

Hua Yang Berhad

Company Update

Current Price RM 1.70
Target Price RM 2.33
Consensus Price RM 2.51

Key Statistics

Bloomberg Ticker	HYB:MK
Shares Issued (mn)	108.00
Market Capitalisation (RM'mn)	183.60
52 Week Hi/Lo Price (RM)	1.82/0.915
Est Free Float (mn)	52.82
YTD Returns (%)	71.72
Beta (x)	1.04

Major Shareholders (%)

Heng Holdings Sdn Bhd	30.65
Poh Meng Cham	14.45

1-Year Share Price Performance



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Affordable housing developer

Investment Highlights:

- ◆ **Valuation:** We derive our fair value of RM2.33 for Hua Yang based on FY12's EPS of 38.9sen with PER of 6.0x, circa 37% discount to its domestic peers, which we believe adequately captures Hua Yang's strong earnings growth and relatively smaller market capitalisation. Our fair value offers a 37% upside to current levels and is a 48% discount to Hua Yang estimated RNAV per share of RM4.48. In addition, its shares are supported by net dividend yield of 5.2%. We like Hua Yang for its (1) strong earnings CAGR of 34% over FY11-14; (2) well position in affordable housing market; (3) healthy unbilled sales of RM372.3mn (2.0x FY11 revenue) provide next two year earnings visibility; (4) undemanding valuation.
- ◆ **Background:** Established in 1978, Hua Yang started out by involving in development projects in Ipoh and surrounding towns. Listed on the Main Board of Bursa Malaysia on 29 Nov 2002, Hua Yang has presence in 3 geographical areas, namely Perak, Johor and Klang Valley. Over the past 30 years, it has delivered more than 10,000 units of residential and commercial properties with GDV of RM1.2bn.

FYE Mar	2010A	2011A	2012F	2013F	2014F
Revenue (RMmn)	103.5	188.9	279.6	365.5	438.6
EBITDA (RMmn)	16.5	35.8	58.3	74.5	85.9
EBITDA margin (%)	15.9	18.9	20.9	20.4	19.6
Pretax profit (RMmn)	15.8	34.4	55.9	71.3	81.8
Pretax margin (%)	15.2	18.2	20.0	19.5	18.7
Net profit (RMmn)	11.6	25.3	42.0	53.5	61.4
Net profit margin (%)	11.2	13.4	15.0	14.6	14.0
EPS (sen)	10.7	23.4	38.9	49.6	56.9
EPS growth (%)	32.4	118.6	66.2	27.4	14.8
PER (x)	15.9	7.3	4.4	3.4	3.0
Gross DPS (sen)	2.5	7.5	11.7	12.4	14.2
Dividend Yield (%)	1.5	4.4	6.9	7.3	8.4
Price/NTA per share	0.9	0.8	0.7	0.6	0.5
ROE (%)	5.9	11.5	16.7	18.1	17.8
ROA (%)	3.7	7.1	9.5	10.0	9.6
Net Gearing ratio (%)	27.1	30.5	42.3	49.0	50.0

- ◆ **Management and strategy:** The Ho Family, the major shareholder, is active in the management of Hua Yang. The Ho Family has collectively direct and indirect shareholdings of 35% in Hua Yang. Led by Mr Ho Wen Yan, who is the son of the late founder Mr. Ho Mook Heng, Hua Yang has emerged as a property developer with a healthy balance sheet and strong pipelines of projects. While other developers aim to move up to higher end market, Hua Yang remains its focus on the niche, untapped market of medium cost properties. Nevertheless, management indicated that Hua Yang would be more aggressive in launching more projects and targeted to double its revenue to over RM500mn by 2015.

- ◆ **Projects Review:** As at 30 June 2011, the group has a total on-going GDV of RM857.0mn and total unbilled sales of RM372.3mn. **Table 1** shows the status of its on-going projects. Hua Yang’s existing projects have seen healthy take up rates. Out of the RM857.0mn worth of on-going projects, 72% has been sold. This is mainly due to the strong demand of affordable housing market. According to department of statistic, there are about 64% of Malaysian aged between 15-64 years old with many still looking for their first home. Hence, a young population bodes well for Hua Yang’s products offering which targets maiden home buyers.

Table 1: On-going projects

	Location	Type of Development	On Going GDV (RM mn)	Sold GDV (RM mn)	% Sold	Balance to be sold (RM mn)	Unbilled Sales (RM mn)	Expected completion date
Taman Pulai Indah	Johor	Township	199.9	132.7	66.4	67.2	55.7	Feb-13
Bandar University Seri Iskandar	Perak	Township	63.2	53.1	84.0	10.1	11.6	Sep-12
Symphony Heights	Selangor	Service Apartment	205.8	201.8	98.1	4.0	95.7	Block E - Jul 2011, Block F & G - July 2012
One South - Offices and Retail units (Phase 1), Residential (Phase 2)	Selangor	Mix Development	370.5	226.1	61.0	144.4	205.2	Mar-13
Senawang Link	Negeri Sembilan	Commercial & Industrial	17.6	5.3	30.1	12.3	4.1	Mar-12
Total			857.0	619.0	72.2	238.0	372.3	

◆ **On-going projects**

I. Taman Pulai Indah, Johor

Taman Pulai Indah covers an area of 477 acres, situated about 26km away from Johor Bahru town and 15km from the second link highway. The township development comprises 4,946 residential and commercial units with a total GDV of RM815.0mn. To date, completed and on-going phases made up 85% of

the land area. The remaining 72 acres of land has an expected GDV of RM120.1mn and will be gradually developed over the next 3-4 years.

