



Hua Yang Berhad

Anticipating a Flattish Earnings Growth For FY14

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TP: RM1.93 (+9.0%)

Last traded: RM1.77

Hold

Thiam Chiann Wen

+603-2167-9615

cwthiam@ta.com.my

www.taonline.com.my

Key takeaways from Hua Yang results briefings are as follows;

- 1) Demand for Affordable Homes Remains Resilient
- 2) FY14 new sales tracking ahead sales target
- 3) Flattish Net Profit Growth for FY14

Demand for Affordable Homes Remains Resilient

Hua Yang's 3QFY14 sales hit record level of RM382.4mn, propelled by resilient demand for affordable homes. The strong 3Q sales had brought Hua Yang 9MFY14 new sales to RM580.1mn, surpassing FY13 new sales and also the previous high in FY12. The significant jump in new sales was attributed to new projects launched in this quarter, namely Sentrío Suites, Metia Residences and Greenz which collectively contributed about 50% of total YTD sales.

The three new projects launched in Nov-13 had received encouraging responses – see **Table 1**. Specifically, the affordable serviced apartments with ASP/unit ranging between RM380k-600k at Greenz and Metia Residence were fully-booked within a month. Notwithstanding the new cooling measures, the healthy sales numbers were a clear sign that the demand for buying affordable homes in the urban areas was still very strong.

Table 1: Sales Performance of Key Projects as at Dec-13

Project	GDV (RM mn)	Take Up (%)	Unit Size (sq ft)	Unit Price from (RM'000)	ASP psf (RM)	Remark
Greenz @ One South	104	77	1,035 - 1,210	520.7	500	Fully Booked
Metia Residences	134	83	854 - 1,365	388.2	455	Fully Booked
Sentrío Suites	224	38	570 - 1,230	428.4	750	Only launched lvi 9 - 30

Source: Company, TA Research

FY14 new sales tracking ahead sales target

In view of the strong 9MFY14 new sales, we believe the group is tracking ahead its internal sales target of RM600mn for FY14. 4QFY14 new sales are expected to come from bookings conversion at Greenz and Metia Residences (bookings worth RM50mn). Note that these 2 projects do not offer DIBS, hence the prohibition of DIBS would not result in booking cancellations.

Besides, we also expect both existing and new projects to contribute to 4QFY14 new sales. The group plans to offer 2 new township projects in 4QFY14, targeting at the more demand-resilient landed property segment. Semi Ds at The Gardens @ Polo Park, JB (GDV: RM54mn) as well as double storey terrace houses at Anjung Bercham Permai, Perak (GDV: RM10mn), are likely to come onto the market in 1QCY14.

Share Information

Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	264.0
Market Cap (RMmn)	467.3
Par Value	1.00
52-wk Hi/Low (RM)	2.51/1.16
12-mth Avg Daily Vol ('000 shrs)	854.6
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 (%)	(0.4)	(11.0)
Net profit (RMm)	69.2	90.7
Consensus	83.0	111.8
TA's / Consensus (%)	83.3	81.1
Previous Rating	Hold (Maintained)	

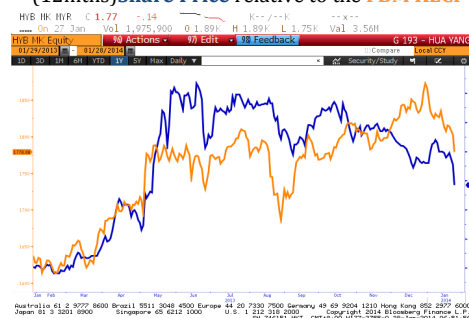
Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	50.6	34.5
FCFPS (sen)	(36.6)	20.1
Price / CFPS (x)	(4.8)	8.8
ROE (%)	19.1	21.3
ROA (%)	10.1	12.0
NTA/Share (RM)	1.4	1.7
Price/NTA (x)	1.3	1.1

