

27 May 2013

Hua Yang Berhad

FY14 to be a Stronger Year

OUTPERFORM ↔

Price: RM2.72
Target Price: RM3.52 ↔

Although Hua Yang has undergone a slight correction to RM2.72 since its all-time high of RM3.07 or YTD gains of 88%, they remain one of our favourite picks amongst the small-mid cap space due to its exposure to Johor and affordable housing segment. Moreover, FY14E would be another good year, as sales and earnings are expected to grow by 52% and 26% YoY, respectively, buoyed by its record-high launch target of RM1b and current unbilled sales of RM523m. 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%. Forecast maintained. Coupled with a decent dividend yield of 4.9%, we reiterate our **OUTPERFORM** call on Hua Yang with TP of RM3.52. Our TP is on parity with our DCF-driven RNAV @ 10% WACC, which implies 1.7x FY14E PBV.

Strong growth still. In FY13, Hua Yang continues to deliver strong revenue and earnings of 33.4% and 32.9% YoY, respectively, underpinned by its flagship and on-going projects like One South, Taman Pulai Indah in Johor and Bandar Universiti Seri Iskandar ("BUSI") in Perak. Gross profit margin improved by 1.8ppt to 37%, which was attributable to higher margin projects such as One South and BUSI. Net profit margin dropped slightly by 0.5ppt, mainly due to higher cost resulting from a RM20m one-off consulting fee over the en-bloc sales of the retail block in One South. Hua Yang registered lower sales of RM401.5m as compared to RM519.7m in FY12 and our earlier full year forecast of RM452m. The lower YoY sales were due to their decision to hold back new launches before General Election i.e. Desa Pandan and Shah Alam's pocket lands.

FY14E sales to register 52% YoY growth. The company is planning to launch One South Phase 5, Shah Alam, Desa Pandan and other on-going projects. Total launches will be worth GDV c. RM1.0b, of which RM690m are from new projects. The breakdown between Klang Valley, Johor and other regions will be 46:41:13. Based on their FY14E launch target, we are confident of our FY14-15E projected sales of RM613m (+52% YoY) and RM754m (+23% YoY). Thus, we maintain our earnings estimates.

Eyeing more landbank. Hua Yang is eyeing more pocket landbank in Klang Valley and is in the midst of finalizing one soon; details to be revealed later. Its strategy is to focus on high density, which allows more flexibility in pricing housing units below RM500k/unit within populated areas. Hua Yang is currently well positioned to embark on more acquisitions as its net gearing is at a low level of 0.26x, meaning it has the capacity to borrow up to RM125m based on its comfortable net gearing of 0.6x. If so, the group can replenish up to RM1.2b worth of new GDV, assuming similar parameters to its recent Puchong land acquisition where land cost made up c. 10% of GDV. This provides the company decent room for growth as management intends to replenish c. RM600m new GDV p.a. to ensure healthy earnings growth of 20% YoY.

Share Price Performance



KLCI 1,773.06
YTD KLCI chg 5.0%
YTD stock price chg 66.9%

Stock Information

Bloomberg Ticker HYB MK Equity
Market Cap (RM m) 538.6
Issued shares 198.0
52-week range (H) 3.07
52-week range (L) 1.24
3-mth avg daily vol: 1,104,149
Free Float 64%
Beta 1.4