II. Bandar Universiti Seri Iskandar, Perak

Bandar Universiti Seri Iskandar is located 30km away from Ipoh town and is accessible from Ipoh-Lumut Highway. It also link to the North-South Highway with exit at Simpang Pulai Toll, Gopeng and Jelapang Toll. With land measuring about 777 acres, this township development features 4,722 residential and commercial units with a total GDV RM1.12bn. About 37% of the land has been developed and the balance of 490 acres (estimated GDV RM867.8mn) will last the group for another 10 years.

III. Symphony Heights, Selangor

Eager to further strengthen its presence in the Klang valley, the group embarked on developing Symphony Height, a 3-block service apartment consists of 946 units, offers 2, 3 and 3+1 bedroom apartments with a built-up area from 863 sq ft to 1,246 sq ft. This project has a combined estimated GDV of RM206mn. Strategically located off the Batu Caves roundabout, at the Middle Ring Road 2 and Jalan Ipoh Interchange, Symphony Heights is easily accessible via major roads such as the Damansara-Puchong Highway, Karak Highway, New Klang Valley Expressway, North-South Highway, and Kuala Lumpur-Shah Alam Expressway. The 3 phases have collectively achieved 98% take up thanks to its strategic location and affordable pricing.

IV. One South, Selangor

This is Hua Yang's biggest development in the Klang Valley, located along the KL-Seremban highway and next to Besraya highway. Under the 17.89 acre master plan for the entire One South project, Phase 1 comprises 384 units of retail shops and offices with GDV of RM216mn. Hua Yang has sold the entire 73 units retail shops on en bloc basis for RM105mn early this year. Second phase of One South, named as Parc @ One South comprises 418 units of service apartments, size ranging from 800 sq ft to 1,200 sq ft. All units have been fully booked, and achieved average selling price of RM320 psf. Third phase of One South, Gardenz @ One South, which feature 377 units of service apartments with build-up ranging 1,020 to 1,220 sq ft, will be priced from RM380k onwards. (GDV: RM160 mn). The final 2 phases will feature SOHO units (phase

4) and 2 block of office towers (phase 5) which are expected to be launched in 1QFY13 and FY14 respectively.

- ◆ **Launches in FY12:** Hua Yang is poised to launch 7 projects worth RM525mn in FY2012 – see **table 2**. Key launches are as follow:
 - I. **One South:** Note that its Parc @ One South has been fully booked since its official launch in May 2011. Hua Yang has soft launched its first block of Gardenz @ One South last Saturday. The project has received overwhelming response as all units have been snapped up within a day. The second block of Gardenz will be launched on this coming weekend in conjunction with iProperty.com expo at Mid Valley Exhibition Centre and we expect the sales momentum will likely continue.
 - II. **Township developments:** The group will launch RM29mn and RM63mn worth of houses in Bandar Universiti Seri Iskandar and Taman Pulai Indah. The group will also launch 2 new projects in Johor, namely Taman Pulai Hijauan and Polo Park. Spanning across 140 acres, Taman Pulai Hijauan is adjacent to its flagship township of Taman Pulai Indah. To be developed over 8 years, Taman Pulai Hijauan will have a total GDV of RM380mn. Under phase 1, scheduled for launching in Oct 2011, the group plans to sell 147 units of double storey terrace houses, with expected GDV of RM33mn. Another project in Johor, Polo Park guarded and gated project (31 units, GDV RM30mn), which is situated in Johor City Centre, will be launched in Nov 2011.