Share Performance (%)

	HUAYANG	FBM KLCI
Price Change		
1 mth	(8.3)	(4.4)
3 mth	(16.1)	(2.2)
6 mth	(23.1)	(1.6)
12 mth	45.7	8.7

(12mths)Share Price relative to the FBM KLCI



Source: Bloomberg

Table 2: Launched >RM800mn Worth of Projects in 9MFY14

	Projects	GDV (RM mn)	Launch Period	Remark
	Klang Valley			
√	Sentrio Suites, Desa Pandan - Serviced apartments & 2 floors of retail	236	4QCY13	60% booked
√	Greenz @ One South (Phase 5) - Serviced apartment	104	4QCY13	100% booked
√	Metia Residence, Shah Alam - Serviced apartment & retail shops	160	4QCY13	100% booked
	Johor			
√	Taman Pulau Hijauan, JB - Residential township	96	on-going	
√	Taman Pulau Indah, JB - Residential township	74	on-going	
	The Gardens @ Polo Park, JB - Semi-detached houses	54	4QCY13	
	Citiwoods @ Jalan Abdul Samad - Serviced apartments	208	4QCY13	
	Perak			
√	Bandar Universiti Seri Iskandar - Residential township	122	on-going	
√	Ridgewood @ Bercham Permai - Clusters & link bungalows	54	4QCY13	
	Anjung Bercham Megah - Double Storey Terrace Houses	10	1QCY14	
	Negeri Sembilan			
√	Senawang Link - Terrace Factory	8	4QCY13	
	Total	1,126		

√ : Launched

Source: Company, TA Research

Flattish Net Profit Growth for FY14

Despite a 19.3% YoY decline in 9MFY14 net profit, management stated that the group strives to achieve steady profit growth in FY14, driven by its record unbilled sales of RM838mn. Management also commits to closely ensure that the contractors are fulfilling progress delivery. Nevertheless, we walked away from Hua Yang's analyst briefing feeling profit growth is likely to be flattish at best as the broader construction sector is now experiencing labour shortage. As such, we believe the group may face the challenge of speeding up the pace of construction works significantly.

We expect the group to post net profit of about RM25mn in 4QFY14, representing a strong 25% and 44% QoQ and YoY growth respectively, driven by: 1) maiden contribution from 3 new projects, i.e.: Greenz, Metia Residences and Sentrio Suites; and ii) increasing billings from Parc and Gardenz @ One South which will be handed-over to buyers in Feb-14 and Oct-14.

Forecast

Over the next 6 months, management will be focusing on project execution and handling over of completed Parc & Gardenz @ One South units to buyers. The group's next flagship project at Puchong (GDV: RM1.5bn) would likely to be marketed in 4QCY14. Hence, we believe that FY15's sales trend could be a replica of FY14's, implying an uninspiring sales performance in 1H; better sales prospect in 2H.

As far as the implementation of GST in 2015 is concerned, management intend to tender out its FY15 and FY16 construction orders on "net basis", which means Hua Yang will lock in the contract amount upfront, with future costs escalation borne by the contractor. At this juncture, management is unable to estimate the GST impact on property selling prices, as it is still waiting for the full list of GST exempt products and services from authority in order to assess the impact on construction costs. Therefore, we hold the view that developers may need to partially absorb the increasing raw material and construction costs due to timing effect, which will lead to margin contractions.

