

COVERAGE INITIATION

10 July 2018

Land & General Berhad

Bursa / Bloomberg Code: L&G / LGH MK

Price : RM0.185

Market Cap : RM542.5 m

Listing : Main Market

Sector : Properties

Recommendation : BUY

Key Financials

(FYE Mar)	FY17A	FY18F	FY19F
Revenue	42.7	80.3	215.7
Revenue growth	-87.5%	88.2%	168.7%
EBIT (RM m)	70.3	95.7	44.3
Net profit (RM m)	35.5	75.4	25.3
Net profit growth	-62.6%	112.3%	-66.5%
Net profit margin	83.3%	93.9%	11.7%
EPS (sen)	3.2	2.8	0.9
Div/share (sen)	2.0	1.5	1.0
Payout ratio	164.9%	58.3%	116.0%
BV/share (RM)	0.38	0.39	0.39
Cash flow/share (sen)	3.0	2.7	1.0

Key Valuation

Metrics	FY17A	FY18F	FY19F
P/E (x)	5.8	6.7	21.5
P/BV (x)	0.5	0.5	0.5
P/cashflow (x)	6.3	6.9	17.6
Dividend yield	10.8%	8.1%	5.4%
ROE	8.4%	7.1%	2.2%
Net gearing (x)	Net cash	Net cash	Net cash

Shares outstanding (mln) 2,932.7

52-week Hi-Low (RM) 0.16-0.24

Major Shareholders

Mayland Parkview Sdn Bhd 35.2%

Last 12-month share price chart



Source: Bloomberg

1. Summary

- **An established property developer** with long track record in both township and niche property development with landbank 3,281 acres located mainly in Selangor. 736 acres of the 3,281-acre landbank have a combined identified GDV of RM8.2 bln.
- **Education arm.** L&G also operates a private school and a recently opened international school. The education arm provides steady recurring income to the Group.
- **2 key property launches in FY19 with combined GDV of RM710 mln** to drive earnings growth, supported by existing unbilled sales of some RM200 mln.
- **Financials.** Healthy operating margin in excess of 30% in the past (FY13-FY16). Property earnings slowed down in FY17 and FY18 due to lack of new launches, but was cushioned by writeback of costs and Government compensation arising from land acquisition. Balance sheet is solid with net cash/share of 6.8 sen as at Mar 2018.
- **Core earnings projected at RM25.3 mln and RM53.3 mln** in FY18 & 19 respectively underpinned by contribution from new launches and ongoing projects. Target property sales of RM300 mln – RM400 mln in FY19 and FY20 respectively.
- **Risks** include delay or slow take-up rates for its new launches, higher-than-expected interest hike and changes in government policies affecting property sector.
- **Initiate coverage with a Buy recommendation and a fair value of 27 sen**, derived from ascribing a target P/BV of 0.7x against FY19 book value. We like the Group for its exposure in both township developments (long term earnings) and pocket-sized projects (quick monetization of land) in KL and Selangor where we see demand should prevail. Education business, meanwhile, provides a stable income base to the Group.

2. Background

Corporate profile.

Experienced property developer.

Land & General Berhad (“L&G”) is an investment holding company while its subsidiaries are principally involved in property investment and property development activities, as well as cultivation of rubber and oil palm and provision of education services. L&G was listed since 1968 on the Stock Exchange of Malaysia and Singapore (now renamed to Bursa Malaysia Securities Berhad).

Long history dating back to 1964. Incorporated in 1964, the Group was initially known as General Lumber (Holdings). In early 1980’s, its business activities included saw-milling and timber trading, having secured several timber concessions, before it ventured into other non-timber related businesses later in the decade. In 1991, the Group was renamed to Land & General Berhad. It also won the FIABCI MALAYSIA AWARD for the signature property development in Bandar Sri Damansara.

L&G was adversely affected by the 1997 Asian Financial Crisis (“AFC”), where the Group went on a decade-long debt restructuring program that involved the disposal of its landbanks and non-core assets.

Emergence of a new strategic major shareholder. Mayland Parkview Sdn. Bhd. (“Mayland Parkview”), a wholly-owned subsidiary of Malaysia Land Properties Sdn. Bhd. (“Mayland”), emerged as a major shareholder in 2007. Over time, the management team gradually changed due to resignations and retirements. And by 2009, all the debts incurred since the AFC was finally cleared too.

Mayland’s holding company, Prestige Aspect Sdn. Bhd. is controlled by Tan Sri Dato’ David Chiu. He is also the Chairman and Chief Executive Officer of Far East Consortium International Limited (“FEC”). FEC is a property developer and hotel operator listed on the Hong Kong Stock Exchange (HKSE: 0035). Tan Sri Dato’ David Chiu’s son, Mr. Andrew Chiu Wah Wai currently sits on L&G’s Board of Directors.

Continues to focus on property development. Property development remains the L&G’s core business activity. Besides township projects, it has also started developing apartments and office buildings. Some of the Group’s completed projects are The Elements@Ampang, Damansara Foresta, and 8trium.

Boosting landbank via acquisition. In May 2017, L&G has completed the acquisition of Primal Milestone Sdn Bhd, Quantum Bonus Sdn Bhd, Triumph Bliss Sdn Bhd and Forward Esteem Sdn Bhd from Mayland for cash consideration of RM303.0 mln (RM298.3 mln purchase price plus RM4.7 mln intercompany monies owed to Mayland). The acquisition was funded primarily via proceeds from rights issue combined with internally generated funds and bank borrowings. The acquisition added 444.5 acres of land to L&G, with the landbank all located in Selangor.

On 30 April 2018, L&G has also exercised its option to purchase Soho Prestige Sdn Bhd (“SPSB”) from Mayland for consideration of RM37.3 mln, along with RM4.0 mln settlement of outstanding inter-company money owed to Mayland. In conjunction with the exercise of its option, L&G has entered into share sale agreement with Mayland. SPSB owns a tract of land

in Taman Sri Hartamas, Kuala Lumpur measuring 1.78 acre with proposed development for a high-rise residential building.

35.2%-stake held by Mayland Parkview. Mayland Parkview is the single largest shareholder of L&G with a 35.2%-stake. Except for Mr. Andrew Chiu (deemed interest through Mayland Parkview), and Tengku Maruan Tengku Ariff who holds 2,000 shares in L&G, none of the other members of the Board holds shares in the Group.

Board of Directors. Out of the 9-person Board of Directors, 5 are Independent Directors which fulfill Bursa Malaysia's listing requirement of having one-third or minimum of 2 Independent Directors. The Board is led by Dato' HJ Zainal Abidin Putih who is the Independent Non-Executive Chairman.

Key management.

Managing Director, Mr. Low Gay Teck.