Major Shareholders

HENG HOLDINGS SDN 27.9%
POH MENG CHAM 7.3%
MOOK LEONG HO 1.1%

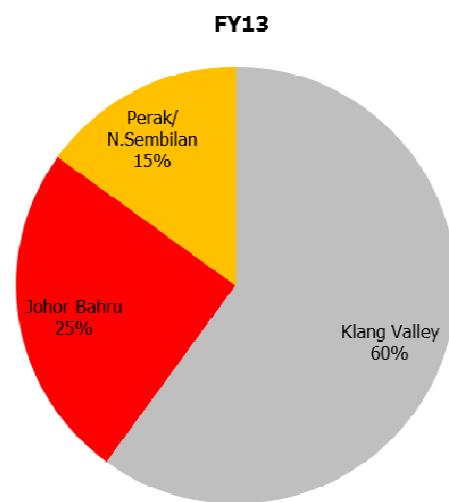
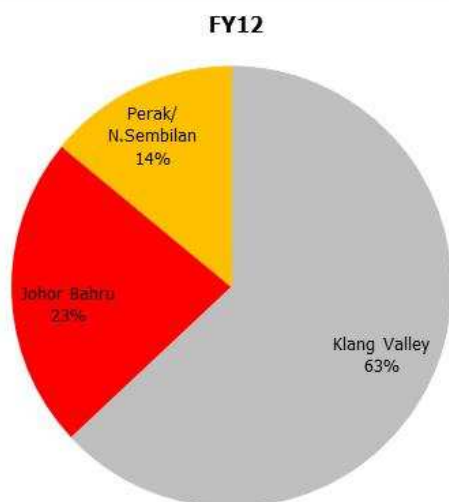
Summary Earnings Table

FYE Dec (RM'm)	2013A	2014E	2015E
Turnover	408.7	532.4	677.8
EBIT	95.4	120.2	142.4
PBT	95.3	120.1	142.3
Net Profit (NP)	70.5	88.8	105.2
Core NP	70.5	88.8	105.2
Consensus (NP)	N.A.	87.1	108.5
Earnings Revision		-	-
Core EPS (sen)	35.6	44.8	53.1
Core EPS growth (%)	33.1	26.0	18.5
NDPS (sen)	13.2	13.5	15.9
BV/Share (RM)	1.69	2.04	2.45
Core PER (x)	7.6	6.1	5.2
Price/BV (x)	1.7	1.4	1.2
Net Gearing (x)	0.26	0.26	0.18
Dividend Yield (%)	4.9	4.9	5.9

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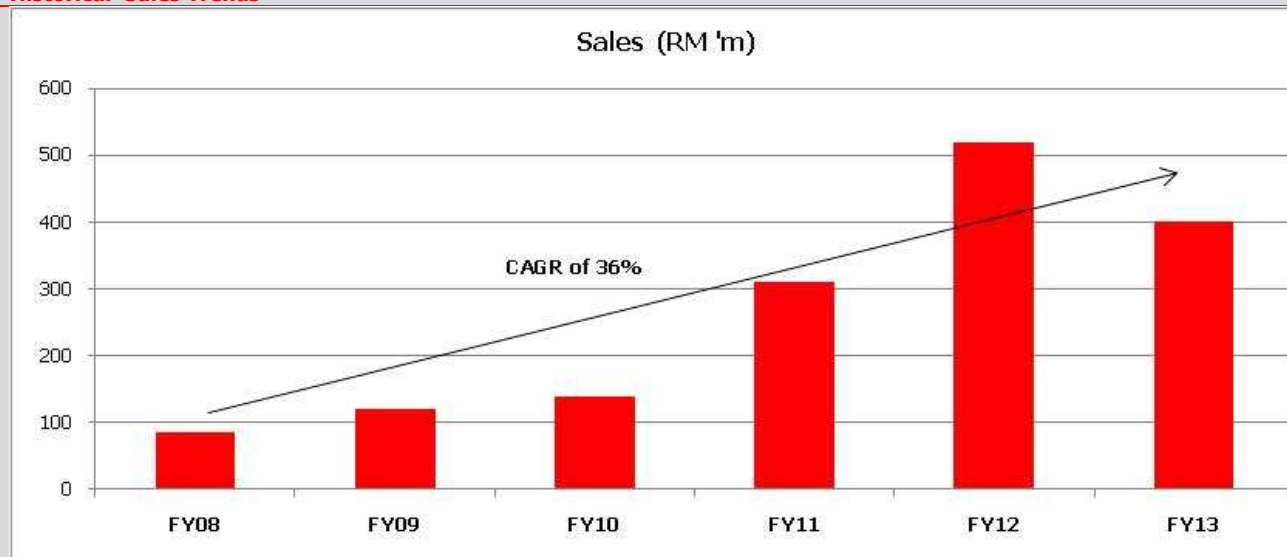
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Revenue Breakdown by regions



