

# Company Focus

## Land & General Bhd



Refer to important disclosures at the end of this report  
Bloomberg: LGH MK | Reuters: LAND.MK

AllianceDBS Research, Malaysia Equity

2 Nov 2017

### BUY

(Initiating Coverage)

Last Traded Price ( 1 Nov 2017): RM0.22 (KLCI : 1,743.93)

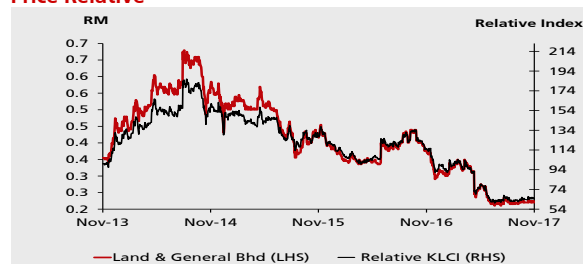
Price Target 12-mth: RM0.28 (27% upside)

**Potential Catalyst:** Stronger-than-expected sales for upcoming launches

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Mar (RMm)	2017A	2018F	2019F	2020F
Revenue	42.7	97.2	227	378
EBITDA	2.00	27.0	57.5	103
Pre-tax Profit	69.8	51.8	48.2	97.0
Net Profit	35.5	39.1	24.1	57.1
Net Pft (Pre Ex.)	(40.7)	5.37	24.1	57.1
EPS (sen)	2.53	1.33	0.81	1.93
EPS Pre Ex. (sen)	(2.9)	0.18	0.81	1.93
EPS Gth (%)	(63)	(47)	(39)	137
EPS Gth Pre Ex (%)	(176)	(106)	344	137
Diluted EPS (sen)	2.53	1.33	0.81	1.93
Net DPS (sen)	1.58	1.00	1.00	1.00
BV Per Share (sen)	46.8	36.5	35.9	36.8
PE (X)	8.7	16.5	27.0	11.4
PE Pre Ex. (X)	nm	119.9	27.0	11.4
P/Cash Flow (X)	91.3	nm	303.8	nm
EV/EBITDA (X)	13.2	14.5	8.5	7.1
Net Div Yield (%)	7.2	4.5	4.5	4.5
P/Book Value (X)	0.5	0.6	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	0.0
ROAE (%)	5.2	4.5	2.3	5.3

Consensus EPS (sen):

N/A

Other Broker Recs:

B: 0 S: 0 H: 0

ICB Industry : Financials

ICB Sector: Real Estate Investment & Services

**Principal Business:** L&G is an established township developer in Bandar Sri Damansara. It has been expanding its land bank in recent years to venture beyond Bandar Sri Damansara into other densely-populated areas in Klang Valley to build up strong pipeline

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### New lease of life

- Newly-completed landbank acquisition offers a strong launch pipeline to drive future earnings growth
- Strong balance sheet with net cash position to weather property market downturn
- Largest land owner in prime Bandar Sri Damansara with immediate development potential to unlock deep land value
- Initiate with BUY and RM0.28 TP

**More than just Bandar Sri Damansara.** Long synonymous with the successful development of its 1,200-acre Bandar Sri Damansara in the 1990s, L&G has diversified beyond the affluent township into other areas in Klang Valley after its recent landbank acquisition of 445 acres worth RM4bn GDV from its major shareholder, Mayland Group. We believe the worst is over as management has lined up a strong pipeline, in anticipation of a better property market in 2018.

**Where we differ.** We are the sole broker covering L&G. While the market may be sceptical on the company due to the perceived conflict of interest with its major shareholder that is also involved in property development, we draw comfort from the fact that the bulk of Mayland's prime landbank has been injected into L&G. Also, Mayland has been actively buying back L&G shares recently which are at a multi-year low.

**Potential catalyst.** We expect an imminent turnaround, projecting its core earnings to grow exponentially at a CAGR of 226% over FY18-20F due to its small base. The redevelopment of its 36-acre Sri Damansara clubhouse land is set to fetch lucrative returns given its low land cost at RM2.40psf which is only a tiny fraction of its market price of >RM300psf. This RM1bn transit-oriented development with close proximity to MRT Line 2 could be launched by end-CY18.

#### Valuation:

Initiate with BUY and RM0.28 TP, based on a 65% discount to our fully-diluted RNAV. It is trading at an unjustifiably steep discount of 73% to its RNAV, giving a decent dividend yield of 4.5%. With a net cash position of RM230m representing ~35% of its market cap, L&G is set to unlock its deep land value via more launches.

#### Key Risks to Our View:

**Property market sentiment.** L&G has a ready pipeline to grow its property sales but the timing of launch may be affected should market sentiment remain depressed.

#### At A Glance

Issued Capital (m shrs)	2,929
Mkt. Cap (RMm/US\$m)	644 / 152
Major Shareholders (%)	
Mayland Parkview Sdn Bhd	34.4
Free Float (%)	40.2
3m Avg. Daily Val (US\$m)	0.36



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## SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> <li>• Pockets of landbank in Klang Valley which are carried on the book at a deep discount to market value.</li> <li>• Solid balance sheet with net cash position will help to weather a property market downturn. It has provided solid opportunities for L&amp;G to scout for landbanks at bargain valuation.</li> <li>• L&amp;G has several land parcels located at mature locations with development orders being obtained, which renders them ready for launch when the property market recovers.</li> <li>• Balanced mix of landed and high-rise development projects to cater to different market segments.</li> <li>• Healthy recurring income from its established education arm in Bandar Sri Damansara for over 20 years.</li> </ul>	<ul style="list-style-type: none"> <li>• L&amp;G has only focused mainly on high-rise developments in recent years, which have resulted in slow sales in the current challenging market.</li> <li>• Lack of track record for large township developments since the entry of Mayland as a new substantial shareholder in 2007.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Huge redevelopment potential for its 36-acre Sri Damansara Club land which is also strategically located close to the MRT Line 2 station (Sri Damansara West station).</li> <li>• One of the largest landowners in Bandar Sri Damansara which will benefit tremendously from the development of MRT Line 2 which has already commenced construction. The development value of its 27-acre remaining land at Damansara Foresta could be further enhanced by MRT accessibility.</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively weaker property sentiment due to affordability issues could weaken property sales as property buyers are becoming more cautious.</li> <li>• Stricter lending guidelines by banks due to rising household debt may lead to softer property sales.</li> </ul>

Source: AllianceDBS

## Highlight

**Ready for the bigger league.** In May 2017, L&G completed the acquisition of four companies from its substantial shareholder, Mayland Group (34% stake in L&G) which was funded by a rights issue of 8 rights for every 5 shares, raising RM378m cash proceeds. This has immediately expanded L&G's landbank by 445 acres with RM4bn GDV potential. All in, L&G's landbank would have expanded to ~900 acres, underpinning its long-term earnings visibility. With the acquisition, L&G would have a more diversified geographical exposure in the Klang Valley such as Ukay Ampang and The Mines which have good population catchment.

