

Hua Yang (HYB MK)

Property - Real Estate

Market Cap: USD157m

Buy (Maintained)

Target Price: MYR2.28

Price: MYR2.15

Bucking The Trend

Macro	◆◆
Risks	◆◆
Growth	◆◆◆◆
Value	◆◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	0.49m/0.15m
Cons. Upside (%)	64.7
Upside (%)	6.1
52-wk Price low/high (MYR)	1.75 - 2.50
Free float (%)	63
Share outstanding (m)	264
Shareholders (%)	
Heng Holdings S/B	30.3
Cham Poh Meng	6.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	4.9	(2.3)	(8.5)	9.1
Relative	5.4	2.7	0.1	(2.3)	12.5

Shariah compliant

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Hua Yang's 3QFY15 (Mar) results came in above our expectations. Maintain BUY and RNAV-based TP of MYR2.28 (6% upside), pending a briefing today. Despite the softening market conditions, Hua Yang's total new sales were up 35.8% QoQ, driven by maiden contributions from its new launches. Its strong unbilled sales of MYR733.3m should help to sustain near-term earnings growth.

- ◆ **Beating expectations.** Hua Yang's 3QFY15 core profit of MYR30.9m (+57.0% YoY, +19.1% QoQ) brought 9MFY15 core profit to MYR80.9m (+83.5% YoY), above our but within consensus estimates. 9M revenue grew 38.5% YoY, underpinned by progress billings from its ongoing township projects such as Taman Pulai Hijauan, Bandar Universiti Seri Iskandar (BUSI) and high-rise projects such as One South (OS), Metia Residences (MR) and Sention Suites (SS). Gross profit margin continued to improve to 28.2% in 3QFY15 vs 25.6% in 2QFY15. It also declared an interim dividend of 5 sen per share this quarter.
- ◆ **Still on track to meet sales target.** 3QFY15 total new sales of MYR149.8m were up 35.8% QoQ (2QFY15: MYR110.3m), despite the softening market conditions. This brought 9MFY15 sales to MYR342.0m (1H FY15: MYR192.2m), still on track to meet its MYR500m full-year target. The new sales growth was attributed to new phases of its existing projects as well as maiden contributions from Phase 6 of OS and Citywoods in Johor. Meanwhile, its unbilled sales remained strong at MYR733.3m (2QFY15: MYR717.9m), with its Klang Valley projects (namely OS, MR and SS) making up close to 70% of the unbilled sales amount. Net gearing was stable at 0.5x during the quarter.
- ◆ **Earnings forecasts.** We are keeping our earnings forecasts unchanged, pending a briefing later today.
- ◆ **Maintain BUY.** Our TP is maintained at MYR2.28, based on an unchanged 25% discount to RNAV, pending today's briefing. We believe that despite the challenging outlook for the overall property segment, Hua Yang should continue to fare better than some of its peers, given its affordable product offerings.

Forecasts and Valuations	Mar-13	Mar-14	Mar-15F	Mar-16F	Mar-17F
Total turnover (MYRm)	409	510	612	729	751
Reported net profit (MYRm)	70	81	93	103	109
Recurring net profit (MYRm)	70	81	93	103	109
Recurring net profit growth (%)	33.1	14.6	14.7	11.6	5.1
Recurring EPS (MYR)	0.37	0.36	0.35	0.39	0.41
DPS (MYR)	0.12	0.12	0.12	0.14	0.14
Recurring P/E (x)	5.88	6.01	6.13	5.49	5.23
P/B (x)	1.27	1.47	1.27	1.10	0.97
Dividend Yield (%)	5.6	5.6	5.7	6.4	6.7
Return on average equity (%)	23.5	22.4	22.2	21.5	19.8
Return on average assets (%)	13.0	11.1	10.6	10.6	10.2
Net debt to equity (%)	25.6	55.6	49.6	43.9	41.7
Our vs consensus EPS (adjusted) (%)			(8.9)	(11.1)	(6.5)

