



Hua Yang Berhad

Uninspiring 9MFY14 Results

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Review

- Hua Yang's 9MFY14 net profit of RM44.4mn came in below expectations, accounting for 53% and 52% of ours' and consensus's full-year estimates respectively. This was mainly due to slower-than-expected progress billings from its on-going projects.
- A single-tier interim dividend of 5sen was declared (FY13's interim DPS: 5 sen less 25% tax) during the quarter under review. We now expect the board to declare another final dividend of 5 sen/share in Q4, which would bring the total dividend to 10sen/share for FY14.
- 9MFY14 net profit fell 17% YoY to RM44.4mn, underpinned by: 1) gross margins contracting by 5.5ppt YoY to 32.4%, which was due to the limited billings from high-margin commercial properties post completion of One South Phase 1 in Apr-13; and 2) higher administration expenses and finance costs, stemming from borrowings drawn down for the new land acquisitions in Puchong and Mines South.
- Sequentially, 3QFY14 net profit surged 59.8% to RM19.7mn, driven by: 1) 28.3% growth in revenue as the construction progress from on-going projects picks up pace in Q3, and 2) gross margin improvement of 7.6ppt to 36.3% on better product mix.

Impact

- We cut our FY14 net profit by 17% but raise FY15 and FY16 net profit by 2.4% and 3.6% respectively after adjusting our progress billing assumptions to reflect the delay in projects recognition. No change to our FY14/15/16 new sales assumptions of RM600mn/RM602mn/RM621mn at this juncture, pending management's guidance on the group's future launches in an analyst briefing to be held next Monday.

Outlook

- Hua Yang raked in new sales of RM382.4mn in 3QFY14, bringing the cumulative 9MFY14 new sales to RM580.1mn. This is another record sales performance, surpassing the group's FY13 new sales and the previous high in FY12 – see **Figure 1**. The significant jump in new sales was attributed to new project launched in this quarter, namely Sentries Suite, Metia Residence and Greenz which collectively contributed to about 50% of total YTD sales. The group's unbilled sales rose to a record high of RM838.2mn in 3QFY14 from RM558.9mn in 2QFY14, representing some 1.9x of our projected FY14 revenue.

TP: RM2.15 (+8.4%)

Last traded: RM1.99

Hold

Share Information

Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	264.0
Market Cap (RMmn)	525.4
Par Value	1.00
52-wk Hi/Lo (RM)	2.51/1.16
12-mth Avg Daily Vol ('000 shrs)	853.8
Estimated Free Float (%)	60.0
Beta	1.4

Major Shareholders (%)

Heng Holdings - 30.7
cham Poh Meng -6.5

Forecast Revision

	FY14	FY15
Forecast Revision (%)	(17.7)	2.4
Net profit (RMmn)	69.4	101.9
Consensus	85.9	111.3
TA's / Consensus (%)	80.8	91.6
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	50.5	31.2
FCPS (sen)	(36.5)	24.4
Price / CFPS (x)	(5.4)	8.2
ROE (%)	19.2	23.6
ROA (%)	10.1	13.4
NTA/Share (RM)	1.4	1.7
Price/NTA (x)	1.4	1.2

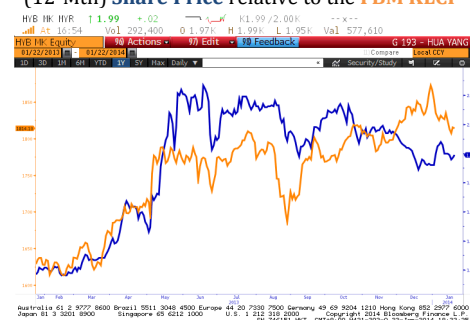
Scorecard

	% of FY	
vs TA	53	Below
vs Consensus	52	Below

Share Performance (%)

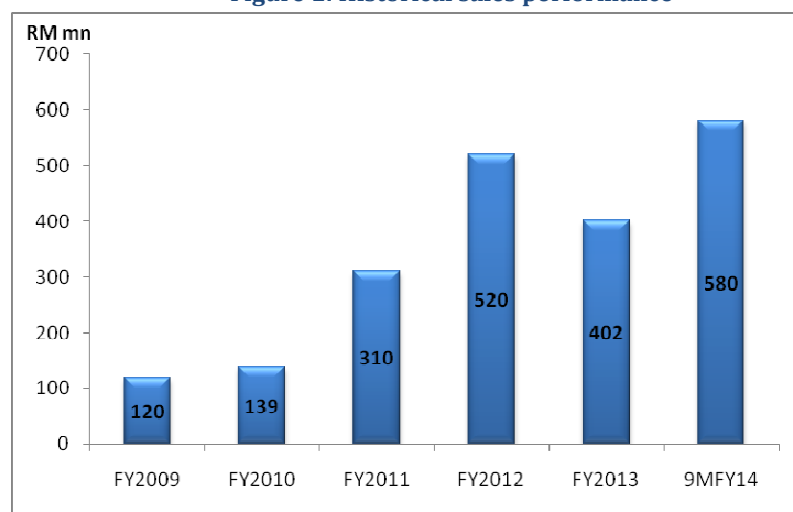
Price Change	HUAYANG	FBM KLCI
1 mth	2.1	(1.0)
3 mth	(12.3)	(0.0)
6 mth	(16.8)	0.5
12 mth	67.9	10.9