Source: Company, Kenanga Research

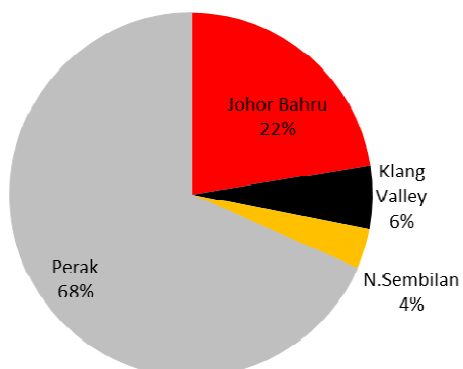
Historical Sales Trends



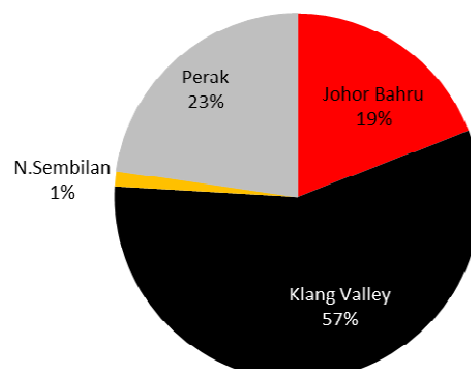
Source: Company, Kenanga Research

Landbanks

Undeveloped Acreage



Remaining GDV



Source: Company, Kenanga Research

Income Statement

FY Mar (RM m)	2011A	2012A	2013A	2014E	2015E
Turnover	188.9	306.4	408.7	532.4	677.8
EBITDA	36.1	74.2	94.4	119.6	141.7
Depreciation	0.4	0.3	1.0	0.6	0.7
Operating Profit	36.4	74.5	95.4	120.2	142.4
Interest Income	-1.1	-0.8	-0.1	-0.1	-0.1
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	95.3	120.1	142.3
Taxation	-9.2	-19.1	-24.8	-31.3	-37.1
Minority Interest	0.1	-0.5	0.0	0.0	0.0
Net Profit	26.3	54.2	70.5	88.8	105.2

Balance Sheet

FY Mar (RM m)	2011A	2012A	2013A	2014E	2015E
Fixed Assets	155.5	214.0	382.8	386.1	389.6
Intangible Assets	23.6	22.9	22.3	22.3	22.3
Other FA	9.1	6.0	6.1	6.1	6.1
Inventories	4.2	4.9	6.5	9.6	11.3
Receivables	87.8	107.7	79.4	145.9	213.6
Other CA	70.5	66.4	107.1	107.0	107.1
Cash	6.3	25.2	29.5	82.8	85.2
Total Assets	357.0	447.1	633.7	759.7	835.2
Payables	47.9	56.5	155.8	135.7	146.9
ST Borrowings	19.5	6.4	2.4	6.0	6.0
Other ST Liability	6.5	7.0	10.8	11.2	11.6
LT Borrowings	53.5	90.8	112.8	182.6	166.3
Other LT Liability	8.6	18.1	17.5	21.0	19.6
Minorities Int.	1.7	2.2	0.0	0.0	0.0
Net Assets	219.3	266.1	334.5	403.3	484.8
Share Capital	108.0	144.0	198.0	198.0	198.0
Reserves	111.3	122.1	136.5	205.3	286.8
Equity	219.3	266.1	334.5	403.3	484.8

