

# Hua Yang

*Small developer with big ambitions*

**NOT RATED**
**RM1.38**

@28/03/11

Mkt.Cap: RM149m

Property Development

HYB MK / HUAY.KL

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## Deep-value property stock

Although Hua Yang is a very small property stock in terms of market cap, it has big ambitions and plans to expand its profits several fold over the next 3-5 years. Should it manage to deliver its targets of RM500m-600m turnover and RM75m-90m net profit, P/E would plunge to below 2x. The high targets are not unrealistic as the group has landbank with RM2.23bn GDV potential and is always on the lookout for more. Also, it has exceeded its FY3/11 sales target of RM300m and including bookings, has unbilled sales of over RM400m, nearly 4x FY10's turnover. Using a blend of 40% discount to its RM4.30 RNAV in view of its small size and illiquid shares and a similar discount to our 14.5x FY12 target market P/E, we arrive at a value of RM2.76, which implies 100% upside.

## Background

Hua Yang started out as a Perak developer over 30 years ago and was listed on Bursa Malaysia in 2002. The group has a young CEO, Mr. Ho Wen Yan, aged 36 who is the son of the late founder Mr. Ho Mok Heng and joined the company in late 2003. Hua Yang was listed on the Main Market of Bursa in 2002 and has to date completed RM1.2bn worth of properties in Perak, Johor and the Klang Valley. The group has over 900 acres of undeveloped landbank, of which key projects form 546 acres or 58% in Perak, 290 acres or 31% in Johor and 20 acres or 2% in the Klang Valley. However, based on the undeveloped GDV of RM2.23bn, key projects comprise 34% in the Klang Valley, 29% in Johor and 25% in Perak. The higher GDV contribution from the Klang Valley is due to the high value of the One South project, which has a GDV/acre of RM45m vs. around RM1m-2m/acre for Perak and Johor townships.

**Figure 1: Undeveloped landbank and GDV**

	Acres	GDV (RM m)	%
One South, Seri Kembangan, Selangor	16.7	750	34%
Bandar University Seri Iskandar, Perak	546.0	549	25%
Taman Pulai Indah, Johor	159.0	335	15%
Taman Pulai Hijauan, Johor	131.0	320	14%
Symphony Heights, Selayang, Selangor	3.0	206	9%
Senawang Link, Negeri Sembilan	28.0	45	2%
Others	52.3	28	1%
<b>Total</b>	<b>936.0</b>	<b>2,233</b>	<b>100%</b>

Source: Company, CIMB estimates

## Ongoing property projects

**One South** – The One South project in Seri Kembangan, Selangor, has a GDV of RM750m or 34% of the group's total undeveloped GDV. The strategic location of the 16.7-acre project along the KL-Seremban Highway will enable Hua Yang to unlock its value quickly. Completion is expected within 7-8 years. One South comprises 1,251 serviced apartments, 384 shops and offices, two blocks of office towers and a niche retail mall. The office space will be priced at RM350 psf while the retail space will go for RM800-900 psf.

Figure 2: One South



Source: Company

The One South project has a plot ratio of 4x and the land was acquired in 2008 for only RM40m or RM55 psf. We believe that interest in this project should be strong given its high visibility to traffic along the Seremban and Besraya highways. This project should be the key earnings driver over the next few years. Hua Yang recently held a soft launch of the first block of serviced apartments. Response has been overwhelming and almost all the units have been taken up. The 420 units measure 1,000 sq ft on average and were priced at RM320-350 psf. The group will open up two more blocks at prices 5-10% higher in order to keep affordability high and sales strong. As for the office blocks, it managed to lock in one RM105m en bloc sale.

**Bandar Universiti Seri Iskandar** – The township project measures 777 acres in total, of which 549 acres are either being developed or are undeveloped. The mixed residential and commercial development in Perak was launched at end-08. It is located near MRCB's mammoth 4,000-acre Seri Iskandar township. Due to the relatively low pricing that starts from RM120k for residential properties and RM260m for commercial properties, total GDV is only RM721m and undeveloped GDV is RM563m.

**Taman Pulau Indah** – The township measures 477 acres, of which 318 acres have been completed. Total GDV amounts to nearly RM800m, of which RM465m have been booked. Residential properties in the project are priced between RM134k and RM300k while commercial properties are priced upwards of RM150k.

