

**Kenneth Leong**

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<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 1.20</b>
<b>Previous Target Price:</b>	<b>RM 1.52</b>
<b>Target Price:</b>	<b>RM 1.43</b>
<b>Upside/Downside:</b>	<b>19.2%</b>

**Stock information**

Board	MAIN
Sector	Property
Bursa / Bloomberg Code	7179 / LAGENDA MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆
Bloomberg ESG Rating	N/A
Shares issued (m)	837.3
Market Cap (RM' m)	1,004.8
52-Week Price Range (RM)	1.35-1.13
Beta (x)	0.8
Free float (%)	32.4
3M Average Volume (m)	0.5
3M Average Value (RM' m)	0.7

<b>Top 3 Shareholders</b>	<b>(%)</b>
LAGENDA LAND SDN BHD	63.9
ETIQA LIFE INSU	1.5
DOH PROPERTIES H SDN	1.1

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	2.6	-3.2	2.6
Relative (%)	1.4	-3.6	1.9

## LAGENDA Properties Berhad







### Below expectations, but sales remain robust

#### Summary

- **9MFY23 core net profit RM111.3m came below our expectations, making up to 61.8% of core net profit at RM180.1m, owing to slower construction progress.**
- **Expect pickup in coming quarters ahead, as the group has successfully transitioned to Industrialised Building Systems (IBS) for certain projects.**
- **Re-iterate BUY recommendation on LAGENDA, but at lower target price of RM1.43, based on 20% discount to RNAV.**

#### Results Review

- **Results review.** 3QFY23 core net profit added 8.5% yoy to RM38.8m, lifted by higher contribution from the property development segment as a result of improved sales conversion. Revenue for the quarter gained 20.6% yoy to RM217.9m.
- **Results below expectations.** 9MFY23 core net profit RM111.3m came below our expectations, making up to 61.8% of core net profit at RM180.1m as well as 65.5% of consensus forecasted net profit of RM170.0m. While further improvements are on the cards, given that sales remain robust, we reckon that full year forecasted numbers will not be within reach, premised to slower construction progress in 1HFY23.
- **Operations Highlights.** In 3QFY23, LAGENDA's new sales stood at RM289.0m, bringing 9MFY23 new sales to RM796.0m (+44.0% yoy) and exceeded FY22 at RM788.0m. Unbilled sales stood at RM855.1m (up from RM811.2m in 2QFY23) implies 1.0x of sales to trailing-12-months revenue will sustain revenue visibility over the next 12 months.
- **Industry Highlights.** We expect demand for housing, particularly units targeted for B40 group to remain robust, on the back of the stability in employment data. The target to build 500,000 affordable homes by end of 12th Malaysia Plan (vs. 108,373 units have completed at end-2022) highlights the government strong commitment to tackle the housing affordability issue in Malaysia, aimed particularly towards B40 and certain M40 income group.
- **Outlook.** Going forward, the group's landbank of approximately 4,700ac that carries an estimated gross development value (GDV) of RM12.0bn will sustain long-term revenue visibility. We also gather that the group has successfully transitioned to Industrialised Building Systems (IBS) for their projects located at Teluk Intan and Kedah, which will ramp up construction progress, moving forward.
- **Valuation.** Trimmed our earnings forecast by 24.5% and 12.3% for FY23F and FY24F respectively on the account of slower-than-expected progress billings. Re-iterate our **BUY** recommendation on LAGENDA with a lower target price of RMx.xx (from RM1.52) based discount rate of 20% to our RNAV.
- **Risk.** Inability to replenish landbank, unexpected further rise in construction costs and changes in housing as well as property regulations.

FYE Dec (RM m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	9MFY22	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	217.9	180.7	20.6	258.5	(15.7)	632.0	595.2	(5.8)		Driven by newly launched projects
EBITDA	64.0	56.3	13.8	71.6	(10.6)	196.4	173.3	(11.8)		
Pre-tax profit	57.9	52.0	11.2	68.2	(15.2)	185.4	158.1	(14.7)		
Net profit	38.6	35.6	8.3	50.4	(23.4)	133.0	110.9	(16.6)		Improved sales
Core net profit	38.8	35.7	8.5	50.4	(23.0)	133.1	111.3	(16.4)		
Core EPS (sen)	7.8	7.2	8.5	10.1	(23.0)	26.7	22.4	(16.4)		
EBITDA margin (%)	29.4	31.1		27.7		31.1	29.1			
PBT margin (%)	26.6	28.8		26.4		29.3	26.6			
Core PATMI margin (%)	17.8	19.8		19.5		21.1	18.7			

Source: Company, Apex Securities

#### Income Statement

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
<b>Revenue</b>	<b>697.6</b>	<b>835.6</b>	<b>866.9</b>	<b>827.5</b>	<b>1089.3</b>
<b>Gross Profit</b>	<b>277.0</b>	<b>324.1</b>	<b>319.7</b>	<b>289.6</b>	<b>381.3</b>
<b>EBITDA</b>	<b>227.8</b>	<b>294.5</b>	<b>270.1</b>	<b>240.8</b>	<b>317.0</b>
Depreciation & Amortisation	-1.8	-2.4	-3.4	-3.3	-4.4
<b>EBIT</b>	<b>226.0</b>	<b>292.1</b>	<b>266.7</b>	<b>237.5</b>	<b>312.6</b>
Net Finance Income/ (Cost)	-9.6	-13.0	-15.3	-17.4	-15.7
Associates & JV	-0.6	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>215.8</b>	<b>279.1</b>	<b>251.4</b>	<b>220.0</b>	<b>296.9</b>
Tax	-64.3	-77.6	-73.3	-63.8	-86.1
<b>Profit After Tax</b>	<b>151.5</b>	<b>201.5</b>	<b>178.1</b>	<b>156.2</b>	<b>210.8</b>
Minority Interest	-9.2	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>142.3</b>	<b>201.5</b>	<b>178.1</b>	<b>156.2</b>	<b>210.8</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>142.3</b>	<b>201.5</b>	<b>178.1</b>	<b>156.2</b>	<b>210.8</b>