Source: Company data, RHB

Figure 1: Results review

FYE Mar (MYRm)	3QFY14	2QFY15	3QFY15	QoQ (%)	YoY (%)	9MFY14	9MFY15	YoY (%)	Comments
Revenue	129.9	139.5	155.5	11.5	19.7	311.6	431.5	38.5	Higher revenue contribution from progress billings from its ongoing projects that were launched in FY14
EBITDA	28.0	35.8	43.9	22.7	57.0	61.7	112.8	82.9	
Depreciation	(0.3)	(0.3)	(0.3)	5.2	11.8	(0.8)	(0.9)	10.1	
EBIT	27.7	35.5	43.6	22.9	57.4	60.8	111.9	83.9	
Interest expense	(0.2)	(0.3)	(0.4)	26.2	79.2	(0.3)	(0.9)	>100	
Interest income	0.6	0.9	0.9	1.5	50.9	1.4	2.4	74.0	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
El/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Pretax profit	27.5	35.2	43.2	22.8	57.3	60.5	111.0	83.3	
Tax	(7.8)	(9.2)	(12.3)	33.5	57.9	(16.5)	(30.1)	82.8	
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net Profit	19.7	26.0	30.9	19.1	57.0	44.1	80.9	83.5	
Core Profit	19.7	26.0	30.9	19.1	57.0	44.1	80.9	83.5	
									Above expectations.
<i>EBITDA Margin (%)</i>	21.5	25.6	28.2			19.8	26.1		
<i>EBIT Margin (%)</i>	21.3	25.4	28.0			19.5	25.9		
<i>Pretax Margin (%)</i>	21.2	25.2	27.8			19.4	25.7		
<i>Effective tax rate (%)</i>	28.3	26.1	28.4			27.2	27.1		
<i>Net Margin (%)</i>	15.2	18.6	19.9			14.1	18.7		

