

2QFY19 RESULTS UPDATE

28 November 2018

## Land & General Berhad

Bursa / Bloomberg Code: L&amp;G / LGH MK

Price : RM0.15

Market Capitalization : RM446.0 mln

Market : Main Market

Sector : Properties

Recommendation : Buy

### L&G: 2QFY19 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY19	1QFY19	%chg	2QFY18	%chg	1HFY19	1HFY18	%chg
Revenue	26.1	22.1	18.4%	22.2	18.0%	48.2	44.7	7.9%
Operating profit	4.8	5.1	-5.8%	34.5	-86.0%	10.0	63.8	-84.4%
Finance costs	(1.1)	(1.1)		(1.0)		(2.2)	(2.0)	
Pre-tax profit	0.2	3.0	-93.9%	32.7	-99.4%	3.1	63.3	-95.0%
Tax	(1.3)	(0.5)		(9.0)		(1.8)	(17.4)	
Net profit	(1.6)	1.8	n.m.	24.8	n.m.	0.2	48.7	-99.6%
Reported EPS (sen)	(0.05)	0.06	n.m.	0.85	n.m.	0.01	1.95	-99.5%
Op. profit margin	18.5%	23.2%		155.7%		20.6%	142.8%	
Pre-tax margin	0.7%	13.4%		147.6%		6.5%	141.7%	
Net profit margin	n.m.	8.1%		112.1%		0.4%	108.9%	
Net assets/share (RM)	0.37							

### 2QFY19 Results Review

- L&G sprung a negative surprise in its 2QFY19 results, reporting a net loss (loss after tax and non-controlling interests) of RM1.6 mln, against a net profit of RM1.8 mln in 1QFY19 and RM24.8 mln in 2QFY18. On closer scrutiny, the loss suffered in the current quarter was largely due to fair value loss on investment amounting to RM3.3 mln following the decrease in quoted price (value) of the investment. With the 2QFY19 loss, 1HFY19 net profit shrank to RM0.2 mln, much below our estimate of RM16.9 mln.
- Excluding the loss on investment, 2QFY19 PBT would have been at about RM3.5 mln, a slight improvement over RM3.0 mln QoQ. Recall that the stellar profit in 2QFY18 was boosted by a write-back of some RM35.5 mln in relation to its Damansara Foresta project.
- For the quarter under review, property division recorded operating profit of RM3.1 mln on the back of RM20.1 mln in turnover, coming from the progress billings of its Astoria project. Contribution from its other projects – Seresta and Sena Parc – is negligible at this juncture owing to the prevailing soft market condition as well as the early stage of construction work.
- The Group registered new property sales of about RM54 mln in 2QFY19 (combination of its own projects as well as projects from its associate/JV). More than 60% of the new sales came from Seresta and Sena Parc.
- Meanwhile, operating profit from education business declined 9.9% YoY to RM1.1 mln despite turnover rising marginally by 2.6% YoY to RM3.5 mln. Similar to the preceding quarter, recent fee hike at the private school, coupled with the intake of new students at its international school pushed topline higher, but profitability was affected by higher operating costs, especially at the international school.

	Y-o-Y			Year-to-date		
	2QFY19	2QFY18	% Chg	1HFY19	1HFY18	% Chg
<b>Revenue</b>						
Property	20.1	15.5	30.0%	35.6	33.0	7.8%
Education	3.5	3.4	2.6%	7.1	6.7	5.8%
Others	2.6	3.3	-22.1%	5.6	5.0	11.7%
<b>Group</b>	<b>26.1</b>	<b>22.2</b>	<b>18.0%</b>	<b>48.2</b>	<b>44.7</b>	<b>7.9%</b>
<b>Operating profit</b>						
Property	3.1	34.3	-91.1%	5.1	64.0	-92.0%
Education	1.1	1.2	-9.9%	2.1	2.6	-16.5%
Others	0.7	(1.0)	nm	2.7	(2.7)	nm
<b>Group</b>	<b>4.8</b>	<b>34.5</b>	<b>-86.0%</b>	<b>10.0</b>	<b>63.8</b>	<b>-84.4%</b>
<b>Operating profit margin</b>						
Property	15.2%	221.9%	-93.1%	14.3%	193.9%	
Education	31.3%	35.7%	-12.2%	38.1%	51.0%	
Others	26.5%	nm	nm	5.6%	nm	
<b>Group</b>	<b>18.5%</b>	<b>155.7%</b>		<b>20.6%</b>	<b>142.8%</b>	

