

Hua Yang Bhd

02 Sep 2010

KDN: PP10837/03/2011 (029371)

BUY

Current Price	RM1.20
New Target Price	RM1.58
Previous Target Price	-
Previous Recommendation	-
Upside To Target	+31.7%

Stock Codes

Masa	HUAYANG/5062
Bloomberg	HYB MK

Stock & Market Data

KLCI	1,431.96
Listing	Main Market
Sector	Property
Syariah Compliance	Yes
Par Value	RM1.00
Issued Shares	90.00mn
Market Capitalisation	RM108mn
YTD Chg In Share Price	60.0%
52-week Hi/Lo	RM1.25/RM0.65
3M Average Volume	214,411 shares

Majority Shareholders

Heng Holdings Sdn Bhd (30.7%)
Poh Meng Cham (14.9%)

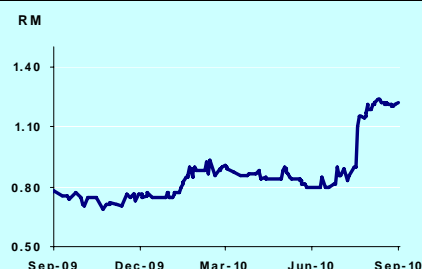
Historical Price Ratios

FYE	2007	2008	2009	2010
PER (x)	10.6	11.0	7.2	6.7
PBV (x)	0.5	0.4	0.3	0.4

Share Performance

	1mth	3mth	12mth
Absolute	+0.8%	+50.0%	+58.9%
vs. KLCI	-4.0%	+34.4%	+29.6%

Share Price Performance Chart



Home Sweet Home

- **Embracing the path to dynamism.** Prior to FY09, the group focused more on its projects outside Klang Valley. However, things are getting different when the Group started reactivating its Klang Valley ventures, as management sees the high potential for the property market in Klang Valley, given its highest concentration of population and the fastest growth in population nationwide. In fact, we believe its Sg. Besi project – ONE South – will be the main growth driver.
- **ONE South.** The project is an integrated commercial, retail and residential development. It is Hua Yang's biggest project in the Klang Valley area thus far. The project has a GDV of RM750mn that spread over 17.89- acre leasehold land. The project will be rolled out in 5 phases over the next 8 years. This flagship project is approximately 30-minute (drive) from the City of Kuala Lumpur and is surrounded by a few well-established residential neighbourhoods. We understand that the residential units will be priced at an affordable range while the project is strategically located. Hence, we are upbeat over the take-up rate of this project.
- **Favourable industry developments.** Apart from the favourable demography and the near all-time low mortgage lending rate, the property sector (particularly the affordable housing segment) is well supported by (i) the delay in the implementation of IFRIC 15 Agreement until January 2012, hence removing uncertainties in earnings recognition, and (ii) BNM's intention to implement an 80% cap in mortgage lending, which is likely to hurt high-end property developers the most (as we believe this cap might not be applicable to 1st house buyers or affordable housing buyers).
- **Going forward.** Hua Yang is expected to achieve a 3-year (from FY10 to FY13) CAGR of 44.5% and 55.3% for its revenue and net profit on the back of RM935mn GDV in the pipeline. The Group has also recently **proposed a 1-for-5 bonus issue to boost stock liquidity.**
- **We see value in the stock.** The stock is currently trading at 9.5x and 5.5x FY10 and FY11 EPS estimates, which is not excessive vis-à-vis the sector average. Besides, the stock is also trading at almost 70% discount to its RNAV of RM3.94/share. **We initiate coverage on the stock with a BUY call and a target price of RM1.58**, representing 60% discount to its RNAV as well as 7.1x and 0.7x of its FY11 EPS and BPS. GDPS is expected to increase to 5 sen/share from 3 sen/share in FY10, implying a gross dividend yield of 4.2%.

Investment Statistics

Y€ 31 Mar (RMmn)	2009	2010	2011F	2012F	2013F
Net Profit	8.7	11.6	19.9	37.2	43.4
Growth	33%	32%	72%	87%	16%
Consensus	-	-	N.A.	N.A.	N.A.
EPS (sen)	9.7	12.9	22.1	41.4	48.2
Net DPS (sen)	1.9	2.3	3.8	3.8	3.8
NTA/Share (RM)	2.0	2.1	2.3	2.6	3.1
Net Cash/(Debt)	-28.5	-53.1	-41.1	-98.2	-101.8
Net Debt/Equity (x)	-0.15x	-0.27x	-0.19x	-0.40x	-0.36x
PER (x)	12.4x	9.3x	5.4x	2.9x	2.5x
Dividend Yield	1.6%	1.9%	3.1%	3.1%	3.1%
ROE	4.8%	6.1%	9.8%	16.2%	16.3%
ROA	3.7%	4.1%	6.0%	9.6%	9.3%
P/NTA (x)	0.6x	0.6x	0.5x	0.5x	0.4x

COMPANY BACKGROUND

Corporate Profile

Hua Yang Bhd ("Hua Yang") was started by Mr Ho Mok Heng back in 1978, under a private limited company under the name of Heng Po S/B, which was renamed as Hua Yang Development S/B on 10 March 1979. Subsequently, its name was changed to Hua Yang S/B on 4 September 2001. In the following year (29 November 2002), the company was listed on the Main Board (known as Main Market currently) of Bursa Malaysia Securities Bhd. The corporate milestone of the Group is shown in *Table 1*.

Table 1: Corporate Milestones

1978-1982	Hua Yang was incorporated as Heng Po Sdn Bhd in 1978. The group started its development project in Ipoh consist of 8 units 4-storey shops in Jalan Gopeng, valued at RM2.44mn.
1983-1987	Various successful development projects undertaken in Ipoh and surrounding towns of Simpang Pulai, Tasek, Bercham, Lahat which established Hua Yang as one of the reputable property developer.
1988-1992	The Group enters the Klang Valley with Taman Setapak Jaya development under Prop Park Sdn Bhd, which was completed in 1992.
1993-1997	Launched the Group's 1 st township development- Bandar Universiti Seri Iskandar, a mixed township development consisting educational, commercial and residential. Seremban Country Heights, 100 acres Joint Venture development was launched in 1994 & 838 acres of land along Ipoh-Lumut Highland was acquired for its expansion plan.
1998-2002	Acquired 371 acres in Johor and commenced its maiden projects, Taman Pulai Indah. Hua Yang was finally listed on the Main Board of Bursa Malaysia on 29 November 2002.
2003-2007	Acquired 106 acres of land adjacent to Taman Pulai Indah and entered a Joint Venture development with Sanjung Sempurna Sdn Bhd for a 150 acres land in Ipoh.
2008-Present	<ul style="list-style-type: none"> - Acquired 16.65 acres of land at Sungei Besi, Selangor and launched the 1st phase- One South in beginning of 2010. - Purchased of 140 acres of land in Pulai Johor for residential and commercial development. - Launched Senawang Link, an integrated commercial and industrial development project in Seremban, expected to be completed by 2010. - Hua Yang is ranked top 500 companies listed on the Bursa Malaysia with 3 branch offices operate nation-wide & staff strength of 80 presently.

Source: Company

Hua Yang is a national property developer with over 30 years of experience. Its projects spread across the country. Apart from property development, Hua Yang is also involved in other business activities such as investment holding, and provision of management and secretarial services. Some of its subsidiaries are involved in the field of building and construction, supporting the core business of the Group, which is property development. The group positions itself as a Community Developer that provides affordable (RM90,000 – RM380,000) and quality homes for Malaysians since 1978. The corporate structure as at 31 March 2010 is shown in *Chart 1 below*.

Chart 1: Group Structure of Hua Yang



Source: Company

Key Management Team

Hua Yang is led by a team of experienced Board of Directors. In fact, the Board's effort, hard work and perseverance are fundamental to Hua Yang's achievement. With these capable leaders, Hua Yang will continue to strive forward. The board members are shown in Table 2.

