Hua Yang Berhad

"Rakyat" housing king!

OUTPERFORM

Price: RM1.55
Target Price: RM2.10

We initiate coverage on Hua Yang Berhad ("HYB") with an OUTPERFORM and TP of RM2.10 based on 40% discount to our RNAV of RM3.52, which provides a total return of 44%. HYB is the only developer under our coverage which has the largest exposure to affordable housing segment (<RM600k/unit). This is critical for areas like Klang Valley, where lower income earners have been priced-out. Their main buyers are first home owners. We also like their ability to source landbank at competitive costs and maintain its pricing strategy within the 'affordable' range while preserving decent gross margins of 35%. HYB is one of the biggest beneficiaries of; 1) resilient organic demand which is a growing pie given our large young population; 2) government incentives (e.g. My First Home Scheme). Hence, HYB is the only developer under our coverage whose valuations have re-rated over the last 12 months. We expect revenue and net profit to register 3-year CAGR (FY13-15E) of 31.2% and 25.8%, respectively. HYB should fare well under current market conditions given its attractive FY13-15E net dividend yield of 7.0%-8.6% vs. small-mid cap developers average of 1.0%-7.4% or sizeable M-REIT yields of 4.2%-5.0%. We are confident of their payout abilities given the defensive nature of their market segment.

Leader of affordable housing. HYB has established a solid reputation of providing affordable housing mainly in Klang valley, Perak and Johor Bahru. Its Klang valley developments are mainly catered to affordable niche housings priced below RM600k/unit to target its preferred customer base of first home owners. Unlike most of the developers under our coverage, affordable housing only makes up <50% of their respective total GDV. Hence its demand profile is extremely resilient against the typical property cycles.

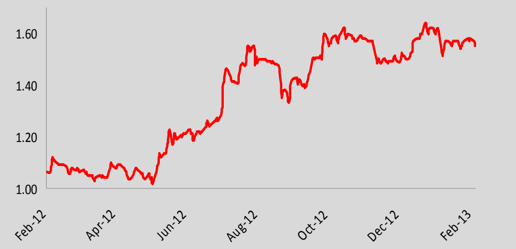
We believe the re-rating will continue, since the theme of affordable housing will likely last a while. HYB is the only developer under our coverage whose PBV and PER valuations have re-rated over the last 12 months which is a big departure from larger peers. We attribute this phenomenon to its defensive business model which strengthens its dividend payout abilities. This is particularly so when there are a lot of economic uncertainties while GE is just around the corner. We expect the re-rating momentum to continue as long as affordable housing remains in "vogue".

Decent dividend yield. The group has been consistently distributing dividends in the past 5 years with average net payout ratio of 24% and of late, 34%. Management is comfortable with 25% payout p.a., which translates to FY13-15E NDPS of 10.9sen, 11.2sen and 13.3sen; implied net dividend yields of 7.0%-8.6% are attractive against small-mid cap developers 1.0%-7.4%.

Estimating FY13-15E earnings of RM72m, RM89m and RM106m, driven by 1) FY13-15E property sales of RM452m, RM613m and RM753m; 2) unbilled sales of RM506m which provides about 1 year visibility. Balance sheet wise, we are comfortable with their FY13-14E net gearing of 0.4x-0.2x which will allow them to continue their 2-year forward landbanking strategy of up to RM600m worth of GDV. Risks to our estimates are weak property demand, failure to replenish land and project financing issues.

Initiate coverage on HYB with OUTPERFORM and TP of RM2.10, which provides a total return of 44%. Our TP is based on 40% discount to our DCF-driven RNAV of RM3.52 (10% WACC), which implies 0.9x FY14E PBV. We are comfortable with our valuations as our RNAV discount rate is higher than our average applied 32% to reflect the smaller market capitalisation.

Share Price Performance



KLCI	1615.07
YTD KLCI chg	-4.4%
YTD stock price chg	-4.9%

Stock Information

Bloomberg Ticker	HYB MK Equity
Market Cap (RM m)	306.9
Issued shares	198.0
52-week range (H)	1.75
52-week range (L)	1.13
3-mth avg daily vol:	311,573
Free Float	59%
Beta	1.6

Major Shareholders

HENG HOLDINGS SDN BH	27.9%
POH MENG CHAM	11.3%
HENG JAYA SDN BHD	1.6%

Summary Earnings Table

FYE Mar (RM m)	2012A	2013E	2014E
Turnover	306	427	533
EBIT	75	99	121
PBT	74	97	119
Net Profit (NP)	**54**	**72**	**89**
Consensus (NP)	-	64.55	83.35
Earnings Revision	-	-	-
Core EPS (sen)	27.4	36.4	44.8
Core EPS growth (%)	106	33	23
BV/share (RM)	1.34	1.90	2.25
NDPS (sen)	9.0	10.9	13.4
NTA/Share (RM)	1.23	1.78	2.13
Core PER (x)	5.7	4.3	3.5
Price/NTA (x)	1.3	0.9	0.7
Gearing (x)	0.3	0.4	0.2
Dividend Yield (%)	5.7	7.0	8.6

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1. Investment Merit

Initiate coverage on Hua Yang Berhad (HYB) with OUTPERFORM and TP of RM2.10 based on 40% discount to FD RNAV of RM3.52, which still provides a total return of 44%. Our applied discount is more aggressive than our average discount applied on developers RNAV of 32% (refer to Valuations for details). Positioned as an affordable market developer which will enjoy greater sector resiliency via key affordable projects in Desa Pandan, Shah Alam and their next flagship project.

Key management to the group. Mr Ho Wen Yan is in the driver seat, who transforms their operational readiness and business delivery effectiveness to obtain on both strategic and tactical high-value initiatives. That means, his architecture background and overseas experiences actually enables the group to maximize property's space and lower the average selling price per unit to meet the requirement of the first home buyer while maintaining the attractive margins of the group.

Largest exposure to affordable housing segment under our coverage. The group has established a solid reputation in providing affordable housing mainly in Klang Valley, Perak and Johor Bahru which makes up 57%, 20% and 23%, respectively, of total remaining GDV of RM4.1b; this provides them with 7-8 years visibility which is similar to the larger developers under our coverage. Their residential component, which is all deemed as affordable, makes up 80% of their total GDV which is significantly higher than the developers under our coverage whose affordable housing segment is less than 30% exposure of their total GDVs. It is also a beneficiary of the affordable housing measure incentives (e.g. MyFirstHome…etc) since c. 50% of their residential GDV is priced at RM400,000/unit and below. (residential 100% below RM600,000)

Note: We define affordable segments as properties priced <RM600,000/unit.

Table 1: Key incentives for properties priced RM400,000/unit and below.

- Extension of 50% stamp duty exemption for MOT/SPA for purchase of first residential property of up to RM400,000 (previously RM350,000).
- My First Home Scheme income limit for individual loans from RM3,000 to RM5,000 (RM10,000 for joint loans with husband and wives). Also, requirements for a savings record equivalent to three months instalment and minimum employment of six months will be abolished.

Source: Kenanga Research

Beneficiary of rising demand for affordable housing… The group is operating in the right segment given the revival of the affordable housing market play over the last 1-2 years. As a result, they have enjoyed rapid project take-up rates of 70-80% (e.g. Symphony Heights, One South) within a couple of months from launch as it captures the mid-low to average income groups, young families and first home buyers; this segment still makes up the largest residential transaction driver for Malaysia (82% of Malaysia's residential transactions) since 53.9% of the Malaysian population is below 35 years old.

Ability to landbank at lower cost… The group is known to be one of the developers able to landbank below the average 20% land cost of total GDV. For example, its One South land cost is only taken up about 11% (includes infrastructure cost) of the total GDV of RM950m, which actually gives an attractive average gross margin of about 35%. As a result, this actually elevates the group's gross margin from 25% in FY09 to 35% in FY12. Similarly to the acquisition of Puchong land (which is the next flagship project of the group), the land cost should only make up about 11% of the total GDV of RM1.5b. This project would likely to generate high gross margin similar to the One South project although we are only factoring in a conservative gross margin of 25% for now.

