

# Lagenda (LAGENDA MK)

## 3Q23 result missed on slower construction

### MALAYSIA | PROPERTY | RESULT

- Lagenda's 9M23 results missed both ours and consensus expectations due to slower-than-expected revenue recognition
- We expect the record high unbilled sales and the newly-launched Johor Mersing development to support 4Q23 earnings recovery
- Maintain BUY with a lower RNAV-derived target price of RM1.51 (from RM1.55 previously)

### Result below our expectation

Lagenda's 9M23 core net profit of RM106.3m (-15% YoY) was below both ours and consensus estimates, representing 57% and 62% of both respective full-year estimates. The deviation was mainly attributable to the slower-than-expected progress billings from the Lagenda Teluk Intan (LTI) and Kedah Darulaman Lagenda townships due to delay caused by the Industrialised Building Systems (IBS) transition. However, we believe the sequential improvement in 3Q23 revenue of RM217.9m (+11% QoQ) suggests that the construction progress across the affected townships is showing modest recovery.

### Secured record high sales

Lagenda clinched record-high confirmed sales of RM289m (+47% YoY) in 3Q23 mainly driven by township projects such as the Kedah Darulaman Lagenda (34% of confirmed sales) and LTI (21% of confirmed sales). In tandem with the higher confirmed sales, its unbilled sales also climbed to a record high of RM855.1m (equivalent to 1x its 2022 revenue), which provides revenue visibility until 2025E. Elsewhere, Lagenda has recently launched its Johor Mersing development (estimated GDV of RM985m) in early November, which would help provide support to 4Q23 recovery.

### Maintain BUY

We lower our 2023-25E earnings by 12-24% factoring in the slower-than-expected construction progress for the affected townships. However, we maintain our BUY rating with a slightly lower RNAV-derived TP of RM1.51 (from RM1.55) after updating the higher net debt level. We expect Lagenda to show modest earnings rebound (+40% YoY) in 2024E supported by its record high unbilled sales and on-going expansion in Johor and Kedah. Lagenda is currently trading at a compelling 5x 2024E EPS vs industry average of 8-12x. Dividend yields are attractive at 5.8%. Key risks: higher building material prices.

#### Key Financials

Y/E Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	835.6	866.9	761.7	1,068.3	1,245.9
EBITDA (RMm)	283.4	264.2	221.3	307.9	377.6
Pretax profit (RMm)	279.1	251.5	199.2	278.8	337.9
Net profit (RMm)	201.5	178.3	139.9	195.7	237.2
EPS (sen)	25.1	21.3	16.7	23.4	28.3
PER (x)	5.0	5.9	7.2	5.1	4.2
Core net profit (RMm)	193.4	175.8	139.9	195.7	237.2
Core EPS (sen)	24.1	21.0	16.7	23.4	28.3
Core EPS growth (%)	(69.0)	(12.9)	(20.4)	39.9	21.2
Core PER (x)	5.2	6.0	7.2	5.1	4.2
Net DPS (sen)	6.5	6.5	5.0	7.0	8.5
Dividend Yield (%)	5.2	5.2	4.2	5.8	7.1
EV/EBITDA (x)	3.4	3.9	3.9	4.6	3.8
Chg in EPS (%)			(24.4)	(13.8)	(11.8)
Phillip/Consensus (%)			0.8	1.0	1.0

Sources: Company, Phillip Research forecasts

21 November 2023

### BUY (maintain)

LAST CLOSE PRICE	RM1.20
TARGET PRICE	RM1.51
TOTAL RETURN	25.8%

#### COMPANY DATA

BLOOMBERG TICKER	LAGENDA MK EQUITY
O/S SHARES (MN):	837
MARKET CAP (USD mn / RM mn):	215 / 1005
52 - WK HI/LO (RM):	1.35 / 1.13
3M Average Daily T/O (mn):	0.56
NET CASH/(DEBT) (RMm)	(240.00)

#### MAJOR SHAREHOLDERS (%)

Sunway Holdings Sdn	63.9%
Sungei Way Corp Sdn	1.5%
Employees Provident	1.1%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.1)	(1.8)	4.2
FBMKLCI RETURN	1.2	2.7	1.6