Mr. Low has been leading L&G as the Managing Director since 2008. He is part of the new management that was put in place after Mayland emerged as a controlling shareholder. He has 25 years of experience in property development and project management, handling and implementing residential and commercial projects, shopping complex, serviced apartments and many more. Mr. Low holds a Bachelor of Civil Engineering degree from Footscray Institute of Technology, (now known as Victoria University), Australia.

Chief Financial Officer, Mr. Tan Boon Siong.

Mr. Tan assumed the role of Chief Financial Officer on 1 October 2017. Before that, he was the Corporate Advisor for L&G for 1.5 years. He has vast experience in finance, accounting and auditing with more than 25 years of working experience. He obtained his Bachelor of Commerce degree with honors from University of Melbourne. He is also a member of the Australian Society of Certified Practicing Accountants.

Group Financial Controller, Ms. Jenny Chee Yuet Sin.

Ms. Jenny Chee was appointed as the Group Financial Controller on 1 December 2010. She has more than 20 years of experience in finance, auditing, and taxation covering various industries such as manufacturing and trading, hospitality, and property development. Ms. Jenny Chee holds a Professional Qualification from Chartered Professional Accountant ("CPA") Malaysia and is a member of Malaysia Institute of Certified Public Accountants and Malaysian Institute of Accountants.

Principal of Sri Bestari Private School, Dr. Steven Baptist.

Dr. Steven has more than 15 years of work experience in the education sector. He has served in various senior management roles at Nilai International University, SEGi College Subang Jaya and Kuala Lumpur Center, as well as SEG International Berhad. Dr. Steven has been the principal of Sekolah Sri Bestari since 2013. He has a Doctorate in Extension Education as well as an Executive Master's degree in Business Administration from University of Western Sydney.

Principal of Sri Bestari International School, Dr. Wong Siew Chin.

Dr. Wong has more than 15 years of work experience in the private education industry. She started her career as a Lecturer in Tunku Abdul Rahman College. Prior to joining Sri Bestari, Dr. Wong was with Cempaka International School where she helmed various academic and management positions over the past 14 years, from A-level teacher to Head of A-Level Faculty (Cambridge International Examinations), and later as

Principal in Cempaka Group of Schools, Cheras. Dr. Wong holds a Bachelor of Science (Hons) in Chemistry, a Master of Science in Chemistry and Doctorate in Management and Education Policy from University of Malaya, as well as a Master's in Business Administration from Monash University.

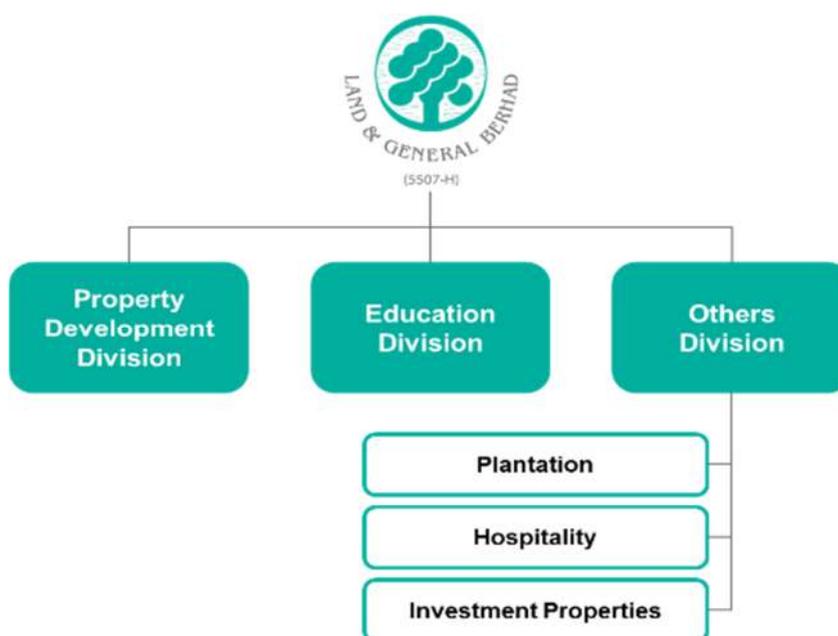
Senior Project Manager, Chin Foo Teck.

With more than 30 years of experience in property development and construction industry, Mr. Chin is a key management personnel to the Group property development division. He has hands-on experience in managing high-rise residential buildings. Mr. Chin attained his Master's degree in Business Administration from University of Leicester United Kingdom.

Senior Manager of Township Development, Ms. Jenny Yap Yin Kuen.

Ms. Jenny Yap was previously with SP Setia Berhad occupying various capacities for more than 20 years. She holds an Advanced Diploma in Business and Management from Swansea Institute (an associated institution of University of Wales).

Exhibit 1. Core business segments.



Source: Company.

Property, Education, and Others.

The Group has three main businesses -- property development, education, and others. While property development is the Group's core activity, the other two business segments provide steady revenue contribution to the Group.

Property development.

Bandar Sri Damansara township was the Group's first property development project. Since then, L&G has developed office buildings and high-rise apartments as well. Exhibit 2 shows the Group's past completed projects.

Exhibit 2. Completed projects.

Completed Projects	
<p>Damansara Foresta</p> 	<p>Located next to the Bukit Lanjan forest reserve in Bandar Sri Damansara, Damansara Foresta comprises 4 blocks of serviced apartments with 928 units that sits on a 13-acre land.</p> <p>Total GDV : RM 808.1 mln Completion date : 2015 Take-up rate : 98.5% Average psf : RM575</p>
<p>The Elements@Ampang</p> 	<p>A high-rise 1,040-unit luxury condominium situated in Ampang, Kuala Lumpur with 2 towers of 41-storey each.</p> <p>Total GDV : RM851.3 mln Completion date : 2014 Take-up rate : 96.0% Average psf : RM885</p>
<p>8trium</p> 	<p>A business center that sits on a 2.65-acres of land with 2 towers of 21-storey each, comprising a total of 260 units. It is also home to L&G's headquarter.</p> <p>Total GDV : RM97.0 mln Completion date : 2011 Take-up rate : 98.0% Average psf : RM445</p>
<p>Bandar Sri Damansara Township</p> 	<p>L&G's signature township development which spans across 1,000-acres that was completed in 1996. It comprises commercial and residential properties.</p>

Source: Company, media news.

On-going projects. L&G currently has 2 key on-going projects located in Klang Valley with potential GDV of approximately RM2.5 bln. The following table summarizes the existing projects:-

Exhibit 3. Current on-going projects.

