

1QFY21 RESULTS UPDATE

25 August 2020

Land & General Berhad

Bursa / Bloomberg Code: L&G / LGH MK

Price : RM0.095

Market Capitalization : RM282.5 mln

Market : Main Market

Sector : Properties

Recommendation : Hold

L&G: 1QFY21 results

| FYE Mar (RM mln) | Quarter-on-Quarter | | | Year-on-Year | |
|-----------------------|--------------------|--------|--------|--------------|--------|
| | 1QFY21 | 4QFY20 | % chg | 1QFY20 | % chg |
| Revenue | 14.7 | 19.4 | -24.3% | 44.4 | -66.9% |
| Operating profit | 3.9 | 6.9 | -43.8% | 8.7 | -55.8% |
| Finance costs | (0.6) | (0.8) | | (0.6) | |
| Pre-tax profit | 5.1 | 7.3 | -30.2% | 8.4 | -39.5% |
| Tax | 0.2 | 2.3 | | (2.2) | |
| Net profit | 5.4 | 11.0 | -50.5% | 3.3 | 67.0% |
| Reported EPS (sen) | 0.18 | 0.37 | -51.4% | 0.11 | 63.6% |
| Op. profit margin | 26.3% | 35.4% | | 19.7% | |
| Pre-tax margin | 34.6% | 37.5% | | 18.9% | |
| Net profit margin | 37.0% | n.m. | | 7.3% | |
| Net assets/share (RM) | 0.37 | | | | |

1QFY21 Results Review

- L&G turned in a mixed set of numbers in 1QFY21, with revenue down 66.9% YoY to RM14.7 mln but net profit surged 67.0% YoY to RM5.4 mln. While 1QY21 net profit accounted for 32% of our FY21 estimate, we consider the results broadly in line with expectation at this juncture given the uncertainties that lie ahead in the overall economy as well the property sector.
- For the quarter under review, the decline in topline was not surprising as it captured the lack of business activities under the property division during the Movement Control Order (“MCO”) period. Property sales and construction works at the ongoing projects – Astoria, Seresta and Sena Parc made little progress in this period, resulted in the division registering 78.5% lower turnover YoY in 1QFY21. In terms of sales, the Group recorded RM8.3 mln new sales from its projects against RM14.7 mln in 1QFY20 (not inclusive of sales from JV and associate projects).
- The education segment, on the other hand, chugged along well with revenue rising 27.7% YoY to RM5.5 mln on higher student enrolment for its international schools with the opening of additional classes for upper primary and secondary level.
- In terms of profitability, the property division made an operating loss of RM1.3 mln (vs. RM8.2 mln profit a year ago) while the education business turned in operating profit of RM2.1 mln (+38.8% YoY). The significant rise in 1QFY21 net profit of 67.0% YoY was due to factors that included:- the reversal of impairment loss on loan to JV in Australia amounting to RM3.0 mln; writeback of financial obligation of RM1.6 mln; higher share of profit from jointly controlled entity amounting to RM2.6 mln (vs. RM0.4 mln in 1QFY20) and gain on fair value changes on other investment, though these were partially offset by RM1.9 mln loss from its associated company, Country Garden Properties (M) Sdn Bhd.

| Segmental Breakdown | Y-o-Y | | |
|--------------------------------|--------------|--------------|---------------|
| | 1QFY21 | 1QFY20 | % Chg |
| Revenue | | | |
| Property | 8.4 | 38.8 | -78.5% |
| Education | 5.5 | 4.3 | 27.7% |
| Others | 0.8 | 1.3 | -35.0% |
| Group | 14.7 | 44.4 | -66.9% |
| Operating profit | | | |
| Property | (1.3) | 8.2 | nm |
| Education | 2.1 | 1.5 | 38.8% |
| Others | 3.0 | (1.0) | nm |
| Group | 3.9 | 8.7 | -55.8% |
| Operating profit margin | | | |
| Property | nm | 21.2% | |
| Education | 38.6% | 35.5% | |
| Others | 359.0% | nm | |
| Group | 26.3% | 19.7% | |