**Symphony Heights** – This is a serviced apartment project in Selayang, Kuala Lumpur with a GDV of RM206m. All in, there are three blocks with 944 units. The three blocks were launched roughly six months apart beginning June 2008 and have achieved a take-up rate of over 70%.

## Valuation

Hua Yang is trading at a steep discount of 68% to its RNAV of RM4.30 and a 30% discount to its NTA of RM1.97. The RNAV discount is more than double the average of stocks under our coverage while the NTA discount is in stark contrast to the 69% premium enjoyed by the property stocks we cover. The NTA discount appears excessive given that the company is going through a period of earnings spurt. On a P/E basis, the discount to its larger peers is even more glaring. The annualised 9MFY3/11 EPS of 23.44 sen works out to a P/E of only 5.9x, a deep discount of 66% to the sector's 2011 P/E of 17.6x. The 9M net profit of RM17m is a 104% jump yoy while net gearing was a manageable 0.35x at end-2010.

**Figure 2: Revalued NAV**

Property	Size (acres)	Price (RM unit/psf)	Stake	Value (RM m)
One South, Seri Kembangan, Selangor	16.7	200.00	100%	145.5
Bandar University Seri Iskandar, Perak (mixed)	382.2	4.00	100%	66.6
Bandar University Seri Iskandar, Perak (commercial)	163.8	18.00	100%	128.4
Taman Pulau Indah, Johor	159.0	8.00	100%	55.4
Taman Pulau Hijauan, Johor	131.0	7.00	100%	39.9
Symphony Heights, Selayang, Selangor	3.0	200.00	100%	26.1
Senawang Link, Negeri Sembilan	28.0	15.00	63%	11.5
Others	52.3	5.00	100%	11.4
Non-current assets				17.4
Long term borrowing				(58.5)
Net current assets less dev. prop.				21.0
<b>Total RNAV</b>				<b>464.8</b>
No. of shares (m)				108.0
<b>RNAV per share (RM)</b>				<b>4.30</b>

Source: Company, CIMB estimates

**Figure 3: Discount to RNAV and NTA**

	Share price (RM)	RNAV/shr (RM)	(Discount)/ Premium	NTA/shr (RM)	(Discount)/ Premium
<b>Hua Yang</b>	<b>1.38</b>	<b>4.30</b>	<b>-67.9%</b>	<b>1.97</b>	<b>-29.9%</b>
E&O	1.17	2.72	-57.0%	1.26	-7.1%
Mah Sing	2.48	2.52	-1.6%	1.02	143.1%
UM Land	1.76	4.21	-58.2%	3.55	-50.4%
<b>Average</b>			<b>-29.0%</b>		<b>69.0%</b>

Source: CIMB estimates, companies

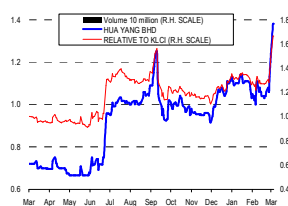
Mr. Ho Wen Yan, who was appointed CEO of the group in mid-2010, is looking to transform Hua Yang into one of Malaysia's top five developers over the next 3-5 years and is pursuing an aggressive growth strategy. The group is looking to acquire RM100m worth of landbank in the near future and may undertake a rights, placement or bond issue to finance the purchase. While the cash call may be EPS dilutive, it will put the group on a stronger footing and facilitate its ambitious growth target. Should Hua Yang succeed in lifting turnover to RM500m-600m by 2014-5 and achieve a net profit margin of around 15%, net profits would jump to RM75m-90m from only RM12m in FY3/10. Based on its current share capital, this means that P/E ratio would plunge to below 2x, making it easily one of the cheapest stocks, not only in the property sector but also in the market.

The high earnings target may not be as farfetched as it appears as the group has lined up new launches that are very marketable. Also, as it is, Hua Yang has unbilled sales of RM190m-200m. This does not include the RM105m en bloc sale and the sales from the soft launch of the serviced apartments at One South. Including these sales that have yet to be finalised, the group's unbilled sales swell to over RM400m. This is nearly 4x the annual revenue raked in over the past couple of years, putting Hua Yang on a firm footing to meet its longer-term target of RM500m-600m in turnover.