…hence, HYB is the only re-rated developer under our coverage. In the past 12 months, we observe that most of the developers under our coverage have de-rated in valuations or wider discounts to their RNAV. One of the major reasons are the continuous policy tightening measures (e.g. increased RPGT, net vs. gross pay mortgage assessments) and of late, increasing GE risks which results in a more 'wait-and-see' buyers attitude. Although many sizeable and reputable developers have achieved record sales growth in 2012, their high exposure to projects priced beyond our affordable level of >RM600,000/unit has been negatively perceived by investors in terms of sustainability of future sales and earnings growth. We believe HYB's high affordable housing exposure caps downside risks for investors looking for property exposure. Over the last 12 months, HYB has rerated to 0.8x Fwd PBV from 0.5x. Having said that, their PBV is still relatively lower than the big cap developers of 1.3x. Its Fwd PER remains compelling at 4.3x compared to peers 7.5-28.0x.

Moving into a mid-cap developers space. HYB has a market cap of RM309m which is considered as a small cap developer. Nevertheless, its revenue and net profit have grown at an impressive 5-year CAGR of 37% and 45%, respectively. Assuming current valuations of 5x PER, its market cap could grow to RM469m based on FY15E net profit.

Big drivers to drive FY14-15E sales growth of 35%-23% to RM612m-RM753m. The reason they can still record such growth is due to their 'low base effect'. Based on our last Property Sector report, we postulated that developers recording >RM2b sales may have difficulty achieving high sales growth as these developers have relatively lower exposure to the affordable segment. The group is in the midst of acquiring their next flagship project driver in Puchong of GDV RM1.5b which will be launched in FY15. It is similar to its One South integrated project and pricing per unit will be starting from RM350,000/unit. Meanwhile, FY14 new drivers will be Desa Pandan and Shah Alam, which has a combined GDV of RM363b and will be mostly priced at RM350,000/unit-RM600,000/unit.

Healthy balance sheet. Upon completing its Puchong land acquisition of RM158m (75:25 debt:equity), its net gearing at 9M13 of 0.1x will inch closer to 0.4x by FY13. However, we believe their drivers for FY14, namely Desa Pandan and Shah Alam, should fare very well while they have high unbilled sales of RM506m. Couple with the completion of the initial phases of One South projects, these will enable them to pare down gearing to 0.3x by end FY14E. This is still within our comfortable limits of 0.5x net gearing for developers.

Decent dividend yield. Although there is no fixed dividend policy for the group, they have been consistently distributing dividends in the past 5 years with net payout ratio of 18%-34% while historical dividend yield has ranged between 2.3%-7.8%. We are expecting a 30% and 25% net dividend payout for FY13 and FY14-15E, which translates to NDPS of 10.9sen and 11.2sen-13.3sen (7.0%-8.6% net yield). This is significantly higher than larger cap developers 0.7%-6.6% yields and more importantly, more than sizeable retail driven M-REITs of 4.2-5.0%. Their high exposure to affordable segments ensures cash flow sustainability for dividends.

On-going projects

One South is their flagship project (GDV of RM950m). In 2007, the group acquired 16.7 acres of leasehold residentialland in Seri Kembangan, Selangor at a reasonable land cost of RM40m (RM55 psf). Relative to GDV, land cost plus infrastructure works only made up c.11% of GDV, allowing the group to reap c. 30% gross margins. It is strategically situated along the KL-Seremban Highway and is right next to Besraya Highway. The development has six phases featuring shop offices, service apartments and office towers. The first four phases of GDV RM703m has been launched within FY11 to FY13 and has achieved sales of RM625m to date. It has done well as the group has revised up GDV from RM920m to RM950m recently.

Phase 1 - Street Mall (GDV: RM211m) comprises of 384 units of shop offices with built-up areas of 479-2,100sf with a street mall. This phase has achieved almost 100% take-up rate and will be completed in end of FY13. We are not surprised to see such strong take-ups given the strong population catchment and accessibility to highways which bodes well for commercial property values in Seri Kembangan.

Phase 2 - PARC (GDV: RM154m) consists of 418 units of serviced apartments spanning 1,014-2,484sf). The project has been fully taken up given its attractive RM305,800/unit entry price with estimate ASP of RM302psf onwards. The project will be key earnings driven in FY14 with expected completion by 4Q14.

Phase 3 - GARDENZ (GDV: RM152m) houses 377 units of serviced apartments spanning 1,020-1,220sf. The project has also been well-received with prices ranging between RM380,000-RM520,000/ unit and unique for its "semi-D in the sky" design, where there is only 9 units per floor and every unit is a corner unit for better privacy. The project is expected to be completed in first half of FY15.

Phase 4 - FLEXIS (GDV: RM186m) will see 424 units of SOHO spanning 475sf-1,271sf. This was just launched in July 2012, comprising of two blocks SOHO. Block 1 has been fully taken up as its selling price per unit is pretty reasonable between RM285,000-RM391,000. However, the take up rate for Block 2 is about 55% while some 35% is pending their loan approvals; note that HYB only considers a sale if the buyer has signed SPA and secured loans. Also, Block 2 selling price is higher than Block 1, ranging from RM588,000 to RM711,000/ unit, which could be a reason for slower loan approvals. The project is expected to be completed in the end of FY15.

Remaining projects comprises of two more phases; Phase 5 (GDV of RM120m; one block of serviced apartment) & Phase 6 (GDV of RM127m; two blocks of SOHO). Phase 5 will tentatively launch in 4Q14 while Phase 6 launch will take place in FY15.

Bandar Universiti Seri Iskandar, Perak is its biggest township. The project commenced in FY01 as a township development located c. 35km Southwest of Ipoh city. The RM1.2b GDV township spans 838ac and has direct access to the Ipoh-Lumut highway. It enjoys around 10,000 population catchment being a university township which is further supported by two other major universities, Universiti Teknologi Petronas and Universiti Teknologi Mara. It has attracted the likes of Tesco Superstore about a year ago, demonstrating the population growth potentials in the area which has helped to garner strong take-up rates of 88%. Remaining GDV of now RM833m should provide the group 8-10 year visibility.

Taman Pulai Indah is HYB's second largest township development spanning 466ac of freehold land. It is strategically situated about 28km from Johor Bahru and has near access to modern amenities including Universiti Teknologi Malaysia, Sultan Ismail International Airport and Jusco Bukit Indah. The township has a total GDV of RM817m and approximately RM200m completed projects (100% sold). So far, it has launched approximately RM709m worth of properties since FY01 and has achieved high take-up rates of 94%. Remaining GDV of RM107m will likely last for another two years. It also a beneficiary of the increased popularity of the Iskandar Malaysia plays.

Senawang Link project is an integrated commercial and industrial development strategically located right in front of Jalan Tampin in Negeri Sembilan. Spanning 28.5 acres of GDV of RM69m, the project consists of 2 storey shop-offices, 1.5 storey terrace factory, 1.5 storey semi-D factory and industry lot with 24 hours security. The group has so far launched GDV of RM17.8m with take-up rate only about 56% and unbilled sales of RM0.5m. However the project is relatively small compared to the rest and is likely to be more of a 'backseat' project to the group.

New projects – Klang Valley

Lining up 'soldiers' for FY14-15. Followed by the successful One South development with the only two remaining phases, the group has lined up two smaller developments in Klang Valley to drive FY14 sales momentum; these are brown field developments in Desa Pandan, KL and Section 13, Shah Alam (total GDV of RM363). Its new flagship project in Puchong will kick-off in FY15 as the next growth driver.

Next catalyst, Desa Pandan (GDV: RM213m). The group acquired a 1.6-acre leasehold land (lease tenure for 99 years expiring in July 2085) in a ready catchment area in Desa Pandan, KL for RM32m or RM475psf in 2011. The land is easily accessible via Jalan Tun Razak, Jalan Ampang, MAJU Expressway and is minutes away from Kuala Lumpur's Golden Triangle. On top of that, we believe the upcoming Tun Razak Exchange announced during Malaysia's Budget 2013, will be another booster for the area. This project will be launched in April 2013 and will likely be a serviced residence with 340 units (about 800 - 1000 sf). The group is currently looking at ASP of c. RM600psf.

Shah Alam, Seksyen 13 (GDV: RM150m). The niche leasehold land of 3.73 acres leasehold land was acquired for RM13m or RM80psf in 2011 and is near to Stadium Shah Alam and Laman Seri Business Centre. It is easily accessible via North Path by Guthrie Corridor or Jalan Sungai Buloh and South Path by Federal Highway. The group intends to develop this land into a mixed commercial and residential development of 340 units with a total GDV of RM150m and ASP of RM350-380psf.