On-going Projects	
<p>Astoria Ampang</p> 	<p>Astoria is a high-end serviced apartment located in Ampang, Kuala Lumpur, nearby L&G's Elements project. Sitting on a 5.6-acre land, it has a total of 1,012 units of serviced apartments comprising 4 towers of 46-storey each.</p> <p>The project will be developed in 2 phases. Phase 1 comprises 2 blocks and was launched in April 2016.</p> <p>Total GDV: RM840 mln (RM420 mln in each phase) Target completion: 2020 Take up rate: Phase 1 (506 units) 70% Average psf: RM900</p>
 <p>Diamond City</p>	<p>A 45:55 joint venture (JV) development between L&G and Country Garden.</p> <p>Plot A Diamond City Plot A comprises a mix of residential houses (418 units), 424 units of Rumah Selangorku, clubhouse and a commercial plot.</p> <p>Total GDV: RM570 mln Land size: 98.8 acres Take-up rate: Phase 1,2 & 4: 89% Phase 3: 8% Psf range: RM300-RM1,150</p> <p>Plot B Diamond City Plot B (158.3 acres) is made up of 870 units of residential properties, 870 units of Rumah Selangorku along with a commercial plot as well. The project was launched in April 2016 and construction is divided into 4 phases.</p>

	Total GDV: RM1.0 bln Land size: 158.3 acres Target completion: 2022 Take-up rate: Phase 1 & 4: 58% Phase 2: 13% Psf range: RM350 – RM500
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Source: Company.

Apart from the above, the Group has balance gross GDV of RM168 mln from Diamond City Plot A comprising bungalow lots (with buildings to be built upon sale). Diamond City Plot A is also a 45:55 JV project between L&G and Country Garden, in which the acquisition was completed in May 2017.

Beyond Malaysian shore, L&G has a project located 47km north of Melbourne, Australia called the Hidden Valley. It is an upscale high quality residential project with modern tropical concept that include bungalows, cluster homes, semi-Ds, apartments and retirement homes. Hidden Valley, which is also a 50:50 JV development, has been ongoing for 20 years. The balance GDV is approximately AUD30 mln.

Upcoming projects.

L&G is planning for the official launch of its 2 new projects in the next few months – Damansara Seresta condominium in Bandar Sri Damansara and Sena Parc township development in Senawang, Negeri Sembilan. Further details are available in the table below:-

Exhibit 4. Upcoming projects.

Upcoming Projects	
Damansara Seresta 	Damansara Seresta is a freehold luxury high-rise condominium next to its Foresta project. Sitting on a 6.2-acre land, Seresta which has 452 units is the 2 nd phase development with remaining 20.8 acres out of the 40.0 acres yet to be developed. Private previews held so far have yielded positive feedback. Est. GDV : RM480 mln Est. psf. : RM650 – RM700 Target launch : 2Q2018
	Located in Senawang, a 20 minutes' drive from Seremban town center, Sena Parc is a township development with nature as its theme. The project spans across 229.0-acres which will be developed in several phases. Phase 1 of 58.1 acres will comprise 453 units of double-storey linked houses and 83 semi-D homes.

Sena Parc	<p>Designed to be affordable, the selling price is expected to be under RM500,000 per unit for the linked houses.</p> <p>Est. GDV: RM600mln (total) RM230 mln Phase 1</p> <p>Est. psf. : RM250 – RM350 Target launch: 2Q2018</p>
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Future projects.

In addition to Seresta and Sena Parc, the Group also has several other projects in the pipeline, to be launched at a later date. These include:-

Triumph Bliss – South Lake in Mines Sri Kembangan

Covering an area of 15.3 acres, Triumph Bliss is a high-rise serviced apartment project comprising 2,222 units, to be developed in 3 phases. With a total estimated GDV of RM1.6 bln, the project is expected to last between 6 and 8 years. Development order has been granted.

Taman Sri Ukay, Ampang

This is a high-rise development comprising serviced apartments over a 4.6-acre of land. GDV is estimated at RM480 mln. Development order has been granted but it has to be renewed with the authority.

Aria Rimba at U10, Shah Alam

Aria Rimba is a 112.3-acre project with an estimated GDV of RM1.2 bln, comprising link houses, semi-Ds, serviced apartments as well as affordable housing (Rumah Selangorku). Development order has been granted.

Sri Damansara Club

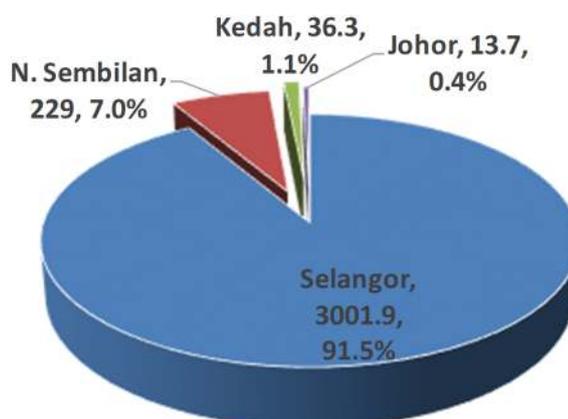
L&G is currently undertaking planning work for the re-development of Sri Damansara Club, and shall make known further details on the project in due course.

Ladang Sg Jernih, Kerling

This is a township development spanning across 2,495 acres of land located in Mukim Kerling, Hulu Selangor. Currently, the land is for plantation use and is planted with oil palm and rubber trees. L&G plans to clear the plantation to make way for property development. The land re-zoning plan has been submitted for regulatory approval.

Total landbank of 3,281 acres with a known GDV of RM8.16 bln.

L&G has a total landbank of 3,281.0 acres, spread across 4 states. Majority of its landbank is located in Selangor/Klang Valley (3,002 acres or 91.5%), followed by Negeri Sembilan (229.0 acres or 7.0%), Kedah (36.3 acres or 1.1%) and Johor (13.7 acres or 0.4%). Of the 3,281 acres of landbank, 736 acres have a total estimated GDV of RM8.2 bln with the remaining landbank's GDV yet to be determined.

Exhibit 5. Total landbank by state.

Source: Company.

Exhibit 6. L&G's landbank breakdown.

Location	Size (Acres)	GDV (RM mln)	Progress
Astoria Ampang - Phase 1	5.6	840	On-going
Diamond City (45% JV)	165.1	520 (45%)	On-going
Sena Parc 1 - Phase 1	58.1	230	Lauching soon
Damansara Seresta	6.2	480	Lauching soon
Damansara Foresta Phase 3 & 4	15.3	1120	Approval for Layout Plan obtained
Sena Parc - Phase 2 & 3	170.9	370	Planning
Aria Rimba at U10 Shah Alam	112.3	1152	Development Order obtained
The Mines Resort	15.3	1600	Development Order obtained
Sri Ukay Ampang	4.6	480	Development Order obtained
Sri Damansara Club (SDC)	15.0	1000	Planning
Serendah (45% JV)	167.6	370 (45%)	Development Order obtained
Sungai Petani	36.3	n/a	No immediate development plans
Johor Bahru	13.7	n/a	No immediate development plans
Sungai Jernih, Hulu Selangor	2495.0	n/a	Submitted land rezoning plan
Total	3281.0	8,162	

Source: Company.