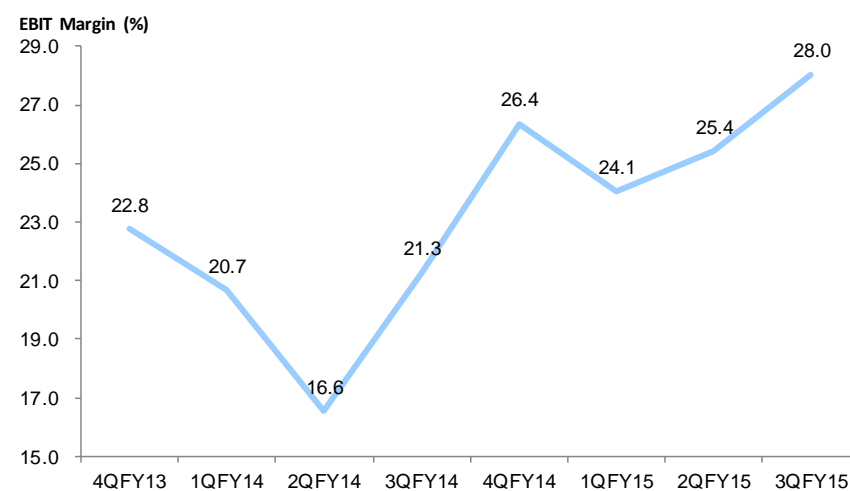
Source: RHB

Figure 2: Hua Yang's results for the past eight quarters

FYE Mar (MYRm)	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Revenue	102.4	80.5	101.2	129.9	198.3	136.5	139.5	155.5
Growth QoQ (%)		(21.4)	25.8	28.3	52.6	(31.2)	2.2	11.5
Growth YoY (%)					93.6	69.5	37.8	19.7
EBITDA	23.6	16.9	17.1	28.0	52.6	33.1	35.8	43.9
Depreciation	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	23.3	16.7	16.8	27.7	52.3	32.8	35.5	43.6
Interest expense	(0.0)	(0.0)	(0.1)	(0.2)	(0.7)	(0.3)	(0.3)	(0.4)
Interest income	3.2	0.4	0.3	0.6	1.1	0.6	0.9	0.9
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
El/Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax profit	23.3	16.6	16.7	27.5	51.6	32.6	35.2	43.2
Tax	(6.3)	(4.3)	(4.4)	(7.8)	(13.7)	(8.6)	(9.2)	(12.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	17.0	12.3	12.3	19.7	37.8	23.9	26.0	30.9
Core Profit	17.0	12.3	12.3	19.7	37.8	23.9	26.0	30.9
Growth QoQ (%)		(27.6)	0.1	59.8	91.9	(36.7)	8.5	19.1
Growth YoY (%)					122.4	94.4	110.8	57.0
<i>EBITDA Margin (%)</i>	<i>23.0</i>	<i>21.0</i>	<i>16.8</i>	<i>21.5</i>	<i>26.5</i>	<i>24.3</i>	<i>25.6</i>	<i>28.2</i>
<i>EBIT Margin (%)</i>	<i>22.8</i>	<i>20.7</i>	<i>16.6</i>	<i>21.3</i>	<i>26.4</i>	<i>24.1</i>	<i>25.4</i>	<i>28.0</i>
<i>Pretax Margin (%)</i>	<i>22.7</i>	<i>20.7</i>	<i>16.5</i>	<i>21.2</i>	<i>26.0</i>	<i>23.9</i>	<i>25.2</i>	<i>27.8</i>
<i>Effective tax rate (%)</i>	<i>26.9</i>	<i>26.0</i>	<i>26.1</i>	<i>28.3</i>	<i>26.6</i>	<i>26.5</i>	<i>26.1</i>	<i>28.4</i>
<i>Net Margin (%)</i>	<i>16.6</i>	<i>15.3</i>	<i>12.2</i>	<i>15.2</i>	<i>19.1</i>	<i>17.5</i>	<i>18.6</i>	<i>19.9</i>

Source: RHB

Figure 3: Hua Yang's EBIT margins



Source: Company

Figure 4: Hua Yang's RNAV breakdown

Project	Type of Development	Remaining landbank (acres)	Future GDV (MYR m)	Development period	NPV @ 12% (MYRm)
Taman Pulau Indah, Johor Bahru	Mixed development	34.50	91	3 years	9.79
Bandar Universiti Seri Iskandar, Ipoh	Mixed development	450.50	765	9 years	58.83
Anjung Bercham Megah	Residential	3.70	10	2 years	1.17
One South, Sg. Besi, Selangor	Mixed development	4.80	254	2-3 years	25.81
Senawang Link, Senawang, Negeri Sembilan	Commercial & Industrial	24.80	54	2-3 years	5.12
Polo Park Land, Johor Bahru	Residential	5.00	54	2-3 years	5.16
Taman Pulau Hijauan, Johor Bahru	Mixed development	113.20	317	3-5 years	27.98
Jalan Abdul Samad, Johor Bahru	Residential	2.40	208	2-3 years	22.33
Desa Pandan, Selangor	Commercial	1.60	213	2-3 years	20.37
Sec. 13 Shah Alam, Selangor	Commercial	3.73	156	2-3 years	16.75
Ipoh Bercham	Residential	21.00	84	3 years	8.79
Puchong, Selangor	Mixed development	29.20	1,536	10-12 years	73.78
Stulang Darat, Johor Bahru	Residential	1.10	94	2-3 years	8.51
Pasir Puteh, Perak	Commercial	7.20	84	2-3 years	10.13
Unbilled sales (MYRm)					121.20
Shareholders funds as at End FY14					386.99
Total RNAV (MYRm)					802.68
No. of shares					264.00
RNAV per share (MYR)					3.04
Discount					25%
Target Price (MYR)					2.28

Source: RHB, Company

Financial Exhibits

Profit & Loss (MYRm)	Mar-13	Mar-14	Mar-15F	Mar-16F	Mar-17F
Total turnover	409	510	612	729	751
Cost of sales	(257)	(343)	(406)	(489)	(505)
Gross profit	151	167	206	239	246
Gen & admin expenses	(56)	(53)	(69)	(83)	(84)
Other operating costs	-	(1)	(2)	(2)	(2)
Operating profit	95	112	136	155	160
Operating EBITDA	97	114	137	157	162
Depreciation of fixed assets	(1)	(2)	(2)	(2)	(2)
Operating EBIT	95	112	136	155	160
Interest expense	(0)	(1)	(9)	(11)	(11)
Pre-tax profit	95	111	127	143	149
Taxation	(25)	(30)	(34)	(40)	(40)
Profit after tax & minorities	70	81	93	103	109
Reported net profit	70	81	93	103	109
Recurring net profit	70	81	93	103	109

