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COMPANY UPDATE

Tuesday, 23 April, 2013
FBMKLCI: 1,706.68
Sector: Property

Hua Yang Berhad

Continues to Shine

TP: RM2.70 *(+25.5%)*

Last traded: RM2.15

Buy

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

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Though the share price has appreciated 36.1% YTD to 3.9x CY14 EPS, we believe the market has not fully factored in 2 key milestones that it sets to achieve over the next few years; ie: 1) 3-year CAGR of 28% in net profit, and 2) transforming to a leading affordable homes developer. We remain upbeat on the group's earnings visibility for FY14-15 backed by solid unbilled sales of RM506mn and resilient demand for affordable homes. We maintain Buy recommendation on Hua Yang with a higher target price of RM2.70/share after rolling forward our valuation base year to CY14. Our target price is derived from an unchanged target PER of 5x, which is the target PER of the small cap property stocks under our coverage. Our target price is at a 30% discount to the group's RNAV of RM3.87/share.

276% return within 2 years

We are proud to share the results of our strong buy recommendation on Hua Yang. Investors who followed our advice to purchase Hua Yang since our initial report dated 27 Dec 2010 gained about 276% within a span of 2 years. This excludes dividends of 4.5sen/share and 12sen/share distributed in FY11 and FY12 (adjusted for bonus issue).

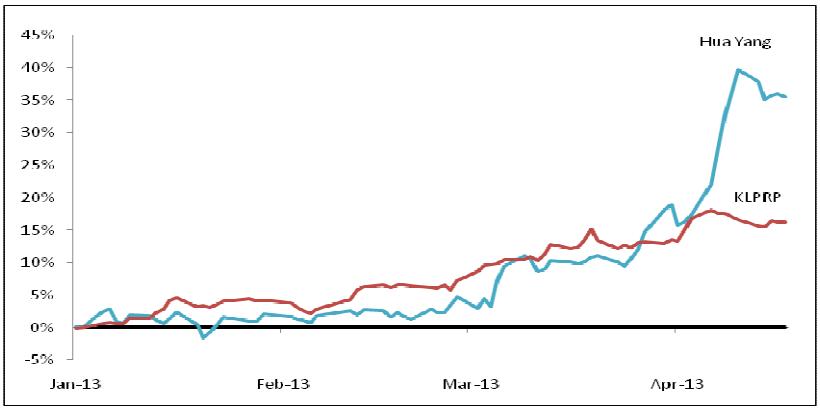
Table 1: 219% capital return since our first report

Event and Date	Shares	Price (RM)	Value (RM)
Bought 1000 unit on 27 Dec 2010	1000	0.915	915
Received bonus share in Oct -11 (1:3 Bonus Issue)	333		
Received bonus share in Oct -12 (1:5 Bonus Issue)	267		
Total shares in hand (current)	1600	2.15	3440
		Capital Appreciation (%)	**276**

Source: Bursa Malaysia, TA Research

In terms of YTD share price performance, the stock has outperformed the FBMKCLI and the KLPRP index – see **Figure 1**. Despite the outperformance, we believe the market has not fully factored in 2 key milestones that it set to achieve over the next few years; 1) 3-year CAGR of 28% in net profit, and 2) sizable transformation.

Figure 1: Relative performance



Source: Bloomberg, TA Research

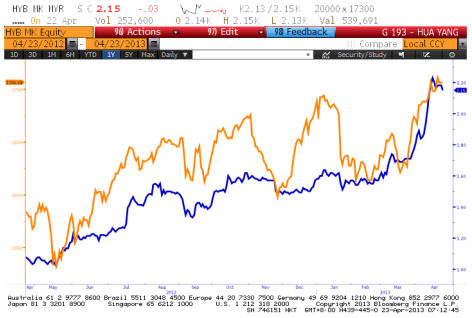
Share Information	
Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	198.0
Market Cap (RMmn)	425.7
Par Value	1.00
52-wk Hi/Lo (RM)	2.27/1.128
12-mth Avg Daily Vol ('000 shrs)	579.4
Estimated Free Float (%)	56.5
Beta	1.3
Major Shareholders (%)	
	Heng Holdings - 27.9
	Cham Poh Meng - 11.3

Forecast Revision	FY13	FY14
Forecast Revision (%)	0.0	0.6
Net profit (RMm)	71.6	93.3
Consensus	69.8	90.8
TA's / Consensus (%)	102.5	102.7
Previous Rating	Buy (Maintained)	

Financial Indicators	FY13	FY14
Net Debt / Equity (%)	44.3	27.3
FCFPS (sen)	(48.4)	27.4
Price / CFPS (x)	(4.4)	7.8
ROE (%)	23.2	24.0
ROA (%)	13.6	14.9
NTA/Share (RM)	1.7	2.0
Price/NTA (x)	1.3	1.1

Share Performance (%)		
Price Change	**HUAYANG**	**FBM KLCI**
1 mth	25.7	4.9
3 mth	36.1	4.4
6 mth	31.9	2.5
12 mth	79.2	7.8

(12mths)Share Price relative to the FBM KLCI



Source: Bloomberg

Projecting 3-year CAGR of 28% in net profit

We envisage the group's net profit to grow at a commendable 3-year CAGR of 28% (FY12-FY15), supported by record unbilled sales of RM506mn and an outstanding GDV of RM3.8bn for future development. One South will remain as the key contributor to earnings for FY14-15 as construction works are in full swing. In terms of construction progress, One South Phase 2 – Parc Serviced Apartment has reached 50% completion. Phase 3 – Gardenz serviced apartment just had its basement carpark done (20% completion) and will reach the significant billing stage in FY14. Phase 4 – Flexis SoHo, is currently undergoing pilling works.