Puchong project will be its next upcoming flagship driven, similar to One South. The group recently proposed a 29.2-acre land acquisition that sits on the growing population in the area of Puchong, Selangor given its prominent location in the middle of three matured towns namely Puchong, Subang and Shah Alam. It lies approximately 5km to the IOI mall and is accessible via major highways such as LDP, Jalan Syed Putra, Jalan Klang Lama, Jalan Puchong and Federal highways. The project will be its largest development and is meant to replenish their major driver, One South, which will only last for 2 years more. It will be divided into 6-8 phases with expected launch in early FY15 and will feature serviced apartments in the affordable segment, offices or lifestyle studio office suites, clubhouse and amenities with an expected GDV of RM1.52b. We understand the acquisition is still pending approval and is expected to be concluded by Mar 2013 or late-FY13. Although the deal has not been finalized, we believe that the group will price their products at RM320psf which is considered attractive given Skypod Residences by IOI properties (which is about 6km from HYB's land) selling higher end units at ASP RM434psf-RM640psf. This pricing advantage allows them to achieve rapid take-up rates in the future.

New projects – Other States

Taman Pulai Hijauan, Johor (GDV of RM380m) is another beneficiary of the Iskandar Malaysia play. The 134-acre of freehold land is close to Taman Pulai Indah. The development will be an Eco-friendly township located along Jalan Pontian, which enjoys spill-overs from the surrounding growth areas along the Skudai-Pontian highway. It also taps onto the overwhelming take-up rate of Taman Pulai Indah. The development will be split into 10 phases, including 2-storey terrace houses, 2-storey cluster houses, 2-storey semi-detaches, 2-storey shop offices, medium low cost flats and shop. The group has launched RM38m in Aug 2012 so far and achieved about 84% take-up rate inclusive of bumi-lots. RM58m worth of launches is planning for 4Q13, which we expect it to be well received as well with the good response from first phase. Meanwhile, the management has guided 6 years duration to develop the township, hinting on steady revenue recognition from the projects.

(Refer to Appendix for further projects' details)

2. Outlook

Ambitions to be the largest affordable developer in Klang Valley. The group intends to remain as an affordable developer, which will be challenging given rising replacement costs. However, we believe the skill sets of the developer lies with their ability to source landbanks with good plot ratios at bargain prices whilst matching it to the going affordable housing market in the area.

Landbanking plans. Currently, the group has an undeveloped landbank of 202 acres or GDV of RM2.6b which should last the group another 6-8 years. Once its sizeable Puchong land acquisition is completed, the group will continue to seek for niche landbanks in Klang Valley, Johor and Perak. We believe the group intends to replenish another RM600m GDV over the next 2 years. Post its Puchong land acquisition, we expect net gearing to settle to 0.4x by end FY14E, which will provide some landbanking room given its comfortable net gearing headroom of 0.6x (ours is 0.5x). However, stumbling upon another sizeable project like One South or Puchong will require fund raising.

Housing for young generation. The young population demography in Malaysia remains the key economic drivers proven by the relatively high correlation rate of 71% between the 10 years private consumption growth (2001 to 2010) and the population growth of the group aged between 0 and 14 (from year 1982 to 1991, who are now in their 20s to mid-40) (refer to Appendix Table 6). Malaysia's enjoys a sizeable large young (<35 years old) population which makes up 53.9% of the Malaysian population. Apart from the migration of young generation from suburban to urban city, the consistent population growth rate of approximately 2.0% per annum for that category should be able to provide a stable platform of first home buyers' market and young-families upgraders, which are HYB's target market. This is more favourable to HYB as the group has higher exposure to this affordable housing compared with other developers.

Residentials transactions at RM500,000/unit or less are still showing strong growth. Klang valley's residential demand and supply still looking good as Klang valley's residential absorption rate is hovering around 6%-7%, which is still below its 10-year average of about 14%, while residential overhangs remains low. Residential transactions are increasing across Malaysia in tandem with the population growth, but demand for residential between RM250,000 and RM500,000/unit range have actually registered stronger growth; this can be seen in the Klang Valley (refer to Chart 1 below), as well. The data supports the resiliency of the first home owner's buyers and upgraders market. Meanwhile, the residential units transacted between RM250,000 and RM500,000 per unit remains as the top 3 at 24% out of the total residential unit transacted in Klang valley (refer to Chart 2). This bodes well for HYB since they have higher exposure to this segment compared to other developers under our coverage.

Chart 1: No. of residential property sales in Klang Valley

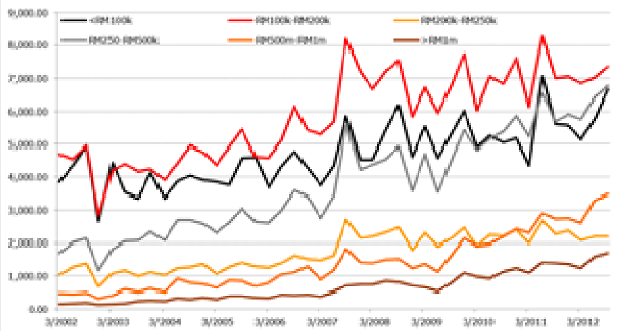
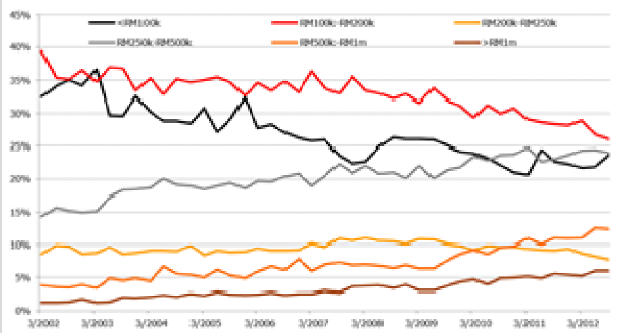


Chart 2: Component percentage of residential property sales in Klang Valley



Source: CEIC; Kenanga Research

Only favourable real estate policies for "affordable" housing. The Government has been gradually tightening the real-estate policies to address affordability issues such as the measures announced during Budget 2013. These include; 1) extension of 50% stamp duty exemption for MOT/SPA for purchase of first residential property of up to RM400,000; 2) My First Home Scheme income limit for individual loans is up from RM3,000 to RM5,000 (RM10,000 for joint loans with husband and wives); 3) waiver of requirements of a savings record equivalent to three-month installment and minimum employment of six-months. As we mentioned earlier in our Property Sector report dated 1st Oct 2012, we do not expect any significant impact on developers under our coverage, save for affordable developers like HYB.

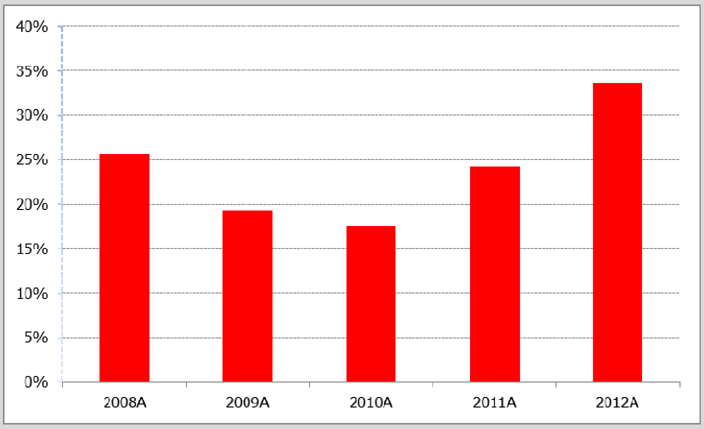
3. Financial Analysis

Targeting FY14-15E sales growth of 35%-22% to RM612m-RM753m. We have estimated new launches of RM833m-RM933m for FY14-15E with an average take-up rate of 48%-54%. FY14E will continue to be driven by on-going projects (e.g. One South, Taman Pulai Indah and Bandar Universiti Seri Iskandar) and new projects; we have timed Desa Pandan and Shah Alam's launches in 1HFY14. FY14-15 is likely to see the launch of One South's last two phases (service apartments of GDV RM120m, SOHO of GDV RM127m) and assume an initial RM250m worth of launches from Puchong project in FY15. An unbilled sale of RM506m provides 1 year visibility. We are also assuming FY14-15E gross margins of about 34%, which is in-line with the consensus' and last year gross profit about 34%-35%. Hence, we estimate FY14-15E earnings of RM89m (+23% YoY) and RM106m (+19% YoY).