Table 2: Board of Directors or Substantial Shareholders and Their Shareholdings in Hua Yang

Board Members / Substantial Shareholders	Designation	Direct interest (%)	Deemed interest (%)*
Tan Sri Dato' Seri Dr. Ting Chew Peh	Chairman/ Non-Executive Director	0.12	0.10
Ho Mook Leong	Chief Executive Officer	1.45	0.59
Ho Wen Yan	Chief Operating Officer	0.49	32.36
Dato' Tan Bing Hua	Senior independent Non-Executive Director	Nil	Nil
Tan Sri Dato' Seri Prof. Dr. Yom Ahmad Bing Ngah Ahmad	Independent Non-Executive Director	1.21	Nil
Chew Po Sim	Non-Independent Non-Executive Director	Nil	32.36
Chew Hoe Soon	Non-Independent Non-Executive Director	0.11	0.21
Heng Holdings Sdn Bhd	-	30.65	1.71
Heng Jaya Sdn Bhd	-	1.71	30.65
Ho Min Yi	-	Nil	32.36
Ho Wen Fan	-	Nil	32.36
Ho Wen Han	-	Nil	32.36
Cham Poh Meng (Zhan Baoming)	-	14.91	Nil

* Deemed interest by virtue of her/his substantial shareholdings in Heng Holdings Sdn Bhd and Heng Jaya Sdn Bhd or his spouse and children.

Source: Annual Report

Apart from Board of Directors, Mr Ho Wen Yan is also a key management personnel, who runs the day-to-day business operations. Under the leadership of Mr Ho, the Group is expected to become more dynamic and aggressive, with calculated risk, going forward.

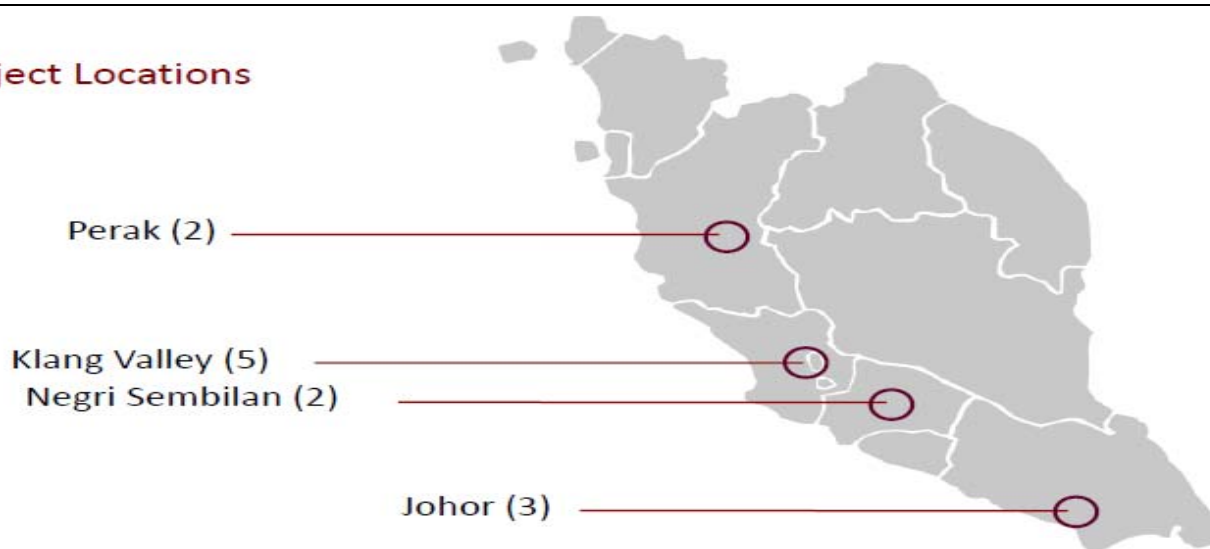
Mr Ho Wen Yan was appointed to the Board of Hua Yang on 1 June 2007. He received his architectural training in United Kingdom at the University of Bath and Architectural Association. He also holds a Masters of Science (Construction Economics and Management) Degree from University College London. He began his career in the architectural practice in London with PARAMETA Architects, having also done short technical attachments with Chua Ka Seng & Partners, in Singapore during his semester breaks. He joined Hua Yang on 20 October 2003 as a Project Coordinator at its Johor Branch and within a year he was promoted to oversee the Johor Branch operations as a branch manager. With improvement seen in the performance of Johor Branch operations under his leadership, Mr Ho was appointed as General Manager in April 2006 and subsequently promoted to the position of Chief Operating Officer on 1 June 2007.

PROJECT OVERVIEW

As at 31 March 2010, Hua Yang has completed more than 10,000 residential and industrial properties amounting to over RM1.0bn. The group is currently busy with 12 projects located in Perak, Klang Valley, Negeri Sembilan, and Johor. The details of these projects are shown in Table 3.

Chart 2: Operating Locations of Hua Yang

12 Project Locations



Source: Company

Table 3: Projects Undertaken by Hua Yang

Name / Location of Projects	Types of Development	Total Gross Development Value (RM'mn)	No. of Units	Status
On Going Projects				
Klang Valley				
Symphony Heights, Selayang	Service apartments	229.0	946	Block E – 40% completed
One South, Sg. Besi	Mixed development consists of shop office, services apartment & office tower	750.0	1,584	Earthworks in progress
Negeri Sembilan				
Senawang Link	A 60:40 JV in a commercial & industrial development	45.0	84	Earthworks 57% completed
Perak				
Bandar Universiti Seri Iskandar	838 acres mixed township development	720.0	4,722	28% completed
Metro Pengkalan, Batu Gajah	A 50:50 JV in a 38.5-acre mixed township development	53.0	530	84% completed
Johor				
Taman Pulau Indah, Skudai	477 acres mixed township development	818.0	4,946	70% completed
Future Projects				
Johor				
Polo Park G&G Residential Development, JB	5.06 acres gated and guarded (G&G) semi-D and bungalow houses	30.0	31	N.A.
Taman Pulau Hijauan, Skudai (yet to confirm)	140 acres mixed development	350.0	1,500	N.A.
Built-Operate-Transfer Projects				
Klang Valley				
Oasis BU 4, Bandar Utama	2-storey commercial building	N.A.	10 shops & bazaar	Completed August 2007
Oasis S9, Shah Alam	2-storey commercial building	N.A.	11 shops, 19 stalls & bazaar	Completed February 2010
Oasis BU11, Bandar Utama	2-storey commercial building	N.A.	9 shops & 1 food court	80% completed
BU11, Bandar Utama	Sport Complex	N.A.	N.A.	Planning

Source: Company

Chart 3: Snapshots/ Artist's Impressions of Hua Yang's Projects

Oasis BU4 @ Bandar Utama



Oasis 9 @ Shah Alam



Symphony Heights @ Selayang



Bandar Universiti, Perak



Senawang Link, Seremban



One South, Sg. Besi



Source: Company

INDUSTRY OUTLOOK

Macro View

Apart from young population demography in Malaysia (*see Chart 4*), the sector is well supported by its near all-time low mortgage lending rate; despite the recent 75bps hike in benchmark OPR. While we do not rule out the possibility further rate hike (potentially by another 25bps), in view of the better than expected 2Q10 real GDP growth of 8.9% YoY, we believe the impact of higher interest rates could still be manageable. This is because we reckon that the affordability index for house buying in Malaysia is still reasonably high by historical standard (*see Chart 5*).

Note that the constructed affordability index has factored in (i) average residential property price, and (ii) income per capita, and (iii) average lending rate of commercial banks as at end of each year on the assumptions of (i) a double-income household, (ii) 25 years of loan tenure and (iii) 90% financing by banks.

Recall that, we performed a more detailed analysis on the Malaysian population growth over a 37-year period from 1972, in our 2H2010 Investment Strategy Report. We note that there are a number of years where there were significant high growth rates in Malaysian young population (0-14 years old) particularly in 1977 (+25.3%), 1980 (+50.8%), 1982 (+28.1%), 1984 (+21%), and 1985 (+28%) (*see Table 4*). Hence, it is not surprising to see that private consumption experiencing significant growth of 8.1% in 2003, 9.8% in 2004, 9.1% in 2005, 6.8% in 2006, 10.4% in 2007, and 8.5% in 2008.