#### Key Ratios

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
EBITDA margin	32.7%	35.2%	31.2%	29.1%	29.1%
EBIT margin	32.4%	35.0%	30.8%	28.7%	28.7%
PBT margin	30.9%	33.4%	29.0%	26.6%	27.3%
PAT margin	21.7%	24.1%	20.5%	18.9%	19.4%
NP margin	20.4%	24.1%	20.5%	18.9%	19.4%
Core NP margin	20.4%	24.1%	20.5%	18.9%	19.4%
ROE	22.7%	22.9%	17.5%	12.7%	14.2%
ROA	82.0%	91.0%	65.8%	51.2%	61.0%
Net gearing	19%	Net Cash	Net Cash	Net Cash	Net Cash

#### Key Assumptions

FYE Dec (RM m)	
NPV	9.0%
Beta	0.84
Risk Free Rate	4.0%
RNAV (RM 'm)	1921.5

#### Valuations

RNAV (RM 'm)	179
Discount Rate	20.0%
<b>Fair Value (RM)</b>	<b>1.43</b>

Source: Company, Apex Securities

#### Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash	214.3	229.4	441.9	681.3	694.4
Receivables	203.3	271.0	245.4	226.7	298.4
Inventories	361.4	450.4	472.0	412.6	485.0
Other current assets	209.8	276.0	346.4	413.5	521.2
<b>Total Current Assets</b>	<b>988.8</b>	<b>1226.8</b>	<b>1505.7</b>	<b>1734.1</b>	<b>1999.0</b>
Fixed Assets	13.5	11.1	17.2	20.2	24.2
Intangibles	24.5	25.6	25.6	25.6	25.6
Other non-current assets	135.6	184.7	228.0	259.3	295.7
<b>Total Non-current assets</b>	<b>173.6</b>	<b>221.4</b>	<b>270.8</b>	<b>305.0</b>	<b>345.5</b>
Short-term Debt	42.8	42.7	193.1	305.3	58.9
Payables	182.7	195.5	178.8	169.5	194.0
Other Current Liabilities	111.2	163.5	194.2	201.7	262.6
<b>Total Current Liabilities</b>	<b>336.7</b>	<b>401.7</b>	<b>566.1</b>	<b>676.5</b>	<b>515.5</b>
Long-term Debt	183.4	162.1	193.1	136.5	339.3
Other non-current liabilities	16.0	3.7	1.1	0.0	0.0
<b>Total Non-current Liabilities</b>	<b>199.4</b>	<b>165.8</b>	<b>194.2</b>	<b>136.5</b>	<b>339.3</b>
Shareholder's equity	618.5	880.7	1016.2	1226.1	1489.7
Minority interest	7.8	0.0	0.0	0.0	0.0
<b>Equity</b>	<b>626.3</b>	<b>880.7</b>	<b>1016.2</b>	<b>1226.1</b>	<b>1489.7</b>

#### Cash Flow

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
<b>Pre-tax profit</b>	<b>215.8</b>	<b>279.1</b>	<b>251.4</b>	<b>220.0</b>	<b>296.9</b>
Depreciation & amortisation	1.8	2.4	3.4	3.3	4.4
Changes in working capital	39.2	-129.3	-40.4	-0.6	-206.2
Others	-38.3	-95.1	-96.3	-75.4	-87.7
<b>Operating cash flow</b>	<b>218.4</b>	<b>57.1</b>	<b>118.1</b>	<b>147.4</b>	<b>7.4</b>
Net capex	-129.4	-17.7	-17.6	-17.0	-17.0
Others	24.5	-44.4	-24.9	-39.1	-39.9
<b>Investing cash flow</b>	<b>-104.9</b>	<b>-62.1</b>	<b>-42.5</b>	<b>-56.1</b>	<b>-56.9</b>
Dividends paid	0.0	-45.0	-54.4	-39.1	-52.7
Others	11.3	87.1	162.9	44.9	-55.6
<b>Financing cash flow</b>	<b>11.3</b>	<b>42.1</b>	<b>108.5</b>	<b>5.8</b>	<b>-108.3</b>
<b>Net cash flow</b>	<b>124.8</b>	<b>37.1</b>	<b>184.2</b>	<b>97.1</b>	<b>-157.9</b>
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	65.8	190.6	227.7	411.9	509.0
<b>Ending cash</b>	<b>190.6</b>	<b>227.7</b>	<b>411.9</b>	<b>509.0</b>	<b>351.1</b>

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### RESEARCH RECOMMENDATION FRAMEWORK

#### STOCK RECOMMENDATIONS

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain + dividend yield

#### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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