda Teluk Intan	2018
Lagenda Tropika (Tapah)	2022
Darulaman Lagenda, Sg. Petani	2022
Upcoming Township	Estimated Launch Date
Mersing, Johor	2023
Penor, Pahang	2024
Bernam Jaya, Selangor	2024
Kulai, Johor	2025

Source: AmlInvestment Bank Bhd

EXHIBIT 5: RNAV CALCULATIONS

Developments	Outstanding GDV	NPV @ 8%
	RM (mil)	RM mil
BBSAP	636.3	150.2
Lagenda Teluk Intan	2,072.4	489.1
Lagenda Tapah -100% owned	2,134.7	512.2
Lagenda Sungai Petani (Kedah)	592.9	70.0
Lagenda Kuantan Township (Pahang)	1,260.0	297.4
Lagenda Mersing Township	985.0	152.7
Lagenda Bernam Jaya Township	500.0	67.2
Lagenda Kulai Township	4,000.0	296.6
Others	458.8	104.7
Total NPV		2,140.2
Net Cash / (Debt)		125.9
Other Assets		589.0
Total		2,855.2
No of shares		1,137.9
RNAV/share (RM)		2.51
Less 30% discount		(0.75)
Fair Value (RM)		1.76
(+) 3% premium for 4-star ESG rating		0.05
Fair Value/share (RM) + ESG Premium		1.81

Source: AmlInvestment Bank Bhd

EXHIBIT 6: 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 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	835.5	868.1	1,039.1	1,205.5	1,386.3
EBITDA	293.5	269.4	338.6	408.1	471.2
Depreciation/Amortisation	(2.4)	(3.3)	(3.5)	(4.0)	(4.5)
Operating income (EBIT)	291.1	266.1	335.1	404.1	466.7
Other income & associates	34.8	26.5	30.1	33.0	36.3
Net interest	(13.3)	(15.3)	(63.6)	(94.7)	(101.8)
Exceptional items	(17.2)	(7.0)	-	-	-
Pretax profit	277.9	250.8	271.5	309.3	364.9
Taxation	(77.4)	(73.1)	(65.2)	(74.2)	(87.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	183.2	170.7	206.3	235.1	277.3
Core net profit	183.2	170.7	206.3	235.1	277.3
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	12.3	17.2	19.9	22.3	24.3
Intangible assets	25.6	25.6	25.6	25.6	25.6
Other long-term assets	139.0	203.8	203.8	601.8	601.8
Total non-current assets	199.3	270.8	273.5	673.9	675.9
Cash & equivalent	191.5	383.6	583.2	725.4	636.2
Stock	462.1	488.8	555.6	589.0	736.3
Trade debtors	271.1	272.7	337.2	391.2	449.9
Other current assets	318.3	379.5	389.7	478.8	824.6
Total current assets	1,243.0	1,524.6	1,865.7	2,184.4	2,646.9
Trade creditors	182.0	178.8	239.0	301.2	376.5
Short-term borrowings	40.9	82.1	77.1	72.1	67.1
Other current liabilities	176.8	211.8	211.8	211.8	211.8
Total current liabilities	399.7	472.7	527.9	585.0	655.3
Long-term borrowings	159.1	300.9	295.9	610.9	605.9
Other long-term liabilities	3.8	6.2	6.2	6.2	6.2
Total long-term liabilities	162.9	307.1	302.1	617.1	612.1
Shareholders' funds	879.7	1,015.7	1,309.3	1,656.2	2,055.3
Minority interests	-	-	-	-	-
BV/share (RM)	1.10	1.21	1.56	1.98	2.45
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	277.9	250.8	271.5	309.3	364.9
Depreciation/Amortisation	2.4	3.3	3.5	4.0	4.5
Net change in working capital	(150.8)	(43.8)	(69.2)	(12.1)	(149.5)
Others	(94.5)	(94.3)	(128.8)	(169.0)	(189.4)
Cash flow from operations	35.0	116.0	77.0	132.3	30.5
Net investments & sale of fixed assets	4.7	7.8	-	(398.0)	-
Others	(44.8)	(45.8)	(5.9)	(5.9)	(5.9)
Cash flow from investing	(40.2)	(38.0)	(5.9)	(403.9)	(5.9)
Debt raised/(repaid)	(21.9)	181.9	181.9	501.9	(10.0)
Equity raised/(repaid)	97.6	18.6	-	-	-
Dividends paid	(53.4)	(63.9)	(77.2)	(88.0)	(103.8)
Others	97.6	18.6	-	-	-
Cash flow from financing	42.0	103.7	104.7	413.9	(113.8)
Net cash flow	36.8	181.7	175.7	142.2	(89.2)
Net cash/(debt) b/f	188.9	225.8	407.4	583.2	725.4
Net cash/(debt) c/f	225.8	407.4	583.2	725.4	636.2
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	20.0	3.9	19.7	16.0	15.0
EBITDA growth (%)	12.0	(8.2)	25.7	20.5	15.5
Pretax margin (%)	33.3	28.9	26.1	25.7	26.3
Net profit margin (%)	21.9	19.7	19.9	19.5	20.0
Interest cover (x)	21.9	17.4	5.3	4.3	4.6
Effective tax rate (%)	27.9	29.1	24.0	24.0	24.0
Dividend payout (%)	28.5	26.0	26.0	26.0	26.0
Debtors turnover (days)	104	114	107	110	111
Stock turnover (days)	180	200	183	173	174
Creditors turnover (days)	80	76	73	82	89

Source: Company, AmlInvestment Bank Bhd estimates

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