**JV with Country Garden.** L&G will also have a 45% stake in Diamond City in Semenyih covering 167.57 acres, while the remaining 55% is held by HK-listed Country Garden – one of the largest developers in China. Diamond City is an ongoing mixed development that started in 2014, mainly comprising super-link houses, villas and apartment blocks. This will help to provide steady income to L&G as property sales have been relatively resilient over the past few years despite the challenging property market, thanks to Diamond City's focus on landed developments which mainly target the locals.

### Landbank acquisition completed in May 2017

Proposed acquisition	Stake	Price RMm	settlement of outstanding balances RMm	Total	Remarks
Primal Milestone SB	100%	128.47	3.12	131.59	43% stake in Country Garden Properties Malaysia
Quantum Bonus SB	100%	5.97	0.15	6.12	2% stake in Country Garden Properties Malaysia
Triumph Bliss SB	100%	118.15	1.11	119.26	109.42m debt
Forward Esteem SB	100%	45.73	0.28	46.01	25.31m debt
		<b>298.32</b>	<b>4.65</b>	<b>302.97</b>	
<b>Proposed call option</b>					
Soho Prestige SB		37.25	3.97	41.22	10.38m debt
		<b>335.57</b>	<b>8.62</b>	<b>344.19</b>	

Source: Company, AllianceDBS

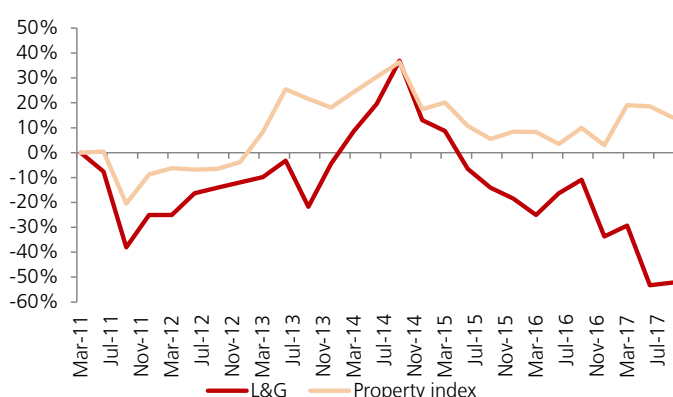
### Landbank expansion from recent acquisition

Land	Location	Development	Stake	Acre	GDV (RMm)
Diamond City Plot A	Semenyih	township	45%	98.8	285.7
Diamond City Plot B	Semenyih	township	45%	158.3	1,039.5
Serendah	Serendah	residential	45%	167.6	535.9
Seri Kembangan	Seri Kembangan	commercial	100%	15.3	1,579.7
Ukay Ampang	Ampang	commercial	100%	4.6	485.8
				<b>444.5</b>	<b>3,926.6</b>
<b>Under call option</b>					
Taman Sri Hartamas	Sri Hartamas	commercial	100%	1.78	274.1
				<b>446.3</b>	<b>4,200.7</b>

Source: Company, AllianceDBS

**Related-party transaction a concern?** Certain quarters have been sceptical of the related-party transactions between L&G and Mayland Group which has not resulted in significant improvement in financial performance. This could partly explain the underperformance of its share price in recent years. We believe the injection of Mayland's landbank into L&G could help to address this concern as it may help to remove the perceived conflict of interest between both parties who are also actively involved in property development. Also, L&G will be on a stronger footing now that it has sizeable landbank and balance sheet to chart its own growth strategy on a more sustainable basis.

**Relative performance of L&G and Bursa Malaysia property index**



Source: Bloomberg

**Mayland buying more L&G shares.** L&G's share price has dropped to close to almost the lowest point over the past 10 years despite its better financial position and larger landbank for future launches. We notice that Mayland has been aggressively buying L&G's shares recently, probably due to the attractive valuation of the company which is now trading at a 73% discount to RNAV.

Since the completion of the rights issue in May 2017 which was priced at 21 sen/rights share, Mayland has accumulated 14.3m additional L&G shares at an average price of 22 sen. While earnings outlook in the near term remains subdued, Mayland could be taking a longer term view to increase its stake at a deeply discounted price. This also signifies the confidence of its largest shareholder on the future prospects of L&G.

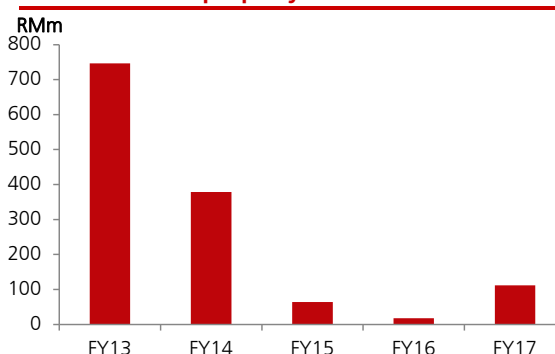
**Share purchase by Mayland Group**

Share purchase	shares (m)	price (RM)	Value (RMm)
17/10/2017	1.00	0.225	0.2250
3/10/2017	2.00	0.220	0.4400
2/10/2017	2.00	0.220	0.4400
28/9/2017	2.00	0.225	0.4500
19/9/2017	1.00	0.225	0.2250
13/9/2017	2.00	0.220	0.4400
7/9/2017	0.81	0.215	0.1739
6/9/2017	2.53	0.215	0.5430
5/9/2017	0.50	0.220	0.1100
30/8/2017	0.50	0.225	0.1125
<b>Total</b>	<b>14.334</b>	<b>0.220</b>	<b>3.159</b>

Source: Company

**Turnaround is imminent.** Since the launch of RM700m Damansara Forest phase 1 at Bandar Sri Damansara in Jan 2012, L&G has only launched its JV project, RM840m Astoria at Ampang Hilir in Apr 2016. Admittedly, the market has been rather challenging over the past three years, and L&G has not been spared from the adverse market conditions. It has also delayed some of its launches, the results of which have been reflected in its FY17 financial results as most projects have been handed over. At the moment, Astoria is its only ongoing project (excluding Diamond City) with RM190m unbilled sales.

**L&G's historical property sales**



Source: Company, AllianceDBS

For the remaining quarters of FY18 (ending Mar 2018), L&G will be launching phase 2 of Damansara Foresta called Damansara Seresta (RM480m GDV) on a 6.2-acre land in Bandar Sri Damansara as well as phase 1 of Sena Parc (RM230m GDV) at the former Tunku Jaafar Golf & Country Resort in Senawang. These two projects were originally slated for launch in FY15 but delayed till FY18 due to weak market conditions.

## Land & General Bhd

**Reaping the deep value of its landbank.** The near-term launch of these two projects will help to reverse L&G's declining trend of sales as well as profitability. More importantly, L&G's significantly low land cost for both projects will help to generate above-market returns despite its relatively affordable price point.

For instance, L&G's book value of its Damansara Foresta land in Bandar Sri Damansara stands at a mere RM17psf, compared to its market price in excess of RM300psf. We understand that the latest land transaction at the neighbouring Damansara Perdana stood at RM480psf. Meanwhile, its Sena Parc land was acquired back in 2011 at RM3psf while the market value could easily be three-fold higher than its cost.