Based on a 40% discount to its RM4.30 RNAV to factor in its small size and the illiquid nature of the stock, Hua Yang would be valued at RM2.58, which offers upside of 87%. Using the P/E valuation method in view of its strong growth prospects and landbanking efforts while applying a similar 40% discount to our 2012 target market P/E of 14.5x because of its small market cap and low liquidity, we arrive at a value of RM2.94 or upside of 113%. This assumes annual EPS growth of 20% for FY12-13. Using a blend of the two methods, we derive a value of RM2.76, which implies upside of 100%. This would not be unreasonable as it represents a 40% premium over NTA, which compares favourably with the sector average premium of nearly 70%.

Hua Yang has ambitions to become big, similar to what today's leading developers set out to do 5-10 years ago. It appears to be on the right track, going by the strong sales racked up so far, particularly for the One South project, and its ability to sniff out strategically located landbank. The key question now is whether it can continue to execute well over the next few years and how it will handle the vagaries of the ultra-competitive property market. Should it ace these tasks, it would be a stock that investors should keep a close watch on as its valuations and size would be too attractive to ignore.

#### Price chart



Source: Bloomberg

#### Financial summary

FYE Mar	2005	2006	2007	2008	2009	2010	9M2011
Revenue (RM m)	106.6	101.6	63.5	59.9	100.0	103.5	122.1
EBITDA (RM m)	24.5	25.7	12.9	8.6	11.6	15.2	23.0
EBITDA margins (%)	22.9	25.3	20.2	14.4	11.6	14.7	18.8
Pretax profit (RM m)	25.0	25.0	12.5	8.8	12.6	15.7	22.8
Net profit (RM m)	18.9	18.1	8.7	6.6	8.7	11.6	16.9
EPS (sen)	20.9	20.1	10.0	7.3	9.7	12.9	17.6
EPS growth (%)	12.0	(4.2)	(50.2)	(26.9)	32.8	32.4	36.7
P/E (x)	6.6	6.9	13.8	18.9	14.2	10.7	7.8
Gross DPS (sen)	4.2	7.0	4.2	1.9	2.5	3.0	-
Dividend yield (%)	3.0	5.1	3.0	1.4	1.8	2.2	-
P/NTA (x)	0.8	0.7	0.7	0.7	0.7	0.6	0.7
ROE (%)	11.7	10.4	4.9	3.6	4.7	5.9	8.0
Net gearing (%)	17.5	2.3	1.7	4.2	14.9	26.9	35.3
P/CF (x)	6.5	6.8	13.4	18.1	13.6	10.4	7.7
EV/EBITDA (x)	7.3	5.9	11.8	18.1	15.2	13.3	9.7