Management targets to launch Phase 5, which is the final block of residential tower within One South development in FY14. We estimate the selling price could at least reach RM440psf judging from the increase in ASP for its Phase 2 and Phase 3 at RM320psf and RM380psf respectively. The final phase (Phase 6) comprises 2 blocks of SoHo and retail outlets and is expected to be launched in FY15. We expect the steady construction progress and upcoming launches to support our estimated FY14-15 earnings growth of 30.3% and 19.4% respectively.

Major Transformation

We believe the success of One South is crucial to Hua Yang, transforming the group from a pure township developer in Perak and Johor into an all-rounded developer that could cater to mass market demand. In our opinion, the success of One South will also pave way for its upcoming mixed development at Puchong. This 29.2acres mixed development is expected to yield GDV of RM1.5bn over a development period of 6-8years. The first phase of the development is expected to be launched in 4Q14 (or 3QFY15).

Given the group's vision of becoming the leading affordable housing developers within the next 5 years, the group is set to achieve an internal revenue target of RM800mn by 2018. Our earnings model suggests that the group's revenue will swell to RM639.5mn by FY15, even without contribution from its next-to-be flagship project in Puchong. As such, we believe the revenue target is achievable.

In tandem with the strong earnings growth momentum, we also expect the group's market capitalization to hit the RM500mn mark, at our target price of RM2.70/share. Note that the group's market capitalization grew significantly from RM116.6mn to RM425.7mn since our initiation. Current average trading volume also improved to 579k/day from 349k shares/day 2 years ago. By joining the RM500mn market capitalization category and improved tradability, on top of the group's decent valuation at 4.8x CY13 PER and dividend yields of 6%, this would likely make Hua Yang more appealing to institutional investors.

Forecast

No change to our FY13 earnings projections. However, we tweak our FY14-15 earnings upward by 0.6-5% after changing our progress billing assumptions based on management guidance. Our new sales assumptions for the group remain unchanged at of RM439mn/RM593mn/RM598mn for FY13/14/15 respectively.

Valuation and Recommendation

We continue to like Hua Yang and believe the company will outperform its peers (small-cap developers) on both earnings growth front and share price performance. This would emanate from the strong earnings visibility for FY14-15 backed by record unbilled sales of RM506mn and resilient demand for affordable homes. Another catalyst is the ability to acquire strategic landbanks (provided land cost is fair) for the development of affordable homes.

Our target price is revised higher to RM2.70/share from RM2.20/share after rolling forward our valuation base year to CY14. Our new target price is at a 30% discount to the group's RNAV of RM3.87/share – see **Table 2**. Reiterate **Buy**.

Key risk to our recommendation is competition from government's people housing scheme such as PR1MA (1 Malaysia People's Houding Programme) and PPA1M (1 Malaysia Civil Servants' Housing Programme), which houses will be priced at least 20% lower than market rates.

Table 2: RNAV Table

	Remaining GDV (RM mn)	NPV (RM mn)
Project		
One South	248	27.7
Bandar Universiti Seri Iskanda	741	68.4
Taman Pulai Indah	89	12.6
Senawang Link	51	6.8
Taman Pulai Hijauan	342	38.7
Section 13, Shah Alam	150	19.0
Desa Pandan	213	26.9
Jln Abdul Samad	208	21.8
Bercham	84	8.8
Puchong	1,520	121.4
Others	155	14.5
Unbilled sales		71.8
Shareholders fund @ 31 Dec 2012		327.3
Total RNAV		765.7
Number of shares		198.0
RNAV per share (RM)		**3.87**

Source: Hua Yang, TA Research

Earnings Summary (RM mn)

FYE Mar 31	FY11	FY12	FY13F	FY14F	FY15F
Revenue	188.9	306.4	398.6	521.6	639.5
EBITDA	36.1	74.2	98.1	127.7	152.6
EBITDA margin (%)	19.1	24.2	24.6	24.5	23.9
Pretax profit	34.3	72.5	95.9	125.2	149.5
Net profit	25.2	53.0	71.6	93.3	111.4
Core net profit	25.2	53.0	71.6	93.3	111.4
EPS* (sen)	15.3	29.5	36.2	47.1	56.3
EPS growth (%)	138.3	92.4	22.7	30.3	19.4
PER (x)	14.0	7.3	5.9	4.6	3.8
GDPS* (sen)	4.5	12.0	13.0	14.5	16.0
Div yield (%)	2.1	5.6	6.0	6.7	7.4
Core ROE (%)	12.1	21.9	23.2	24.0	23.5

* Adjusted for the 1:5 bonus issue completed in FY11, 1:3 bonus issue completed in FY12 & 1:4 bonus issue completed in FY13

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