

3QFY20 RESULTS UPDATE

25 February 2020

## Land & General Berhad

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

Price : RM0.135

Market Capitalization : RM401.4 mln

Market : Main Market

Sector : Properties

Recommendation : Hold

### L&G: 3QFY20 results

FYE Mar (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	3QFY20	2QFY20	% chg	3QFY19	% chg	9MFY20	9MFY19	% chg
Revenue	36.7	39.2	-6.5%	38.7	-5.2%	120.3	86.9	38.4%
Operating profit	4.9	10.3	-52.2%	10.4	-53.0%	23.9	20.4	17.2%
Finance costs	(0.7)	(0.6)		(1.4)		(1.9)	(3.6)	
Pre-tax profit	3.9	7.2	-45.4%	15.2	-74.1%	19.5	18.3	6.6%
Tax	(2.2)	(3.6)		(1.5)		(8.1)	(3.2)	
Net profit	(0.6)	1.7	n.m.	11.0	n.m.	4.4	11.2	-61.2%
Reported EPS (sen)	(0.41)	0.06	n.m.	0.37	n.m.	0.15	0.38	-60.5%
Op. profit margin	13.3%	26.1%		26.9%		19.8%	23.4%	
Pre-tax margin	10.7%	18.3%		39.2%		16.2%	21.1%	
Net profit margin	n.m.	4.4%		28.5%		3.6%	12.9%	
Net assets/share (RM)	0.36							

### 3QFY20 Results Review

- L&G swung into the red in 3QFY20 with net loss of RM0.6 mln on the back of RM36.7 mln revenue. The results were below expectation with 9MFY20 net profit of RM4.4 mln below our initial expectation of RM26.7 mln.
- The loss for the quarter was mainly attributed lower revenue from the property division; higher loss in the "other" division; as well as loss of RM0.3 mln recognized from the associate company vs. profit of RM3.1 mln a year ago. For further clarity, the higher losses sustained in the "other" division was a result of cessation of Sri Damansara Club; lower interest income and accretion of interest expenses on its contingent consideration payable to its associate company, Country Garden (M) Properties Sdn Bhd
- For 9MFY20, Group revenue was up 38.4% y-o-y mostly on higher contribution from the property division, and to a smaller extent, improved turnover from the education arm. The Group's existing property projects include the Astoria in Ampang, Sena Parc in Senawang and Damansara Seresta in Bandar Sri Damansara.
- Despite the healthy top-line growth, 9MFY20 net profit was 61.2% lower y-o-y at RM4.4 mln against RM11.2 mln earlier. The contributing factors behind this included loss of RM4.8 mln in "other" division as compared of profit of RM1.8 mln in 9MFY19; loss of RM2.8 mln from associate company vs. profit of RM2.0 mln a year ago and higher-than- statutory rate tax charges due to certain non-tax deductible expenses.
- The Group clinched property sales of RM58.9 mln during the quarter under review -- about 35% from own projects while ~65% from associate and JV projects. Total untitled sales of RM198.1 mln (or RM179.4 mln excluding JV/associate portion) provide visibility for the near term.

Segmental Breakdown	Y-o-Y			Year-to-date		
	3QFY20	3QFY19	% Chg	9MFY20	9MFY19	% Chg
<b>Revenue</b>						
Property	30.5	33.0	-7.4%	103.2	68.5	50.6%
Education	5.1	3.9	31.9%	13.9	10.9	26.8%
Others	1.0	1.8	-43.9%	3.2	7.4	-56.5%
<b>Group</b>	<b>36.7</b>	<b>38.7</b>	<b>-5.2%</b>	<b>120.3</b>	<b>86.9</b>	<b>38.4%</b>
<b>Operating profit</b>						
Property	5.2	9.9	-47.3%	24.7	15.0	65.0%
Education	1.4	1.4	2.1%	3.9	3.5	10.4%
Others	(1.7)	(0.9)	nm	(4.8)	1.8	nm
<b>Group</b>	<b>4.9</b>	<b>10.4</b>	<b>-53.0%</b>	<b>23.9</b>	<b>20.4</b>	<b>17.2%</b>
<b>Operating profit margin</b>						
Property	17.1%	30.0%		24.0%	21.9%	
Education	28.0%	36.1%		28.1%	32.3%	
Others	nm	-48.1%		nm	24.9%	
<b>Group</b>	<b>13.3%</b>	<b>26.9%</b>		<b>19.8%</b>	<b>23.4%</b>	

