

Company Update

Land & General Bhd



Bloomberg: LGH MK | Reuters: LAND.MK

Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

24 Nov 2020

HOLD

Last Traded Price (23 Nov 2020): RM0.095 (KLCI : 1,597.48)

Price Target 12-mth: RM0.11 (16% upside) (Prev RM0.28)

Analyst

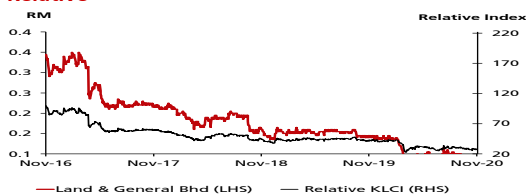
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What's New

- 2QFY21 earnings met expectation
- RM89m unbilled sales to underpin near-term earnings visibility
- Lack of new launches due to persistently weak market sentiment
- Maintain HOLD with RM0.11 TP

Source of all data on this page: Company, AllianceDBS, Bloomberg

Price Relative



Forecasts and Valuation

FY Mar (RMm)	2020A	2021F	2022F	2023F
Revenue	140	106	110	89.0
EBITDA	28.5	28.7	32.3	29.4
Pre-tax Profit	26.8	14.4	17.1	13.3
Net Profit	15.3	6.84	9.73	8.29
Net Pft (Pre Ex.)	6.99	6.84	9.73	8.29
Net Pft Gth (Pre-ex) (%)	69.1	(2.2)	42.3	(14.8)
EPS (sen)	0.52	0.23	0.33	0.28
EPS Pre Ex. (sen)	0.24	0.23	0.33	0.28
EPS Gth Pre Ex (%)	69	(2)	42	(15)
Diluted EPS (sen)	0.52	0.23	0.33	0.28
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	36.4	36.6	36.9	37.2
PE (X)	18.4	41.3	29.0	34.1
PE Pre Ex. (X)	40.4	41.3	29.0	34.1
P/Cash Flow (X)	nm	6.3	13.5	3.7
EV/EBITDA (X)	16.3	15.8	14.4	14.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	0.1	0.1	0.1	0.0
ROAE (%)	1.4	0.6	0.9	0.8
Earnings Rev (%):	-	-	-	-
Consensus EPS (sen):		N/A	N/A	N/A
Other Broker Recs:		B: 0	S: 0	H: 0

Finance L.P.

Challenging outlook

Investment Thesis:

Challenging outlook. While Land & General (LGH) has been synonymous with the successful 1,200-acre Bandar Sri Damansara in the 1990s, its performance in recent years has been severely marred by the challenging operating environment in the property market. It has been delaying its launches over the past few years, resulting in subdued earnings momentum in the near to medium term, despite its vast land bank.

Slower growth ahead. We believe LGH's property sales will remain lacklustre in the near term due to its delayed launch pipeline, restricting its earnings growth momentum going forward. In addition, the issue of supply glut is likely to continue to weigh on the property market, especially in the high-rise segment.

Downside risk. The elevated household debt to gross domestic product (GDP) of ~87% and slowing economic growth may also pose more downside risks to the property sector.

Valuation:

We maintain our HOLD rating and RM0.11 TP, based on an unchanged 80% discount to our RNAV.

Where we differ:

Sole coverage. We are the sole broker covering LGH. The company has not been able to live up to its potential due to challenging operating environment which has been exacerbated by a supply glut.

Key Risks to Our View:

Property market sentiment. LGH has a ready pipeline to grow its property sales but the timing of launches may be affected should the market sentiment remain depressed.

At A Glance

Issued Capital (m shrs)	2,973
Mkt. Cap (RMm/US\$m)	282 / 69.0
Major Shareholders (%)	
Mayland Parkview Sdn Bhd	34.7
Free Float (%)	65.3
3m Avg. Daily Val (US\$m)	0.09
GIC Industry : Real Estate / Real Estate Management & Development	



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ed: CK / sa :WMT, PY, CS

Land & General Bhd

WHAT'S NEW

No surprises

In-line 2QFY21 performance. Stripping out write-backs of RM11.3m, Land & General Bhd (LGH) reported 2QFY21 core earnings of RM2.8m. This takes its 1HFY21 core profit to RM3.6m that makes up 53% of our full-year projection.