In addition, L&G still has several small pockets of land parcels bought at bargain prices which will enable to group to undertake fast turnaround projects with high profitability. Also, its recently-acquired landbank from Mayland Group comes with development orders which will expedite the whole development process.

L&G's solid balance sheet with RM230m net cash (as at Jun 2017), representing ~35% of its market capitalisation, comes in handy for the group to preserve its prime lands for launch at a more opportune time instead of launching projects when the market sentiment is bad which may depress its margins. We believe that after deliberately postponing some of the project launches in the past few years, L&G is now ready to embark on a more aggressive journey to grow its earnings.

**Sri Damansara Club land is the crown in the jewel.** Its 36-acre prized freehold commercial land in Bandar Sri Damansara housing the 20-year old sports and leisure recreational club Sri Damansara Club is ripe for redevelopment. This could be the last large parcel of land available for development within the mature township of Bandar Sri Damansara.

L&G's book value for the land stands at only RM2.4psf, a staggering discount to its market price of RM300-500psf. If we assume RM450psf valuation for the land site, it could be worth RM700m which is more than the market capitalisation of L&G. We understand the development value for the land will be more than RM1bn. This has yet to factor in the potential enhancement arising from the land's strategic location which is within walking distance to the Sri Damansara West Station under MRT Line 2 that is under construction.

### List of landbank

Land	Location	Use	Stake	Acre
Ladang Kerling	Lembah Beringin, Hulu Selangor	estate	100%	2,495.0
Damansara Foresta - ph 3 & 4	Bandar Sri Damansara	residential	100%	20.8
Tebrau land	Tebrau, Johor	development	100%	13.7
Sg. Petani land	Sg. Petani, Kedah	development	100%	36.3
Sri Damansara Club House	Bandar Sri Damansara	commercial	100%	35.8
Sena Parc - ph 2 & 3	Senawang	township	100%	170.9
Aria Rimba	U10, Shah Alam	township	100%	112.4
Diamond City	Semenyih	township	45%	257.1
Serendah	Serendah	residential	45%	167.6
The Mines Resort	Seri Kembangan	commercial	100%	15.3
Sri Ukay Ampang	Ampang	commercial	100%	4.6
Damansara Seresta	Bandar Sri Damansara	residential	100%	6.2
Sena Parc - ph 1	Senawang	township	100%	58.1
				<b>3,393.8</b>

Source: Company, AllianceDBS

## Valuation

**Initiate with BUY and RM0.28 TP.** Trading at a steep discount of 73% to its fully-diluted RNAV of RM0.80. L&G offers strong value proposition to investors as this under-researched company is set to undergo a turnaround after deliberately delaying property launches over the past few years. Our TP of RM0.28 is based on a 65% discount to our RNAV of RM0.80.

With a net cash position of RM230m (7.8sen/share) representing ~35% of its market cap, L&G is set to unlock its deep land value via more aggressive launches. L&G is currently the largest landowner in Bandar Sri Damansara which has immediate development potential, the appeal of which has also been enhanced by the MRT Line 2 connectivity.

We envisage a solid earnings CAGR of 226% over FY18-20F due to its small earnings base. L&G is currently trading at 27x/11x of its FY19/FY20 earnings, respectively.

### RNAV valuation

NPV of near-term projects	207.9
land bank surplus	1,104.9
shareholder fund	1,058.7
<b>RNAV</b>	<b>2,371.4</b>
<b>RNAV/share</b>	<b>0.80</b>
discount	65%
<b>TP</b>	<b>0.28</b>

Source: AllianceDBS

### Landbank revaluation surplus

Land	Location	Use	Stake	Acre	Book value		Market value		Net Surplus RMm
					RMm	RMpsf	RMm	RMpsf	
Ladang Kerling	Lembah Beringin,	estate	100%	2,495.0	48.15	0.44	543.4	5	376.4
Damansara Foresta - ph 3 & 4	Bandar Sri Damansara	residential	100%	20.8	15.24	16.83	316.8	350	229.2
Tebrau land	Tebrau, Johor	development	100%	13.7	11.99	20.03	20.9	35	6.8
Sg. Petani land	Sg. Petani, Kedah	development	100%	36.3	6.86	4.33	23.8	15	12.8
Sri Damansara Club House	Bandar Sri Damansara	commercial	100%	35.8	3.752	2.41	545.5	350	411.7
Sena Parc - ph 2 & 3	Senawang	township	100%	170.9	22.34	3.00	111.7	15	67.9
									<b>1,104.9</b>

Source: AllianceDBS, Company

**Company Background**

**Corporate History.** L&G is an old guard which has been given a new lease of life after the Asian financial crisis with the entry of Malaysia Land Properties Sdn Bhd (Mayland) in 2007 as its major shareholder which currently owns a 34% stake in L&G. Mayland’s owner, Tan Sri David Chiu is related to the Hong Kong-listed Far East Group. Since the takeover of the company by Mayland, there has been massive debt restructuring exercise to improve the financial position of the company.

**Master developer of Bandar Sri Damansara.** L&G has largely focused on Bandar Sri Damansara where it was the master developer. The established neighbourhood is strategically located within the affluent Petaling district and enjoys accessibility of four major highways – New Klang Valley Expressway (NKVE), KL-Kuala Selangor trunk road, Middle Ring Road 2 (MRR2), and the Damansara-Puchong Expressway (LDP). While the mature township has largely been developed, there are still pockets of land parcels held by L&G at historical cost that are available for immediate launching.

**Completed development projects.** Some of the completed project in recent years include: Damansara Foresta phase 1 @ Bandar Sri Damansara (RM740m GDV), The Elements @ Ampang (RM850m GDV) and 8trium @ Bandar Sri Damansara (RM97m GDV). The company has mainly focused on high-rise developments as those lands are located within densely-populated areas.

**Landbank acquisition.** L&G recently completed the proposed acquisition of four companies from Mayland Group which was funded by a rights issue of 8 rights for every 5 shares, raising RM378m cash proceeds. This has immediately expanded L&G’s landbank by 445 acres with RM4bn GDV potential. All in, L&G’s landbank would have expanded to ~900 acres (excluding 2,495 acres of plantation estate), underpinning its long-term earnings visibility. With the acquisition, L&G would have a more diversified geographical exposure in Klang Valley such as Ukay Ampang and The Mines which have good population catchment.