We reckon that this group of population will form a crucial foundation of growth to support domestic-driven industries, particularly property. In addition, this group of "baby boomers" should now age 30-45 years and should lend strong support to (i) first house buying market and (ii) property upgrade segment.

Based on a simple regression study between Malaysian average residential property price (APRR) and the 14th lag term of change in population of the age group of "0-14", the analysis shows that the underlying up-trend of the Malaysian residential property price will still remain intact until year 2013, at least (*see Chart 6*).

Chart 4: Population Demography of Malaysia

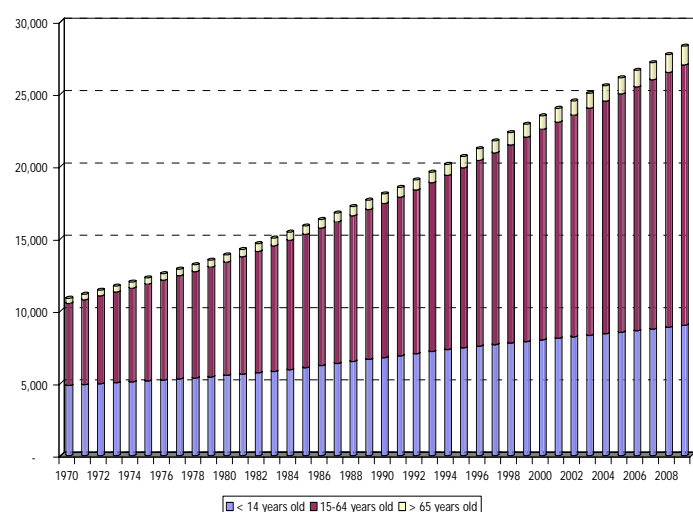
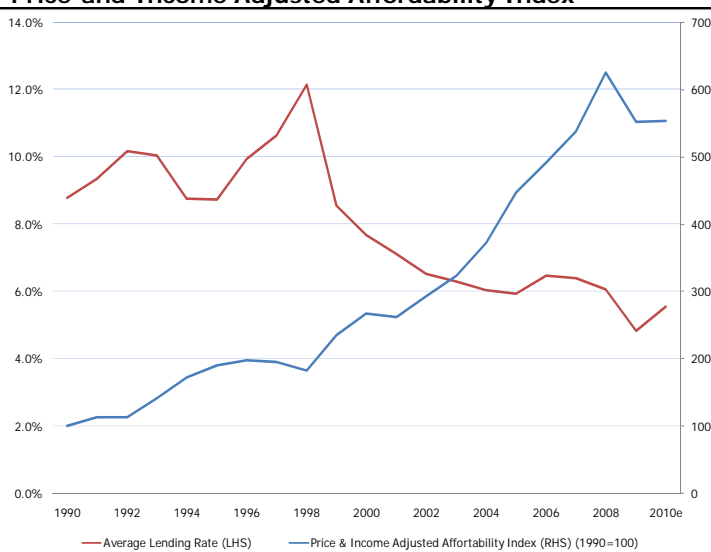


Chart 5: Average Lending Rate of Malaysian Banks and Price-and-Income Adjusted Affordability Index



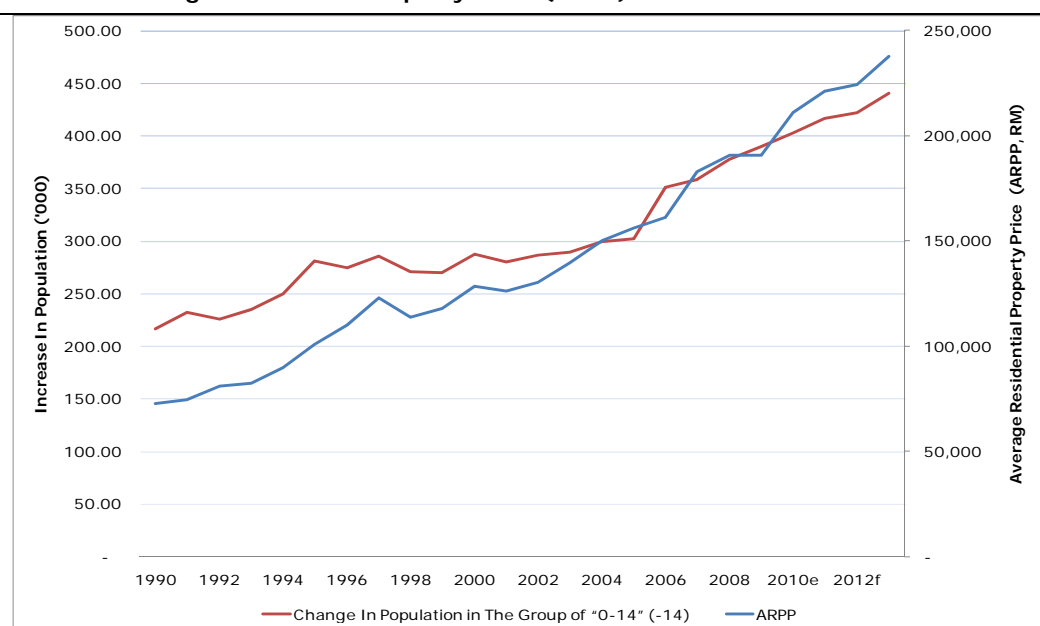
Source: Department of Statistics Malaysia, BNM, NAPIC and MIMB Research Estimates

Table 4: Change in Population Group of "0-14" vs. Consumption Growth

Years	% Change In Population of The Age Group of "0-14"	Private Consumption Growth (%)	Years	% Change In Population of The Age Group of "0-14"	Private Consumption Growth (%)
1972	14.3	N.A.	1994	-10.6	9.4
1973	-8.4	N.A.	1995	-9.5	11.7
1974	0.6	N.A.	1996	-9.3	6.9
1975	11.8	N.A.	1997	-8.8	4.3
1976	-16.7	N.A.	1998	10.1	-10.2
1977	25.3	N.A.	1999	-8.2	2.9
1978	-14.3	N.A.	2000	13.2	13.0
1979	12.6	N.A.	2001	-7.0	3.0
1980	50.8	N.A.	2002	-7.0	3.9
1981	-25.4	N.A.	2003	-2.1	8.1
1982	28.1	N.A.	2004	2.4	9.8
1983	-6.6	N.A.	2005	7.5	9.1
1984	21.0	N.A.	2006	-2.6	6.8
1985	28.0	N.A.	2007	9.3	10.4
1986	-3.5	N.A.	2008	9.4	8.5
1987	3.2	N.A.	2009	8.6	0.8
1988	-3.3	N.A.	2010f	N.A.	9.4
1989	-2.7	N.A.	2011f	N.A.	5.6
1990	-9.6	N.A.	2012f	N.A.	9.4
1991	-0.1	N.A.	2013f	N.A.	3.7
1992	11.2	4.7	2014f	N.A.	5.6
1993	10.5	6.3	2015f	N.A.	9.4

Source: DSM & MIMB Research Estimates

Chart 6: Strong Relationship Between Amount of Change in Population Group of "0-14" And Average Residential Property Price (ARPP)



Source: DSM, NAPIC & MIMB Research Estimates

Recent Industry Developments

Of late, there is market talk about **Bank Negara Malaysia's (BNM) intention to implement new lending rules to cool real-estate speculation**. It was reported that down-payment ratio of house buying may be raised to 20% compared to 10% currently. This is despite the re-imposition of 5% real property gain tax (RPGT) announced during Budget 2010, to curb the speculative buying of properties. A few countries, such as China and Singapore, where their properties experienced significant appreciation in prices over the past two years, have already implemented progressively higher down-payment ratio for buyers who own more than one property.