FY13E could see softer sales at RM452m (-13% YoY) due to delays in timing of launches. Although total launches for FY13E of RM463m is higher than FY12 launches of RM420m, we expect FY13E sales to be softer YoY as timing of launches such as One South phase 4 and Taman Pulai Hijauan were towards the second half of FY13. To date, the group has so far launched total GDV of RM335m for FY13 and will be only be launching GDV of RM128m from Bandar Universiti Seri Iskandar and Taman Pulai Hijauan towards late 4Q13; so conversion to SPA sales from registered interests could flush sales into FY14E. As a result, this allows for FY13E revenue and sales of RM424m (+38% YoY) and RM452m (-12% YoY).

Decent dividend yield. Over the last 3 years, the group has been paying out 18%-34% of its net profit (refer to Chart 3) and is confident of maintaining c. 25% net payouts in the future. This implies FY13,14,15E NDPS of 10.9sen and 11.2sen-13.3sen (7.0%-8.6% net yield) based on 30% (FY13E) and 25% (FY14-15E) net payout, respectively. This is more attractive than sizeable developers yields of 0.7-6.6% and small-mid cap developers 1.0-7.4% yields. We are confident of their dividend payout abilities as they are operating in a resilient segment, namely affordable housings. We also understand the management is considering an official dividend policy which bodes well for investors' confidence.

Chart 3: Historical Net Payout Ratio (%)



Source: Company, Kenanga Research

Balance sheet remains healthy. We expect HYB to drawdown debt facilities of c. RM120m by end of FY13 for the acquisition of Puchong land. Additionally, the Puchong project is expected to incur an infrastructure cost of RM150m; however, this will be done in 3 stages, commencing in FY15, to enable better cash flow management as it will be timed to project launches. As a result, we expect FY13-15E net gearing of 0.4x-0.1x, which is still comfortably below our 0.5x threshold.

Attractive against peers. The stock offers slightly better dividend yields of 7.0%-8.6% compared to averages of sizeable developers of 0.7%-6.6%, small-mid cap developers of 1.0-7.4% and sizeable retail driven M-REITs of 4.2-5.0%. In terms of its Fwd PERs of 3.5x, it is relatively cheaper than both sizeable and small-mid cap averages of 15.1x and 9.7x, respectively. HYB trades at 0.8x Fwd PBV, which is higher than its small-mid cap peers of 0.7x. However, do note that those developers do have sizeable content of investment properties and is likelier to trade at a deeper discount until they realize these asset values via REIT-ing or disposals; this is unlike HYB which has hardly any investment property exposure.

Table 2: Peer Comparison: Big-mid cap developers

	Px (RM)	Mkt Cap (RM'm)	P/E Yr1 (x)	P/E Yr2 (x)	Div Yield Yr1 (%)	Div Yield Yr2 (%)	P/BV Yr1 (x)	T-12M ROE (%)
UEM Land	2.21	9,568.4	28.0	22.1	0.7	0.9	1.9	7.9
SP Setia	3.41	7,290.6	15.7	13.5	3.9	4.5	1.7	10.5
KLCC Prop	6.11	5,707.2	19.7	17.8	2.5	3.7	0.7	21.7
IGB Corp	2.28	3,224.2	16.1	14.6	2.9	2.6	0.8	6.7
Sunway	2.46	3,179.6	9.7	8.8	2.4	2.7	1.0	14.2
IJM Land	2.10	2,958.0	14.1	11.5	2.0	2.4	1.2	8.7
UOA Dev	1.78	2,262.0	7.5	6.6	6.2	6.6	1.1	20.0
Mah Sing	2.32	1,949.5	9.1	7.3	4.4	5.2	1.6	19.5
E&O	1.52	1,681.4	14.5	12.4	2.6	2.9	1.2	9.7
Average			**17.9**	**15.1**	**2.6**	**3.1**	**1.3**	**12.4**
Hua Yang	1.55	306.9	4.8	3.7	8.4	9.0	0.8	22.9

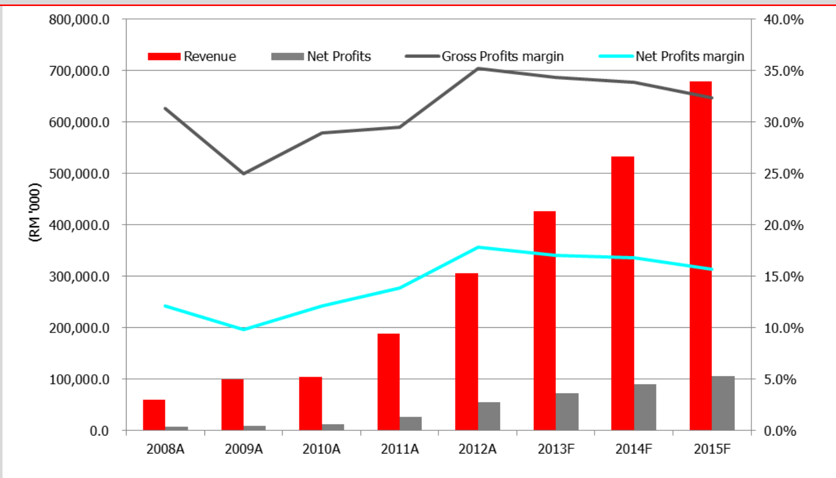
Source: Bloomberg

Table 3: Peer Comparison: Small-mid cap developers

	Px (RM)	Mkt Cap (RM'm)	P/E Yr1 (x)	P/E Yr2 (x)	Div Yield Yr1 (%)	Div Yield Yr2 (%)	P/BV Yr1 (x)	T-12M ROE (%)
YNH Prop	1.95	804.3	12.6	9.5	3.8	4.1	1.0	5.5
Dijaya Corp	1.29	1,023.1	23.5	15.2	3.9	3.9	0.6	14.5
KSL	1.59	614.4	5.2	4.9	2.7	3.0	0.6	10.9
Glomac	0.85	602.6	5.4	4.7	6.4	7.4	0.4	12.9
Paramount	1.56	527.0	8.7	7.8	4.5	4.6	0.8	8.8
Hua Yang	**1.55**	**306.9**	**4.8**	**3.7**	**8.4**	**9.0**	**0.8**	**22.9**
Hunza Prop	1.48	268.3	16.3	22.1	1.4	1.0	0.5	19.9
Average			**12.3**	**9.7**	**4.3**	**4.6**	**0.7**	**12.3**

Source: Bloomberg

Chart 4: Revenues, Profits and margins



Source: Kenanga Research

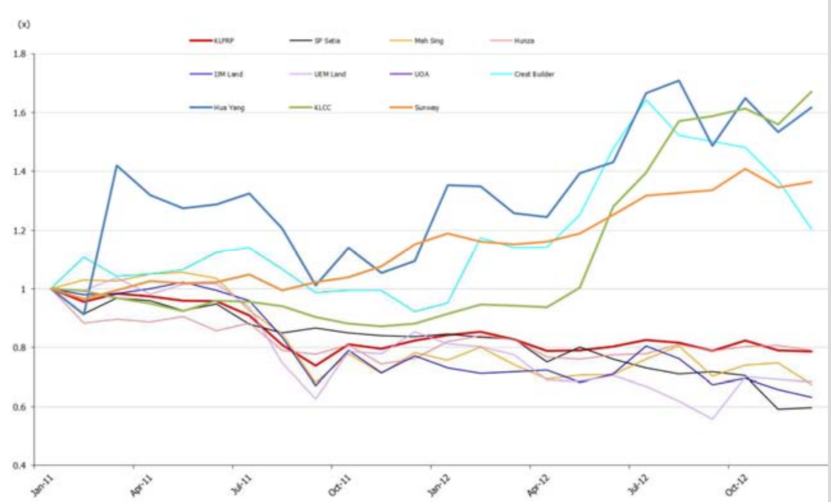
4. Valuation

Initiating coverage on HYB with OUTPERFORM and TP of RM2.10, implying 44% total return. Our TP is based on a 40% discount to our RNAV of RM3.52, which is higher than our average applied discount of 32% due to the smaller market capitalization and tighter liquidity. Our TP implies FY13-15E PBV of 1.1x-0.8x and PER of 5.8x-4.0x, which is still compelling as it is relatively cheaper than both sizeable and small-mid cap averages of 15.1x and 9.7x, respectively. On top of that, at our TP, it is still offers attractive yields of 7.0-8.6%.