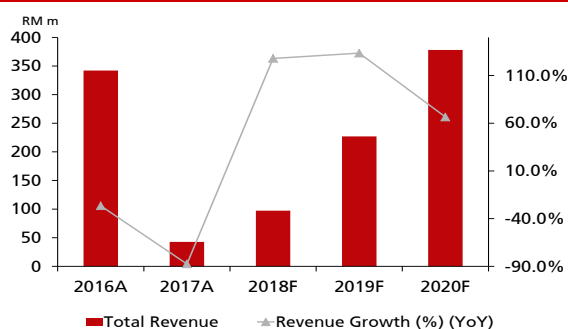
Prior to the acquisition, L&G always faced the issue of limited landbank which had undermined earnings visibility as its projects were largely concentrated in Bandar Sri Damansara. The landbank injection by Mayland has offered a new lease of life as L&G will now be in a better position to carry out its property development business. Also, its balance sheet remains strong with a net cash position of RM230m (7.8 sen/share)

**Utilisation from rights issue**

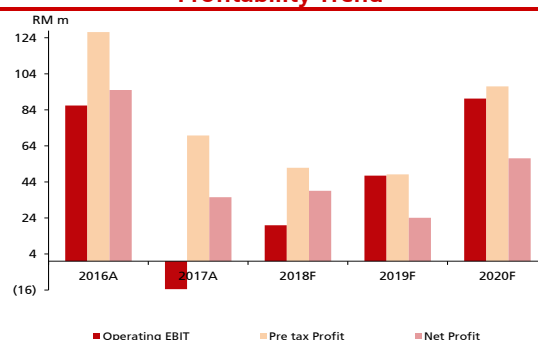
Rights issue	RMm
Payment for proposed acquisition	314.3
Working capital	60.91
Expenses	2.5
	<b>377.8</b>

Source: Company

**Sales Trend**



**Profitability Trend**



Source: Company, AllianceDBS



## Management

**Management Composition.** L&G is helmed by its Managing Director, Mr. Low Gay Teck who was appointed as director in 2007 when the Mayland Group emerged as the substantial shareholder of L&G. Prior to joining L&G, Mr. Low was with the Mayland Group since 1996. He has been involved in property development and project management for the past 25 years, handling and implementing projects such as residential, commercial, shopping complex, hotel, golf course, condominium and serviced apartment developments.

### Board of directors

Name	Position	Background
Dato' Haji Zainal Abidin Putih	Chairman	- Fellow of ICAEW, member of MICPA and MIA - Former Country Managing Partner of Messrs Hanafiah Raslan and Mohamad, former advisor with Messrs Ernst & Young Malaysia - Chairman of CIMB Bank, Dutch Lady Milk Industries, and Tokio Marine Insurans (Msia)
Low Gay Teck	Managing Director	- Bachelor of civil engineering from Footscray Institute of Technology, Australia - Former MD of the Mayland Group - More than 25 years of experience in property development and project management
Ferdaus Mahmood	Non-Independent Non-Executive Director	- Former Executive Director of L&G - Extensive experience in the property industry, especially in marketing, sales, credit
Dato' Ir Dr. A Bakar Jaafar	Senior Independent Non-Executive Director	- Master of Environmental Science from Miami University; Doctorate in Marine Geography from the University of Hawaii - Served in Malaysian civil service for over 22 years, including as Director-General of Department of Environment - Professor at University of Technology Malaysia (UTM)
Dato' Haji Ikhwan Salim Dato' Haji Sujak	Independent Non-Executive Director	- Bachelor of Science (Economics & Accounts) from Queen's University Belfast, UK - Former Group Financial Planning Manager of Kumpulan Low Keng Huat Sdn Bhd
YM Tengku Maruan Tengku Ariff	Independent Non-Executive Director	- Bachelor of Mechanical Engineering degree from University of Huddersfield, UK - former General Manager of Rohas Sdn Bhd
Hoong Cheong Thard	Non-Independent Non-Executive Director	- member of ICAEW, Bachelor of mechanical engineering from Imperial College, - former MD of Far East Consortium International Limited
Chiu Andrew Wah Wai	Non-Independent Non-Executive Director	- Executive chairman of Land Pacific Limited, Deacon House International Limited and Ariana Social Communit Limited
Chai Keng Wai	Non-Independent Non-Executive Director	- Bachelor of civil engineering from University Putra Malaysia - MD of Country Garden Properties (M) Sdn Bhd

Source: Company

## Property Set to Resume Explosive Growth

**Perfect timing.** While L&G does not have major launches in recent years, its previous launches had been well-timed to tap on the booming property market. Also, its strategy of focusing on high-rise developments at the right time has resulted in exceptional sales performance for its relatively large development projects which are on par with the larger players:

**Elements@Ampang.** L&G leveraged on the prime location of the RM700m-GDV high-end condo to rake in strong sales when it was launched in 2010. This is a JV project with sister company from the Mayland Group which boosted its earnings significantly. Following the successful collaboration between both parties, the JV is currently undertaking another development project, *Astoria* which was launched in Apr 2016.

**Damansara Foresta.** The entire development of Damansara Foresta at Bandar Sri Damansara spans over 42 acres with more than RM2bn GDV. Phase 1 was launched in 2012 with huge success with selling prices hitting RM600psf. The key selling points include its strategic location on a hill overlooking nature and good accessibility within a mature township.

**Ready for more launches.** After an absence of more than a year since its last launch of Astoria phase 1, L&G is set to launch the second phase of Damansara Foresta called Damansara Seresta and also its first township development in recent years with Sena Parc phase 1 in Senawang where the former Tuanku Jaafar Golf and Country Club is located at.

**Sena Parc.** Spanning over 58 acres, the phase 1 development carries a GDV of RM230m, mainly comprising terraced houses price below RM500k/unit. The entire Sena Parc covers 229 acres and the township development is set to underpin its sustainable income going forward. Given that the land was only acquired for RM3psf in 2011, we believe the margin will be high despite the fact that Sena Parc is a large township.

**Damansara Seresta.** L&G is set to launch the second phase of Damansara Foresta in Feb 2018 with an expected GDV of RM480m. The 6.2-acre project is a low density development which will feature 452 units of luxury high-rise condominium with built-up sizes ranging from 1,291 sq ft to 3,200 sq ft. We understand the pricing will be around RM650psf which is relatively attractive given the project's strategic location.

### Recently completed and ongoing projects

Launch	Project	Location	Stake	GDV (RMm)	RMpsf	Take-up
2008	8trium	Bandar Sri Damansara	100%	97	445	98%
2011	The Elements	Ampang	50.01%	850	885	96%
2012	Damansara Foresta	Bandar Sri Damansara	100%	741	575	98%
2016	Astoria	Ampang	50.01%	840	900	60%

Source: AllianceDBS, Company

### Solid launch pipeline over the next two years to drive earnings growth

Launch	Project	Location	Stake	GDV (RMm)
4QCY17	Sena Parc ph 1	Senawang	100%	230
1QCY18	Damansara Seresta	Bandar Sri Damansara	100%	480
	Sri Damansara Club			
2018/2019	House	Bandar Sri Damansara	100%	1,000
2018/2019	The Mines Resort	Seri Kembangan	100%	1,600
2018/2019	Aria Rimba	U10 Shah Alam	100%	1,200
2019	Sri Ukay Ampang	Ampang	100%	480
				<b>4,990</b>

Source: AllianceDBS, Company

## Largest Landowner in Bandar Sri Damansara

**Deep land value.** Having gained its reputation as the master developer of Bandar Sri Damansara in the 90s, L&G still has pockets of land parcels within the established township that has today become a valuable asset for the group. Apart from the 42 acres earmarked for the development of Damansara Foresta (phase 1 completed, left with three more phases), L&G still has another 36 acres at the Sri Damansara Club House which is ripe for redevelopment. Its land is carried at historical cost which is estimated to be less than 5% of the current market price.