While this news is yet to be confirmed, the message it sends is crystal clear – to curb property speculation. Based on our recent observation, the property speculation is clearly seen at the high-end property segment. Apart from low interest rate and easy financing, property developers have also come out a few innovative and creative financing schemes such as 5-95 or installment arrangement for deposit payments. As such, we view this implementation as a wise move.

However, we opine that lending-to-value ratio (LVR) of 20-80 should not be applicable for (i) first home buyers; and (ii) affordable housing buyers. In our view, it is reasonable for first home buyers or affordable housing buyers to be exempted from higher down-payment ratio to continue encourage home ownership. As such, we strongly believe that affordable housing developers will relatively out-perform the high-end property developers, as high-end property segment is more likely feel the pinch if the suggested LVR is implemented.

At the same time, from our recent checks with a few developers, the **IFRIC 15 Agreement** (Financial Reporting Interpretations Committee) **will be implemented only in January 2012, delayed from July 2010 previously**. We understand that both REHDA (Real Estate and Housing Developers' Association) and MASB (Malaysian Accounting Standards Board) have reached an agreement to postpone the implementation. As such, developers' earnings will continue to be recognised based on percentage of completion, i.e. progressive billings method, rather than completion method under the IFRIC 15. This deferment should give a relief to investors as well as developers who are concern with lumpy earnings recognition, which may potentially affect investor sentiment on property stocks. Nonetheless, in our view, changes in accounting standards will not have an impact on companies' valuations (especially when we adopt a RNAV valuation methodology) and fundamentals.

THE GROWTH DRIVER GOING FORWARD – ONE SOUTH

One South, is an integrated commercial, retail and residential development. It is Hua Yang's biggest project in the Klang Valley area thus far. The project has a gross development value (GDV) of RM750mn that spread over 17.89- acre leasehold land. The project will be rolled out in 5 phases over the next 8 years.

Chart 7: Development Components of One South



Source: Company

The Group flagship project – One South – is approximately 30-minute (drive) from the City of Kuala Lumpur (see Chart 9). The project is surrounded by a few well-established residential neighbourhoods namely Seri Kembangan, Serdang Perdana, Balakong, Serdang Lama and Taman Sungai Besi. There are some high rise residential development such as East Lake Residence, Fortune Park and Juta Mines. Other amenities nearby including Giant Hypermarket, Mines Shopping Centre, the Astro Building and the Palace of the Golden Horses Hotel.

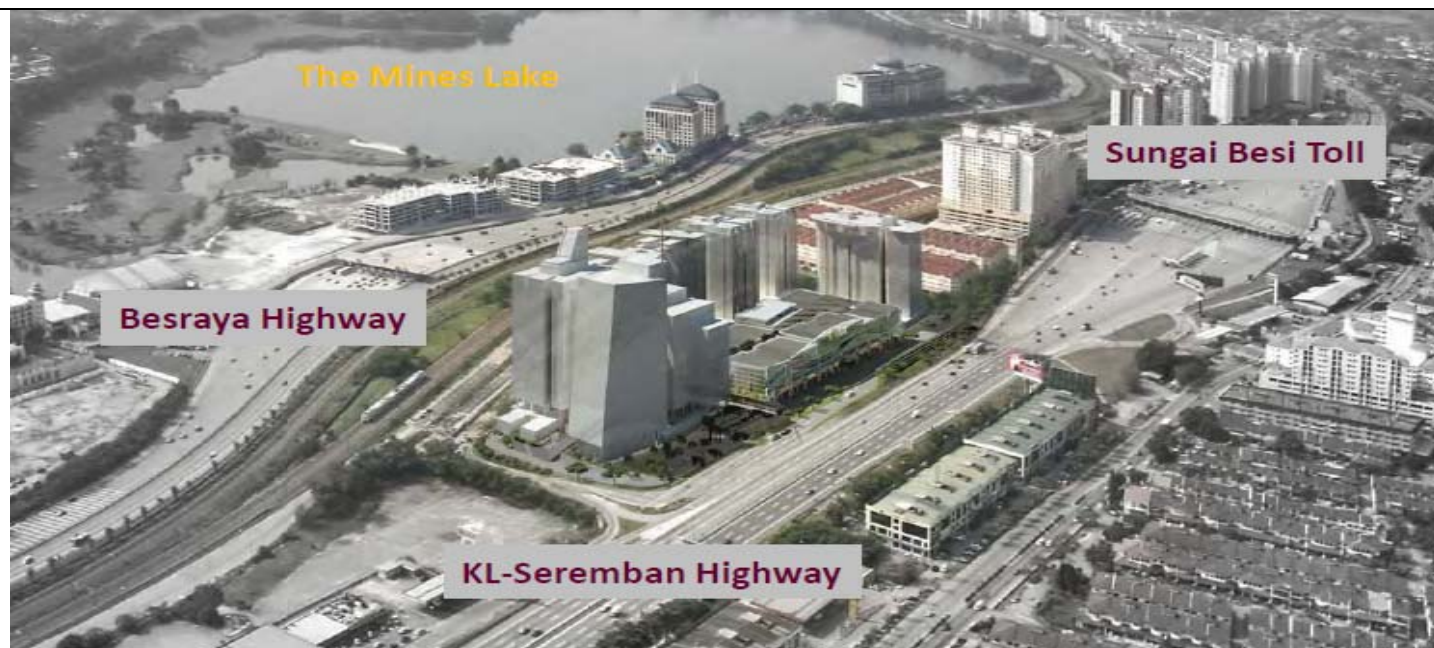
Apart from housing areas, there are several established tertiary centres located within 15-30 minutes driving distance from One South, such as Universiti Putra Malaysia, Universiti Tenaga Nasional, Universiti Kebangsaan Malaysia, SEGI College, LimKokWing University of Creative Technology and Kuala Lumpur Infrastructure University College.

The project is also strategically located and is accessible via several highways such as (i) Lebuhraya Sg. Besi (BESRAYA) from Kuala Lumpur, (ii) Kuala Lumpur-Seremban Highway from Kuala Lumpur, (iii) KESAS Highway from Cheras, Puchong, Subang and Klang, (iv) Jalan Besar Seri Kembangan from Seri Kembangan and (v) Jalan Raya Utama from Serdang Raya / Serdang Perdana.

In addition to the road linkage, the project is also served by various types of public transportation, which includes the KTM Komuter, Rapid KL bus service and taxi. The nearest station is the Serdang KTM station.

All said, we think the project has the right ingredients to attract a huge pool of potential buyers (it is estimated that these catchment areas are having a combined population >250,000), in addition to the group's objective of providing affordable housing for the mass market with reasonable pricing. As such, we are upbeat over the marketability of this project.