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Figure 1: Historical sales performance



Source: Hua Yang, TA Research

- As it had secured new sales of RM580mn in 9MFY14, we believe the group will be able to achieve its FY14 full-year sales internal target of RM600mn. 4QFY14 new sales are expected to come from bookings conversions at the Greenz @ One South a.k.a Phase 5 (GDV: RM94mn, take up: 90%) and Metia Residence @ Shah Alam (GDV: RM160mn, take up: 70%).
- While management reassures that the group is on track to deliver double-digit growth in the past briefing, we believe it would be a challenging task given the uninspiring 9MFY14 results. All in, we expect the group to post a marginal decline in net profit for FY14. 4QFY14 net profit are expected to be driven by: 1) maiden contribution from 3 new projects, i.e.: Greenz, Metia Residence and Sentries Suites; and ii) increase in billing of One South phase 2 as the units are due for completion in 4QFY14.

Valuation

- We downgrade our RNAV-based target price to RM2.15/share (see RNAV Table) from RM2.36/share previously, in tandem with our earnings revisions. Maintain Hold.

Earnings Summary (RM mn)

FYEMar 31	FY12	FY13	FY14f	FY15f	FY16f
Revenue	306.4	408.7	445.2	666.9	738.5
EBITDA	74.2	96.1	96.2	140.5	154.5
EBITDA margin (%)	24.2	23.5	21.6	21.1	20.9
Pretax profit	72.5	95.3	93.2	136.8	150.9
Net profit	53.0	70.5	69.4	101.9	112.4
Core net profit	53.0	70.5	69.4	101.9	112.4
EPS* (sen)	22.1	26.7	26.3	38.6	42.6
EPS growth (%)	92.1	21.0	(1.5)	46.8	10.3
PER (x) #	9.0	7.5	7.6	5.2	4.7
GDPS* (sen)	9.0	9.9	10.0	11.5	12.5
Div yield (%) #	4.5	5.0	5.0	5.8	6.3
Core ROE (%)	21.8	23.5	19.2	23.6	21.6

*Adjusted for the 1:5 bonus issue completed in FY11, 1:3 bonus issue completed in FY12, 1:4 bonus issue completed in FY13 & 1:3 bonus issue completed in FY14

3Q14 Results Analysis (RM mn)

YE 31 Mar	3Q13	2Q14	3Q14	QOQ(%)	YOY(%)	9MFY13	9MFY14	YOY(%)
Turnover	104.6	101.2	129.9	28.3	24.2	306.3	311.6	1.7
Gross Profit	42.5	29.1	47.2	62.4	11.1	116.0	101.0	(12.9)
EBIT	27.0	16.8	27.7	65.0	2.4	72.1	61.1	(15.3)
Net Int Inc/ (exp)	(0.0)	(0.1)	(0.2)	149.4	488.9	(0.1)	(0.3)	150.0
Pretax	27.0	16.7	27.5	64.6	1.8	72.0	60.8	(15.6)
Taxation	(7.1)	(4.4)	(7.8)	78.1	10.1	(18.6)	(16.5)	(11.3)
Minority Interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Reported Net Profit	19.9	12.3	19.7	59.8	(1.1)	53.5	44.4	(17.0)
Core Net Profit	19.9	12.3	19.7	59.8	(1.1)	53.5	44.4	(17.0)
EPS -adj (sen)	7.6	4.7	7.5	59.8	(1.1)	20.3	16.8	(17.0)
GDPS -adj (sen)	3.8	0.0	5.0	nm	33.3	3.8	5.0	33.3
Gross margin (%)	40.6	28.7	36.3	7.6	(4.3)	37.9	32.4	(5.5)
EBIT Margin (%)	25.8	16.6	21.3	4.7	(4.5)	23.6	19.6	(3.9)
Pretax Margin (%)	25.8	16.5	21.2	4.7	(4.7)	23.5	19.5	(4.0)
Net Margin (%)	19.1	12.2	15.2	3.0	(3.9)	17.5	14.2	(3.2)
Effective Tax Rate (%)	26.2	26.1	28.3	2.1	2.1	25.8	27.1	1.3

* EPS and DPS were adjusted for 1:3 bonus issue completed in FY14

RNAV Table

Project	Remaining GDV (RM mn)	NPV (RM mn)
On-going Project		
One South, Selangor	248	15.9
Taman Pulai Indah, JB	90	6.4
Taman Pulai Hijauan, JB	309	16.8
Bandar Universiti Seri Iskandar, Perak	763	22.4
Senawang Link, Negeri Sembilan	51	0.5
New Project		
Desa Pandan, KL	213	10.0
Section 13, Shah Alam	156	12.7
Puchong, Selangor	1520	60.5
Jalan Abdul Samad, JB	208	11.6
Polo Park Land, JB	54	1.1
Stulang Darat, JV	60	1.2
Bercham Permai, Perak	84	4.4
Anjung Bercham Megah, Perak	10	0.3
Seri Kembangan Land	285	12.6
Current unbilled sales	838	47.5
Total		223.9
Total shareholders' funds		342.8
RNAV		566.7
Enlarged Share Base		264.0
RNAV/share		2.15

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