#### PRICE VS. FBMKLCI



Source: Bloomberg

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**Results at a glance**

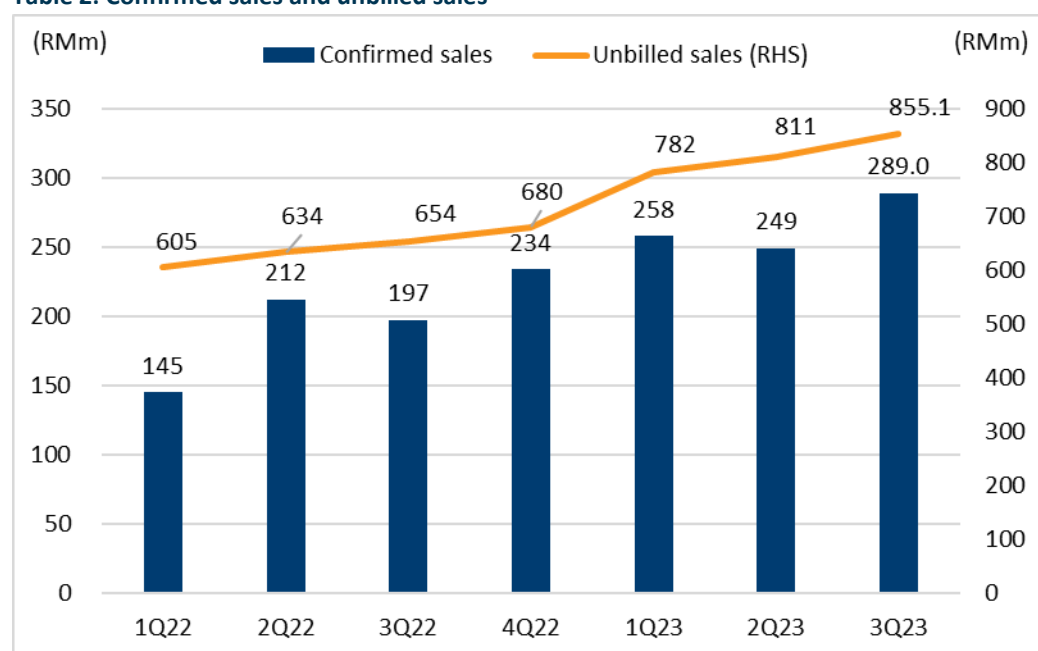
Y/E Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comment
Revenue	180.7	196.4	217.9	11.0	20.6	632.0	595.2	(5.8)	9M23 revenue declined (-5.8% yoy) largely due to slower than expected construction progress in Kedah Darulaman Lagenda and LTI.
Op costs	(131.7)	(144.2)	(153.9)	6.7	16.8	(443.1)	(424.9)	(4.1)	
<b>EBITDA</b>	<b>49.0</b>	<b>52.1</b>	<b>64.0</b>	<b>22.7</b>	<b>30.6</b>	<b>188.9</b>	<b>170.3</b>	<b>(9.9)</b>	
<i>EBITDA margin (%)</i>	<i>27.1</i>	<i>26.6</i>	<i>29.4</i>	<i>2.8 ppt</i>	<i>2.3 ppt</i>	<i>29.9</i>	<i>28.6</i>	<i>(1.3 ppt)</i>	Lower EBITDA margin due to sluggish progress billing
Depreciation	(0.9)	(1.2)	(1.3)	1.9	42.4	(2.4)	(4.4)	84.0	
<b>EBIT</b>	<b>48.1</b>	<b>50.9</b>	<b>62.7</b>	<b>23.2</b>	<b>30.4</b>	<b>186.5</b>	<b>165.9</b>	<b>(11.1)</b>	
<i>EBIT margin (%)</i>	<i>26.6</i>	<i>25.9</i>	<i>28.8</i>	<i>2.9 ppt</i>	<i>2.2 ppt</i>	<i>29.5</i>	<i>27.9</i>	<i>(1.6 ppt)</i>	
Int expense	(4.1)	(5.4)	(5.8)	8.1	42.2	(10.5)	(16.0)	51.3	
Int and other inc	0.8	1.3	0.8	(36.0)	5.5	1.9	2.8	46.8	
Associates	(0.0)	0.3	0.1	(61.7)	n.m	(0.0)	0.5	n.m	
El	7.3	0.0	0.0	n.m	n.m	7.5	5.0	n.m	El includes bargain purchase gain and loss on remeasurement of liabilities
<b>Pretax profit</b>	<b>52.0</b>	<b>47.1</b>	<b>57.9</b>	<b>22.7</b>	<b>11.2</b>	<b>185.4</b>	<b>158.1</b>	<b>(14.7)</b>	
Tax	(16.4)	(14.1)	(19.3)	36.8	17.6	(52.4)	(47.2)	(9.9)	Tax rate higher than statutory rate due to certain expenses which are not deductible for tax
<i>Tax rate (%)</i>	<i>31.6</i>	<i>29.9</i>	<i>33.4</i>	<i>3.4 ppt</i>	<i>1.8 ppt</i>	<i>28.3</i>	<i>29.9</i>	<i>1.6 ppt</i>	
MI	0.1	0.2	0.2	n.m	n.m	0.2	0.4	n.m	
<b>Net profit</b>	<b>35.7</b>	<b>33.2</b>	<b>38.8</b>	<b>16.8</b>	<b>8.5</b>	<b>133.1</b>	<b>111.3</b>	<b>(16.4)</b>	
EPS (sen)	4.3	4.0	4.6	16.9	8.4	15.9	12.7	(20.1)	
<b>Core net profit</b>	<b>28.5</b>	<b>33.2</b>	<b>38.8</b>	<b>16.9</b>	<b>36.2</b>	<b>125.6</b>	<b>106.3</b>	<b>(15.3)</b>	Below ours and consensus expectations

Sources: Company, Phillip Research

**Table 1: Revalued net asset value (RNAV) valuation**

Segments	RNAV Value (RMm)
Property developments @DCF (WACC 8.8%)	2,041
Investment properties and other assets	24
Net cash/(debt)	(113)
<b>RNAV</b>	<b>1,952</b>
No. of shares (m)	837
<b>RNAV/share (RM)</b>	<b>2.33</b>
Fully-diluted no. of shares (m)	972
<b>Fully-diluted SOP/share (RM)</b>	<b>2.01</b>
<b>Target price at 25% discount to RNAV</b>	<b>1.51</b>

Source: Company, Phillip Research forecasts

**Table 2: Confirmed sales and unbilled sales**

Source: Company, Phillip Research

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