

1QFY20 RESULTS UPDATE

27 August 2019

Land & General Berhad

Bursa / Bloomberg Code: L&G / LGH MK

Price : RM0.15

Market Capitalization : RM446.0 mln

Market : Main Market

Sector : Properties

Recommendation : Buy

L&G: 1QFY20 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY20	4QFY19	% chg	1QFY19	% chg
Revenue	44.4	47.4	-6.2%	22.1	101.2%
Operating profit	8.7	30.2	-71.1%	5.1	70.3%
Finance costs	(0.6)	1.1		(1.1)	
Pre-tax profit	8.4	31.9	-73.6%	3.0	184.2%
Tax	(2.2)	(0.9)		(0.5)	
Net profit	3.3	27.6	-88.2%	1.8	81.7%
Reported EPS (sen)	0.11	0.93	-88.2%	0.06	83.3%
Op. profit margin	19.7%	63.8%		23.2%	
Pre-tax margin	18.9%	67.4%		13.4%	
Net profit margin	7.3%	58.2%		8.1%	
Net assets/share (RM)	0.37				

1QFY20 Results Review

- L&G kicked off its new financial year with a net profit of RM3.3 mln on the back of RM44.4 mln revenue in 1QFY20. We consider the results to be broadly in line with our expectation.
- The performance in 1QFY20 was anchored by the contribution from its property development which registered 151.2% YoY increase in revenue to RM38.8 mln while operating profit surged 4-fold YoY to RM8.2 mln. The improved performance was due to higher progress billings of its existing projects, namely Astoria, Sena Parc and Seresta. At the Group level, there was also a contribution of RM0.4 mln from its jointly controlled entity, Hidden Valley Australia Pty, for a property project in Australia.
- The education division, meanwhile, turned in healthy results too with topline and operating profit rising 15.1% YoY and 46.2% YoY, boosted by increase in student enrolment as well as fee hike effect for both private and international schools.
- Overall, the operating performance in 1QFY20 was much better by comparison to 1QFY19 with both property and education segments showing improved results. Sequentially, 1QFY20 revenue and net profit was down 6.2% and 88.2% QoQ but this were largely skewed by a number of one-off items in the preceding quarter that included, amongst others, writeback of impairment loss on carpark (RM7.4 mln), writeback of accrued cost (RM8.4 mln) and partial writeback of provision for financial assistance (RM20.8 mln).
- Going forward, we see that the Group's prospects continues to depend on the outlook of the property market. So far, initiatives by the Government such as the Home Ownership Campaign 2019 (HOC 2019) have benefited the sector, including medium to high-end property segment where L&G operates in. The extension of the HOC 2019 from 31 June 2019 to 31 December

2019 is a welcome news for the Group. Additionally, the reduction in interest rates would also help ease the financial burden of property buyers.

- L&G's property division registered new property sales of approximately RM39 mln in 1QFY20 while unbilled sales as of end-June 2019 stands at about RM207 mln. The take-up rates of the existing projects have been rising gradually – Astoria Phase 1 has take-up rate of about 64%, Sena Parc Phase 1A (~50%) while the first block of Seresta is about 20% sold.

Segmental Breakdown	Y-o-Y		
	1QFY20	1QFY19	% Chg
Revenue			
Property	38.8	15.5	151.2%
Education	4.3	3.8	15.1%
Others	1.3	3.0	-57.6%
Group	44.4	22.2	99.9%
Operating profit			
Property	8.2	2.0	303.3%
Education	1.5	1.1	46.2%
Others	(1.0)	2.0	nm
Group	8.7	5.1	70.3%
Operating profit margin			
Property	21.2%	13.2%	60.6%
Education	35.5%	28.0%	27.0%
Others	nm	67.6%	nm
Group	19.7%	23.1%	

- We are inclined to keep our FY20 earnings estimate of RM26.7 mln at this juncture, with the expectation of stronger earnings in 2HFY20, particularly from the property sector. The Group's earnings can be lumpy at times as well, as demonstrated in the past.
- On balance sheet strength, the Group remains in net cash position with net cash per share of 0.4 sen as at end-June 2019, backed by net assets per share of 37 sen.
- No dividend was declared for the quarter under review.

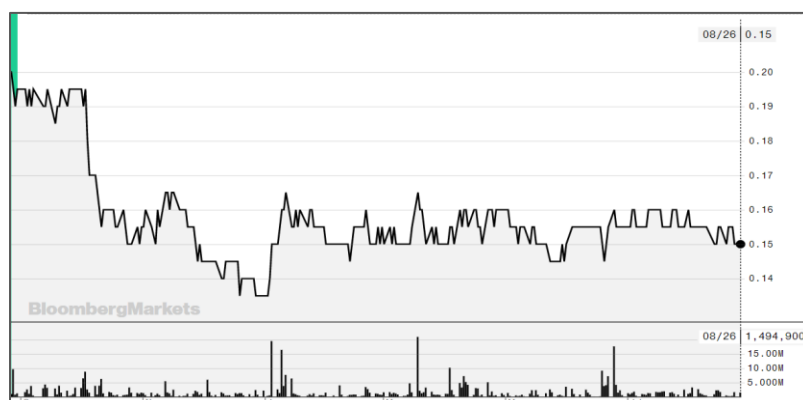
Recommendation

We maintain our **Buy** recommendation on L&G at this juncture with an unchanged fair value of **27 sen**. We derive our fair value from ascribing a target P/BV of 0.7x on its projected FY20 book value. We are cognizant the Group's performance may not be exciting in the near term due to the prevailing soft property market condition. Nevertheless, we opine there is value in the company given its landbank and existing book value (not even considering its RNAV) but this would certainly require patience from investors. The property sector is cyclical in nature. The upturn in cycle may come gradually over the next 12-18 months, and L&G earnings should improve from FY20 onwards.

Key Financials (FYE Mar)	FY17A	FY18A	FY19A	FY20F
Revenue	42.7	92.9	134.4	227.7
Revenue growth	-87.5%	117.9%	44.7%	69.4%
EBIT (RM m)	70.3	88.2	52.8	49.7
Net profit (RM m)	35.5	67.1	41.7	26.7
Net profit growth	-62.6%	88.8%	-37.9%	-35.8%
Net profit margin	83.3%	72.2%	31.0%	11.7%
EPS (sen)	3.2	2.5	1.4	0.9
Div/share (sen)	2.0	1.5	1.0	1.0
Payout ratio	164.9%	65.6%	70.3%	109.6%
BV/share (RM)	0.38	0.38	0.37	0.37
Cash flow/share (sen)	3.0	2.4	1.6	1.2

Key Valuation Metrics	FY17A	FY18F	FY19F	FY20F
P/E (x)	4.7	6.1	10.6	16.4
P/BV (x)	0.4	0.4	0.4	0.4
P/cashflow (x)	5.1	6.2	9.3	13.0
Dividend yield	13.3%	10.0%	6.7%	6.7%
ROE	8.4%	6.5%	3.8%	2.5%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

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



Source: Bloomberg

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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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