- The current unbilled sales as at 30 Sept 2018 stood at approximately RM324 mln (including sales from Diamond City and Hidden Valley projects). Going forward, we opine the near-term outlook appears to be challenging. We do expect 2HFY19 results to be better than 1HFY19 with increase in progress billings as construction work progress and sales trickle in from its existing projects. The Group is also on track to start selling the Phase 2 of its Astoria project. Nevertheless, overall sales of its new projects are progressing slower than we initially expected. This is due to the sustained weak property sentiment and the uptick is yet to be seen given various uncertainties enveloping the economy. We also do not see the Group to benefit from the recent Budget 2019 initiatives.
- Given the below-expectation results, we trimmed our FY19-FY20 earnings estimates further by 30%-40% to RM10.0 mln and RM26.7 mln respectively. We anticipate much of the estimated FY18 net profit to come in the 2H from projects such as Astonia, Seresta and Sena Parc, with the trend to continue into FY19. Balance sheet-wise, the Group remains in net cash position with net cash per share of 6.0 sen as at end-Sept 2018, backed by net assets per share of 37 sen.
- No dividend was declared for the quarter under review.

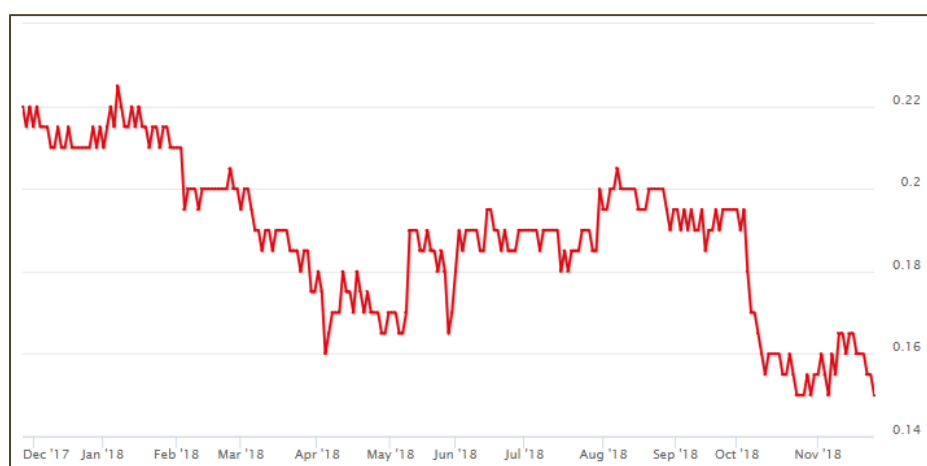
## Recommendation

Despite the weak results and prevailing market challenges, we have decided to retain our **Buy** recommendation on L&G at this juncture with an unchanged fair value of **27 sen**. We derived our fair value 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 soft property market condition, which also explained the slow property launch by developers such as L&G. Nevertheless, we opine there is value in the company given its landbank and existing book value (not even considering its RNAV). And given the cyclical nature of property market, there is expectation that the upturn in cycle may come in gradually over the next 12 months and L&G earnings should improve from FY20 onwards.

<b>Key Financials (FYE Mar)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue	42.7	80.3	125.2	227.7
Revenue growth	-87.5%	88.2%	56.0%	81.9%
EBIT (RM m)	70.3	95.7	25.7	49.7
Net profit (RM m)	35.5	75.4	10.0	26.7
Net profit growth	-62.6%	112.3%	-86.7%	167.0%
Net profit margin	83.3%	93.9%	8.0%	11.7%
EPS (sen)	3.2	2.8	0.3	0.9
Div/share (sen)	2.0	1.5	1.0	1.0
Payout ratio	164.9%	58.3%	292.7%	109.6%
BV/share (RM)	0.38	0.39	0.39	0.38
Cash flow/share (sen)	3.0	2.7	0.5	1.2

<b>Key Valuation Metrics</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
P/E (x)	4.7	5.4	43.9	16.4
P/BV (x)	0.4	0.4	0.4	0.4
P/cashflow (x)	5.1	5.6	28.3	13.0
Dividend yield	13.3%	10.0%	6.7%	6.7%
ROE	8.4%	7.1%	0.9%	2.4%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

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



Source: Bursa Marketplace

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**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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