Note: we have excluded the SPSB land in Taman Sri Hartamas as the acquisition is not completed yet.

Education arm.

Apart from property development, L&G also has an education arm that operates a kindergarten, a private primary and secondary school using national syllabus, as well as a newly opened international school based on IGCSE Cambridge syllabus. The Group has been managing Tadika Manjaria and Sekolah Sri Bestari ("SSB") for more than 20 years. SSB had its first intake in 1996 and currently has 869 students – 465 secondary students, 318 primary students and 86 students in kindergarten. The kindergarten and SSB are located on a 15-acre land in Bandar Sri Damansara which is a stone throw away from its head office.

The new Sri Bestari International School ("SBIS") had its first intake in September 2017 for Year 1 and Year 7 students. The pioneer batch comprises 34 students with the number expected to increase to 100 by September 2018.

The SBIS students are currently housed within existing facilities while L&G constructs new buildings for the international school, which is located in the same 15-acre land that houses the kindergarten and SSB. The new SBIS buildings, with capex of RM50 mln and capacity of 1,250 students, are expected to be ready in time for the September 2019 intake.

Other divisions.

Apart from property development and education, the Group also has other businesses comprising plantation activities, hospitality, and investment properties.

Oil palm and rubber plantation.

L&G's oil palm and rubber plantation is located in Kerling, Hulu Selangor. Out of the total land size of 1,009 hectares, 627 hectares or 62% are oil palm trees while 270 hectares or 27% are rubber trees. The balance land areas are buildings, water body and swamp. All the oil palm and rubber trees in the plantation are mature trees. As mentioned earlier in the report, management plans to clear the entire plantation to make way for its proposed township development.

Sri Damansara Club.

The Group manages Sri Damansara Club ("SDC") which is a recreational club that sits on a 20.0-acre land in Bandar Sri Damansara. SDC was completed in 1995 and has been managed by Sri Damansara Club Bhd, a wholly owned subsidiary of L&G. With an upcoming MRT station nearby SDC, which is part of the MRT Line 2 project slated for completion in 2022, management plans to unlock the value by redeveloping the site. The development is currently at planning stage.

Investment properties.

L&G has 3 investment properties – 8trium, Menara L&G & Sri Damansara Business Park. Completed in 2011, 8trium is also home to the Group's head office. Courts Megastore and Decathlon are 8trium's anchor tenants.

Assets	Net Lettable Area
8trium	108,000 sq ft
Menara L&G	133,000 sq ft
Sri Damansara Business Park	43,400 sq ft

3. Financial highlights**FY17 and FY18 revenue down due to weak property sector.**

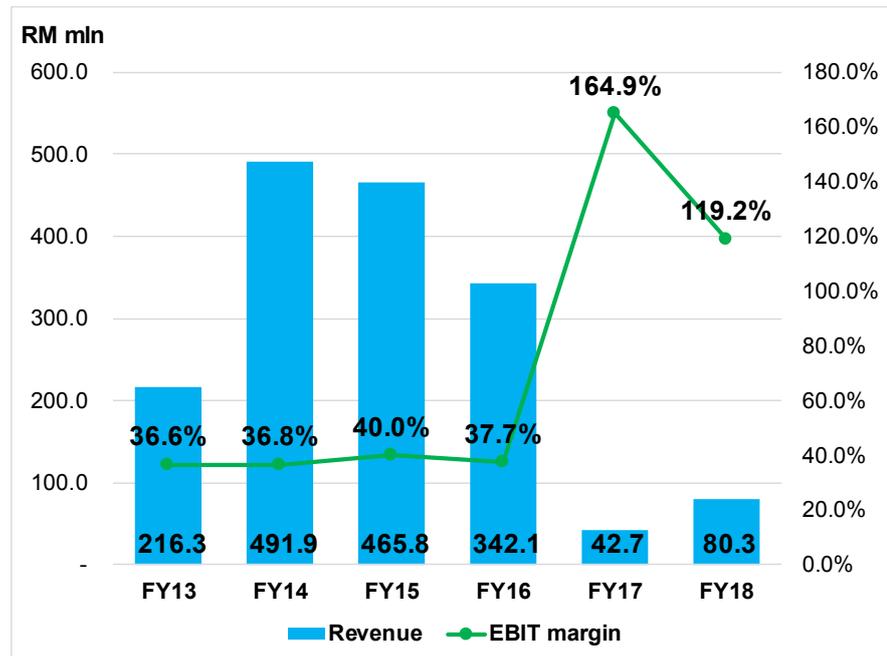
After hitting a record high of RM491.9 mln in FY14, Group revenue has been on a downtrend, reaching a low of RM42.7 mln in FY17, before rebounding to RM80.3 mln in FY18. The robust revenue performance for the few years prior to FY17 was mainly due to contribution from several property projects such as 8trium, The Elements@Ampang and Damansara Foresta. However, there was lack of new key launches after Damansara Foresta (save for Astoria Ampang) due to the weak property sector and this contributed to the lacklustre top line in FY17. The rebound in FY18 was mainly due to contribution from Astoria Ampang project.

Stable operating profit margin.

Despite the fluctuation in revenue, the EBIT or operating profit margin has historically been relatively stable at between 37% and 40%, save for FY17 and FY18.

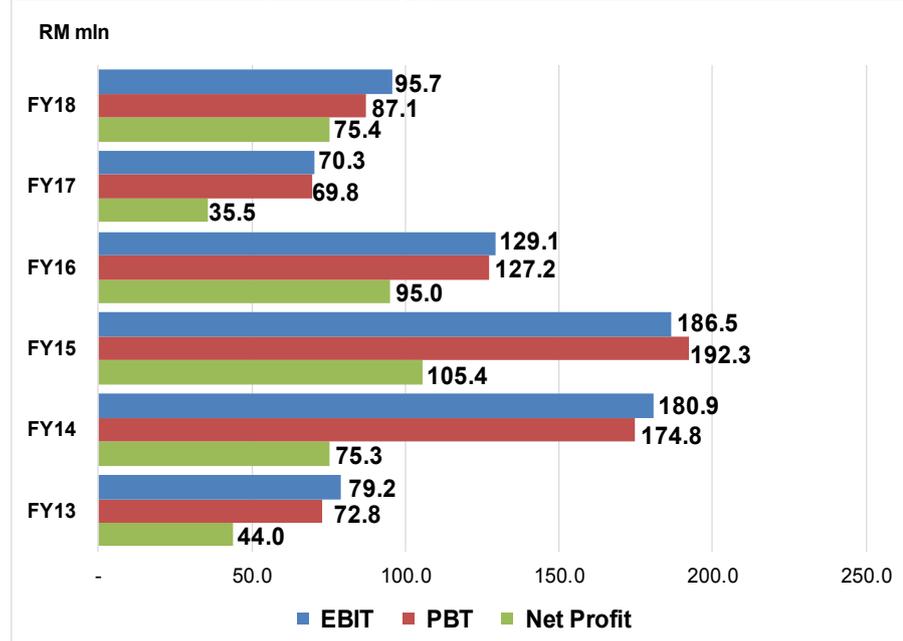
The EBIT margin in FY17 and FY18 exceeded the Group turnover due to one-off income. In particular, FY17 operating profit included a write-back of cost provision amounting to RM74.1 mln that was no longer required for its Elements@Ampang project. And in FY18, there was also another write-back of cost of RM43.4 mln for the Damansara Foresta project, as well as a compensation of RM34.5 mln from Government under the mandatory land acquisition exercise for MRT Line 2.