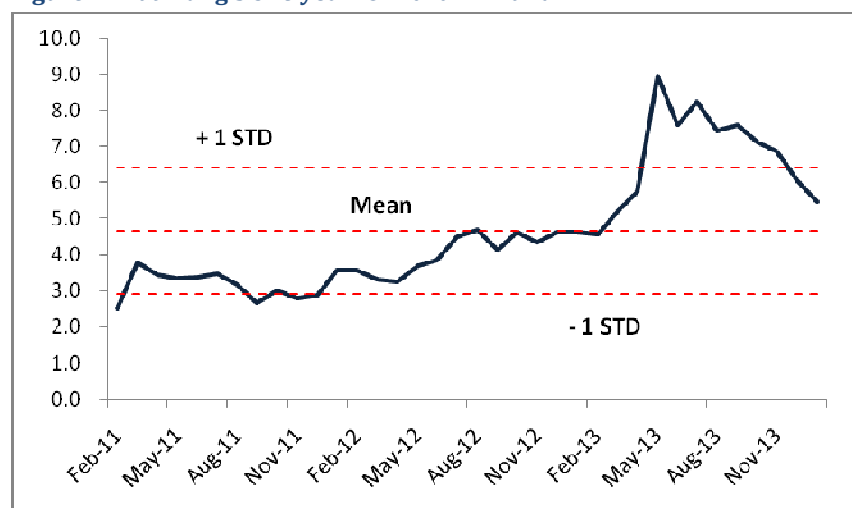
All in, we trim our FY14/15/16 earnings forecasts by 0.4%/11%/8% after factoring in;

- 1) new sales assumptions of RM630mn/RM620mn/RM690mn (from RM600mn/RM602mn/RM621mn previously);
- 2) change in progress billing assumptions as new launches for FY14 and FY15 are expected in 2H;
- 3) lower EBIT margin assumptions of 19.3 - 20.1% (from 20.8% - 21.5% previously).

Valuation

We maintain our **Hold** recommendation on Hua Yang with a revised target price of **RM1.93/share** (see **RNAV table**) from RM2.15/share previously, in tandem with our earnings revisions. Our target price implies a CY14 PER of 6x, slightly lower than the one standard deviation above the 3-year mean at 6.4x.

Figure 1: Hua Yang's one year forward PE Band



Source: Bloomberg, TA Research

Earnings Summary (RM mn)

FYEMar 31	FY12	FY13	FY14f	FY15f	FY16f
Revenue	306.4	408.7	474.8	625.3	731.3
EBITDA	74.2	96.1	95.8	125.5	142.2
EBITDA margin (%)	24.2	23.5	20.2	20.1	19.4
Pretax profit	72.5	95.3	92.8	121.8	138.6
Net profit	53.0	70.5	69.2	90.7	103.2
Core net profit	53.0	70.5	69.2	90.7	103.2
EPS* (sen)	22.1	26.7	26.2	34.4	39.1
EPS growth (%)	92.1	21.0	(1.9)	31.2	13.8
PER (x) #	8.0	6.6	6.8	5.2	4.5
GDPS* (sen)	9.0	9.9	10.0	11.0	12.0
Div yield (%) #	5.1	5.6	5.6	6.2	6.8
Core ROE (%)	21.8	23.5	19.1	21.3	20.4

*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

RNAV Table

RNAV Table

Project	Remaining GDV (RM mn)	NPV (RM mn)
On-going Project		
One South, Selangor	149	13.3
Taman Pulai Indah, JB	27	2.3
Taman Pulai Hijauan, JB	217	10.4
Bandar Universiti Seri Iskandar, Perak	643	27.9
Senawang Link, Negeri Sembilan	46	0.2
Sentrio Suites, Desa Pandan	0	6.4
Metia Residence, Shah Alam	0	8.1
Ridgewood @ Bercham Permai	30	2.5
New Project		
Puchong, Selangor	1536	43.4
Citiwoods @ Jalan Abdul Samad	208	9.0
Polo Park Land, JB	54	1.1
Stulang Darat, JV	94	1.8
Anjung Bercham Megah, Perak	10	0.3
Mines South, Selangor	262	9.3
Current unbilled sales	838	31.7
Total	4114	167.7
Total shareholders' funds		342.8
RNAV		510.5
Enlarged Share Base		264.0
RNAV/share		1.93

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD^(14948-M)

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research