



Land & General Bhd (LGH MK) : HOLD

Mkt. Cap: US\$95.8m | **3m Avg. Daily Val:** US\$0.04m

Last Traded Price (24 Feb 2020): RM0.14

Price Target 12-mth: RM0.16 (19% upside) (Prev RM0.16)

Analyst

QUAH He Wei, CFA +603 2604 3966; hewei@alliancedbs.com

No respite in the near term

- 3QFY20 results missed expectations
- RM179m unbilled sales to sustain near-term earnings visibility
- Weak market sentiment continues to pressure property sales
- Maintain HOLD and RM0.16 TP

Forecasts and Valuation

FY Mar (RMm)	2019A	2020F	2021F	2022F
Revenue	134	146	118	133
EBITDA	23.9	32.9	29.6	36.5
Pre-tax Profit	50.3	20.8	16.9	23.0
Net Profit	38.8	7.33	9.50	14.8
Net Pft (Pre Ex.)	4.13	7.33	9.50	14.8
Net Pft Gth (Pre-ex) (%)	nm	77.4	29.6	55.2
EPS (sen)	1.30	0.25	0.32	0.50
EPS Pre Ex. (sen)	0.14	0.25	0.32	0.50
EPS Gth Pre Ex (%)	nm	77	30	55
Diluted EPS (sen)	1.30	0.25	0.32	0.50
Net DPS (sen)	1.00	0.50	0.50	0.50
BV Per Share (sen)	36.9	36.2	36.0	36.0
PE (X)	10.3	54.8	42.2	27.2
PE Pre Ex. (X)	97.1	54.8	42.2	27.2
P/Cash Flow (X)	nm	5.3	7.3	22.4
EV/EBITDA (X)	18.7	13.9	15.8	14.2
Net Div Yield (%)	7.4	3.7	3.7	3.7
P/Book Value (X)	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	CASH	CASH	CASH	0.0
ROAE (%)	3.5	0.7	0.9	1.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Weak 3QFY20 performance. L&G reported a 3QFY20 net loss of RM0.6m, on the back of RM36.7m revenue. This takes 9MFY20 earnings to RM4.4m, which only accounted for 34% of our initial full-year estimate. The disappointing performance was largely due to weaker-than-expected margins for its on-going projects (Astoria, Sena Parc and Damansara Seresta).

Slow property sales. L&G achieved RM20.1m property sales in 3QFY20, taking 9MFY20 property sales to RM65m (forming 82% of our FY20 assumption of RM79m), mainly contributed by its Damansara Seresta project in Bandar Sri Damansara. Meanwhile, unbilled sales stood at RM179m which will underpin its earnings visibility in the near term.

Higher expenses for education arm. Its education business continued to post a weak EBIT margin of 28% during the quarter, compared to its usual >30% margin. This is mainly attributable to higher overheads following the recruitment of additional teachers from Aug 2019 due to its international school expansion plan.

Outlook

Challenging property market. So far, L&G only launched the second phase of Damansara Foresta called Damansara Seresta (RM480m GDV) in 2HCY18 in view of the sluggish property market. We believe most of its pipeline will now be further delayed until there is a turnaround in the operating environment. The delay has derailed L&G's earnings growth momentum, and a strong sales performance from Damansara Seresta would be critical to sustain its earnings growth. We have revised down its FY20-22F earnings by 44%/45%/35% to account for the weaker margins for its

property division, a higher effective tax rate and lower earnings contribution from its 45%-owned Diamond City.

Valuation and Recommendation

Maintain HOLD. We maintain our TP of RM0.16, based on an unchanged 75% discount to our RNAV. We believe it would take a much longer time for the company to monetise its deep land value given the persistently weak property market which has resulted in delays for its launch pipeline.

Quarterly Income Statement (RMm)

FY Mar	3Q2019	2Q2020	3Q2020	% chg yoy	% chg qoq
Revenue	38.7	39.2	36.7	(5.2)	(6.5)
Cost of Goods Sold	(32.7)	(36.5)	(33.0)	1.1	(9.5)
Gross Profit	6.01	2.75	3.67	(39.0)	33.3
Other Oper. (Exp)/Inc	3.41	7.50	1.23	(64.1)	(83.6)
Operating Profit	9.42	10.3	4.90	(48.0)	(52.2)
Other Non Opg (Exp)/Inc	3.05	0.10	0.16	(94.9)	62.5
Associates & JV Inc	3.10	(2.6)	(0.4)	nm	(83.6)
Net Interest (Exp)/Inc	(1.4)	(0.6)	(0.7)	49.3	(18.6)
Exceptional Gain/(Loss)	1.00	0.0	0.0	nm	nm
Pre-tax Profit	15.2	7.18	3.92	(74.1)	(45.4)
Tax	(1.5)	(3.7)	(2.2)	54.2	(38.5)
Minority Interest	(2.7)	(1.8)	(2.3)	14.0	29.3
Net Profit	11.0	1.74	(0.6)	nm	nm
Net profit bef Except.	10.0	1.74	(0.6)	nm	nm
EBITDA	15.6	7.78	4.63	(70.3)	(40.5)
Margins (%)					
Gross Margins	15.5	7.0	10.0		
Opg Profit Margins	24.4	26.1	13.3		
Net Profit Margins	28.5	4.4	(1.7)		

Source of all data: Company, AllianceDBS

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

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Wong Ming Tek, Executive Director

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19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com
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