- In view of the weak results, we have cut our FY20 earnings estimate to RM9.3 mln from RM26.7 mln (note: our earnings estimate excludes one-off items). We opine the operating environment shall remain highly challenging for the property sector in view of the weakening GDP numbers, soft consumer sentiments, the Covid-19 outbreak and the latest, political uncertainties. We doubt the recent 25bp cut in lending rate, while helpful, would have much impact on consumers' purchasing activities of big ticket items such as houses.
- On balance sheet strength, the Group was in net gearing position of 0.08x as at end-December 2019, backed by net assets per share of 36 sen.
- No dividend was declared for the quarter under review.

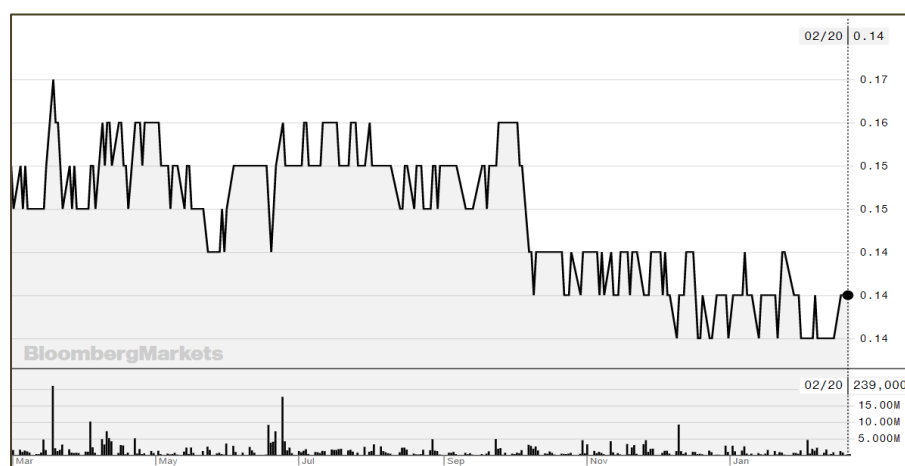
## Recommendation

Against the various global and local uncertainties, which are weighing on the property counters with L&G being one of them, we lower our recommendation to **Hold** with a lower fair value of **16 sen** (from 27 sen). We derive our fair value from ascribing a reduced target P/BV of 0.45x on its projected FY20 book value. We are cognizant of the fact that the Group has large undeveloped landbank of about 3,000 acres with high potential GDV. However, given the prevailing situation where there are various headwinds against the sector (which also affect the company's prospects), the upturn does not appear to be forthcoming and hence, monetization efforts would likely be over a much longer time horizon.

Key Financials (FYE Mar)	FY17A	FY18A	FY19A	FY20F
Revenue	42.7	92.9	134.4	160.4
Revenue growth	-87.5%	117.9%	44.7%	19.3%
EBIT (RM m)	70.3	88.2	52.8	33.4
Net profit (RM m)	35.5	67.1	41.7	9.3
Net profit growth	-62.6%	88.8%	-37.9%	-77.7%
Net profit margin	83.3%	72.2%	31.0%	5.8%
EPS (sen)	3.2	2.5	1.4	0.3
Div/share (sen)	2.0	1.5	1.0	0.5
Payout ratio	164.9%	65.6%	70.3%	157.6%
BV/share (RM)	0.38	0.38	0.36	0.36
Cash flow/share (sen)	3.0	2.4	1.6	0.6

Key Valuation Metrics	FY17A	FY18F	FY19F	FY20F
P/E (x)	4.7	6.1	10.6	47.3
P/BV (x)	0.4	0.4	0.4	0.4
P/cashflow (x)	4.7	5.8	8.7	25.2
Dividend yield	14.3%	10.7%	7.1%	3.6%
ROE	8.4%	6.5%	3.9%	0.9%
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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