Malaysia

Flash Note

Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity 24 Jun 2020

Land & General Bhd (LGH MK) : HOLD

Mkt. Cap: US$66.1m l **3m Avg. Daily Val:** US$0.20m

Last Traded Price (23 Jun 2020): RM0.10

Price Target 12-mth: RM0.11 (10% upside) (Prev RM0.16)

Analyst

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Dragged by slow progress billings

- 4QFY20 results met expectations; 45%-owned Country Garden Properties surprised with profit contribution
- RM160m unbilled sales to sustain near term earnings visibility
- Persistently weak market sentiment to dampen property sales
- Maintain HOLD with lower RM0.11 TP

Forecasts and Valuation

FY Mar (RMm)	2019A	2020A	2021F	2022F
Revenue	134	140	106	118
EBITDA	23.9	28.5	28.7	35.1
Pre-tax Profit	50.3	26.8	14.4	19.9
Net Profit	38.8	15.3	6.84	11.7
Net Pft (Pre Ex.)	4.13	6.99	6.84	11.7
Net Pft Gth (Pre-ex) (%)	nm	69.1	(2.2)	71.0
EPS (sen)	1.30	0.52	0.23	0.39
EPS Pre Ex. (sen)	0.14	0.24	0.23	0.39
EPS Gth Pre Ex (%)	nm	69	(2)	71
Diluted EPS (sen)	1.30	0.52	0.23	0.39
Net DPS (sen)	1.00	0.0	0.0	0.0
BV Per Share (sen)	36.9	36.4	36.6	37.0
PE (X)	7.3	18.4	41.3	24.2
PE Pre Ex. (X)	68.3	40.4	41.3	24.2
P/Cash Flow (X)	nm	nm	6.3	28.2
EV/EBITDA (X)	13.7	16.3	15.8	13.6
Net Div Yield (%)	10.5	0.0	0.0	0.0
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	CASH	0.1	0.1	0.1
ROAE (%)	3.5	1.4	0.6	1.1

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

What's New

In-line 4QFY20 performance. Stripping out write-backs of RM8.4m, Land & General Bhd (LGH) reported 4QFY20 core earnings of RM2.6m. This takes its FY20 core profit to RM7m which accounts for 95% of our full-year estimates. Its 45%-owned Country Garden Properties (M) Sdn Bhd surprised with RM5.1m share of profit in 4QFY20, offset by RM4.0m loss on fair value changes on its investment.

Dragged by slow progress billings. LGH's property segmental earnings before interest and taxes (EBIT) plunged 88% y-o-y to RM0.5m as segmental revenue came in at a depressed RM12.8m (-69% y-o-y). This was most probably due to the impact of the Movement Control Order (MCO) imposed since 18 March which has slowed down its construction progress.

Weak property sales. LGH achieved low property sales of RM13m in 4QFY20, taking FY20 property sales to RM78m (+9% y-o-y) which was within our projection of RM79m. This was mainly contributed by its Damansara Seresta project in Bandar Sri Damansara. Unbilled sales stood at RM160m (-16% y-o-y) which will underpin its earnings visibility in the near term.

Impressive education arm. Its education business posted a record high quarterly EBIT of RM2.4m (+16% y-o-y) due to increased student enrolment for its international school with the opening of additional classes for upper primary and secondary levels. Its EBIT margin came in at 42% which was higher than the usual ~30% margin.

Conserving cash. LGH did not declare any dividend for FY20 which could be due to its senior management being prudent with its cash flow management. Also, its balance sheet has deteriorated over the years from a net cash position to net gearing of 8% as at end-March 2020.

Outlook

Challenging property market. So far, 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 its declining trend of unbilled sales.

Earnings downgrade. We revise downward LGH's FY21-22F earnings forecast by 28%/21% to account for the weaker margins for its property division as well as the impact of the MCO which has affected its progress billings.

Valuation and Recommendation

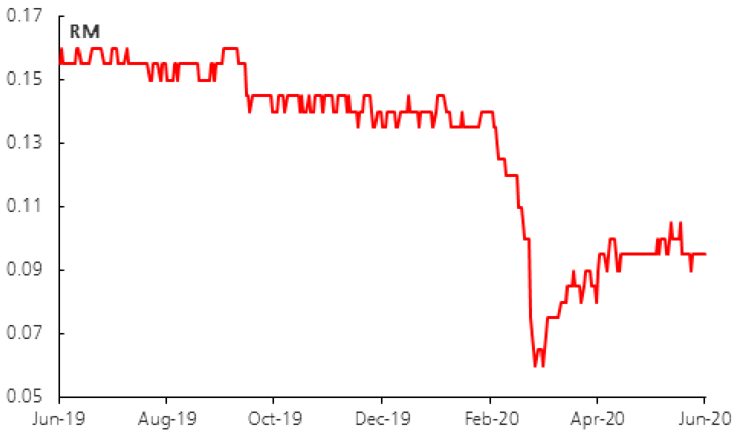
Maintain HOLD. We lower our target price (TP) of RM0.11, based on a wider 80% discount (from 75% previously) to our revised revalued net asset value (RNAV) after incorporating lower land bank valuation. We believe it will take much longer for the company to monetise its deep land value given the persistently weak property market which has resulted in delays of its launch pipeline

Quarterly Income Statement (RMm)

FY Mar	4Q2019	3Q2020	4Q2020	% chg yoy	% chg qoq
Revenue	47.4	36.7	19.4	(59.0)	(47.1)
Cost of Goods Sold	(50.3)	(33.0)	(25.0)	(50.3)	(24.3)
Gross Profit	(3.0)	3.67	(5.6)	(88.9)	nm
Other Oper. (Exp)/Inc	(1.1)	1.23	4.09	(475.8)	233.5
Operating Profit	(4.0)	4.90	(1.5)	(63.2)	(130.3)
Other Non Opg (Exp)/Inc	0.67	0.16	(4.0)	nm	nm
Associates & JV Inc	0.50	(0.4)	5.21	nm	nm
Net Interest (Exp)/Inc	1.15	(0.7)	(0.8)	nm	(6.8)
Exceptional Gain/(Loss)	33.7	0.0	8.35	(75.2)	nm
Pre-tax Profit	31.9	3.92	7.29	(77.2)	85.8
Tax	(0.9)	(2.2)	2.35	nm	nm
Minority Interest	(3.5)	(2.3)	1.34	nm	nm
Net Profit	27.6	(0.6)	11.0	(60.2)	nm
Net profit bef Except.	(6.1)	(0.6)	2.63	nm	nm
EBITDA	(2.9)	4.63	(0.3)	89.3	nm
Margins (%)					
Gross Margins	(6.2)	10.0	(28.7)		
Opg Profit Margins	(8.5)	13.3	(7.6)		
Net Profit Margins	58.2	(1.7)	56.5		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: AllianceDBS
Analyst: QUAH He Wei, CFA

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

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