



## Hua Yang Bhd

**Buy**  
**Fair Value**  
**RM1.80 (+55.2%)**

*Great long term stock*

Stock Data	
Price (RM)	1.16
Stock code	5062
Bloomberg Ticker	HYB
	MK
Listing	Main
Share Cap (RM mn)	144.00
Market Cap (RM mn)	168.48
Par value (RM)	1.00
52-wk high (RM)	1.37
52-wk low (RM)	0.69
Major shareholders:-	
Heng Holdings Sdn Bhd	30.65%
Poh Meng Cham	14.83%

Financial Data	
Trailing PER (x)	4.07
BV per share (RM)	1.66
P/BV (x)	0.71
ROE (%)	12.12
Beta (x)	1.29
Altman Z Score	2.36
Dividend yield (%)	4.81

Relative Performance (%)	
1-month	8.36
3-month	-2.78
6-month	5.11
12-month	58.78
YTD	61.80

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[www.sjsec.com.my](http://www.sjsec.com.my)

Tel: 603-5192 0202

Fax: 603-5192 8630

**Investment Highlights**

We had recently met up with Hua Yang and the recent financial results were very strong, exceeding our already seemingly optimistic growth forecasts. We continue to have a strong long term buy recommendation and have revised our forecasts upwards. However short term upside may be slightly limited as the shares had run up ahead on anticipation of good results and bonus issue.

**Financials.** Hua Yang recently had a surge in revenue of 114% Y-o-Y and 23% Q-o-Q. As a result of strong revenue growth, its net profit has increased by a massive 222% Y-o-Y and 21% Q-o-Q. Revenue and net profits currently stand at RM76.1mil and RM13.9mil respectively.

**Earnings sustainability.** Our analysis and forecasts show that the strong revenue will be very sustainable for at least the next 2 to 3 years. We are positive with the long term as well as the group shows good ability to replenish properties and landbank. We find Hua Yang's CEO to be very savvy and updated in the property industry and would be a strong pillar for the group for many years ahead.

**Bonus.** Hua Yang's shareholders has just received a 1 for 3 bonus issue of shares. The large bonus would enhance the liquidity of the shares and make it more affordable to purchase. This has made the shares attractively priced just like its properties.

**In the correct spot.** Hua Yang has continued to position itself well in the correct segment with very good marketing strategies. Hua Yang continues to market homes that are good and affordable. These are highly sought after due to the relatively limited supply in this category and the attractiveness to first time home buyers. Moreover Hua Yang continues to provide easy to own schemes for its customers.

**Bank tightening risk.** Channel checks with banks indicate that there may be upcoming credit tightening for housing loans. If materializes, the tightening risk would have some effect on the property sector. However even if it does materialize, we are very positive on Hua Yang's long term prospects and great positioning.



**Margin expansion.** We see margin expansion for Hua Yang, as the mix of current and upcoming projects are likely to have higher margins. Moreover moving forward, the Hua Yang's branding has improved too. Hua Yang may even obtain better margins due to a recent drop in raw material prices.

**My first home scheme.** The my first home scheme is expected to benefit Hua Yang tremendously as the schemes limit has been raised to RM400,000. Under the scheme lower-mid income earners will be able to take up 100% loans, enabling them to purchase a house more easily. A large portion of Hua Yang's properties are below RM400,000.

**Good visibility ahead.** Hua Yang continues to have a large pipeline of unsold GDV amounting to over ½ a billion ringgit. Moreover its acquisition of land in Desa Pandan near the Royal Selangor Golf Club and land near Stadium Shah Alam will replenish its GDV substantially. Estimated GDVs from the projects are estimated at RM160mil and RM175mil respectively.

**Growing Investor reputation.** Hua Yang's visibility and reputation in Klang Valley is gradually building up. We foresee Hua Yang gradually scaling new heights especially upon delivery and completion of its flagship One South.

**Recommendation.** We have a target price for Hua Yang is RM1.80 post bonus exercise based on a conservative forward PER of 6.0x and 2012F's EPS of 30.0 sen. Hua Yang is on track to grow strongly on the back of growing unbilled sales, building reputation and good landbank replenishment.

<b>Financials highlight</b>						
<b>FYE 31 Mar</b>		<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012F</b>
	<b>Unit</b>					
<b>Revenue</b>	<b>RM mn</b>	<b>59.9</b>	<b>100.0</b>	<b>103.5</b>	<b>188.9</b>	<b>269.0</b>
Cost of sales	RM mn	(41.1)	(75.1)	(73.6)	(133.2)	(181.0)
<b>Gross profit</b>	<b>RM mn</b>	<b>18.8</b>	<b>25.0</b>	<b>29.9</b>	<b>55.7</b>	<b>88.0</b>
Other income	RM mn	1.4	2.1	1.4	1.4	1.1
Administrative and general expenses	RM mn	(7.0)	(8.6)	(8.4)	(9.8)	(14.8)
Selling and marketing expenses	RM mn	(3.3)	(5.2)	(6.7)	(11.9)	(15.3)
<b>Operating profit</b>	<b>RM mn</b>	<b>9.9</b>	<b>13.3</b>	<b>16.3</b>	<b>35.5</b>	<b>59.0</b>
Finance costs	RM mn	(1.0)	(0.7)	(0.5)	(1.1)	(2.0)
<b>Profit before taxation</b>	<b>RM mn</b>	<b>8.9</b>	<b>12.6</b>	<b>15.8</b>	<b>34.4</b>	<b>57.0</b>
Taxation	RM mn	(2.2)	(3.8)	(4.2)	(9.2)	(13.7)
<b>Net Income</b>	<b>RM mn</b>	<b>6.7</b>	<b>8.7</b>	<b>11.6</b>	<b>25.2</b>	<b>43.3</b>
Minority interests	RM mn	(0.0)	(0.0)	(0.0)	0.0	(0.1)
<b>PATMI</b>	<b>RM mn</b>	<b>6.7</b>	<b>8.7</b>	<b>11.5</b>	<b>25.2</b>	<b>43.2</b>
<b>EPS</b>	<b>sen</b>	<b>7.4</b>	<b>9.7</b>	<b>12.9</b>	<b>25.5</b>	<b>30.0</b>
<b>Growth</b>						
Revenue	%	-6	67	3	82	42
Gross profit	%	-16	32	20	86	58
Operating profit	%	-27	34	22	118	66
Profit before taxation	%	-29	41	26	118	66
Net income	%	-23	31	33	118	72
<b>Margins</b>						
Gross margins	%	31	25	29	29	33
Operating margins	%	17	13	16	19	22
PBT margins	%	15	13	15	18	21
Net margins	%	11	9	11	13	16

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## Stock rating definitions

**Buy** – The stock is expected to perform positively. Expected return including both capital appreciation and dividends is expected to exceed 15% over 12 months.

**Hold** – The stock is expected to stay sidelined. Expected return including both capital appreciation and dividends is expected to range between negative 5% to positive 15% over 12 months.

**Sell** – The stock is expected to perform negatively. Expected return including both capital appreciation and dividends is expected to be negative 5% or lower over 12 months.

**Not Rated** – The stock is not under research coverage and the reports serves for purely informational purposes only.

**Trading Buy** – The stock is expected to be volatile while providing for near term positive trading opportunities. This is under the high risk category with near term catalysts.

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