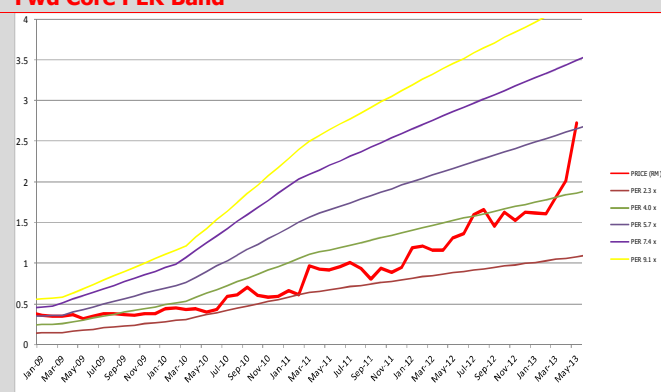
Cashflow Statement

FY Mar (RM m)	2011A	2012A	2013A	2014E	2015E
Operating CF	3.5	56.4	130.1	10.9	55.4
Investing CF	-2.3	-79.9	-174.0	-4.4	-4.9
Financing CF	0.2	41.7	45.5	46.7	-48.0
Change In Cash	1.5	18.1	1.6	53.2	2.5
Free CF	6.1	-2.3	-43.0	6.5	50.5

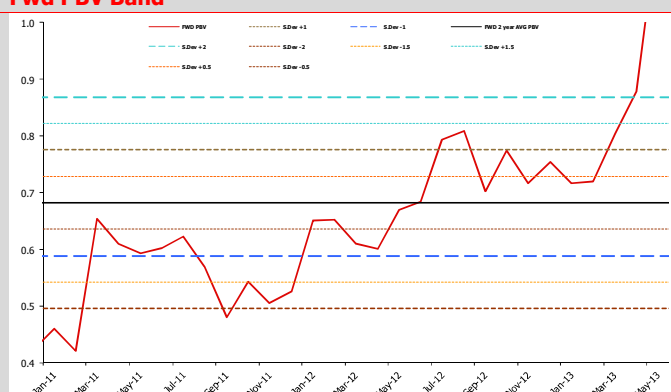
Financial Data & Ratios

FY Mar (RM m)	2011A	2012A	2013A	2014E	2015E
Growth (%)					
Turnover	82.4	62.2	33.4	30.3	27.3
EBITDA	114.4	105.8	27.2	26.7	18.5
Operating Profit	111.1	104.5	28.1	25.9	18.5
PBT	110.9	108.5	29.2	26.0	18.5
Net Profit	109.1	101.6	33.1	26.0	18.5
Profitability (%)					
EBITDA Margin	19.1	24.2	23.1	22.5	20.9
Operating Margin	19.3	24.3	23.4	22.6	21.0
PBT Margin	18.7	24.1	23.3	22.6	21.0
Core Net Margin	13.9	17.3	17.2	16.7	15.5
Effective Tax Rate	-26.8	-26.3	-26.1	-26.1	-26.1
ROE	12.7	22.3	23.5	24.1	23.7
ROA	7.9	13.5	13.0	12.7	13.2
DuPont Analysis					
Net Margin (%)	13.9	17.3	17.2	16.7	15.5
Assets Turnover (x)	0.6	0.8	0.8	0.8	0.8
Leverage Factor (x)	1.6	1.7	1.8	1.9	1.8
ROE (%)	12.7	22.3	23.5	24.1	23.7
Leverage					
Debt/Asset (x)	0.20	0.22	0.18	0.25	0.21
Debt/Equity (x)	0.33	0.37	0.34	0.47	0.36
Net Cash/(Debt)	67	72	86	106	87
Net Debt/Equity (x)	0.30	0.27	0.26	0.26	0.18
Valuations					
EPS (sen)	13.3	26.7	35.6	44.8	53.1
NDPS (sen)	3.1	9.0	13.2	13.5	15.9
NTA (RM)	1.11	1.34	1.69	2.04	2.45
PER (x)	20.5	9.9	7.6	6.1	5.2
Net Div. Yield (%)	1.1	3.3	4.9	4.9	5.9
P/NTA (x)	2.8	2.2	1.7	1.4	1.2
EV/EBITDA (x)	16.8	8.2	6.6	5.4	4.4