Chart 8: Location of One South



Source: Company

FINANCIAL HIGHLIGHT

Historical Track Records

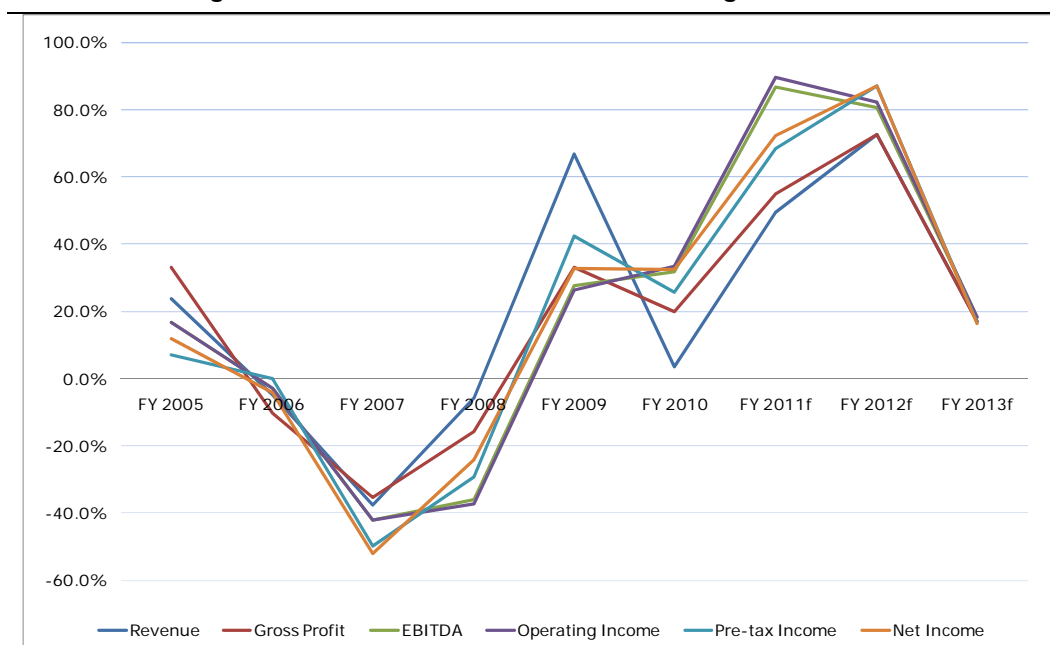
Prior to FY2007, the Group made steady revenue and net profit of approximately RM100mn and RM18mn (see Table 5). However, the Group's revenue and net profit dipped by almost half due to the Group's internal reorganisation and back then the group was also less active in Klang Valley after the completion of Phase 1 & 2 of Selayang Heights. The group has been working more on its other projects outside Klang Valley. However, things are getting different when the Group reactivated its Klang Valley venture by launching Phase 3 of Selayang Heights. This is reflected in its better revenue and net profit in FY11 and the annualised 1QFY12 results (see Table 5 & Chart 9).

Table 5: Revenue and Profits Track Records of Hua Yang

FYE 31-March	2005	2006	2007	2008	2009	2010	1Q FY11	2011	2012	2013
Revenue (RM'mn)	106.60	101.63	63.50	59.93	100.04	103.54	37.22	154.66	266.92	312.59
Gross Profit (RM'mn)	38.59	34.58	22.32	18.76	24.96	29.93	10.82	46.40	80.08	93.78
Operating Profit (RM'mn)	26.68	25.87	14.92	9.33	11.75	15.67	6.94	29.70	54.08	63.89
Pre-tax Income (RM'mn)	25.01	24.95	12.49	8.82	12.55	15.77	6.75	26.54	49.64	57.81
Net Income (RM'mn)	18.85	18.06	8.67	6.58	8.74	11.57	4.91	19.91	37.23	43.35
Earnings per Share, EPS (RM)	0.209	0.201	0.096	0.073	0.097	0.129	0.055	0.221	0.414	0.482

Source: Annual Reports, Bursa Announcement & MIMB Research Estimates

Chart 9: Earnings Growth Rates Track Records of Hua Yang



Source: Bloomberg

Earnings Forecast and Growth Drivers

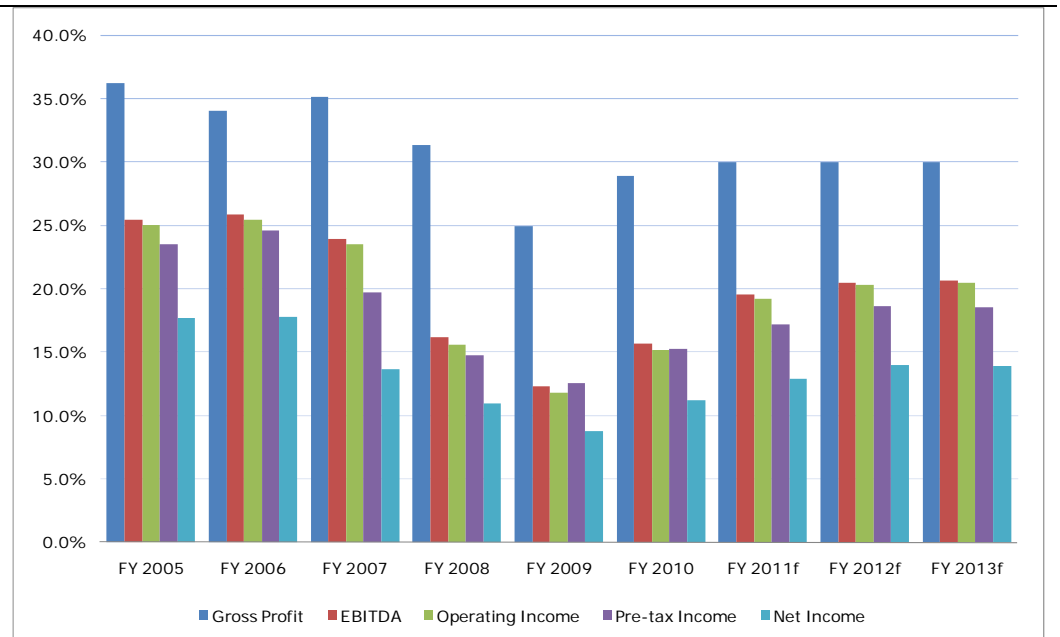
The financial of the Group could also stage a further breakout with the launching of One South based on our major assumptions for take-up rates and progressive recognition of revenue (*see Table 7*). Based on our estimates, the earnings are poised to double in the next two financial years, i.e. FY11 and FY12; before normalising in FY13.

Table 6: Project Details of Hua Yang

#	Project	Tenure	Type of Development	Total Gross Land Area (acres)	Total Development Value (RM'mn)	Undeveloped Land Area (acres)	Future Development Value (RM'mn)	Book Value for land held for development (future development)	Remarks
1	Taman Pulau Indah, JB	Freehold	Mixed development	477.0	796.72	88.41	173.58	20.30	3 - 4 years
2	Bandar Universiti Seri Iskandar, Ipoh	Leasehold, expiring April 2103	Mixed development	777.0	720.47	523.24	509.95	17.00	10 years
3	Seremban Country Heights	Freehold	Residential	45.00	-	45.00	-	16.80	Layout & launching date are yet to be finalised
4	Anjung Bercham Megah	Freehold	Residential	3.70	-	3.70	-	1.40	Layout & launching date are yet to be finalised
5	Medan Selayang, Batu Caves, Selangor	Leasehold, expiring 10/4/2101	Shop Office	3.00	56.00	-	-	-	Completed
6	Symphony Heights, Batu Caves, Selangor	Leasehold, expiring 10/4/2101	Apartment	3.00	205.84	-	-	-	Completion in July 2012
7	Metro Pengkalan, Ipoh	Leasehold, 99 years	Mixed development	150.00	161.00	110.00	121.00	4.40	8 - 10 years
8	One South, Sg. Besi, Selangor	Lease-old, expiring 19/10/2094	Mixed development	16.65	750.00	16.65	750.00	49.40	6 - 8 years
9	Senawang Link, Senawang, NS	Leasehold, expiring 5/6/2107	Commercial & Industrial	28.49	45.00	28.49	45.00	3.60	4 - 5 years
10	Polo Park Land, JB	Freehold	Residential	5.00	28.00	5.00	28.00	-	Target to be launched in Oct 2011, development period 2-3 years
11	140 Acres of land in Pulau, JB	Freehold	Mixed development	131.00	320.00	131.00	320.00	35.10	Target to be launched in Sept 2011, development period 8 years

Source: Company

Note that we have adopted fairly conservative margin assumptions with average gross profit margin of 30%, pre-tax margin of 18%, and net profit margin of 13.5%. We reckon that these margins are achievable judging from its historical track record. Note that, we have not factored in the higher gross margin for its commercial property - One South (*see Chart 10*).