**Crown in the jewel.** The prized 36-acre site at Sri Damansara Club House is a freehold commercial land housing the 20-year old sports and leisure recreational club at this juncture. This could be the last large parcel of land available for development within the mature township of Bandar Sri Damansara. L&G's book value for the land stands at only RM2.4psf, a staggering discount to its market price of RM300-500psf. If we assume RM450psf valuation to the land site, it could be worth RM700m which is more than the market capitalisation of L&G.

We understand the development value for the land will be more than RM1bn. This has yet to factor in the potential enhancement arising from the land's strategic location which is within walking distance to the Sri Damansara West Station under MRT Line 2 that is under construction.

**MRT Line 2 the game changer.** The MRT Line 2 (Sungai Buloh-Serdang-Putrajaya Line) is set to elevate the property prices in Bandar Sri Damansara to a higher level, thanks to the two MRT stations (Sri Damansara West and Sri Damansara East) in the township. While the MRT Line 2 project will only be operational by 2022, the MRT connectivity will help to enhance the attractiveness of Bandar Sri Damansara which is already well connected with major highways. Therefore, we believe L&G is set to be among the largest beneficiaries due to its prime land in Bandar Sri Damansara.

## Strategic location of Bandar Sri Damansara with MRT connectivity

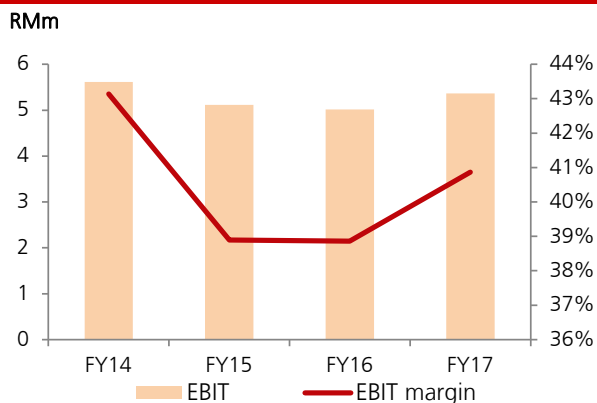


Source: Company

**Education Business**

**Stable recurring income.** Apart from property development, L&G has an education business which was established over 20 years ago. It runs a private school, Sekolah Sri Bestari and a kindergarten, Tadika Manjaria at a 15-acre site which houses an expansive and healthy green shady campus within Bandar Sri Damansara. The current student enrolment stands at 900.

**Stable earnings from education business**



Source: Company, AllianceDBS

**Expanding to international school.** L&G has also started its Sri Bestari International School in Sep 2017 to cater to the growing demand from parents for better exposure to an international environment for their children. This expansion plan will probably help boost the earnings growth of its education arm.

**Others**

**Plantation.** L&G has a 2,495-acre plantation estate in Lembah Beringin, Hulu Selangor which is planted with oil palm and rubber with an average crop age of 20 years. There is minimal earnings contribution from the estate, but L&G has a long-term view to develop the area into a township project.

**Property investments.** L&G has several investment properties including Menara L&G @ Putrajaya, Sri Damansara Business Park @ Bandar Sri Damansara and 8trium @ Bandar Sri Damansara. Collectively, the assets have very little contribution due to low occupancy rates for the investment properties.

**Key Risks**

**Margin compression.** Given the market may not be very receptive to higher selling prices in view of the all-time high house prices in Malaysia, developers may not be able to pass through any cost escalation due to rising land prices and construction cost to property buyers. We understand that there is also shortage of manpower in certain areas, which will result in contractors setting higher prices for construction works.

**Slowing sales.** Property sales may slow down in certain locations as property buyers could be deterred by the high entry price as well as the tightening measures, where banks have adopted more cautious lending practices for mortgage loans.

**High household debt.** An unprecedented household-debt-to-GDP level may cause a strain in the purchasing power of future properties in an environment of rising inflationary pressure and interest rates, which will ultimately lower the disposal income of the general public.

## CRITICAL DATA POINTS TO WATCH

### Critical Factors

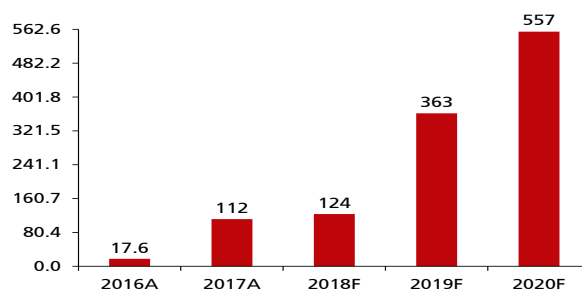
**Property launch.** L&G has delayed some of its key projects in previous years due to the soft market sentiment. We believe this is set to reverse as L&G has a strong launch pipeline from FY18 onwards, especially after the completion of its recent landbank acquisition from Mayland Group in May 2017. L&G is set to launch its Sena Parc phase 1 in 4QCY17 and Damansara Seresta in 1QCY18 which will have a collective GDV of RM710m. We have assumed minimal sales in FY18 as we expect the bulk of the sales from the two launches to be captured in FY19 due to the timing of launch. We expect the launches to be well-received given the relatively attractive pricing as well as the location of both projects.

**Deep land value.** Having gained its reputation as the master developer of Bandar Sri Damansara in the 90s, L&G still has pockets of land parcels within the established township that has today become a valuable asset for the group. Apart from the 42 acres earmarked for the development of Damansara Foresta (phase 1 completed, left with three more phases), L&G still has another 36 acres at the Sri Damansara Club House which is ripe for redevelopment. Its land is carried at historical cost which is estimated to be less than 5% of the current market price.

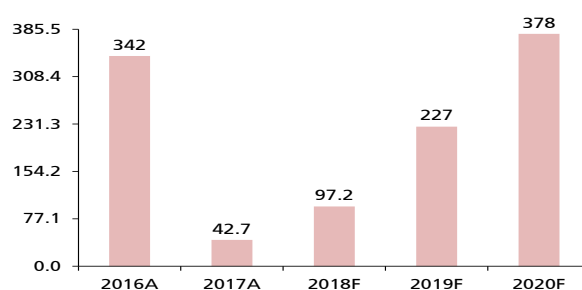
**Crown in the jewel.** The prized 36-acre site at Sri Damansara Club House is a freehold commercial land housing the 20-year old sports and leisure recreational club at this juncture. This could be the last large parcel of land available for development within the mature township of Bandar Sri Damansara. L&G's book value for the land stands at only RM2.4psf, a staggering discount to its market price of RM300-500psf. If we assume RM450psf valuation for the land site, it could be worth RM700m which is more than the market capitalisation of L&G.

**JV with Country Garden.** L&G has a 45% stake in Diamond City in Semenyih covering 167.57 acres, while the remaining 55% is held by HK-listed Country Garden – one of the largest developers in China. Diamond City is an on-going mixed development started in 2014, mainly comprising super-link houses, villas and apartment blocks. This will help to provide steady income to L&G as property sales have been relatively resilient over the past few years despite the challenging property market, thanks to Diamond City's focus on landed developments which mainly target the locals.