Boosted by project completion. Following the easing of lockdown measures, LGH has reported better 2QFY21 revenue of RM52m, representing a strong growth of 253% q-o-q and 32% y-o-y. This is largely due to the completion and handing over vacant possession of Sena Parc phase 1A and Astoria Ampang phase 1 during the quarter. Therefore, the property segment contributed 87% of its quarterly revenue.

Rebound in property sales. LGH achieved strong property sales of RM30m in 2QFY21 which is also the highest in two years, thanks to its Damansara Seresta project. This brings its 1HFY21 property sales to RM38m, which is on track to hit our FY21 assumption of RM91m. Meanwhile, unbilled sales dropped to a multi-year low of RM89m, following the completion of several projects during the quarter.

Challenging property market. LGH has only launched the second phase of Damansara Foresta called Damansara Seresta (RM480m gross development value (GDV)) in 2HCY18 in view of the sluggish property market. We believe most of its pipeline will be further delayed until there is a turnaround in the operating environment. The delay has derailed LGH's earnings growth momentum. A strong sales performance from Damansara Seresta will be critical to sustain its earnings growth given the declining trend of unbilled sales.

Healthy balance sheet. While the property market remains mired with challenges, LGH's healthy balance sheet with a low net gearing level of 9% as at end-2QFY21 will help to tide over this difficult period.

Maintain HOLD. We maintain our target price (TP) of RM0.11, based on an unchanged 80% discount to our revalued net asset value (RNAV). We believe it will take much longer for the company to monetise its deep land value given the persistently weak property market that has resulted in the delay of its launches.

Company Background

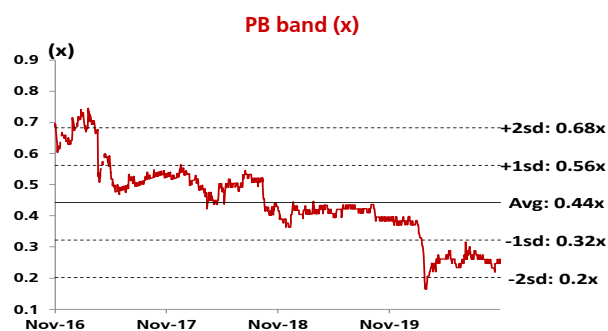
LGH is an established township developer in Bandar Sri Damansara. It has been expanding its land bank in recent years to venture beyond Bandar Sri Damansara into other densely-populated areas in the Klang Valley to build up a strong pipeline.

Land & General Bhd

Quarterly / Interim Income Statement (RMm)

FY Mar	2Q2020	1Q2021	2Q2021	% chg yoy	% chg qoq
Revenue	39.2	14.7	52.0	32.5	253.3
Cost of Goods Sold	(36.5)	(16.0)	(39.0)	7.1	143.8
Gross Profit	2.75	(1.3)	12.9	368.9	nm
Other Oper. (Exp)/Inc	7.50	0.61	0.94	(87.4)	55.0
Operating Profit	10.3	(0.7)	13.9	35.1	nm
Other Non Opg (Exp)/Inc	0.10	1.14	(2.7)	nm	(337.6)
Associates & JV Inc	(2.6)	0.70	(0.9)	65.4	(226.6)
Net Interest (Exp)/Inc	(0.6)	(0.6)	(0.6)	2.2	4.9
Exceptional Gain/(Loss)	0.0	4.56	11.3	nm	148.2
Pre-tax Profit	7.18	5.09	21.0	192.4	312.8
Tax	(3.7)	0.24	(3.3)	(10.8)	nm
Minority Interest	(1.8)	0.11	(3.7)	(104.8)	nm
Net Profit	1.74	5.44	14.1	708.9	158.7
Net profit bef Except.	1.74	0.88	2.75	57.9	213.3
EBITDA	7.78	1.14	10.3	31.9	801.5
Margins (%)					
Gross Margins	7.0	(8.9)	24.8		
Opg Profit Margins	26.1	(4.8)	26.7		
Net Profit Margins	4.4	37.0	27.1		