Chart 10: Profit Margins Track Records of Hua Yang


Source: Company

Table 7: Major Assumptions In Take-Up Rates and Revenue Recognition (On Individual Project Basis)

	GDV	Cumulative Take-Up Rate			Cumulative Sales Recognition		
	(RM'mn)	1 st Year	2 nd Year	3 rd Year	1 st Year	2 nd Year	3 rd Year
Unbilled Sales	113.93	100.0%	100.0%	100.0%	60.0%	100.0%	100.0%
Future Projects							
<u>Klang Valley</u>							
Symphony Heights @ Selayang	47.87						
1QFY11	-	27.5%	55.0%	100.0%	25.0%	55.0%	100.0%
2QFY11	47.87	27.5%	55.0%	100.0%	25.0%	55.0%	100.0%
3QFY11	-	27.5%	55.0%	100.0%	25.0%	55.0%	100.0%
4QFY11	-	27.5%	55.0%	100.0%	25.0%	55.0%	100.0%
One South @ Sg Besi	418.21						
Phase 1 @ 1QFY11	182.60	35.0%	60.0%	100.0%	25.0%	55.0%	100.0%
Phase 2 @ 4QFY11	117.81	27.5%	55.0%	100.0%	25.0%	55.0%	100.0%
Phase 3 @ 4QFY12	117.81	27.5%	55.0%	100.0%	25.0%	55.0%	100.0%
<u>Seremban</u>							
Senawang Link	30.10						
Phase 1 @ 4QFY10	1.00	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Phase 2a @ 2QFY11	11.01	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Phase 2b @ 2QFY11	3.11	55.0%	95.0%	100.0%	100.0%	100.0%	100.0%
Phase 3a @ 2QFY12	10.56	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Phase 3b @ 3QFY12	4.41	55.0%	95.0%	100.0%	100.0%	100.0%	100.0%
<u>Perak</u>							
Metro Pengkalan @ Ipoh	11.90						
Phase 2a @ 4QFY10	5.44	55.0%	100.0%	100.0%	75.0%	100.0%	100.0%
Phase 2b @ 4QFY10	6.46	55.0%	100.0%	100.0%	75.0%	100.0%	100.0%
Bandar Universiti Seri Iskandar	108.78						
BUBC 3 @ 4QFY10	15.45	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Lily (3) @ 4QFY10	7.02	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Selinsing (3) @ 4QFY10	5.84	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%

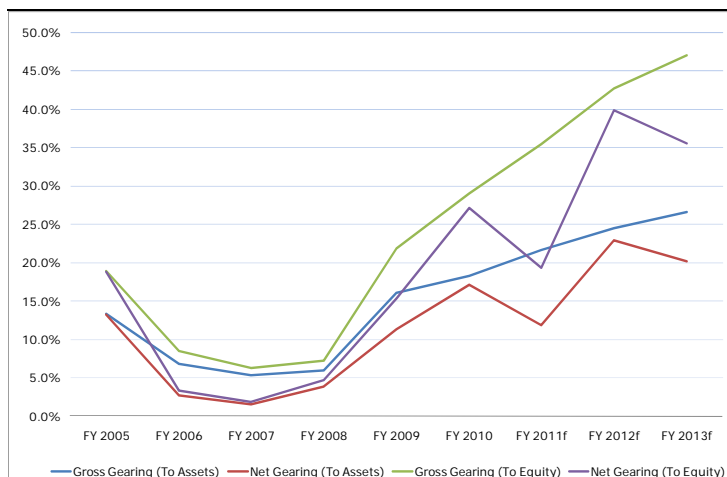
Kesuma (3) @ 4QFY10	6.48	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
BUBC 4 @ 1QFY11	14.44	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
BUBC 5 @ 4QFY12	11.77	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
BLOCK 4 @ 2QFY12	5.38	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Gardenia 3 @ 2QFY11	8.37	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Lily (4) @ 1QFY12	6.49	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Selinsing (4) @ 4QFY11	6.94	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Kesuma (4) @ 1QFY11	5.45	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Kesuma (5) @ 1QFY12	8.55	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
BLOCK 5 @ 1QFY12	6.60	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Johor							
Taman Pulai Hijauan @ JB	75.87						
Phase 1 @ 2QFY12	21.44	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Phase 2 @ 3QFY12	26.44	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Phase 3 @ 4QFY12	27.98	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Polo Park @ JB							
Phase 1 @ 2QFY12	29.19	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Taman Pulai Indah @ JB							
Ph 11(3) @ 4QFY10	15.90	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 15 @ 4QFY10	13.41	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 16 (1) @ 4QFY10	33.57	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 17 (1) @ 4QFY10	16.75	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 17 (2) @ 4QFY10	23.12	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 18 @ 3QFY11	23.51	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 20 (A) @ 3QFY11	6.50	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 16 (2) @ 4QFY11	28.89	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 17 (3) @ 1QFY12	24.19	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%
Ph 19 @ 1QFY12	26.57	55.0%	95.0%	100.0%	75.0%	100.0%	100.0%

Source: Company Data & MIMB Estimates

Analysis on Balance Sheet

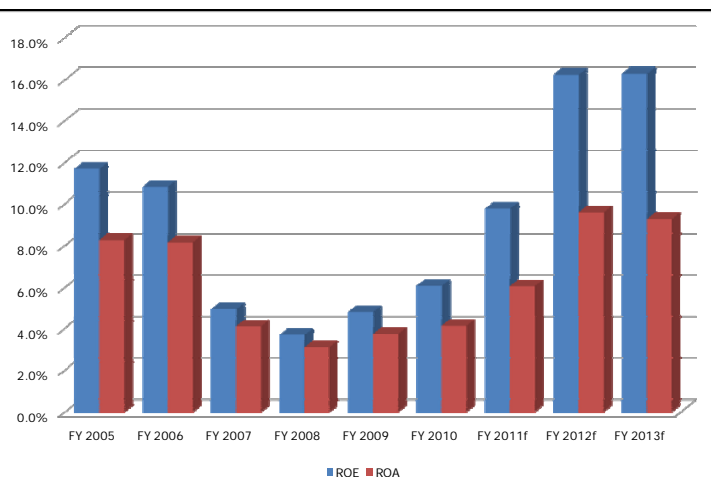
While both the gross and net gearing of the Group has increased since FY2007 and are expected to continue to rise further due to land acquisition and new project launches, we believe the gearing levels of the Group will still be manageable with gross gearing capping below 50% (to total equity) after taking into account the launches of its flagship project - One South.

Chart 11: Gross and Net Financial Gearing of Hua Yang



Source: Bloomberg & Annual Reports

Chart 12: ROA & ROE Track Records



We also do not rule out the possibility of the group to further raise funds via alternative forms of financing, including both debt or equity issue, apart from bank borrowings should the group come across any good land acquisition opportunities.

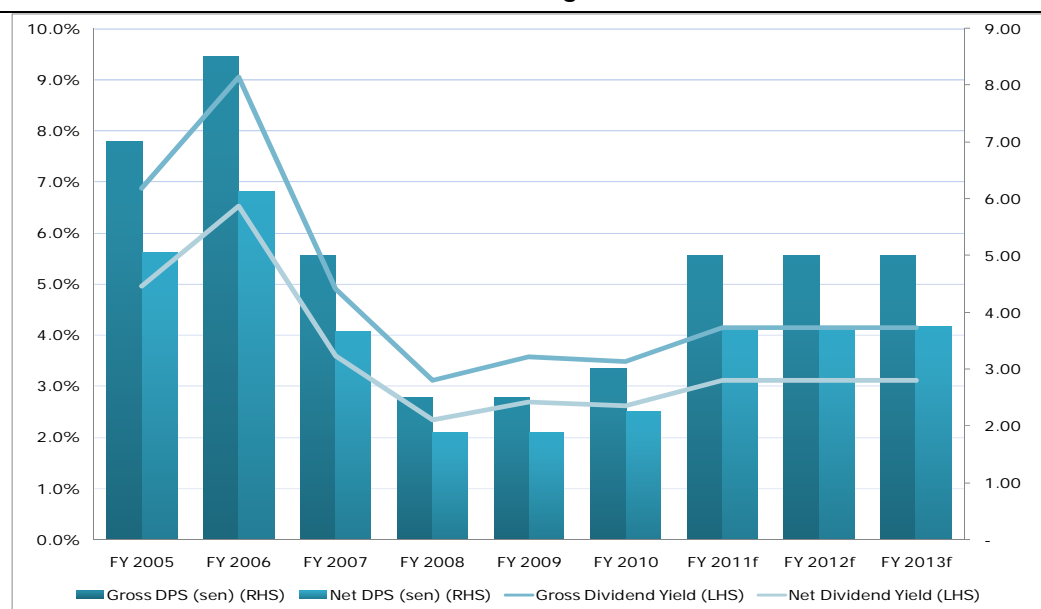
In-line with the higher leverage ratios and profitability, ROE of the group is expected to surpass its historical level since FY2005. As such, the valuation of the stock should stage a re-rating, in our view.