- Going forward, we expect the property sector outlook to remain challenging, as with many other industries in Malaysia, given the uncertainties brought about by the Covid-19 pandemic. Consumer sentiment will remain cautious, in our opinion, although the various initiatives and economic stimulus packages by the Government could help bring some respite for the property sector. There are also talks on the possibility of further rate cut later this year following the news that our GDP contracted 17.1% in 2Q2020.
- On a brighter note, we noted that L&G has commenced land clearing activities at its former Bandar Sri Damansara Club land and plans to launch the project in the 2nd quarter of 2021, comprising 732 units of 650 sf and 950 sf serviced apartments priced tentatively at RM680 psf, along with 602 units of 550 sf affordable apartments. Management expects the project to be well-received given the attractive absolute pricing by comparison to the surrounding projects.
- Earnings-wise, we retain our current conservative FY21 net profit estimates of RM16.7 mln for now, with the assumptions of a subdued property outlook in the near future, buffered by steady contributions from the Group's education segment. Total unbilled property sales stood at RM206 mln as at end-June 2020, or RM161.0 mln after excluding the JV and associate projects. L&G's balance sheet remained solid with stable net gearing position of 0.1x as at end-June 2020, supported by net assets per share of 37 sen.
- No dividend was declared for the quarter.

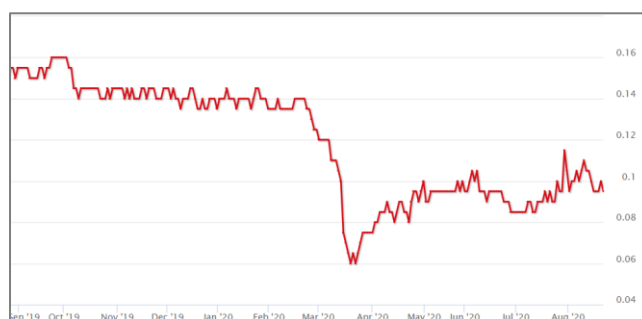
Recommendation

We keep our Hold call with unchanged fair value of 16 sen, derived from ascribing a target P/BV of 0.45x on its projected FY21 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 difficult operating environment with sentiments further dampened by the Covid-19 pandemic, 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) | FY18A | FY19A | FY20A | FY21f |
|-------------------------------------|---------------|---------------|---------------|--------------|
| Revenue | 92.9 | 134.4 | 139.7 | 141.4 |
| <i>Revenue growth</i> | <i>117.9%</i> | <i>44.7%</i> | <i>3.9%</i> | <i>1.2%</i> |
| EBIT (RM m) | 88.2 | 52.8 | 30.7 | 29.0 |
| Net profit (RM m) | 67.1 | 41.7 | 15.3 | 16.7 |
| <i>Net profit growth</i> | <i>88.8%</i> | <i>-37.9%</i> | <i>-63.2%</i> | <i>9.1%</i> |
| <i>Net profit margin</i> | <i>72.2%</i> | <i>31.0%</i> | <i>11.0%</i> | <i>11.8%</i> |
| EPS (sen) | 2.5 | 1.4 | 0.5 | 0.6 |
| Div/share (sen) | 1.5 | 1.0 | - | - |
| Payout ratio | 65.6% | 70.3% | 0.0% | 0.0% |
| BV/share (RM) | 0.38 | 0.36 | 0.37 | 0.37 |
| Cash flow/share (sen) | 2.4 | 1.6 | 0.8 | 0.8 |

| Key Valuation Metrics | FY18A | FY19A | FY20A | FY21f |
|------------------------------|--------------|--------------|--------------|--------------|
| P/E (x) | 6.1 | 10.6 | 28.8 | 26.7 |
| P/BV (x) | 0.4 | 0.4 | 0.4 | 0.4 |
| P/cashflow (x) | 5.8 | 8.7 | 18.0 | 16.6 |
| Dividend yield | 10.7% | 7.1% | 0.0% | 0.0% |
| ROE | 6.5% | 3.9% | 1.4% | 1.5% |
| Net gearing (x) | Net cash | Net cash | 0.1 | 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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