Basis of RNAV discount. The basis of our RNAV discount is based on +2.0SD of the 2-year Fwd PBV average (implying 0.84x Fwd PBV) due to their strong dividend yield of 7.0-8.6% and high exposure to affordable housing segment. Our OUTPERFORM calls are based on the average to +1.5SD of respective company averages due to their net cash position, exposure to the affordable housing segment and/or strong dividends yields (>5%); our 1Q13 Top Pick is UOA Development (OP; TP: RM2.30) followed by IJMLAND (OP; TP: RM2.60).

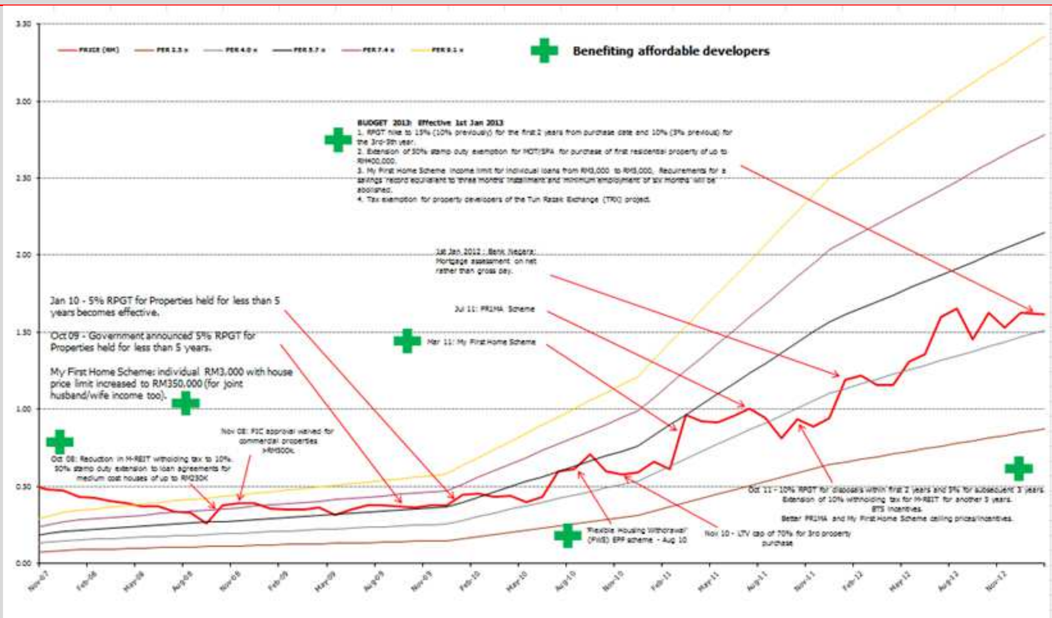
HYB is the only re-rated developer. Note that developers under our coverage Fwd PBV averages are based on the typical 6-year period which has seen two major cycles which reflects impact of changes in policies. However, HYB has only seen an uptrend or a re-rating of its valuations (refer to Chart 5) instead of cycles as they are operating in a segment which has benefitted from affordable housing measures. As a result, we believe their Fwd PBV average should be based on a shorter range of 2 years.

Chart 5: Re-basing Fwd PBV of Peers



Source: Kenanga Research

Chart 6: PER Band with events



Source: Kenanga Research

Table 4: RNAV

Projects	Stake	Total GDV	Remaining GDV (RM'm)	DCF Value
<u>Remaining GDV</u>				
One South, Selangor	100%	950.0	434.0	49.7
Bandar Universiti Seri Iskandar, Perak	100%	1,200.0	833.0	82.7
Taman Pulai Indah, JB	100%	817.0	107.0	12.2
Senawang Link, NS	100%	69.0	51.0	5.4
Taman Pulai Hijauan, JB	100%	380.0	380.0	32.0
Section 13, Shah Alam	100%	150.0	150.0	13.1
Desa Pandan, KL	100%	213.0	213.0	17.8
Jalan Abdul Samad, JB	100%	208.0	208.0	15.0
Puchong, Selangor	100%	1,520.0	1,520.0	91.2
Polo Park, JB	100%	41.0	41.0	3.3
Anjung Bercham Megah	100%	10.0	10.0	1.0
Jalan Stulang Darat, Johor	100%	60.0	60.0	4.8
Bercham Permai	100%	84.0	84.0	7.4
Sub-total On-going & New projects:	**100%**	**5,702.0**	**4,091.0**	**335.6**
<u>Unbilled sales as of 2Q13</u>				
One South, Selangor	100%		367.9	42.1
Bandar Universiti Seri Iskandar, Perak	100%		29.6	3.6
Taman Pulai Indah, JB	100%		60.2	6.8
Senawang Link, NS	100%		2.5	0.3
Taman Pulai Hijauan, JB	100%		11.1	0.9
Sub-total Unbilled Sales	**100%**		**471.3**	**53.8**
Revised Net Asset Value				**389.4**
Shareholder's Funds as of 30 Sep 12				307.4
Total RNAV				**696.8**
RNAV per share (RM)				**MYR 3.52**
No of paid-up shares ('m)				198
Applied Discount				40%
Target Price (RM)				**MYR 2.10**

Source: Kenanga Research

5. Risks

Sustainability risk. HYB may face sustainability issues with regards to landbanking at low cost in strategic locations to enable them to continue with their affordable housing strategy. As a small-cap developer, it maybe taxing on the balance sheet to do multiple sizeable landbankings like Puchong within a year. So HYB will need to rely on more frequent replenishment activities or embark on a capital management initiative to enlarge their gearing base. Failing to landbank at decent prices for affordable housing, the developer maybe pushed to enter into the higher-end housing market, meaning competing with the big boys. Investor should aware of its concentration risks, as well as the group earnings are particularly relying on a few projects only. Any delay in completion of the projects would likely to drag down the overall earnings' performance of the group.

Macro economic and sector risks. This includes overall property down-cycles, tightening of banking liquidity, sharp interest rate hikes, negative real estate policies, global economic slow-downs, etc. Economic uncertainties or a global slowdown contagion effect may slow down demand significantly. This will have negative implications on cash flow for developers doing medium to long term integrated projects.

Not a "bull-run" cycle stock. We do caution investors that in the event of a Property Sector bull-run cycle, this stock may fall out of favour. HYB is operating in a very 'bread-and-butter' segment where demand is resilient but may not offer the same growth prospects of larger developers during a bull-run cycle. We will likely switch to market leaders or larger developers with a wider product and geographical range as we expect demand to switch towards more lifestyle living.

6. Appendix

Brief Background

HYB is a national property developer with over 30 years of experience. Other than property development, the Group is also involved in the provision of management services. The subsidiaries of the Group are divided into businesses such as investment holding, provision of management services, property development and building construction. HYB has highly capable and dynamic project management teams while the overall Group is helmed by a young but experienced CEO i.e. Mr. Ho Wen Yan, who 37 years old. HYB was listed on the Main Board of Bursa Malaysia on 29th November 2002. Klang Valley, Perak and Johor are the states where HYB has its property development projects in. Over 10k residential, commercial and industrial projects have been completed by the Group, generating more than RM1.1b to date.

Chart 7: Corporate Structure

Source: Company

Table 5: Board of Directors

Names	**Designation**
Tan Sri Dato' Seri Dr. Ting Chew Peh (P.S.M., S.P.M.P., D.P.M.S., D.P.M.P.)	Chairman/Independent Non-Executive Director
Ho Mook Leong	Non-Independent Non-Executive Director
Ho Wen Yan	Chief Executive Officer / Executive Director
Dato' Wan Azahari Bin Yom Ahmad	Independent Non-Executive Director
Chew Po Sim	Non-Independent Non-Executive Director
Chew Hoe Soon	Non- Independent Non-Executive Director
Dato' Tan Bing Hua	Senior Independent Non-Executive Director

Sources: Company

Property Portfolio Details

One South

Sources: Company

One South is an integrated commercial, retail and residential development at the south of the Klang Valley. It is HYB's flagship project and positions the Group well on the Klang Valley map. The project has a gross development value (GDV) of RM950.0m and is spread over 16.7 acres of leasehold land. Six phases of the project will be rolled out in 8 years.