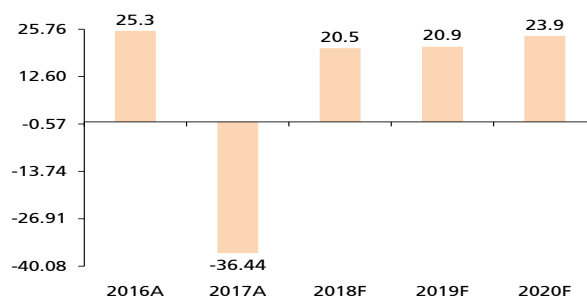
property sales (RMm)



Revenue (RMm)



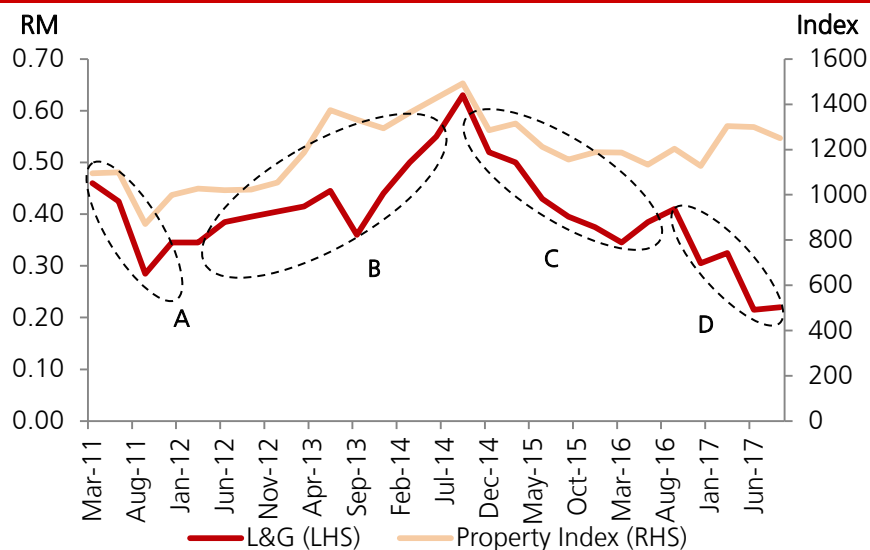
EBIT margin (%)



Source: Company, AllianceDBS

**Appendix 1: A look at Company's listed history – what drives its share price?**

**L&G's share price performance**



Source: Bloomberg L.P., AllianceDBS

A – On 22 Dec 2011, L&G announced that it was acquiring the former Tuanku Jaafar Golf and Country Resort land in Senawang, Negeri Sembilan for RM25m. The transaction was completed on 24 Jun 2011 but share price suffered as the market could be sceptical of the prospect of property market in the area. Nevertheless, L&G acquired the land at a mere RM3psf which is a bargain, in hindsight.

B – L&G share price benefited from the encouraging sales performance of its two launches (The Elements and Damansara Foresta) which gave the group strong earnings visibility. Also, the property sector was in vogue during the period of time.

C – Property market declined as the tightening measures started to make an impact. Also, market was concerned on L&G's earnings prospects as it did not launch any projects after 2012 which was evident in its declining trend of property sales.

D – On 15 Nov 2016, L&G proposed to acquire land bank from Mayland Group, to be funded via a proposed rights issue on a basis of 8 rights for every 5 shares. Investors were concerned about the related-party transaction as well as the huge earnings dilution arising from the rights issue. Also, L&G's earnings performance continued to decline as unbilled sales deteriorated significantly.

**Balance Sheet:**

**Net cash position.** L&G has been having a net cash position for years as management adopts a prudent approach in a challenging environment which has come in handy for the group, as L&G has been able to expand its landbank over the past few years. This also allows the company to reward its shareholders with generous dividends despite its volatile earnings due to the nature of the property development business.

**Share Price Drivers:**

**Strong property sales.** Given the low expectations for the company that is evident in its multi-year low share price, stronger-than-expected property sales from its planned launches will be a strong re-rating catalyst for the share price. The company is looking at CY2018 to have more launches as it expects better market conditions after a 3-year downturn since 2014.

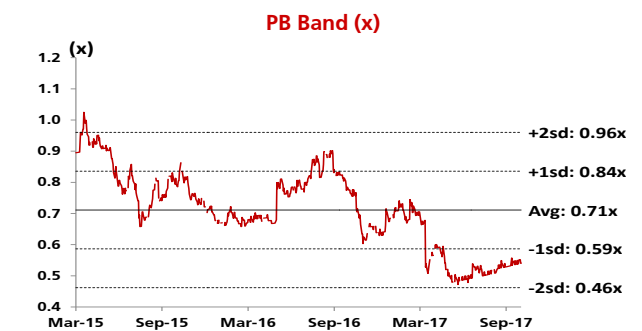
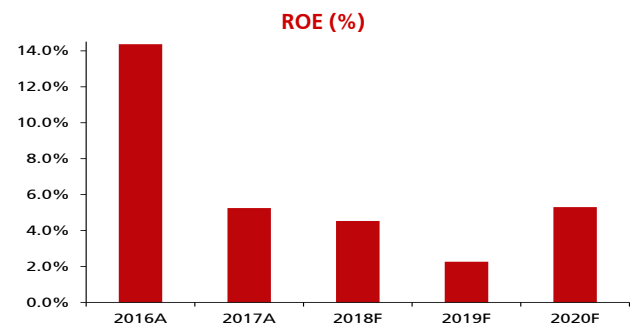
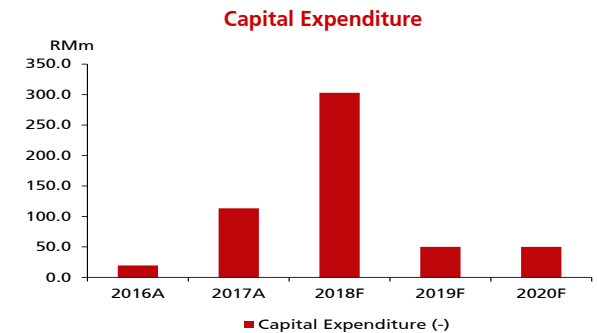
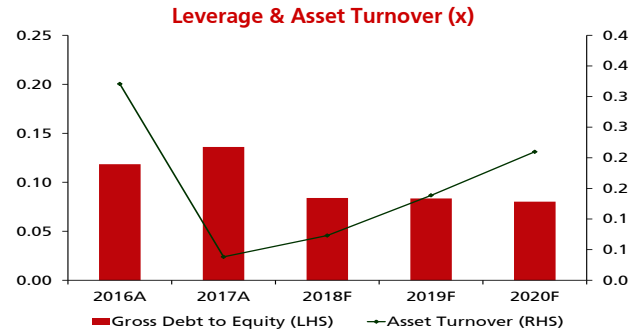
**Redevelopment on Sri Damansara Club land.** This prized land is located within walking distance to a MRT Line 2 station in Bandar Sri Damansara. Given L&G historical host of a mere RM2.40psf for the land, a successful redevelopment of the site is set to fetch very lucrative returns for the company.