Exhibit 7. Historical revenue & EBIT margin



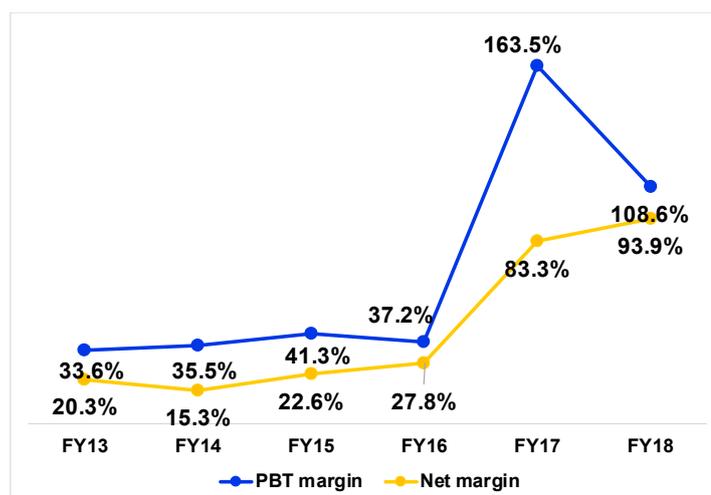
Source: Company, ZJ Research.

Exhibit 8. Historical profitability performance.



Source: Company, ZJ Research.

Exhibit 9. Historical profitability margin performance.



Source: Company, ZJ Research.

Higher-than-statutory tax rate prior to FY18.

The Group's effective tax rate in FY18 was 24%, in line with the statutory rate. Prior to that, it was 26.1% in FY17, 28.0% in FY16 and 25.4% in FY15. We note that this is generally higher than the 24% statutory tax rate, largely due to non-deductible expenses incurred.

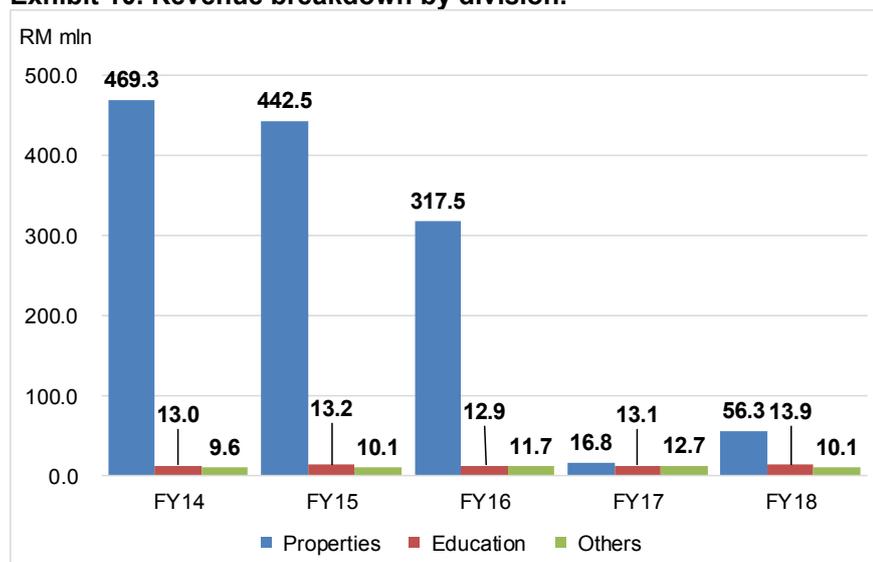
FY17 and FY18 net profit cushioned by write back of provision.

The spike in profit margin in FY17 and FY18 were, as mentioned earlier, due to write-back of cost provisions for the Elements@Ampang (FY17) and Damansara Foresta (FY18) projects, in addition to compensation from Government for land acquisition in FY18. This resulted in L&G posting net profit of RM35.5 mln and RM75.4 mln on the back of RM42.7 mln and RM80.3 mln revenue in FY17 and FY18 respectively.

Revenue breakdown by segment.

Property development remains the Group's primary revenue driver. It accounted for more than 90% between FY13 and FY16. Meanwhile, L&G's education segment and others division have been contributing steady streams of revenue as shown in Exhibit 10.

Exhibit 10. Revenue breakdown by division.

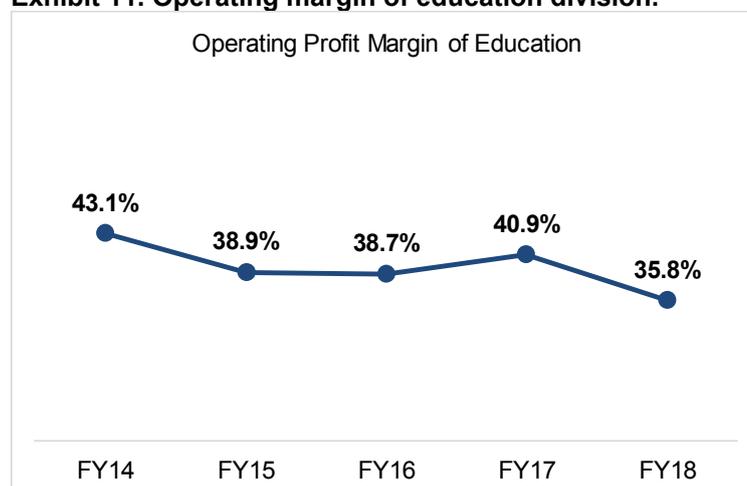


Source: Company, ZJ Research.

Education arm: steady operating profit margin.

With consistent average operating profit margin of 39.5% over the last 5 financial years, the Group's education division provides a steady source of income, which partly helped smoothen the fluctuation from the property development business. We believe the decline in FY18's profitability was largely due to expenses associated with the new international school where it has just begun its first intake and has not achieved economies of scale.