Source: Company data, RHB

Cash flow (MYRm)	Mar-13	Mar-14	Mar-15F	Mar-16F	Mar-17F
Operating profit	95	112	136	155	160
Depreciation & amortisation	1	2	2	2	2
Change in working capital	118	(72)	17	19	4
Other operating cash flow	(4)	(1)	2	3	3
Operating cash flow	211	41	156	179	169
Interest received	2	1	-	-	-
Interest paid	(0)	(1)	(9)	(11)	(11)
Tax paid	(23)	(31)	(27)	(32)	(32)
Cash flow from operations	190	10	120	136	126
Capex	(200)	(1)	(56)	(78)	(78)
Other investing cash flow	(3)	(104)	(2)	-	-
Cash flow from investing activities	(203)	(105)	(57)	(78)	(78)
Dividends paid	(25)	(30)	(32)	(36)	(38)
Proceeds from issue of shares	26	-	-	-	-
Increase in debt	17	130	1	1	1
Other financing cash flow	(1)	(1)	-	1	-
Cash flow from financing activities	17	99	(31)	(34)	(37)
Cash at beginning of period	25	30	34	29	26
Total cash generated	4	4	31	24	11
Implied cash at end of period	30	34	65	53	37

Source: Company data, RHB

Financial Exhibits

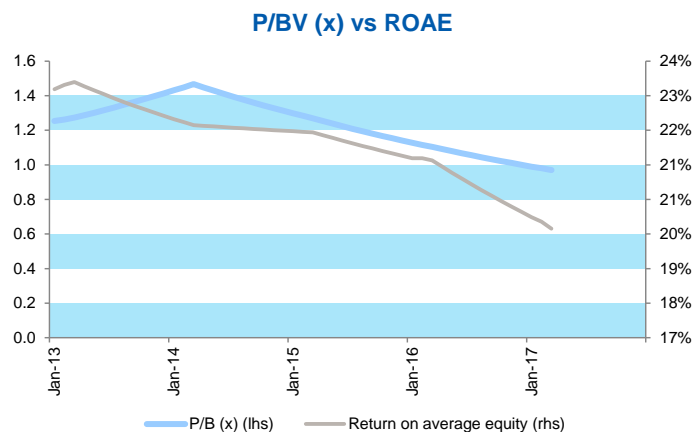
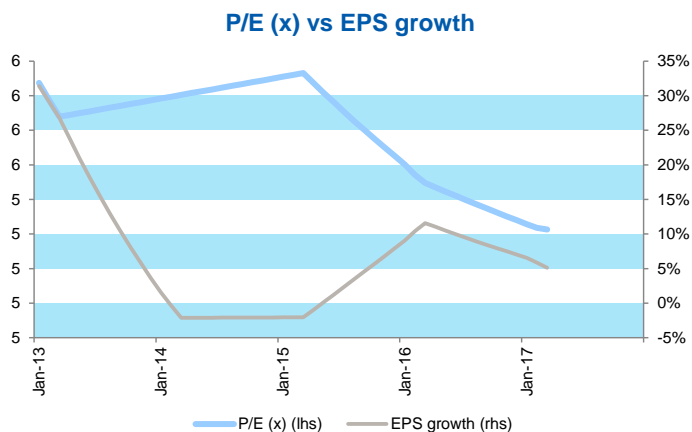
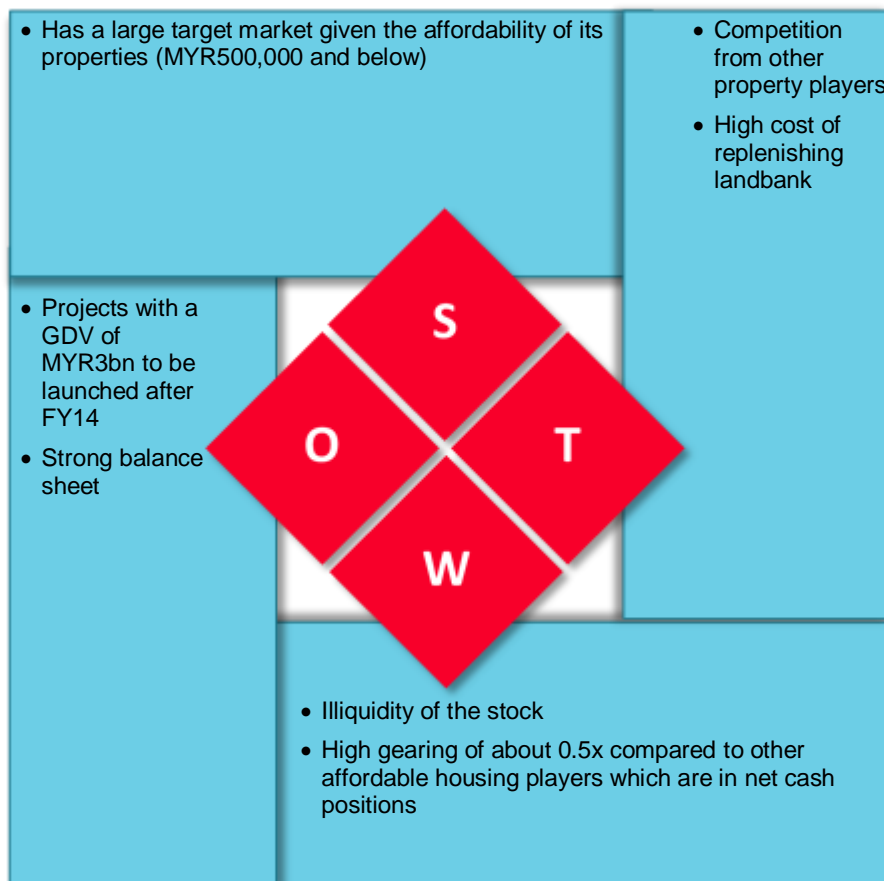
Balance Sheet (MYRm)	Mar-13	Mar-14	Mar-15F	Mar-16F	Mar-17F
Total cash and equivalents	30	34	29	26	9
Inventories	48	6	7	9	9
Accounts receivable	38	76	91	108	111
Other current assets	107	305	335	352	370
Total current assets	223	421	462	495	499
Total investments	2	2	2	2	2
Tangible fixed assets	394	386	440	516	592
Total other assets	15	16	16	16	16
Total non-current assets	411	403	458	534	610
Total assets	634	824	920	1,029	1,109
Short-term debt	2	61	61	61	61
Accounts payable	156	167	201	239	247
Other current liabilities	11	9	9	10	11
Total current liabilities	169	237	271	310	319
Total long-term debt	113	189	190	191	192
Other liabilities	18	12	12	13	13
Total non-current liabilities	130	201	202	204	205
Total liabilities	299	437	473	514	524
Share capital	198	264	264	264	264
Retained earnings reserve	136	123	183	250	321
Shareholders' equity	334	387	447	514	585
Total equity	334	387	447	514	585
Total liabilities & equity	634	824	920	1,029	1,109