**Key Risks:**

**Weaker property sales.** Rising household debt and softer consumer sentiment may lead to lower property sales. The hurdles that potential buyers are facing in getting bank financing have also resulted in generally lower sales.

**Company Background**

L&G is an established township developer in Bandar Sri Damansara. It has been expanding its landbank in recent years to venture beyond Bandar Sri Damansara into other densely-populated areas in Klang Valley to build up a strong pipeline.



Source: Company,

**Land & General Bhd**

**Key Assumptions**

FY Mar	2015A	2016A	2017A	2018F	2019F	2020F
property sales (RMm)	63.8	17.6	112	124	363	557
Revenue (RMm)	466	342	42.7	97.2	227	378
EBIT margin (%)	40.4	25.3	(36.4)	20.5	20.9	23.9

Expect strong improvement due to more launches

**Segmental Breakdown**

FY Mar	2015A	2016A	2017A	2018F	2019F	2020F
<b>Revenues (RMm)</b>						
Property	443	317	16.8	72.8	202	353
Education	13.2	12.9	13.1	13.4	13.7	13.9
Others	10.1	11.7	12.7	11.0	11.1	11.3
<b>Total</b>	<b>466</b>	<b>342</b>	<b>42.7</b>	<b>97.2</b>	<b>227</b>	<b>378</b>
<b>EBIT (RMm)</b>						
Property	184	79.3	(18.3)	14.6	42.0	84.7
Education	5.12	5.02	5.37	5.36	5.46	5.57
Others	(3.1)	2.57	8.88	0.0	0.0	0.0
<b>Total</b>	<b>186</b>	<b>86.9</b>	<b>(4.1)</b>	<b>19.9</b>	<b>47.5</b>	<b>90.3</b>
<b>EBIT Margins (%)</b>						
Property	41.7	25.0	(108.8)	20.0	20.8	24.0
Education	38.9	38.9	40.9	40.0	40.0	40.0
Others	(30.7)	21.9	70.0	0.0	0.0	0.0
<b>Total</b>	<b>40.0</b>	<b>25.4</b>	<b>(9.6)</b>	<b>20.5</b>	<b>20.9</b>	<b>23.9</b>

Steady contribution from education business

Conservative margin assumption

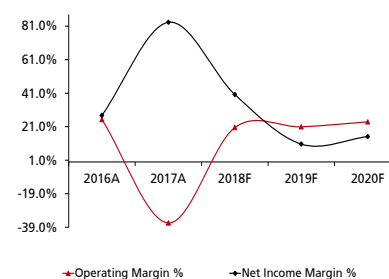
Source: Company, AllianceDBS



### Income Statement (RMm)

FY Mar	2015A	2016A	2017A	2018F	2019F	2020F
Revenue	466	342	42.7	97.2	227	378
Cost of Goods Sold	(288)	(230)	(77.0)	(80.3)	(183)	(291)
<b>Gross Profit</b>	<b>178</b>	<b>112</b>	<b>(34.4)</b>	<b>16.9</b>	<b>44.5</b>	<b>87.3</b>
Other Opng (Exp)/Inc	10.3	(25.6)	18.8	3.00	3.00	3.00
<b>Operating Profit</b>	<b>188</b>	<b>86.4</b>	<b>(15.5)</b>	<b>19.9</b>	<b>47.5</b>	<b>90.3</b>
Other Non Opg (Exp)/Inc	(1.5)	0.52	9.62	0.0	0.0	0.0
Associates & JV Inc	8.56	0.43	3.23	1.89	4.37	6.75
Net Interest (Exp)/Inc	(2.7)	(2.4)	(3.8)	(3.7)	(3.7)	0.0
Exceptional Gain/(Loss)	0.0	42.2	76.3	33.7	0.0	0.0
<b>Pre-tax Profit</b>	<b>192</b>	<b>127</b>	<b>69.8</b>	<b>51.8</b>	<b>48.2</b>	<b>97.0</b>
Tax	(48.9)	(35.6)	(18.2)	(7.8)	(11.6)	(23.3)
Minority Interest	(38.0)	3.41	(16.0)	(5.0)	(12.5)	(16.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>105</b>	<b>95.0</b>	<b>35.5</b>	<b>39.1</b>	<b>24.1</b>	<b>57.1</b>
Net Profit before Except.	105	52.8	(40.7)	5.37	24.1	57.1
EBITDA	197	89.9	2.00	27.0	57.5	103
<b>Growth</b>						
Revenue Gth (%)	nm	(26.6)	(87.5)	127.9	133.5	66.5
EBITDA Gth (%)	nm	(54.5)	(97.8)	1,251.1	113.4	79.5
Opg Profit Gth (%)	nm	(54.0)	(118.0)	(228.2)	138.4	90.1
Net Profit Gth (Pre-ex) 10/1	nm	(49.9)	nm	nm	348.9	136.7
<b>Margins &amp; Ratio</b>						
Gross Margins (%)	38.1	32.7	(80.6)	17.4	19.6	23.1
Opg Profit Margin (%)	40.3	25.3	(36.4)	20.5	20.9	23.9
Net Profit Margin (%)	22.6	27.8	83.3	40.2	10.6	15.1
ROAE (%)	33.7	14.4	5.2	4.5	2.3	5.3
ROA (%)	20.9	8.9	3.2	2.9	1.5	3.2
ROCE (%)	33.8	7.4	(1.3)	1.6	2.8	5.2
Div Payout Ratio (%)	16.8	22.9	62.4	75.0	122.8	51.9
Net Interest Cover (x)	70.2	36.3	(4.1)	5.4	13.0	NM