This mixed development project is highly accessible by major highways where it is located e.g. along KL-Seremban Highway and next to Besraya Highway. The location is approximately 30 minutes driving distance from Kuala Lumpur City Centre. Buyers, tenants and future shoppers here are served by convenient public transportations like Serdang KTM station, Bukit Jalil and Sg Besi LRT Station. One South is also bounded by matured residential townships like Seri Kembangan, Serdang Perdana, Balakong, Serdang Lama and Taman Sungai Besi. Three phases of One South project had been launched and they have received overwhelming response. The launched phases are Street Mall @ One South (Phase 1), Parc @ One South (Phase 2) and Gardenz @ One South (Phase 3). The launch of SOHO units (Phase 4) is next with a targeted launch date some time in 2Q2013. Phase 5 meanwhile will consist of serviced apartments while Phase 6 will have two blocks of SOHO.

Street Mall@One South (Phase 1)

Street Mall@One South

On-going

Project Name:	Street Mall @ One South
Location:	Seri Kembangan, Selangor
GDV (RM'm):	211
Type	Retail and office units
Tenure	Leasehold
Built up/unit (sf)	479 - 2,100
Start date:	2012
Completion Date	2013
Take-up rate	100%

Sources: Company

Street Mall@One South comprises a GDV of RM 211.0m. It is also the first phase of One South development project and consists of 384 units of shop offices embodied with the concept of work and play. Retail lots of the mall are well suited for lifestyle outlets like hypermarket, cafes, boutiques, beauty and health care. Street Mall is Wi-Fi powered and armed with a 24-hour security. The shop offices here were soft launched in February 2010 and are now 100% sold out. The project is targeted to be completed within 36 months from the launch date or in 2013.

Parc@One South (Phase 2)

Parc@One South

On-going	
Project Name:	Parc @ One South
Location:	Seri Kembangan, Selangor
GDV (RM'm):	154
Type	Serviced Apartment
Tenure	Leasehold
Built up/unit (sf)	1,021 - 2,484
Start date:	2012
Completion Date	2014
Take-up rate	100%

Sources: Company

Parc@One South is the second phase of the One South mixed development project. It has a total of 418 units and was priced at RM333psf to RM355psf, which aligned it with HYB's affordable housing concept that targets first-time buyers and young families. The project has an infinity pool and two covered parkings to be given for each unit. Parc @ One South is essentially fully sold out.

Gardenz@One South (Phase 3)

Gardenz@One South

On-going	
Project Name:	Gardenz @ One South
Location:	Seri Kembangan, Selangor
GDV (RM'm):	152
Type	Serviced Apartment
Tenure	Leasehold
Built up/unit (sf)	1,020 – 1,220
Start date:	2013
Completion Date	Sept 2014
Take up rates	100%

Sources: Company

Gardenz@One South has a total GDV of RM152.0m and was launched in October 2011. It comprises 377 units of serviced apartments. This is a garden concept development which features five concept gardens, each incorporating the metal, wood, water, earth and fire themes. Two covered car park bays and a private garden are packaged with each unit. There is a 180-degree panoramic view of KLCC to Palace of the Golden Horse, Mines Lake and Turf Club.

Flexis @ One South (Phase 4)

Flexis @ One South

On-going	
Project Name:	Flexis @ One South
Location:	Seri Kembangan, Selangor
GDV (RM'm):	186
Type	SOHO
Tenure	Leasehold
Built up/unit (sf)	475 – 1,194
Start date:	2013
Completion Date	2015
Take up rates	
Block 1	100%
Block 2	55%, 35% pending for loan approval

Sources: Company

Flexis@One South will be launched as Phase 4 of the One South project in 2QFY13 and has a GDV of RM186m. The project is expected to be completed by May 2015. The project caters to young professionals and newly married couples seeking a flexible space as a home and a place to work. The 21st floor of the building is equipped with an infinity pool, Jacuzzi, sky fitness centre and sky lounge.

Taman Pulai Indah

Taman Pulai Indah

On-going	
Project Name:	Taman Pulai Indah
Location:	Skudai, Johor
Land size (ac):	477
GDV (RM'm):	817
Type	Mixed Development
Tenure	Freehold
Built up/unit (sf)	2,207
Start date:	2012
Completion Date	2016
Take-up rate	94%

Sources: Company

Taman Pulai Indah is the flagship project of HYB at Iskandar Malaysia. It has a GDV RM817m and is an integrated township that spreads over 466.0ac of freehold land. It is complete with amenities such as schools, recreational parks and shopping complexes. It is located at a strategic location with access to Second-Link Expressway, JB-Parkway Highway and North-South Highway. The township fulfils buyer demands by offering different types of houses like double storey terrace house, single storey terrace house and double storey cluster house.

Bandar Universiti Seri Iskandar

Bandar Universiti Seri Iskandar

On-going	
Project Name:	Bandar Universiti Seri Iskandar
Location:	Seri Iskandar, Perak
Land size (ac):	838
GDV (RM'm):	1200
Type	Mixed Development
Tenure	Leasehold
Built up/unit (sf)	1,095 – 2,491
Start date:	2012
Completion Date	2022
Take-up rate	56%

Sources: Company

Bandar Universiti Seri Iskandar is a 838.0ac township that is built on the basis of a complete harmony lifestyle. It is located at Seri Iskandar, the new administration and educational hub of Perak. A host of entertainment facilities, in-town educational institutes of higher learning, renowned universities and a state-of-the-art medical centre are built in the township. Tesco Superstore, fast-food drive-thru outlets, pedestrian mall and shop offices are within the vicinity of the township as well.

Senawang Link

Senawang Link

On-going	
Project Name:	Senawang Link
Location:	Senawang, Negeri Sembilan
Land size (ac):	28.5
GDV (RM'm):	69.0
Type	Commercial and Industrial
Tenure	Leasehold
Built up/unit (sf)	1,560 – 1,760
Start date:	2011-2012
Completion Date	2015-2016
Take-up rate	91%

Sources: Company

Senawang Link is HYB's integrated commercial and industrial development in Negeri Sembilan. It is located in a prime area of Negeri Sembilan where it is located right in front of Jalan Tampin and in the immediate neighbourhood as KTM Sungai Gadut station. Senawang Link enjoys highly accessibility from North-South Expressway and Jalan Tampin. The types of development in Senawang Link include 2-storey shop-office, 1½ storey terrace factory, 1½ storey semi-D factory and industry lot.

Taman Pulai Hijauan

Taman Pulai Hijauan

On-going	
Project Name:	Taman Pulai Hijauan
Location:	Skudai, Johor
Land size (ac):	134
GDV (RM'm):	380
Type	Mixed Development
Tenure	Freehold
Built up/unit (sf)	1,834 - 2,051
Start date:	2013
Completion Date	2019
Take-up rate	84%

Sources: Company

Taman Pulai Hijauan is township development with 10 phases and is near to HYB's flagship project, Taman Pulai Indah in Iskandar Malaysia. The project has a GDV of RM380.0m. The township comprises of 1465 units of residential housings, 27 units of shop houses, 2 commercial lands and a petrol station on 140.0ac of land. All amenities are within the vicinity with a 10-minute driving distance to Pulai Spring Golf Resort and Universiti Teknologi Malaysia, 15 minutes to JUSCO, Taman Universiti, and 20 minutes to JUSCO, Bukit Indah, Gelang Patah and 2nd Link Highway.

