

2QFY20 RESULTS UPDATE
26 November 2019

Land & General Berhad

Bursa / Bloomberg Code: L&G / LGH MK

Price : RM0.14
Market Capitalization : RM416.2 mln
Market : Main Market
Sector : Properties
Recommendation : Buy

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY20	1QFY20	% chg	2QFY19	% chg	1HFY20	1HFY19	% chg
Revenue	39.2	44.4	-11.7%	26.1	50.0%	83.6	48.2	73.4%
Operating profit	10.3	8.7	17.4%	4.8	>100%	19.0	10.0	90.6%
Finance costs	(0.6)	(0.6)		(1.1)		(1.2)	(2.2)	
Pre-tax profit	7.2	8.4	-14.7%	0.2	>100%	15.6	3.1	>100%
Tax	(3.6)	(2.2)		(1.3)		(5.8)	(1.8)	
Net profit	1.7	3.3	-46.6%	(1.6)	n.m.	5.0	0.2	>100%
Reported EPS (sen)	0.06	0.11	-45.5%	(0.05)	n.m.	0.17	0.01	>100%
Op. profit margin	26.1%	19.7%		18.5%		22.7%	20.6%	
Pre-tax margin	18.3%	18.9%		0.7%		18.7%	6.5%	
Net profit margin	4.4%	7.3%		-6.1%		6.0%	0.4%	
Net assets/share (RM)	0.37							

2QFY20 Results Review

- L&G's results came in softer in 2QFY20 with net profit of RM1.7 mln, down 46.6% QoQ though a reversal from loss-making position in 2QFY19. The 1HFY20 net profit of RM5.0 mln accounted for only 19% of our earnings forecast.
- Turnover from the property division doubled in 1HFY20 to RM72.6 mln with contribution coming from ongoing projects such as the Astoria, Sena Parc and Damansara Seresta. Operating profit for the division too surged 3.8x to RM19.5 mln, further boosted by a writeback of RM5.6 mln in accrued cost from previously completed projects. However, overall Group earnings was affected by losses of RM2.5 mln from its associated company (i.e. the Country Garden project).
- Operating profit from education segment rose 15.9% in 1HFY20, but margin slipped to 28.2% vs. 30.2% a year ago due to higher opex arising from hiring of additional teachers for the international school.
- The Group secured property sales of RM65.6 mln during the quarter under review. About half came from own projects while the balance from associate and JV projects. Total untitled sales stood at RM204.3 mln (or RM183.3 mln excluding JV/associated portion) provide visibility for the next 12 months.
- Management expects sales to remain steady for its ongoing projects, with potential boost from government-driven initiatives for the housing sector such as the Home Ownership Campaign 2019 (HOC 2019) that has been extended to 31 December 2019. There is also expectation of rate cut in 2020 which would support the sector.

Segmental Breakdown	Y-o-Y			Year-to-date		
	2QFY20	2QFY19	% Chg	1HFY20	1HFY19	% Chg
Revenue						
Property	33.8	20.1	68.3%	72.6	35.6	>100%
Education	4.4	3.5	28.6%	8.8	7.1	24.0%
Others	0.9	2.6	-63.9%	1.9	2.9	-33.5%
Group	39.2	26.1	50.0%	83.4	45.6	83.0%
Operating profit						
Property	11.3	3.1	>100%	19.5	5.1	>100%
Education	0.9	1.1	-13.5%	2.5	2.1	15.9%
Others	(2.0)	0.7	nm	(3.0)	2.7	nm
Group	10.3	4.8	>100%	19.0	10.0	90.6%
Operating profit margin						
Property	33.4%	15.2%		26.9%	14.3%	
Education	21.1%	31.3%		28.2%	30.2%	
Others	nm	26.5%		nm	93.0%	
Group	26.1%	18.5%		22.8%	21.9%	

- We have decided to keep our FY20 earnings estimate of RM26.7 mln at this juncture. We continue to expect stronger billings in 2HFY20 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 was in net gearing position of 0.03x as at end-September 2019, backed by net assets per share of 37 sen.
- No dividend was declared for the quarter under review.

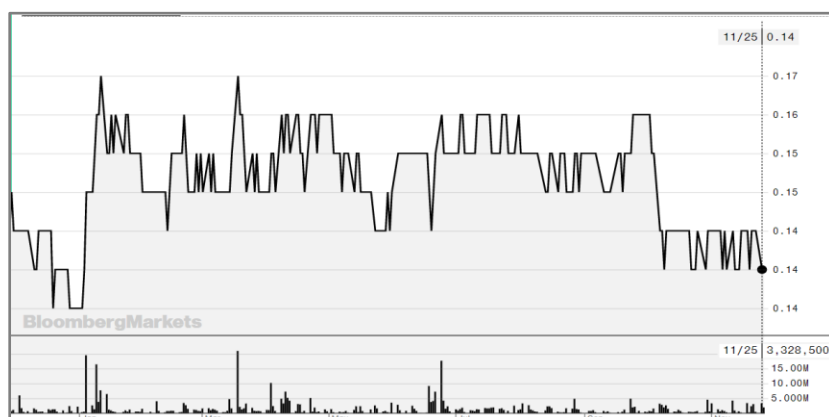
Recommendation

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 then 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)	4.7	5.8	8.7	12.2
Dividend yield	14.3%	10.7%	7.1%	7.1%
ROE	8.4%	6.5%	3.8%	2.5%
Net gearing (x)	Net cash	Net cash	Net cash	0.1

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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