Historical PB



Source: Bloomberg Finance L.P., AllianceDBS estimates

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Key Assumptions

FY Mar	2019A	2020A	2021F	2022F	2023F
property sales (RMm)	71.4	79.0	91.0	100	90.0
Revenue (RMm)	134	140	106	110	89.0
EBIT margin (%)	11.9	16.0	21.0	22.9	25.2

Income Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Revenue	134	140	106	110	89.0
Cost of Goods Sold	(131)	(133)	(86.4)	(88.1)	(69.5)
Gross Profit	3.10	7.05	19.1	22.3	19.5
Other Opng (Exp)/Inc	12.9	15.3	3.00	3.00	3.00
Operating Profit	16.0	22.4	22.1	25.3	22.5
Other Non Opg (Exp)/Inc	(0.4)	(3.9)	0.0	0.0	0.0
Associates & JV Inc	2.53	2.63	(1.6)	(2.0)	(3.0)
Net Interest (Exp)/Inc	(2.4)	(2.6)	(6.2)	(6.2)	(6.2)
Exceptional Gain/(Loss)	34.7	8.35	0.0	0.0	0.0
Pre-tax Profit	50.3	26.8	14.4	17.1	13.3
Tax	(4.1)	(5.7)	(4.3)	(5.1)	(4.0)
Minority Interest	(7.4)	(5.7)	(3.2)	(2.2)	(1.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	38.8	15.3	6.84	9.73	8.29
Net Profit before Except.	4.13	6.99	6.84	9.73	8.29
EBITDA	23.9	28.5	28.7	32.3	29.4
Growth					
Revenue Gth (%)	42.8	4.1	(24.5)	4.6	(19.4)
EBITDA Gth (%)	14.8	19.6	0.8	12.3	(9.0)
Opg Profit Gth (%)	(27.1)	40.4	(1.2)	14.2	(11.1)
Net Profit Gth (Pre-ex) (%)	nm	69.1	(2.2)	42.3	(14.8)
Margins & Ratio					
Gross Margins (%)	2.3	5.0	18.1	20.2	21.9
Opg Profit Margin (%)	11.9	16.0	21.0	22.9	25.2
Net Profit Margin (%)	28.9	11.0	6.5	8.8	9.3
ROAE (%)	3.5	1.4	0.6	0.9	0.8
ROA (%)	2.5	1.0	0.4	0.6	0.5
ROCE (%)	1.0	1.3	1.1	1.2	1.1
Div Payout Ratio (%)	76.7	0.0	0.0	0.0	0.0
Net Interest Cover (x)	6.5	8.6	3.6	4.1	3.6

Source: Company, AllianceDBS

Land & General Bhd

Quarterly Income Statement (RMm)

FY Mar	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021
Revenue	39.2	36.7	19.4	14.7	52.0
Cost of Goods Sold	(36.5)	(33.0)	(25.0)	(16.0)	(39.0)
Gross Profit	2.75	3.67	(5.6)	(1.3)	12.9
Other Oper. (Exp)/Inc	7.50	1.23	4.09	0.61	0.94
Operating Profit	10.3	4.90	(1.5)	(0.7)	13.9
Other Non Opg (Exp)/Inc	0.10	0.16	(4.0)	1.14	(2.7)
Associates & JV Inc	(2.6)	(0.4)	5.21	0.70	(0.9)
Net Interest (Exp)/Inc	(0.6)	(0.7)	(0.8)	(0.6)	(0.6)
Exceptional Gain/(Loss)	0.0	0.0	8.35	4.56	11.3
Pre-tax Profit	7.18	3.92	7.29	5.09	21.0
Tax	(3.7)	(2.2)	2.35	0.24	(3.3)
Minority Interest	(1.8)	(2.3)	1.34	0.11	(3.7)
Net Profit	1.74	(0.6)	11.0	5.44	14.1
Net profit bef Except.	1.74	(0.6)	2.63	0.88	2.75
EBITDA	7.78	4.63	(0.3)	1.14	10.3