Desa Pandan

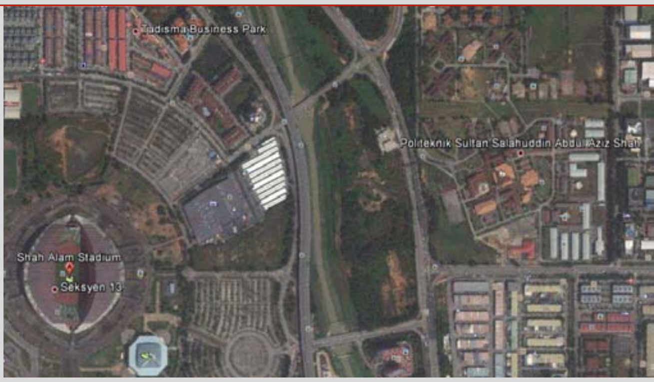
Desa Pandan

Future Project	
Location:	Desa Pandan, KL
Land size (ac):	1.55
Potential GDV (RM'm):	213
Type	Commercial
Tenure	Leasehold
Start date:	2013
Completion Date	2016
Land Cost	RM32.0m (RM475psf)

Sources: Company

The Desa Pandan land was acquired in 2011 with a land size of 1.55ac and a land cost of RM475.0 psf and is targeted to generate a RM213m GDV. It is located in a prime location of Kuala Lumpur where buyers may enjoy scenic views of Royal Selangor Golf Club, KLCC Twin Tower and Ampang Hilir Lake Garden. The ASP of Desa Pandan project is targeted at RM500 to RM600psf. The project is expected to launch in April 2013.

Shah Alam



Shah Alam

Future Project	
Location:	Shah Alam, Selangor
Land size (ac):	3.7
Potential GDV (RM'm):	150
Type	Commercial/Residential
Tenure	Leasehold
Start date:	2013
Completion Date	2016
Land Cost	RM13.0m (RM80psf)

Sources: Company

The Shah Alam project is another key project to be launched in 2013. It has a GDV of RM150m on 3.7ac of leasehold commercial land. The development comprises of serviced apartments and retail units. The project can be accessed through the major highways like Federal Highway, Guthrie Corridor and New Klang Valley Expressway (NKVE). Stadium Shah Alam and Laman Seri Business Centre are within the vicinity of the project. We believe this project may attract Malay buyers nearby who are seeking to upgrade their residential units.

Johor Bahru

Johor Bahru – Jalan Abdul Samad

Future Project	
Location:	Johor Bahru, Johor
Land size (ac):	2.4
Potential GDV (RM'm):	208
Type	Commercial/Residential
Tenure	Leasehold
Start date:	2013
Completion Date	2017
Land Cost	RM11.7m (RM110psf)

Sources: Company

The Johor Bahru project is located at the heart of Johor Bahru where it stretches along Jalan Abdul Samad. A GDV of RM208m is expected from the project which will consist of serviced apartments at the top of a retail podium. We expect the project to be well received by Malaysian working adults in Singapore as well as Singaporean buyers given its prime location in Iskandar Malaysia. Tentatively, the project launching is scheduled in mid-2013.

Bercham, Ipoh

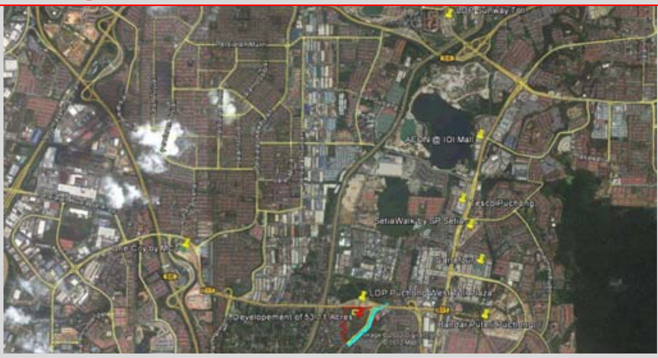
Ipoh

Future Project	
Location:	Ipoh, Perak
Land size (ac):	21
Potential GDV (RM'm):	84
Type	Commercial
Tenure	Leasehold
Start date:	2014
Completion Date	2016
Land Cost	RM15.2m (RM17psf)

Sources: Company

Bercham project in Ipoh is another landbank acquired by HYB in FY13. The location of this 21ac leasehold commercial land is 6km away from the Ipoh town and near to HYB's reputable township, Bandar Universiti Seri Iskandar in Ipoh. It is easily accessible through Jalan Bercham and Jalan Azlan Shah Utara. A few hypermarket operators like Tesco, Giant and Jaya Jusco are within the vicinity of the project. This leasehold commercial project is believed to have a GDV of RM84.0m. The whole project comprises of 134 units of 2-storey cluster semi-d(s) and 22 units of bungalows. The targeted launch date is at the end of 2013.

Puchong



Puchong

Future Project	
Location:	Puchong, Selangor
Land size (ac):	29.2
Potential GDV (RM'b):	1.52
Type	Commercial
Tenure	Leasehold
Start date:	4Q2014
Completion Date	2022
Land Cost	RM158m (RM124psf)

Sources: Company

Puchong landbank is the recent landbanking activity done by the Group in FY13. This 29.2ac leasehold commercial land bank is located in the prime area of Puchong. It is situated to the immediate south of Puchong West Toll Plaza of Lebuhraya Damansara Puchong (LDP) leading towards USJ/ Shah Alam and accessible via Jalan Syed Putra, Jalan Klang Lama, Jalan Puchong and LDP. The development of this Puchong land bank will be similar to One South, which will include serviced apartments and offices/lifestyle studio office suites, a club house and other amenities. It is planned for a GDV of RM1.52b and with a development period of 6-8 years. Major malls in Puchong like IOI Mall Puchong, Tesco, and Giant Hypermarket are within its vicinity. We believe Puchong landbank will be key earnings driver for HYB after its One South project.

Table 6 - Population vs Private Consumption growth

Year	Age group				Growth (%)				Private Consumption Growth (%)
	Total	0 – 14	15 – 64	65+	Total	0 – 14	15 – 64	65+	
1977	12,901.1	5,302.3	7,135.8	463.0	2.5%	1.4%	3.4%	1.6%	n.a.
1978	13,200.2	5,365.1	7,361.2	473.9	2.3%	1.2%	3.2%	2.4%	n.a.
1979	13,518.3	5,435.7	7,596.4	486.1	2.4%	1.3%	3.2%	2.6%	n.a.
1980	13,879.2	5,542.4	7,845.7	491.1	2.7%	2.0%	3.3%	1.0%	n.a.
1981	14,256.9	5,621.9	8,126.2	508.8	2.7%	1.4%	3.6%	3.6%	n.a.
1982	14,651.1	5,723.7	8,400.4	527.0	**2.8%**	**1.8%**	**3.4%**	**3.6%**	n.a.
1983	15,048.2	5,818.8	8,686.1	543.3	**2.7%**	**1.7%**	**3.4%**	**3.1%**	n.a.
1984	15,450.4	5,933.9	8,957.2	559.3	**2.7%**	**2.0%**	**3.1%**	**2.9%**	n.a.
1985	15,882.7	6,081.2	9,227.3	574.2	**2.8%**	**2.5%**	**3.0%**	**2.7%**	n.a.
1986	16,329.4	6,223.5	9,514.8	591.2	**2.8%**	**2.3%**	**3.1%**	**3.0%**	n.a.
1987	16,773.5	6,370.0	9,794.6	608.8	**2.7%**	**2.4%**	**2.9%**	**3.0%**	n.a.
1988	17,219.1	6,512.0	10,080.7	626.3	**2.7%**	**2.2%**	**2.9%**	**2.9%**	n.a.
1989	17,662.1	6,650.0	10,369.5	642.5	**2.6%**	**2.1%**	**2.9%**	**2.6%**	n.a.
1990	18,102.4	6,775.0	10,669.0	658.5	**2.5%**	**1.9%**	**2.9%**	**2.5%**	n.a.
1991	18,547.2	6,899.9	10,971.5	675.9	**2.5%**	**1.8%**	**2.8%**	**2.6%**	n.a.
1992	19,067.5	7,038.6	11,322.1	706.7	2.8%	2.0%	3.2%	4.6%	n.a.
1993	19,601.5	7,192.0	11,680.6	728.9	2.8%	2.2%	3.2%	3.1%	n.a.
1994	20,141.7	7,329.2	12,058.4	754.1	2.8%	1.9%	3.2%	3.5%	n.a.
1995	20,681.8	7,453.3	12,447.7	780.7	2.7%	1.7%	3.2%	3.5%	n.a.
1996	21,222.6	7,566.1	12,850.5	806.1	2.6%	1.5%	3.2%	3.3%	n.a.
1997	21,769.3	7,668.7	13,266.5	834.1	2.6%	1.4%	3.2%	3.5%	n.a.
1998	22,333.5	7,781.8	13,688.7	863.0	2.6%	1.5%	3.2%	3.5%	n.a.
1999	22,909.5	7,885.6	14,129.1	894.8	2.6%	1.3%	3.2%	3.7%	n.a.
2000	23,494.9	8,003.1	14,560.0	931.8	2.6%	1.5%	3.0%	4.1%	n.a.
2001	24,123.4	7,879.9	15,293.3	950.1	2.7%	-1.5%	5.0%	2.0%	**4%**
2002	24,727.1	7,892.6	15,845.7	988.8	2.5%	0.2%	3.6%	4.1%	**6%**
2003	25,320.0	7,891.4	16,399.9	1,028.7	2.4%	0.0%	3.5%	4.0%	**8%**
2004	25,905.1	7,880.9	16,955.0	1,069.2	2.3%	-0.1%	3.4%	3.9%	**12%**
2005	26,476.9	7,856.9	17,510.3	1,109.8	2.2%	-0.3%	3.3%	3.8%	**12%**
2006	26,831.5	7,823.8	17,856.9	1,150.7	1.3%	-0.4%	2.0%	3.7%	**10%**
2007	27,186.0	7,790.5	18,202.8	1,192.7	1.3%	-0.4%	1.9%	3.6%	**14%**
2008	27,540.5	7,757.4	18,547.2	1,236.0	1.3%	-0.4%	1.9%	3.6%	**14%**
2009	27,895.3	7,724.2	18,889.7	1,281.5	1.3%	-0.4%	1.8%	3.7%	**1%**
2010	28,334.1	7,827.9	19,078.9	1,427.3	1.6%	1.3%	1.0%	11.4%	**8%**
Correlation of Private Consumption vs respective group					26.4%	**71.0%**	-36.1%	- 21.3%	