Dividend Track Records and Estimation

The dividend payout of the group has declined from its peak in FY06 when it paid gross and net dividend per share (DPS) of 8.50 sen and 6.12 sen, representing gross and net dividend yield of 9.04% and 6.51% in FY06. The lower dividend payouts from FY07 to FY10 were due mainly to lower earnings.

With the expected improvement in profitability going forward, the group is likely to pay better dividends. However, as the group is in an expansion mode, we do not expect a sizeable dividend payout in the next 1-2 financial years.

Chart 13: Dividends Track Records of Hua Yang



Source: Bloomberg

Even so, we believe 5 sen gross or 3.75 sen net dividend per share is achievable going forward. This is about the average payout over the past 6 years. Based on the latest closing price of RM1.22, this translates into a decent gross and net dividend yield of 4.1% and 3.1%, respectively.

RNAV ESTIMATE

The revised net asset value (RNAV) of the group is estimated at RM3.94/share (@ 31/03/10). The stock is currently trading at almost 70% discount to its RNAV. The major assumptions for our net present value (NPV)-based estimation are as follows.

- Discount rate @ 13.3% (1/7.5) as the 5-year historical PER average is calculated at 7.5x.
- Pre-tax profit margin at 18%, on average, across all projects. This is conservative as commercial project in One South should command higher margin.
- Effective tax rate at 25%.
- No minority interest for all projects except for 40% for Senawang Link, Senawang and 50% for Metro Pengkalan, Ipoh.
- Medan Selayang, Batu Caves, Selangor was completed. Seremban Country Heights as well as Anjung Bercham Megah are in planning stage, hence their GDVs are not known at this juncture. As such, there is not any net profit contributed from these projects yet.
- Unbilled sales are expected to spread evenly between FY11 & FY12.
- The estimated net profits of other projects are expected to spread evenly over their longest estimated development period/cycle.

Table 8: RNAV Estimate

NPV @ 13.3% Discount Rate	(RM'mn)	Expected Net Profit (RM'mn)									
Project / Year	0	1	2	3	4	5	6	7	8	9	10
Unbilled Sales	12.04	7.69	7.69	-	-	-	-	-	-	-	-
Taman Pulai Indah, JB	17.31	5.86	5.86	5.86	5.86	-	-	-	-	-	-
Bandar Universiti Seri Iskandar, Ipoh	36.86	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88
Seremban Country Heights	0.00	-	-	-	-	-	-	-	-	-	-
Anjung Bercham Megah	0.00	-	-	-	-	-	-	-	-	-	-
Medan Selayang, Batu Caves, Selangor	0.00	-	-	-	-	-	-	-	-	-	-
Symphony Heights, Batu Caves, Selangor	0.00	-	-	-	-	-	-	-	-	-	-
Metro Pengkalan, Ipoh	4.37	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
One South, Sg. Besi, Selangor	60.05	12.66	12.66	12.66	12.66	12.66	12.66	12.66	12.66		
Senawang Link, Senawang, NS	2.54	0.73	0.73	0.73	0.73	0.73	-	-	-	-	-
Polo Park Land, JB	2.61	-	1.26	1.26	1.26	-	-	-	-	-	-
140 Acres of land in Pulai, JB	22.61	-	5.40	5.40	5.40	5.40	5.40	5.40	5.40	5.40	-
Total NPV of Expected Earnings	159.12										
Book @ end-March2010	195.82										
RNAV	354.95										
# of Share (mn shares)	90.00										
RNAV/share	RM3.94										

Source: MIMB Research Estimates

CORPORATE DEVELOPMENT

The Group has recently **proposed a bonus issue** of 18mn new ordinary shares of RM1.00 each **on the basis of one (1) bonus share for every five (5) existing shares**.

We welcome this proposal. We believe this corporate exercise should enhance the liquidity of the stock, hence attract more investor interest given the stock's re-rating catalysts.

MOVING FORWARD

We understand that Hua Yang's vision is to be one of the top mass/affordable property developers in Malaysia within five years time. Based on our estimates, Hua Yang is expected to achieve a 3-year (from FY10 to FY13) compounded annual growth rate (CAGR) of 44.5% and 55.3% for its revenue and net profit. Currently, there are about RM935mn GDV worth of projects in the pipeline.

Besides, as management sees the high potential for the property market in Klang Valley, given its highest concentration of population and the fastest growth in population nationwide, the Group recognises the need to re-focus on Klang Valley area. The One South project is just the beginning.

Hua Yang business strategy remains focusing on affordable homes segment, targeted mainly on first-time home-buyers. We believe this market segment is more resilient vis-a-vis the high-end market segment. Product planning is tailored to suit this niche market in terms of layout, finishing and customisation, pricing at a reasonable range of RM250k-RM350k a unit without compromising quality.

To further enhance its reputation as a quality developer, Hua Yang is currently working towards gaining better market presence. Apart from focusing on the three key urban growth areas of Klang Valley, Johor Bahru and Ipoh, Hua Yang is also keen in expanding to Penang by developing both residential and commercial projects in future.

RISK FACTORS

The major risks in our earnings estimates would be (i) slower-than-expected sales especially with the recent market talks in lowering lending-to-value ratio, (ii) delay in profit recognition due to delay in launching or completion, as well as (iii) change in accounting standard whereby profits can only be recognised upon completion beyond 2011.

As for risk in investing into the stock, we believe its low trading liquidity could be the major one.

VALUATION AND RECOMMENDATION

The stock is currently trading at 9.5x and 5.5x FY10 and FY11 EPS estimates, which is not excessive vis-a-vis the sector average. Besides, we also notice that small cap property stocks with less than RM200mn market capitalisation are mostly trading at much higher valuations (in terms of both PER and PBR basis) as opposed to Hua Yang.

