



Hua Yang Berhad

Let's The Results Do The Talking

TP: RM2.03 (35%)

Last traded: RM 1.50

BUY

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Results preview

Hua Yang Berhad (HuaYang) will release its 4QFY11 results this Friday and we expect the net profit to come within the range of RM7.0 to RM8.5mn, boosting FY11 net profit to between RM23.9 and 25.4mn. This represents a decent growth of more than 100% if we compare it with FY10 net profit.

One South is doing well

Early this year, HuaYang has secured an en-bloc sale of the entire 73 units of retail shops at One South worth RM105mn. Adding this to the new sales of RM173mn the company secured for 9MFY11, the group's FY11 sales should amount to >RM278mn, which is close to our FY11 sales forecasts of RM300mn (vs RM133mn in FY10) after taking into account some new sales from the other on-going development in Perak, Johor and Seremban. Unbilled sales are estimated at RM189mn as at March-11.

We project FY12 new sales to inch higher to RM371mn (revised from RM355mn to account for contributions from the Desa Pandan project) from our estimated RM300 for FY11. We understand from management that the serviced apartment at One South has received overwhelming response. The two 21-storey serviced apartment towers under Phase 2 development have been fully sold without much advertisement on the project launch. These two towers are expected to contribute approximately RM150mn to the group's FY12 sales.

Timely acquisition of land at Desa Pandan

HuaYang has recently entered into a conditional sale and purchase agreement with U Thant Square for the purchase of a parcel of leasehold land (expiring on 6 July 2085), measuring 1.55 acres (or 67,364sf), for a total cash consideration of RM32mn. This vacant land is located at Desa Pandan, which is right behind the Royal Selangor Golf Club and in close proximity to embassies and international schools along Jalan Ampang.

We think the acquisition price of RM475/sf is fair after benchmarking to the current asking price at the area. Note that the land has been approved for commercial development by DBKL, allowing the company to minimise holding costs. According to management, the land is earmarked for 2 blocks of 24-30-storey serviced apartments with 2-floor of retail units. Based on the land cost of 20% of the total RM160mn GDV, we assume the gross margin of this new housing project to be 25%.

The acquisition is timely to increase the group's total landbank in the Klang Valley, following the success of One South development. The project is targeted for launch in mid-2012 and is expected to contribute positively to FY12-13 sales.

Share Information

Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	108.0
Market Cap (RMmn)	162.0
Par Value	1.00
52-wk Hi/Lo (RM)	1.71/0.65
12-mth Avg Daily Vol ('000 shrs)	577.0
Estimated Free Float (%)	54.44
Beta	0.98

Major Shareholders (%)

Heng Holdings - 30.65
Cham Poh Meng - 14.91

Forecast Revision

	FY11	FY12
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	25.0	40.4
Consensus	24.4	28.7
TA's / Consensus (%)	102.6	140.7
Previous Rating	BUY (Maintained)	

Financial Indicators

	FY11	FY12
Net Debt / Equity (%)	30.79	25.82
FCPS (sen)	(9.28)	5.33
Price / CFPS (x)	nm	28.13
ROE (%)	12.14	17.21
ROA (%)	7.55	10.60
NTA/Share (RM)	1.92	2.26
Price/NTA (x)	0.78	0.66

Share Performance (%)

Price Change	HUAYANG	FBM KLCI
1 mth	(1.3)	1.2
3 mth	35.1	2.3
6 mth	55.4	2.5
12 mth	114.3	15.0

Forecast

We revise our FY13 earnings projections higher by 7% to account for maiden contribution from Desa Pandan project. We now assume HuaYang to secure new sales of RM371mn (from RM355mn previously) for FY12 and RM400mn (from RM336mn previously) for FY13. No change to our FY11-12 earnings projections as we assume no significant work progress on Desa Pandan project during this period.

Valuation

Since we initiate coverage on HuaYang, the share price has risen by 35%. However, we still see hefty potential upside as the stock is currently trading at 4.4x CY11 EPS and 0.8x NTA/share. This steep discount to the industry average (see Table 1), we believe, is unjustifiable given our projected earnings growth rate of 40-116% for FY11-13. As such, we reiterate our Buy recommendation on HuaYang with a fair value of RM2.03/share based on 6x CY11EPS.

Earnings Summary (RMmn)

FYEMar 31	FY09	FY10	FY11F	FY12F	FY13
Revenue	100.0	103.5	162.9	273.7	375.1
EBITDA	13.9	16.8	35.5	57.7	79.9
EBITDA margin (%)	13.9	16.2	21.8	21.1	21.3
Pretax profit	12.6	15.8	33.8	54.6	76.5
Net profit	8.7	11.6	25.0	40.4	56.6
Core net profit	8.7	11.6	25.0	40.4	56.6
EPS* (sen)	8.1	10.7	23.2	37.4	52.4
EPS growth (%)	32.8	32.3	116.5	61.3	40.1
PER (x)	18.5	14.0	6.5	4.0	2.9
GDPS* (sen)	2.1	2.5	4.0	4.0	4.0
Div yield (%)	1.4	1.7	2.7	2.7	2.7
Core ROE (%)	4.8	6.1	12.1	17.2	20.3

* Adjusted for 1:5 bonus issue

Table 1: Peer Comparison

Peer Comparison											
Company	Call	Price	Target price	EPS growth (%)		PER (x)		ROE (%)		Div Yield (%)	
		(RM)	(RM)	CY11	CY12	CY11	CY12	FY11	FY12	CY11	CY12
SP Setia	Buy	4.08	4.86	5.9	60.1	23.6	14.8	8.3	13.5	3.7	3.7
Mah Sing	Buy	2.59	3.27	50.7	28.6	12.1	9.4	18.2	20.3	3.3	3.5
Glomac	Buy	1.74	2.46	27.8	9.7	7.5	6.8	10.4	10.2	5.5	6.3
KSL	Buy	1.82	2.80	49.9	43.0	7.8	5.5	10.2	12.9	2.7	2.7
Encorp	Buy	0.80	1.08	304.4	21.5	5.4	4.4	13.7	14.9	6.3	6.3
Crescendo	Buy	1.73	1.81	-6.3	25.6	8.3	6.6	7.7	7.0	6.4	6.4
Hua Yang	Buy	1.5	2.03	68.6	35.7	4.4	3.3	12.1	17.2	2.7	2.7
Sector PER (Simple Average)				71.6	32.0	9.9	7.3	11.5	13.7	4.3	4.5
Sector PER (Weighted)				23.7	48.8	18.7	12.2	10.5	14.5	3.7	3.8
Big cap - only SP Setia and Mah Sing				28.3	44.4	17.9	12.1	13.2	16.9	3.5	3.6
Small Cap - excluding SP Setia and Mah Sing				88.9	27.1	6.7	5.3	10.8	12.4	4.7	4.9

16/05/11

Share Price relative to the FBM KLCI



Source: Bloomberg

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