

1QFY19 RESULTS UPDATE

29 August 2018

Land & General Berhad

Bursa / Bloomberg Code: L&G / LGH MK

Price : RM0.195

Market Capitalization : RM572.3 mln

Market : Main Market

Sector : Properties

Recommendation : Buy

L&G: 1QFY19 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY19	4QFY18	%chg	1QFY18	%chg
Revenue	22.1	20.9	5.6%	22.0	0.3%
Operating profit	5.1	24.2	-78.8%	29.2	-82.4%
Finance costs	(1.1)	(1.0)		(1.0)	
Pre-tax profit	3.0	18.3	-83.8%	30.5	-90.3%
Tax	(0.5)	3.8		(8.4)	
Net profit	1.8	20.8	-91.4%	23.7	-92.4%
Reported EPS (sen)	0.06	0.71	-91.5%	1.16	-94.8%
Op. profit margin	23.2%	115.6%		132.6%	
Pre-tax margin	13.4%	87.4%		138.4%	
Net profit margin	8.1%	99.4%		107.6%	
Net assets/share (RM)	0.38				

1QFY19 Results Review

- L&G's 1QFY19 net profit (profit after tax and non-controlling interests) was down 91.4% QoQ and 92.4% YoY at RM1.8 mln. We note that 4QFY18 results contained several one-off items amounting to some RM18 mln while 1QFY18 performance was, similarly, boosted by gain of some RM34 mln arising from disposal of land under the Government's MRT project. There was no one-offs in 1QFY19 results.

	Y-o-Y		
	1QFY19	1QFY18	% Chg
Revenue			
Property	14.5	16.3	-11.5%
Education	3.5	3.3	6.1%
Others	3.0	2.4	27.1%
Group	21.0	22.0	-4.7%
Operating profit			
Property	2.0	29.5	-93.1%
Education	1.1	1.4	-22.4%
Others	2.0	(1.7)	nm
Group	5.1	29.2	-82.4%
Operating profit margin			
Property	14.1%	180.9%	-92.2%
Education	29.9%	40.9%	-26.9%
Others	67.6%	nm	nm
Group	24.4%	132.6%	

- 1QFY19 revenue from property was mainly contributed by its ongoing Astoria project in Jalan Ampang. The plunge in operating profit from property was due to, as mentioned earlier, one-off gain from land sale to MRT in 1QFY18.
- The education business continued to provide steady recurring income to the Group. The increase in revenue was due to fee hike at its private school plus contribution from its new international school. Operating profit, however, was lower owing to higher expenses incurred with the opening of the international school.
- Under the "others" division, there was a RM2 mln gain arising from MRFS 9 interest recognition from its associate company, offset by losses from fair value changes on quoted investment and share of losses from its associate.

- We understand L&G achieved new property sales of RM43 mln in 1QFY19 (RM14 mln from L&G's own projects with the balance coming from its Diamond City project – a venture with Country Garden via its associate company). The property sales were mainly from its recently launched Sena Parc Phase 1 project. So far, the take-up rate is about 60% out of the 163 units made available for sale under Phase 1, quite an achievement in our opinion given the current market condition.
- Current unbilled sales as at 30 June 2018 stood at RM176 mln (including Diamond City project). Following the 1QFY19 results, we decided to trim our FY19-FY20 earnings estimates by 25%-33% to RM16.9 mln and RM40 mln respectively. This corresponds with our lower property sales target of RM250 mln – RM300 mln vs. the earlier projection of RM300 mln to RM400 mln.
- We do expect L&G's results in the coming quarters to show improvement, supported by pick up in Astoria sales after a slow 1QFY19 that was caused by relocation of its show gallery, ongoing sales of Sena Parc Phase 1, Damansara Seresta and the upcoming launch of Astoria phase 2 (with GDV of RM400 mln) by end of the year.
- Balance sheet-wise, the Group remains in net cash position with net cash per share of 6.6 sen as at end-June 2018, backed by net assets per share of 38 sen.

Recommendation

We maintain our **Buy** recommendation on L&G with an unchanged fair value of **27 sen**, derived from ascribing a target P/BV of 0.7x on its projected FY19 book value. We are cognizant that FY19 performance may not be exciting due to the prevailing soft property market condition, which also explained the slow property launch by developers such as L&G. Nevertheless, we opine the outlook is positive in the longer term, as buyer sentiments gradually improve under the administration of our new Government. With more launches in the pipeline (and supported by the anticipated improving market sentiments), L&G earnings should improve significantly from FY20 onwards.

Key Financials (FYE Mar)	FY17A	FY18F	FY19F	FY20F
Revenue	42.7	80.3	170.2	309.5
Revenue growth	-87.5%	88.2%	112.0%	81.9%
EBIT (RM m)	70.3	95.7	35.0	67.5
Net profit (RM m)	35.5	75.4	16.9	40.0
Net profit growth	-62.6%	112.3%	-77.6%	137.0%
Net profit margin	83.3%	93.9%	9.9%	12.9%
EPS (sen)	3.2	2.8	0.6	1.4
Div/share (sen)	2.0	1.5	1.0	1.0
Payout ratio	164.9%	58.3%	173.8%	73.3%
BV/share (RM)	0.38	0.39	0.39	0.39
Cash flow/share (sen)	3.0	2.7	0.8	1.6

Key Valuation Metrics	FY17A	FY18F	FY19F	FY19F
P/E (x)	6.1	7.0	33.9	14.3
P/BV (x)	0.5	0.5	0.5	0.5
P/cashflow (x)	6.6	7.3	25.6	12.2
Dividend yield	10.3%	7.7%	5.1%	5.1%
ROE	8.4%	7.1%	1.5%	3.5%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

L&G 's last 12-month share price chart



Source: Bursa Marketplace

Analyst:
Nicole Tan
nicole@zj.com.my
03-2032 2328

RATING GUIDE

BUY	Price appreciation expected to exceed 15% within the next 12 months
SELL	Price depreciation expected to exceed 15% within the next 12 months
HOLD	Price movement expected to be between -15% and +15% over the next 12 months from current level

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ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 27, 27th Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