Source: Company data, RHB

Key Ratios (MYR)	Mar-13	Mar-14	Mar-15F	Mar-16F	Mar-17F
Revenue growth (%)	33.4	24.8	20.1	19.0	3.1
Operating profit growth (%)	30.3	17.3	21.1	14.2	3.5
Net profit growth (%)	33.1	14.6	14.7	11.6	5.1
EPS growth (%)	26.8	(2.1)	(2.0)	11.6	5.1
Bv per share growth (%)	(8.6)	(13.2)	15.6	15.0	13.7
Operating margin (%)	23.4	22.0	22.1	21.2	21.3
Net profit margin (%)	17.2	15.8	15.1	14.2	14.5
Return on average assets (%)	13.0	11.1	10.6	10.6	10.2
Return on average equity (%)	23.5	22.4	22.2	21.5	19.8
Net debt to equity (%)	25.6	55.6	49.6	43.9	41.7
DPS	0.12	0.12	0.12	0.14	0.14
Recurrent cash flow per share	0.99	0.04	0.45	0.51	0.48

Source: Company data, RHB

SWOT Analysis



Company Profile

Hua Yang is a mid-cap property developer with a niche in affordable housing. Its landbank is located in property hotspots of the Klang Valley, Johor and Perak.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-12-16	Buy	2.28	1.80
2014-10-23	Buy	2.74	2.30
2014-08-27	Buy	2.74	2.33
2014-07-18	Buy	2.70	2.35
2014-07-17	Buy	2.70	2.36
2014-05-23	Buy	2.40	1.90
2014-05-22	Buy	2.40	1.87
2014-01-28	Buy	2.40	1.79
2013-11-06	Buy	2.76	2.11

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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