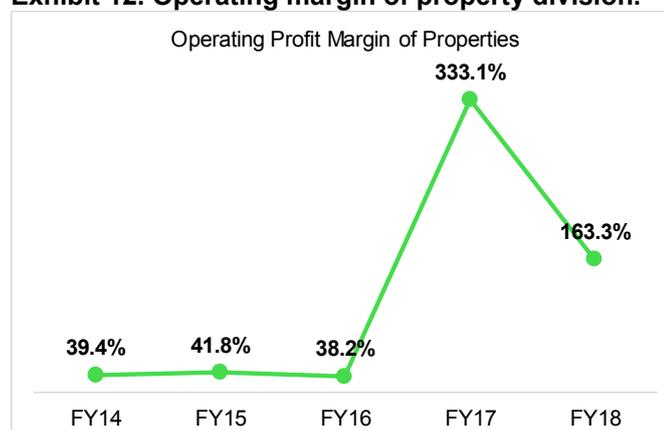
Exhibit 11. Operating margin of education division.



Property: commendable operating profit margin.

On the other hand, the operating profit margin from the property development arm was commendable as well between FY13 and FY16. Note that we excluded operating profit margin for FY17 and FY18 as these were distorted by the write-backs mentioned previously in the report. We also excluded the other businesses as we do not view them as a significant business division at this juncture.

Exhibit 12. Operating margin of property division.



Source: Company, ZJ Research

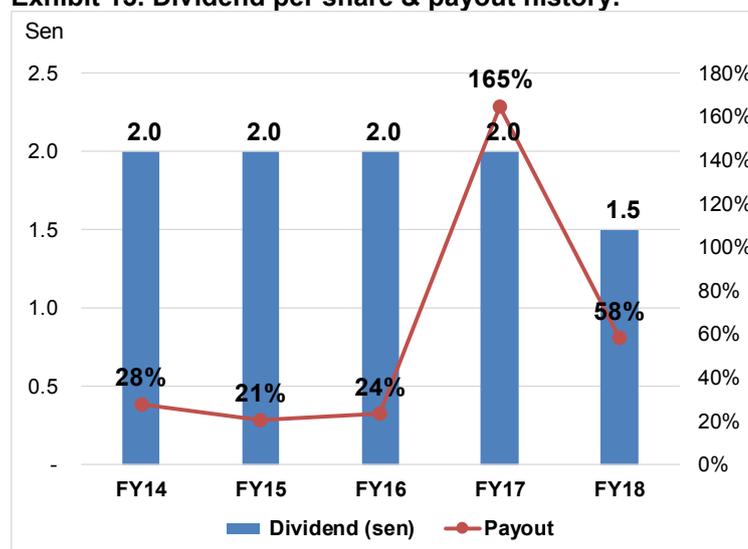
Net cash position with high cash holding of RM385.4 mln.

The Group's operations are backed by strong cash holding of RM385.4 mln with a net cash of about 6.8 sen per share as at end-March 2018. It incurred a net operating cash flow outflow of RM9.8 mln in FY18. The Group's ample cash holding provides management the resources to seize any opportunities that arise. Net assets/share stood at 37.9 sen as at end-March 2018.

Consistent dividend payout.

L&G has been paying dividend of 2 sen per share in the last 4 financial years even when the Group's earnings declined in FY17. Dividend payout ratio ranged between 20%-30% from FY14 to FY16 before it shot up to 165% in FY17 as net profit declined. In the latest 4QFY18 results, the Board has recommended a final single tier dividend of 1.5 sen for FY18, subject to shareholders' approval at the upcoming AGM. The FY18 dividend, if approved, translates to an attractive net yield of 8.1%.

Exhibit 13. Dividend per share & payout history.



Source: Company, ZJ Research

4. Industry landscape

New Government.

In the recently concluded 14th General Election, Pakatan Harapan (PH) coalition created history by sweeping into power and unseating Barisan Nasional to be the new ruling Government. Given the unprecedented development, it is still unclear at this juncture the impact of the change on the property sector. Some of the items in the PH manifesto related to property are:-

- Minimum wage to increase from RM1,000 to RM1,500 within the first term (this would affect the construction cost of property)
- Set time limit to develop landbank
- Offer incentives to smaller developers
- Increase quote for affordable homes
- Build 1 mln affordable homes within 2 terms
- Establish national affordable home council
- Reduce number of foreign workers in Malaysia

Challenging property market.

As it is, the local property market has been sluggish for several years since 2014/2015 following the tightening of lending by banks, rising cost of living affecting disposable income, introduction of GST and higher interest rates, amongst other factors.

According the Property Market Report 2017 by the Jabatan Penilaian Dan Perkhidmatan Harta (JPPH), the number of residential properties transacted remained on the downtrend since 2014 with 194,684 units changed hands in 2017 vs. 203,064 a year ago (-4.1% YoY).

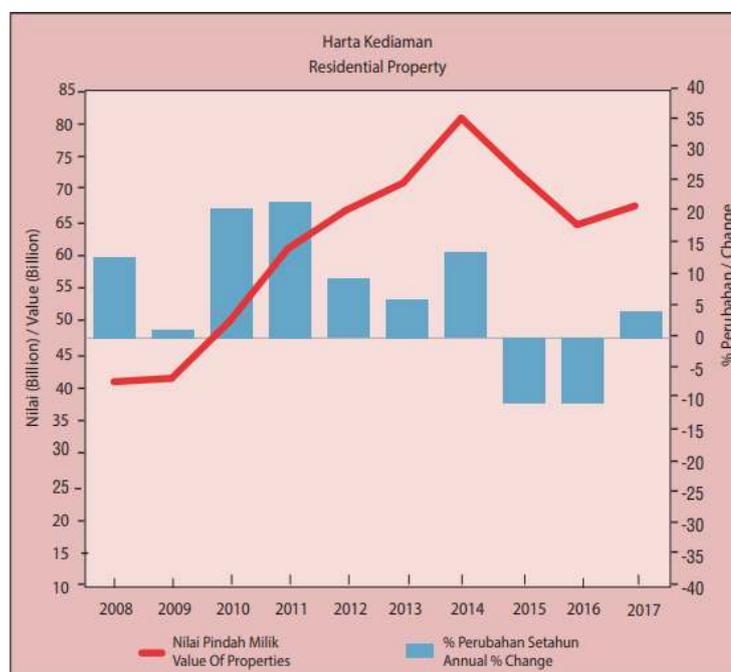
Exhibit 14: Number of properties transacted in 2017

	Bilangan Harta/ Number Of Properties			
	2014	2015	2016	2017
Kediaman/ Residential	247,251	235,967	203,064	194,684
Pertanian/ Agricultural	72,104	66,705	69,078	70,290
Perniagaan/ Commercial	35,528	31,776	23,745	22,162
Pembangunan Dan Lain-lain/ Development and Others	21,077	20,611	18,929	18,963
Industri/ Industrial	8,100	7,046	5,609	5,725
Jumlah/ Total	384,060	362,105	320,425	311,824

Source: Property Market Report 2017 by JPPH

Better days ahead.