Sources: *Department of Statistics Malaysia, Kenanga Research*

Income Statement

FY Mar (RM m)	2011A	2012A	2013E	2014E	2015E
Turnover	188.9	306.4	427.0	533.1	678.9
EBITDA	36.1	74.2	98.2	120.3	142.6
Depreciation	0.4	0.3	0.4	0.6	0.7
Operating Profit	36.4	74.5	98.6	120.8	143.3
Interest Income	-1.1	-0.8	-1.7	-1.5	-1.3
Interest Expense	0.0	0.0	0.0	0.0	0.0
Associate	0.0	0.0	0.0	0.0	0.0
Exep. Items	0.0	0.0	0.0	0.0	0.0
PBT	35.4	73.8	96.9	119.4	142.0
Taxation	-9.2	-19.1	-24.2	-29.8	-35.5
Minority Interest	0.1	-0.5	-0.7	-0.8	-1.0
Net Profit	26.3	54.2	72.0	88.7	105.5

Balance Sheet

FY Mar (RM m)	2011A	2012A	2013E	2014E	2015E
Fixed Assets	155.5	214.0	379.0	382.3	385.8
Intangible Assets	23.6	22.9	22.9	22.9	22.9
Other FA	9.1	6.0	6.0	6.0	6.0
Inventories	4.2	4.9	6.9	9.7	11.4
Receivables	87.8	107.7	150.0	187.3	238.5
Other CA	70.5	66.4	65.9	65.9	65.9
Cash	6.3	25.2	61.5	81.8	122.9
Total Assets	357.0	447.1	692.3	755.9	853.5
Payables	47.9	56.5	72.1	90.5	117.5
ST Borrowings	19.5	6.4	12.3	6.0	6.0
Other ST Liability	6.5	7.0	7.3	7.5	7.8
LT Borrowings	53.5	90.8	198.9	182.6	166.3
Other LT Liability	8.6	18.1	23.6	22.5	23.3
Minorities Int.	1.7	2.2	2.2	2.2	2.2
Net Assets	**219.3**	**266.1**	**375.9**	**444.7**	**530.4**
Share Capital	108.0	144.0	198.0	198.0	198.0
Reserves	111.3	122.1	177.9	246.7	332.4
Equity	**219.3**	**266.1**	**375.9**	**444.7**	**530.4**

Cashflow Statement

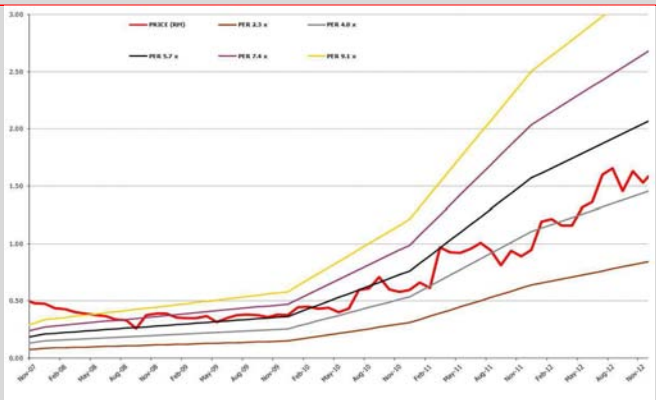
FY Mar (RM m)	2011A	2012A	2013E	2014E	2015E
Operating CF	3.5	56.4	106.2	135.8	167.1
Investing CF	-2.3	-79.9	-215.0	-64.8	-82.0
Financing CF	0.2	41.7	144.7	-50.7	-44.0
Change In Cash	1.5	18.1	35.9	20.3	41.1
Free CF	6.1	-2.3	-58.4	133.1	164.3

Financial Data & Ratios

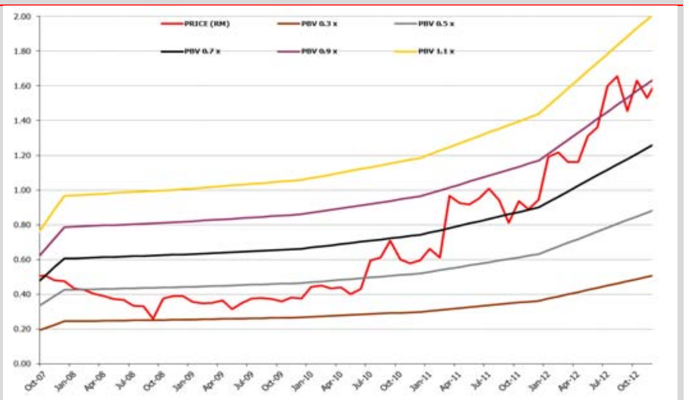
FY Mar (RM m)	2011A	2012A	2013E	2014E	2015E
Growth (%)					
Turnover	82.4	62.2	39.3	24.9	27.3
EBITDA	114.4	105.8	32.3	22.5	18.6
Operating Profit	111.1	104.5	32.3	22.6	18.6
PBT	110.9	108.5	31.4	23.1	19.0
Net Profit	109.1	106.4	32.9	23.1	19.0
Profitability (%)					
EBITDA Margin	19.1	24.2	23.0	22.6	21.0
Operating Margin	19.3	24.3	23.1	22.7	21.1
PBT Margin	18.7	24.1	22.7	22.4	20.9
Core Net Margin	13.9	17.7	16.9	16.6	15.5
Effective Tax Rate	-26.8	-26.3	-25.0	-25.0	-25.0
ROE	12.7	22.3	22.4	21.6	21.6
ROA	7.9	13.5	12.6	12.3	13.1
DuPont Analysis					
Net Margin (%)	13.9	17.7	16.9	16.6	15.5
Assets Turnover (x)	0.6	0.8	0.7	0.7	0.8
Leverage Factor (x)	1.6	1.7	1.8	1.8	1.7
ROE (%)	12.7	22.3	22.4	21.6	21.6
Leverage					
Debt/Asset (x)	0.20	0.22	0.31	0.25	0.20
Debt/Equity (x)	0.33	0.37	0.56	0.42	0.32
Net Cash/(Debt)	67	72	150	107	49
Net Debt/Equity (x)	0.30	0.27	0.40	0.24	0.09
Valuations					
EPS (sen)	13.3	27.4	36.4	44.8	53.3
NDPS (sen)	3.1	9.0	10.9	13.4	13.3
NTA (RM)	1.11	1.34	1.90	2.25	2.68
PER (x)	11.8	5.7	4.3	3.5	2.9
Net Div. Yield (%)	2.0	5.7	7.0	8.6	8.5
P/NTA (x)	1.4	1.2	0.8	0.7	0.6
EV/EBITDA (x)	10.5	5.2	4.7	3.5	2.5

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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