Table 9: Peer Comparisons

NAME	Price (RM) *	Market Cap (RM'mn)	Historical PER (x)	Est. Current FY PER (x)	Est. Next FY PER (x)	Historical PBR (x)	Est. Current FY PBR (x)	Historical ROE (%)	Est. Current FY ROE (%)	Est. Current FY Div. Yld. (%)
A & M REALTY	0.49	178.17	12.68	9.80	7.00	0.39	0.38	3.15	3.80	8.3
BANDAR RAYA DEVELOPMENTS	2.33	1,117.09	9.67	10.74	12.01	0.64	0.65	7.32	6.93	0.9
BERTAM ALLIANCE	0.39	80.64	18.89	18.57	8.30	0.57	0.57	3.04	2.65	9.2
CRESCENDO CORPORATION	1.19	184.57	10.25	8.81	14.17	0.40	0.42	4.13	5.45	4.9
EASTERN & ORIENTAL	1.07	850.31	12.06	15.29	10.49	0.77	0.73	7.60	5.37	1.7
GLOMAC BHD	1.35	401.18	9.85	8.77	8.13	0.72	0.71	7.62	7.84	4.3
HUNZA PROPERTIES	1.35	262.41	5.15	5.34	8.54	0.60	0.59	13.81	12.32	3.6
IGB CORPORATION	1.85	2,757.05	17.34	16.37	14.57	0.93	0.81	5.73	5.77	0.9
IJM LAND	2.26	2,503.95	23.04	14.68	13.14	1.49	1.35	6.79	10.60	0.5
KRISASSETS HOLDINGS	3.18	1,072.35	7.88	8.83	9.94	0.89	0.88	12.54	10.20	1.7
KSL HOLDINGS	1.51	589.73	6.45	8.16	6.57	0.73	0.68	13.22	9.23	2.2
MAGNA PRIMA	0.80	197.64	29.83	36.36	5.16	0.36	1.36	5.70	11.60	1.9
MAH SING GROUP	1.82	1,513.46	16.05	12.38	9.89	1.76	1.48	12.28	12.74	2.0
PLENITUDE BHD	3.58	483.30	5.74	5.87	4.90	0.67	0.62	12.21	12.76	1.2
SELANGOR PROPERTIES	3.29	1,130.50	34.29	57.72	25.31	0.65	0.62	1.90	1.10	0.9
SP SETIA	4.33	4,402.77	25.71	22.21	18.91	2.14	2.08	8.53	9.64	0.8
SUNRISE BHD	1.99	985.83	7.36	6.18	5.70	0.90	0.80	12.95	12.91	1.2
UNITED MALAYAN LAND	1.53	369.81	6.72	12.24	9.87	0.43	0.42	6.57	3.45	2.5
YNH PROPERTY	1.69	685.02	13.20	11.12	9.29	0.93	0.89	7.59	8.23	2.2
Weighted Average	N.M.	N.M.	17.89	17.25	13.45	1.24	1.17	8.23	8.62	1.4
Simple Average	N.M.	N.M.	14.32	15.23	10.63	0.84	0.84	8.04	8.03	2.7
HUA YANG	1.22	109.80	9.49	5.52	2.96	0.55	0.52	6.06	9.75	3.1

Source: Bloomberg & MIMB Research Estimates

* Closing price as at 30 August 2010

Based on our analysis, small cap property stocks normally trade at a deeper discount to their RNAV in the absence of investor interest. For instance, KSL Holdings traded at approximately 60% discount to its RNAV before the entry of Templeton. The discount rate was subsequently narrowed to about 50%.

Should we benchmark Hua Yang against the early days of KSL Holdings, adopting a 60% discount to RNAV, **Hua Yang should be valued at RM1.58/share**, suggesting a 30% upside from here. At RM1.58, the implied FY11 PER and PBV is 7.14x and 0.67x respectively, which is not demanding at all.

We see value in the group. As such, **we initiate coverage on this stock with a BUY-call**. We believe the stock is well-positioned (judging from its excellent and sustainable track records in affordable housing development) for the emerging trend of affordable housing within the property sector.

Balance Sheet

YE 31 Mar (RM mn)	2009	2010	2011F	2012F	2013F
Fixed Assets	142	157	153	166	178
Lease Receivables	-	-	-	-	-
Intangible Assets	9	9	9	9	9
Other Fixed Assets	7	17	17	17	17
Inventories	45	77	84	145	170
Receivables	33	45	47	82	96
Other Current Assets	4	3	3	3	3
Cash	12	4	34	7	33
Total Assets	252	311	348	429	506
Payables	16	22	24	41	48
ST Borrowings	3	17	32	54	75
Other ST Liability	4	30	30	30	30
LT Borrowings	38	40	43	51	59
Other LT Liability	5	4	4	4	4
Minority Interest	0	2	2	2	2
Net Assets	186	196	212	246	286
Share Capital	97	97	97	97	97
Reserves/Others	89	99	116	150	189
Shareholders' Fund	186	196	212	246	286

Cashflow Statement

YE 31 Mar (RM mn)	2009	2010	2011F	2012F	2013F
PBT	9	12	20	37	43
Depreciation	1	1	1	1	1
Taxation	-	-	-	-	-
Minority	-	-	-	-	-
Chg In Working Capital	(0)	(38)	(8)	(78)	(32)
Others	1	39	3	4	6
Operating Cashflow	10	13	16	(36)	18
Capex	(30)	(9)	0	(13)	(12)
Investment	-	-	-	-	-
Others	2	(27)	3	0	0
Investing Cashflow	(28)	(36)	3	(13)	(12)
Chg In Debts	31	11	18	30	29
Dividends Paid	(2)	(2)	(3)	(3)	(3)
Share Issue	-	-	-	-	-
Other	(0)	0	(3)	(4)	(6)
Financing Cashflow	30	9	12	22	20
Net Cashflow	11	(14)	30	(27)	26
Beginning Cash	0	0	4	34	7
Forex Translation Differences	-	-	-	-	-
Ending Cash	11	(14)	34	7	33
Free Cashflow	(18)	(23)	19	(49)	6

Income Statement

YE 31 Mar (RM mn)	2009	2010	2011F	2012F	2013F
Turnover	100	104	155	267	313
EBITDA	12	16	30	55	65
Depreciation	(1)	(1)	(1)	(1)	(1)
Operating Profit	12	16	30	54	64
Int. & Other Income	0	0	0	1	0
Interest Expense	(1)	(2)	(4)	(5)	(7)
Others	1	2	-	-	-
PBT	13	16	27	50	58
Taxation	(4)	(4)	(7)	(12)	(14)
Minority Interest	0	0	-	-	-
Net Profit	9	12	20	37	43

Financial Data & Ratios

YE 31 Mar (RM mn)	2009	2010	2011F	2012F	2013F
Growth					
Turnover	66.9%	3.5%	49.4%	72.6%	17.1%
EBITDA	27.3%	31.6%	86.6%	80.6%	18.0%
Operating Profit	26.0%	33.3%	89.5%	82.1%	18.1%
PBT	42.4%	25.7%	68.3%	87.0%	16.4%
Net Profit	32.9%	32.4%	72.1%	87.0%	16.4%
Profitability					
EBITDA	12.3%	15.7%	19.6%	20.5%	20.6%
Operating Profit	11.7%	15.1%	19.2%	20.3%	20.4%
PBT	12.5%	15.2%	17.2%	18.6%	18.5%
Net Profit	8.7%	11.2%	12.9%	13.9%	13.9%
Effective Tax Rate	30.6%	26.7%	25.0%	25.0%	25.0%
ROA	3.7%	4.1%	6.0%	9.6%	9.3%
ROE	4.8%	6.1%	9.8%	16.2%	16.3%
DuPont Analysis					
Net Margin	8.7%	11.2%	12.9%	13.9%	13.9%
Total Assets Turnover	0.40x	0.33x	0.44x	0.62x	0.62x
Leverage Factor	1.36x	1.59x	1.64x	1.74x	1.77x
ROE	4.7%	5.9%	9.4%	15.1%	15.1%
Leverage					
Total Debt/Total Asset	0.16x	0.18x	0.22x	0.24x	0.27x
Total Debt/Equity	0.22x	0.29x	0.35x	0.43x	0.47x
Net Cash/(Debt)	-29	-53	-41	-98	-102
Net Debt/Equity	-0.15x	-0.27x	-0.19x	-0.40x	-0.36x
Valuations					
EPS (sen)	10	13	22	41	48
GDPS (sen)	2	2	4	4	4
NTA (RM)	1.97	2.07	2.26	2.63	3.08
PER	12.4x	9.3x	5.4x	2.9x	2.5x
Gross Yield	1.6%	1.9%	3.1%	3.1%	3.1%
P/NTA	0.61x	0.58x	0.53x	0.46x	0.39x
EV/EBITDA	11.1x	9.9x	4.9x	3.8x	3.3x

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

BUY	Share price expected to appreciate more than 15% over a 12-month period
TRADING BUY	Share price expected to appreciate 10% or more within a 3- to 6-month period
NEUTRAL	Share price expected to be within +/- 15% over a 12-month period
TAKE PROFIT	Target price reached, may accumulate if share price drops more than 15% below target price
SELL	Share price expected to depreciate more than 15% over a 12-month period
NOT RATED	MIMB does not provide research coverage or rating for this company

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Published and Printed by
MIMB Investment Bank Berhad (10209-W)
A Participating Organisation of Bursa Malaysia Securities Berhad
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