### Margins Trend



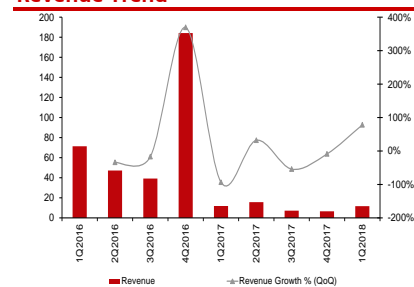
Contribution from Diamond City

Source: Company, AllianceDBS

**Quarterly / Interim Income Statement (RMm)**

FY Mar	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	184	11.9	15.7	7.20	6.57	11.7
Cost of Goods Sold	(116)	(14.0)	(16.6)	(9.8)	(36.7)	(20.5)
<b>Gross Profit</b>	<b>68.2</b>	<b>(2.1)</b>	<b>(0.9)</b>	<b>(2.6)</b>	<b>(30.2)</b>	<b>(8.8)</b>
Other Oper. (Exp)/Inc	(33.7)	4.58	5.83	4.43	9.71	4.59
<b>Operating Profit</b>	<b>34.6</b>	<b>2.52</b>	<b>4.98</b>	<b>1.86</b>	<b>(20.5)</b>	<b>(4.2)</b>
Other Non Opg (Exp)/Inc	(0.2)	3.49	1.59	8.63	(4.1)	2.28
Associates & JV Inc	(0.1)	0.58	(0.2)	(0.5)	3.28	0.0
Net Interest (Exp)/Inc	(0.6)	(0.6)	(0.6)	(0.6)	(2.0)	(1.0)
Exceptional Gain/(Loss)	42.2	9.01	15.6	8.60	40.6	33.7
<b>Pre-tax Profit</b>	<b>75.9</b>	<b>15.0</b>	<b>21.4</b>	<b>18.0</b>	<b>17.4</b>	<b>30.8</b>
Tax	(23.0)	(2.8)	(5.8)	(3.1)	(6.2)	(8.5)
Minority Interest	1.90	(1.9)	(5.4)	1.03	(15.2)	1.60
<b>Net Profit</b>	<b>54.8</b>	<b>10.3</b>	<b>10.3</b>	<b>15.9</b>	<b>(4.1)</b>	<b>23.9</b>
Net profit bef Except.	12.6	1.27	(5.3)	7.30	(44.7)	(9.8)
EBITDA	40.2	14.8	14.1	17.9	(12.4)	6.93

**Revenue Trend**



Weak profitability due to the lack of launches in recent years

**Growth**

Revenue Gth (%)	369.5	(93.5)	32.1	(54.2)	(8.8)	78.0
EBITDA Gth (%)	163.6	(63.2)	(5.0)	27.6	nm	nm
Opg Profit Gth (%)	237.4	(92.7)	97.5	(62.6)	(1,199.7)	(79.6)
Net Profit Gth (Pre-ex) (%)	115.6	(89.9)	(519.1)	(237.1)	(711.6)	(78.1)

**Margins**

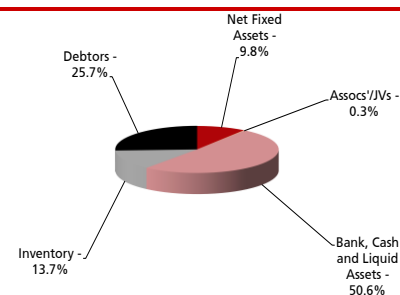
Gross Margins (%)	37.0	(17.3)	(5.4)	(35.7)	(459.1)	(75.0)
Opg Profit Margins (%)	18.8	21.2	31.7	25.8	(311.3)	(35.8)
Net Profit Margins (%)	29.8	86.4	65.4	220.7	(61.6)	204.6

Source: Company, AllianceDBS

### Balance Sheet (RMm)

FY Mar	2015A	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	76.4	75.1	76.1	70.9	115	159
Invt in Associates & JVs	0.0	0.0	0.0	1.89	6.26	13.0
Other LT Assets	141	176	288	591	591	591
Cash & ST Invt	331	516	390	367	290	61.7
Inventory	31.1	46.4	43.5	99.1	75.7	94.5
Debtors	55.5	113	81.9	187	114	126
Other Current Assets	372	199	228	237	529	837
<b>Total Assets</b>	<b>1,008</b>	<b>1,126</b>	<b>1,108</b>	<b>1,554</b>	<b>1,721</b>	<b>1,883</b>
ST Debt	0.12	0.10	25.3	25.3	25.3	25.3
Creditor	101	75.9	51.0	116	271	378
Other Current Liab	77.5	208	185	149	153	164
LT Debt	83.2	83.1	66.2	66.2	66.2	66.2
Other LT Liabilities	54.6	56.8	108	108	108	108
Shareholder's Equity	625	697	656	1,068	1,063	1,091
Minority Interests	67.0	4.38	16.6	21.6	34.1	50.7
<b>Total Cap. &amp; Liab.</b>	<b>1,008</b>	<b>1,126</b>	<b>1,108</b>	<b>1,554</b>	<b>1,721</b>	<b>1,883</b>
Non-Cash Wkg. Capital	281	74.7	117	258	294	515
Net Cash/(Debt)	248	433	299	275	198	(29.9)
Debtors Turn (avg days)	21.8	90.0	835.2	504.4	241.4	115.6
Creditors Turn (avg days)	64.4	141.8	320.1	406.1	400.0	416.6
Inventory Turn (avg days)	19.8	62.1	226.7	346.3	180.4	109.2
Asset Turnover (x)	0.9	0.3	0.0	0.1	0.1	0.2
Current Ratio (x)	4.4	3.1	2.8	3.1	2.2	2.0
Quick Ratio (x)	2.2	2.2	1.8	1.9	0.9	0.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	0.0
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	0.0
Capex to Debt (%)	99.6	23.4	123.8	330.9	54.6	54.6

### Asset Breakdown



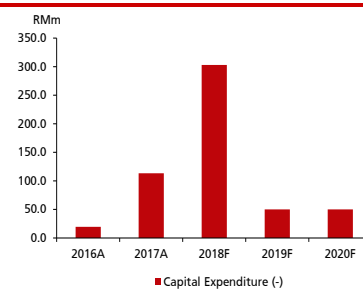
Solid balance sheet

Source: Company, AllianceDBS

## Cash Flow Statement (RMm)

FY Mar	2015A	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	192	127	69.8	51.8	48.2	97.0
Dep. & Amort.	2.47	2.52	4.69	5.16	5.68	6.25
Tax Paid	(62.0)	(32.7)	(15.7)	(44.0)	(7.8)	(11.6)
Assoc. & JV Inc/(loss)	(8.6)	(0.4)	(3.2)	(1.9)	(4.4)	(6.8)
Chg in Wkg.Cap.	(20.2)	175	(48.6)	(105)	(39.6)	(233)
Other Operating CF	126	(42.6)	(3.5)	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>230</b>	<b>229</b>	<b>3.38</b>	<b>(93.5)</b>	<b>2.15</b>	<b>(148)</b>
Capital Exp.(net)	(83.0)	(19.5)	(113)	(303)	(50.0)	(50.0)
Other Invts.(net)	(1.3)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(57.8)	111	(183)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(142)</b>	<b>91.9</b>	<b>(296)</b>	<b>(303)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Div Paid	(46.0)	(86.2)	(38.7)	(22.2)	(29.3)	(29.6)
Chg in Gross Debt	63.3	(3.6)	(5.7)	0.0	0.0	0.0
Capital Issues	56.9	2.61	3.82	395	0.0	0.0
Other Financing CF	(5.5)	(10.1)	16.9	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>68.6</b>	<b>(97.3)</b>	<b>(23.7)</b>	<b>373</b>	<b>(29.3)</b>	<b>(29.6)</b>
Currency Adjustments	(9.6)	(38.8)	191	0.0	0.0	0.0
Chg in Cash	147	185	(126)	(23.6)	(77.1)	(228)
Opg CFPS (sen)	22.4	3.93	3.71	0.38	1.41	2.87
Free CFPS (sen)	13.2	15.2	(7.8)	(13.5)	(1.6)	(6.7)

## Capital Expenditure



Landbank acquisition

8-for-5 rights issue at 21 sen apiece

Source: Company, AllianceDBS

## DISCLOSURE

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### Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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