We understood a number of property developers have been holding back their launches in the past two years given the lackluster environment. Nevertheless, there have been some positive signs lately that the property sector might be seeing better days ahead.

Exhibit 15: Historical value of residential property transacted

Source: Property Market Report 2017 by JPPH

Despite lower number of transactions, the value of residential properties transacted nudged up close to 5% in 2017, after having recorded decline in the previous 2 years.

Meanwhile, the Malaysia House Price Index (MHPI) stood at 190.0 points in 4Q2017 (preliminary data), a 5.8% in over 2Q2016.

Exhibit 16. Malaysian House Price Index.



Source: *Tradingeconomics.com/BNM*.

New launches picking up.

After holding back for some 2 years, we notice property developers are gradually resuming their launches. 77,570 units of residential units were launched in 2017, which was a significant increase of 47.2% YoY over 2016. In particular, KL saw the numbers rising almost 4-fold to 22,112 units while Selangor experienced 67.2% rise in new units launched.

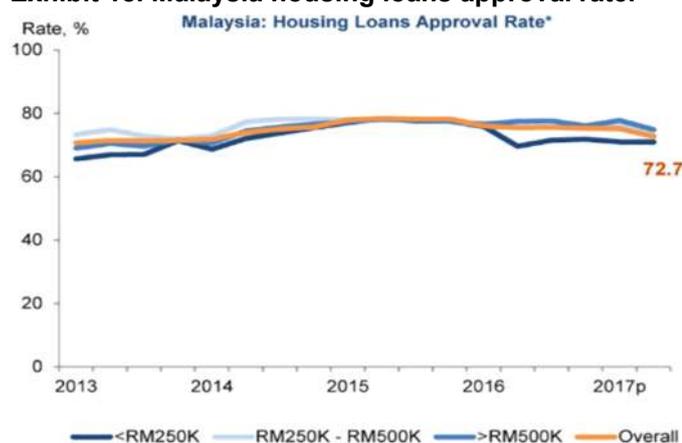
Exhibit 17: Number of property launches

State	Newly Launched	
	2016	2017
Malaysia		
Units Launched	52,713	77,570
Units Sold	16,532	25,261
Sales Performance	31.4	32.6
W.P. Kuala Lumpur		
Units Launched	5,816	22,112
Units Sold	1,588	4,313
Sales Performance	27.3	19.5
Selangor		
Units Launched	8,087	13,522
Units Sold	2,875	6,100
Sales Performance	35.6	45.1

Source: *Property Market Report 2017 by JPPH*

Housing loans approval rate remains high.

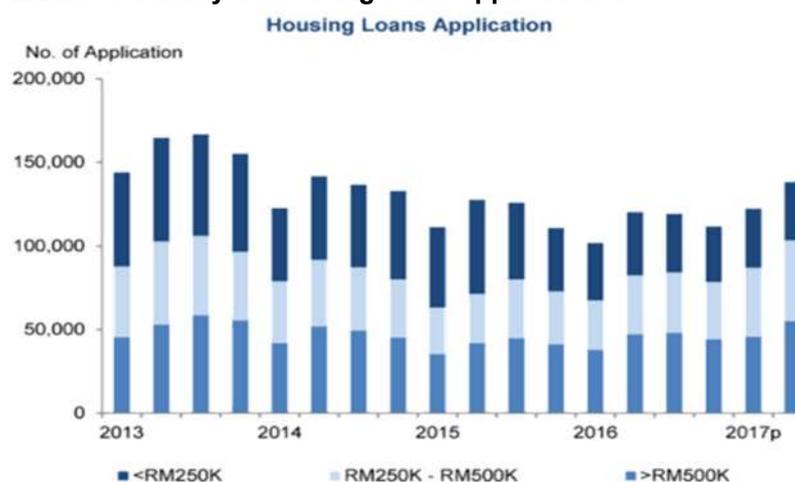
As for financing, Malaysia’s housing loans approval rate remains high at 72.7% in the 2Q2017 and the number of applications is experiencing an upward trend in the last 3 quarters.

Exhibit 18. Malaysia housing loans approval rate.

* The approval rate is the ratio of the number of housing loan applications approved to the number of housing loan applications received by the banks during the same period.

p – preliminary.

Source: Housing Watch.

Exhibit 19. Malaysia housing loans applications.

p – preliminary.

Source: Housing Watch.

5. Earnings Outlook**New launches to drive earnings growth.**

To recap, L&G's current ongoing projects include Astoria Ampang Phase 1 and Diamond City Plot B with expected completion by end FY20 and FY19 respectively. Current unbilled sales from these projects are approximately RM253 mln.

The Group is slated to unveil a series of new property developments in FY19 and beyond. Key new launches in FY19 include Sena Parc Phase 1 (GDV: RM230 mln) and Damansara Seresta (GDV: RM480 mln). At this juncture, we estimate the take up rate for these new projects at 50%-70% within 12 months from launching as property buyers gradually returning to market after the lull period. Sentiments are generally improving with renewed confidence under the new government which has promised transparent, clean and fair governance.

Earnings growth.

Earnings in the next two years would substantially be supported by the current projects along with the 2 new key launches. We project the Group to achieve property sales of RM300 mln – RM400 mln in FY19 and FY20 respectively.

Meanwhile, the education arm is projected to continue providing steady earnings contribution to the Group. While we expect revenue to be trending up with rising enrollment from the international school, we believe earnings would grow at a slower pace for now in view of the expected tandem increase in expenses. Contribution from the international school would eventually be more significant when the student population reaches critical mass point to yield economies of scale.

We project the Group to register earnings of RM25.3 mln in FY19, with the bulk of contributions coming from ongoing projects and to a smaller extent, from new launches such as Sena Parc Phase 1 and Damansara Seresta. While the FY19 earnings figure appears to be much lower than FY18's, recall that earnings in the preceding year included RM78.4 mln in one-off item such as compensation from Government for mandatory land acquisition under MRT Line 2 project (RM35.0 mln) and write-back of project cost (RM43.4 mln).

We forecast the earnings to double to RM53.3 mln in the following year on much stronger contributions from Astoria, Sena Parc Phase 1 and Damansara Seresta.