Source: Kenanga Research

Fwd Core PER Band

Source: Kenanga Research

Fwd PBV Band

NAME	Price (23/5/13)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY12/13 NP Growth (%)	FY13/14 NP Growth (%)	Target Price	Rating
	(RM)	(RMm)	FY12/13	FY13/14	FY14/15	(%)	(%)	(x)	FY12/13	FY13/14	FY14/15			(RM)	
DEVELOPERS UNDER COVERAGE															
UEM Land	3.26	14,133	31.5	23.0	24.0	0.8%	8.8%	2.4	448.4	613.6	589.2	36.9%	-4.0%	3.60	OUTPERFORM
SP Setia	3.70	9,097	21.9	18.9	16.0	2.3%	10.5%	1.6	393.8	456.5	539.8	15.9%	18.3%	3.80	MARKET PERFORM
IJM Land	3.05	4,372	21.9	18.4	15.5	1.3%	9.1%	1.6	193.7	230.2	273.6	18.9%	18.9%	2.93	OUTPERFORM
UOA Development*	2.64	3,355	11.1	10.3	7.9	4.5%	15.5%	1.5	301.3	327.0	422.1	8.5%	29.1%	2.60	OUTPERFORM
Mah Sing Group	2.98	3,348	14.5	12.1	10.0	3.1%	16.9%	2.3	230.6	275.1	335.5	19.3%	22.0%	2.40**	OUTPERFORM
Dijaya Corporation*	1.97	1,695	26.5	9.4	8.1	3.2%	13.1%	0.7	59.0	166.3	193.5	181.9%	16.3%	2.15	OUTPERFORM
Crescendo	3.30	643	11.5	8.7	6.5	4.4%	9.7%	1.0	55.7	73.5	98.6	31.8%	34.2%	3.56	OUTPERFORM
Hua Yang	2.72	539	9.9	7.5	6.1	4.0%	22.3%	1.4	54.2	72.0	88.7	32.9%	23.1%	3.52	OUTPERFORM
Hunza Properties*	2.22	403	11.9	21.9	25.9	1.0%	20.3%	0.7	32.5	17.7	15.0	-45.6%	-15.3%	1.70	MARKET PERFORM
* Core NP and Core PER															
** RM2.40 is a post bonus TP. Pre-bonus TP is RM2.76															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.85	4,230	56.3	170.0	85.0	1.2%	1.5%	0.8	75.1	24.9	49.8	-66.9%	100.0%	0.93	BUY
SUNWAY BHD	3.70	4,782	9.0	13.5	12.2	1.8%	16.3%	1.3	532.4	355.4	391.6	-33.2%	10.2%	3.54	BUY
IGB CORPORATION BHD	2.57	3,605	20.8	16.7	16.3	2.6%	4.8%	0.9	173.7	216.0	221.6	24.4%	2.6%	2.75	BUY
YNH PROPERTY BHD	2.14	902	17.8	10.7	7.5	3.7%	6.1%	1.1	50.8	84.3	120.1	66.0%	42.5%	1.82	SELL
YTL LAND & DEVELOPMENT BHD	1.16	962	47.9	77.3	61.1	N.A.	2.2%	1.0	20.1	12.4	15.8	-38.0%	26.7%	1.05	SELL
GLOMAC BHD	1.28	907	8.7	9.0	7.1	3.9%	13.1%	1.2	103.7	101.3	127.5	-2.3%	25.9%	1.13	BUY
KSL HOLDINGS BHD	2.14	827	6.3	6.1	5.5	1.6%	12.8%	0.7	131.6	135.2	149.9	2.8%	10.9%	2.20	NEUTRAL
PARAMOUNT CORP BHD	1.67	564	9.7	8.8	8.0	5.1%	8.2%	0.8	57.9	64.2	70.9	10.8%	10.5%	1.90	BUY
Source: 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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