Source: Company, CIMB Research, Bloomberg

**Figure 4: Regional comparisons**

	BB		Price	Target price	Mkt cap	Core P/E (x)		P/BV (x)	Div yield (%)	RNAV	Disc/ Prem. To RNAV
	ticker	Recom.	(Local)	(Local)	(US\$ m)	CY2011	CY2012	CY2011	CY2011	CY2011	
Allgreen	AG SP	U	1.09	1.17	1,375	9.0	8.3	0.7	5.1	1.67	-35%
Bukit Sembawang	BS SP	O	4.23	5.86	841	6.6	6.7	1.0	4.6	8.38	-50%
CapitaLand	CAPL SP	N	3.33	4.04	11,274	15.2	11.2	1.0	2.3	4.75	-30%
CMA	CMA SP	N	1.74	2.16	5,361	24.9	24.2	1.1	1.1	2.16	-19%
City Devt	CIT SP	U	11.52	11.58	8,307	19.1	15.6	1.6	1.1	12.87	-10%
F&N	FNN SP	O	5.68	6.84	6,338	12.8	11.1	1.2	4.6	7.60	-25%
Ho Bee	HOBEE SP	O	1.42	1.85	827	8.5	9.7	0.7	1.5	2.76	-49%
Keppel Land	KPLD SP	O	4.46	5.20	5,134	16.8	14.3	1.4	2.2	5.78	-23%
OUE	OUE SP	O	3.13	3.87	2,437	23.8	18.3	1.1	2.1	4.55	-31%
Singland	SL SP	O	6.81	10.22	2,228	14.9	14.7	0.7	2.9	12.02	-43%
UOL	UOL SP	O	4.77	5.68	2,910	11.7	12.6	0.8	2.0	6.68	-29%
Wheelock	WP SP	O	1.86	2.41	1,765	8.2	10.4	0.8	3.2	2.68	-31%
Wing Tai	WINGT SP	O	1.56	2.19	982	5.9	6.9	0.6	3.4	2.58	-39%
Yanlord	YLLG SP	N	1.43	1.83	2,205	8.9	7.6	0.9	1.3	2.81	-49%
<b>Simple average</b>						<b>13.3</b>	<b>12.3</b>	<b>1.0</b>	<b>2.7</b>		<b>-33%</b>
<b>Hong Kong/China</b>											
Agile	3383 HK	O	11.94	14.50	5,328	8.0	7.1	1.6	3.1	20.7	-42%
CC Land	1224 HK	N	2.37	3.15	778	17.3	14.9	0.5	1.3	6.3	-62%
China Overseas Land	688 HK	O	15.46	17.26	16,209	10.1	8.9	2.0	2.0	19.2	-19%
Poly HK	119 HK	O	6.84	11.06	3,166	13.5	10.1	1.2	1.1	13.8	-51%
R&F	2777 HK	U	11.38	8.89	4,622	7.2	6.9	1.3	3.8	18.5	-38%
Shimao Property	813 HK	N	10.80	12.12	4,999	7.9	6.8	1.1	4.0	20.2	-47%
Sino-Ocean	3377 HK	N	4.56	4.90	3,327	8.2	6.5	0.7	3.0	9.8	-53%
<b>Simple average</b>						<b>10.3</b>	<b>8.7</b>	<b>1.2</b>	<b>2.6</b>		<b>-45%</b>
<b>Indonesia</b>											
Alam Sutura	ASRI IJ	O	270.00	380.00	553	10.1	7.4	1.8	2.7	521.7	-48%
Bakrieland	ELTY IJ	U	137.00	165.00	627	44.4	26.4	0.7	-	334.1	-59%
BSD	BSDE IJ	N	810.00	900.00	1,626	18.3	13.6	2.1	0.8	1,515.4	-47%
Ciputra	CTRA IJ	O	355.00	490.00	618	18.3	12.9	1.0	-	565.8	-37%
Lippo Karawaci	LPKR IJ	O	580.00	829.75	1,439	19.8	17.4	1.5	0.9	1,151.4	-50%
Summarecon	SMRA IJ	O	1,090.00	1,375.00	859	17.6	12.8	2.9	0.8	1,873.6	-42%
<b>Simple average</b>						<b>21.4</b>	<b>15.1</b>	<b>1.7</b>	<b>0.9</b>		<b>-47%</b>
<b>Malaysia</b>											
E&O	EAST MK	O	1.17	1.63	326	16.6	13.5	0.9	3.0	2.8	-59%
KLCC Property	KLCC MK	U	3.32	3.03	1,025	15.0	13.3	0.6	4.5	5.2	-37%
Mah Sing	MSGB MK	O	2.48	3.30	681	13.7	11.1	2.0	3.6	2.9	-13%
<b>Simple average</b>						<b>17.6</b>	<b>14.5</b>	<b>1.5</b>	<b>3.7</b>		<b>-27%</b>
<b>Thailand</b>											
Asian Property	AP TB	O	6.05	8.90	468	6.2	5.5	1.3	6.5	-	NA
LPN	LPN TB	O	10.00	13.80	488	7.1	6.2	2.0	7.1	-	NA
Land And Houses	LH TB	U	6.10	6.30	2,020	22.7	20.4	2.1	5.1	-	NA
Pruksa Real Estate	PS TB	O	18.30	27.10	1,335	9.2	7.4	2.2	3.8	-	NA
Quality Houses	QH TB	U	2.14	2.24	599	13.2	11.1	1.3	5.9	-	NA
SPALI	SPALI TB	O	11.40	16.80	646	6.3	5.4	1.7	7.0	-	NA
<b>Simple average</b>						<b>10.8</b>	<b>9.3</b>	<b>1.8</b>	<b>5.9</b>	<b>-</b>	

Source: Company, CIMB estimates

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## RECOMMENDATION FRAMEWORK #1 \*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

## RECOMMENDATION FRAMEWORK #2 \*\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** Expected positive total returns of 15% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -15% and +15% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

\*\* This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.