Growth

Revenue Gth (%)	(11.7)	(6.5)	(47.1)	(24.3)	253.3
EBITDA Gth (%)	(13.3)	(40.5)	nm	nm	801.5
Opg Profit Gth (%)	17.4	(52.2)	(130.3)	(52.7)	(2,073.2)
Net Profit Gth (Pre-ex) (%)	(46.6)	(136.6)	(512.4)	(66.6)	213.3

Margins

Gross Margins (%)	7.0	10.0	(28.7)	(8.9)	24.8
Opg Profit Margins (%)	26.1	13.3	(7.6)	(4.8)	26.7
Net Profit Margins (%)	4.4	(1.7)	56.5	37.0	27.1

Balance Sheet (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	102	136	158	179	199
Invts in Associates & JVs	152	154	153	151	148
Other LT Assets	653	668	668	668	668
Cash & ST Invts	220	110	125	116	161
Inventory	37.4	0.0	0.0	0.0	0.0
Debtors	35.7	33.1	26.4	27.6	22.2
Other Current Assets	343	466	426	433	362
Total Assets	1,544	1,566	1,555	1,573	1,559
ST Debt	21.7	22.5	22.5	22.5	22.5
Creditor	103	130	106	110	89.0
Other Current Liab	35.2	33.4	36.4	37.2	36.1
LT Debt	169	184	184	184	184
Other LT Liabilities	43.8	28.9	28.9	28.9	28.9
Shareholder's Equity	1,097	1,081	1,088	1,097	1,106
Minority Interests	73.8	87.4	90.6	92.8	93.8
Total Cap. & Liab.	1,544	1,566	1,555	1,573	1,559
Non-Cash Wkg. Capital	278	335	311	313	259
Net Cash/(Debt)	29.4	(95.9)	(81.4)	(90.4)	(44.7)
Debtors Turn (avg days)	305.2	89.8	102.8	89.3	102.2
Creditors Turn (avg days)	292.6	339.5	549.3	498.2	610.5
Inventory Turn (avg days)	112.3	54.4	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	4.0	3.3	3.5	3.4	3.7
Quick Ratio (x)	1.6	0.8	0.9	0.8	1.2
Net Debt/Equity (X)	CASH	0.1	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	CASH	0.1	0.1	0.1	0.0
Capex to Debt (%)	27.2	18.1	14.6	14.6	14.6
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, AllianceDBS

Land & General Bhd**Cash Flow Statement (RMm)**

FY Mar	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	50.3	26.8	14.4	17.1	13.3
Dep. & Amort.	5.81	7.45	8.20	9.02	9.92
Tax Paid	(7.3)	(7.4)	(1.3)	(4.3)	(5.1)
Assoc. & JV Inc/(loss)	(2.5)	(2.6)	1.58	1.99	3.00
Chg in Wkg.Cap.	46.5	(55.3)	21.6	(2.8)	54.6
Other Operating CF	(143)	(13.6)	0.0	0.0	0.0
Net Operating CF	(50.2)	(44.6)	44.5	21.0	75.7
Capital Exp.(net)	(51.8)	(37.3)	(30.0)	(30.0)	(30.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	28.9	(1.5)	0.0	0.0	0.0
Net Investing CF	(22.9)	(38.8)	(30.0)	(30.0)	(30.0)
Div Paid	(44.6)	(34.7)	0.0	0.0	0.0
Chg in Gross Debt	(5.4)	12.5	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(17.2)	(5.3)	0.0	0.0	0.0
Net Financing CF	(67.3)	(27.6)	0.0	0.0	0.0
Currency Adjustments	(26.7)	1.05	0.0	0.0	0.0
Chg in Cash	(167)	(110)	14.5	(9.0)	45.7
Opg CFPS (sen)	(3.3)	0.36	0.77	0.80	0.71
Free CFPS (sen)	(3.4)	(2.8)	0.49	(0.3)	1.54

Source: Company, AllianceDBS

Land & General Bhd

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

Land & General Bhd

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Wong Ming Tek, Executive Director

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