5. Investment risks**Weaker-than-expected property take up rate.**

L&G is slated to launch a series of new property developments in 2018 and beyond. Therefore, a prolonged subdued property market will lead to lower take up rate and sales, which would in turn affect L&G's earnings negatively.

Delay in launches.

As the Group does not have many ongoing projects currently, any delays in the new property launches would affect the Group's earnings streams going forward.

Hike in interest rates.

If Bank Negara Malaysia's ("BNM") increases its Overnight Policy ("OPR") too drastically or beyond the consumer expectation, property sales may be affected and this include L&G's upcoming launches.

Changes in government policies.

The property sector is subject to various regulatory laws and guidelines. Some of these pertains to land rezoning and conversion, plot ratio allowable, types of development, approval timeline, permits required etc. Changes to the laws and guidelines may have adverse impact on L&G plans and expected earnings.

6. Peer comparison and Valuation

There are a number of property developer listed on Bursa Malaysia. For our valuation purposes, we focused on property developers which are i) of similar size in market capitalization; ii) remained profitable in recent 2 years;

iii) have both township and pocket-sized development as well as iv) high project exposure in KL/Selangor: -

Exhibit 20: Peer comparison

Company	Share Price (RM)	Mkt Cap (RM mln)	TTM PER (x)	P/BV (x) [^]	Net Gearing (x) [^]	TTM Dividend Yield
Land & General	0.185	543.0	7.2	0.5	Net Cash	8.1%
MKH	1.39	815.0	10.0	0.5	0.3	3.6%
Paramount Corp	1.86	797.0	6.0	0.8	0.8	8.5%
Sunsuria	0.95	760.0	6.7	0.9	0.1	nil
Guocoland (M)	0.89	623.0	10.4	0.4	0.9	2.2%
Plenitude	1.50	572.0	10.1	0.4	Net Cash	nil
Titijaya Land	0.38	511.0	6.5	0.4	0.3	11.2%
Avg excl. L&G			8.3	0.6		

TTM: trailing twelve-month

[^]based on the latest quarterly results

Source: Respective company quarterly results, ZJ Research

The selected peers in the table above are currently trading at trailing twelve-month (TTM) PER range of between 6x and 10.5x, and TTM P/BV range of 0.4x and 0.9x. The seemingly low PER is understandable given the prevailing downturn in the industry and the weak investor sentiment towards property counters.

Valuation. We ascribe a P/BV of 0.7x on L&G's projected FY19 book value to arrive a fair value of 27 sen. Our target P/BV falls within the higher end of the P/BV range of its selected peers, which we believe is justified considering majority of its landbank is in KL and Selangor. Its solid net cash balance sheet vis-à-vis the high gearing situation of some of its peers is a consideration factor as well.

While we understand the revised net asset value (RNAV) of the L&G is of much higher value, we have decided against using RNAV valuation method at this juncture as we opine that monetization activities are unlikely to take place in the near term for the large tracts of its landbank, coupled with the prevailing slowdown in the property sector affecting investors sentiment.

8. Recommendation

We initiate coverage on L&G with a **Buy** recommendation and a fair value of **27 sen**, derived from ascribing a target P/BV of 0.7x on its projected FY19 book value. Our fair value is backed a very attractive net yield of 8.1% in FY18. We note that the yield may potentially be lower at 5.4% in FY19 based on our estimates, but still, it would be a considerably healthy rate.

We like L&G for its exposure in both township and niche pocket-sized developments located mainly in KL and Selangor where we believe demand for property shall remain relatively strong. Township developments provide long-term earnings visibility while niche pocket-sized projects enable faster monetization of its assets (land) and provide earnings boost. Its solid net cash balance sheet and experienced management team would help the Group weather through the current lull period in the industry.

With property sector being cyclical in nature, it is a matter of time before activities pick up over the next few quarters as sentiments gradually improve, underpinned by potential relaxation of lending requirements by banks and emergence of greater clarity from the new Government that promotes transparency and competency (which we believe would augur well for private entities such as L&G).

Meanwhile, we also like L&G's exposure in the education business which has been and continues to provide a steady stream of income – that is expected to grow with the opening of its international school.

P&L Summary

FYE Mar (RM mln)	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	342.1	42.7	80.3	215.7	392.3
<i>Revenue growth</i>	-26.6%	-87.5%	88.2%	168.7%	81.9%
EBITDA	131.6	75.0	99.1	49.8	92.6
<i>EBITDA margin</i>	38.5%	175.9%	123.4%	23.1%	23.6%
Depreciation	(2.5)	(4.7)	(3.4)	(5.5)	(7.0)
EBIT	129.1	70.3	95.7	44.3	85.6
Net interest exp.	(2.4)	(3.8)	(4.0)	(4.5)	(4.8)
Pretax income	127.2	69.8	87.1	36.8	78.8
Tax exp.	(35.6)	(18.2)	(11.1)	(9.6)	(20.5)
Eff. tax rate	28.0%	26.1%	12.7%	26.0%	26.0%
Net profit	95.0	35.5	75.4	25.3	53.3
<i>Net profit growth</i>	-9.9%	-62.6%	112.3%	-66.5%	111.1%
<i>Net profit margin</i>	27.8%	83.3%	93.9%	11.7%	13.6%

Balance Sheet Summary

FYE Mar (RM mln)	FY16A	FY17A	FY18A	FY19F	FY20F
Cash/near cash	516.2	390.4	385.4	366.2	415.2
Trade & other receivables	113.3	81.9	188.9	198.3	208.3
Inventories	46.4	43.5	39.8	49.4	61.5
Other current assets	199.2	228.1	238.4	250.3	262.9
Total current assets	875.1	744.0	852.5	864.2	947.9
Net fixed assets	75.1	76.1	76.3	96.3	126.3
Other long-term assets	175.7	288.4	638.7	646.7	640.0
Total long-term assets	250.8	364.5	715.0	743.0	766.3
Total assets	1,125.9	1,108.5	1,567.6	1,607.2	1,714.2

Liabilities & Shareholders' Equity

Trade & other payables	75.9	51.0	97.9	112.6	129.5
Short-term borrowings	0.1	25.3	15.8	17.4	19.1
Other short-term liabilities	208.3	185.2	40.4	50.0	50.0
Total current liabilities	284.3	261.5	154.1	180.0	198.6
Long-term borrowings	83.1	66.2	169.8	161.3	193.6
Other long-term liabilities	56.8	107.8	116.0	140.3	168.4
Total liabilities	424.1	435.6	439.9	481.6	560.6
Shareholders' equity	697.4	656.3	1,110.4	1,106.4	1,130.4
Minority interests	4.4	16.6	17.2	19.2	23.2
Total equity	701.8	672.9	1,127.7	1,125.6	1,153.6
Total liabilities & equity	1,125.9	1,108.5	1,567.6	1,607.3	1,714.2

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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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