Table 2: Launches for FY12

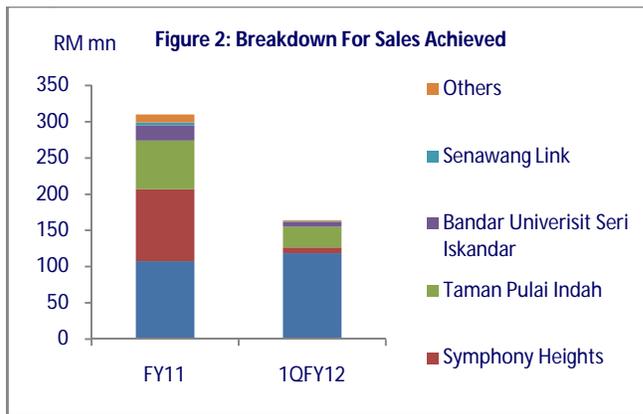
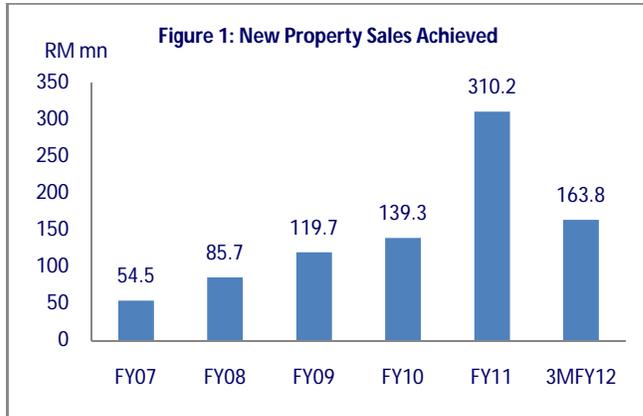
	Location	Type of Development	Units	GDV (RM mn)	Expected launch date
Parc @ One South (Phase 2)	Selangor	Service apartments	418	154	May 2011
One South Phase 1	Selangor	Offices	156	56	May 2011
Bandar Universiti Seri Iskandar	Perak	Houses	144	29	July 2011
Taman Pulai Indah, Phase 19,21 and 22	Johor	Houses	294	63	Sep 2011
Taman Pulau Hijuan,	Johor	Houses	147	33	Oct 2011
Polo Park	Johor	Houses	31	30	Nov 2011
Gardenz @ One South (Phase 3)	Selangor	Service apartments	377	160	3QFY12
				525	

- ◆ **Beyond FY12:** Looking beyond FY12, the group has 790 acres of undeveloped land bank, with a potential to generate more than RM2.2bn in GDV. As for landbank replenishment, the group usually sought smaller land plots in strategic middle class locations in the Klang Valley that could generate faster sales while preferring to build larger township in locations outside KL. For 2011, Hua Yang has announced two land acquisitions in the Klang Valley, i.e 1) leasehold land in Desa Pandan, measuring 1.55 acres for RM32.0mn and 2) leasehold land in Shah Alam measuring 3.74 acres for RM13.0mn. Both lands are allocated for high rise development with GDV of RM160mn and RM175mn respectively. Expected launch date for the both projects will be in June 2012. Management also hinted that they are in midst of finalizing its plans on the lookout for large land parcels in Kota Kinabalu, Sabah for township development. **Table 3** lists Hua Yang's undeveloped landbank and remaining GDV by region as at 30 Jun 2011.

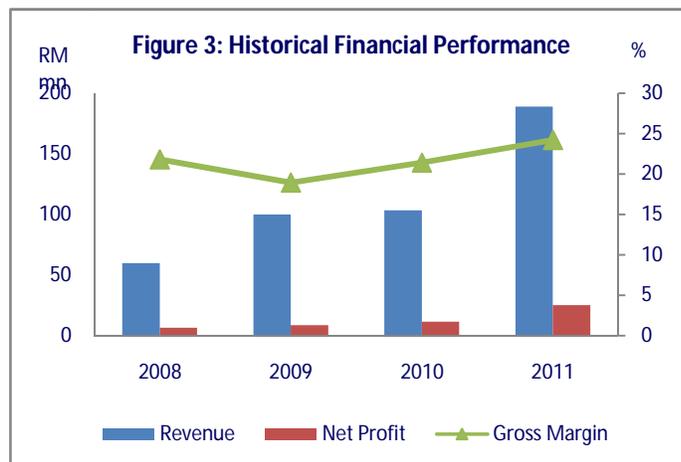
Table 3: Undeveloped landbank and remaining GDV by region

	Undeveloped landbank (acres)	%	Remaining GDV (RM mn)	%
Negeri Sembilan	73.0	9.2	38.0	1.7
Johor	208.0	26.3	528.1	23.6
Klang Valley	19.3	2.4	804.5	35.9
Perak	490.0	62.0	867.8	38.8
	790.3	100.0	2238.4	100.0

- ◆ **New sales broke historical records:** Hua Yang has achieved its highest annual sales in FY11 since its listing with total sales of RM310.2mn, beating its initial internal target of RM300mn. Hua Yang has set a target of RM350mn sales for FY12. We believe Hua Yang is on track to meet/beat the target given it achieved total sales of RM163.8mn in the first 3 months of FY12, representing 47% of its sales target for the whole FY12. The bulk of sales contribution was from the Klang Valley at around 77%.



- ◆ **Financial Highlights:** Hua Yang's earnings grew from RM6.6mn for FY08 to RM25.3mn for FY11, which represented a 3-year CAGR of 57%. This impressive earnings growth was primarily attributed to strong property sales from projects in Klang Valley which command higher margins. In addition, Hua Yang made a decent start to FY12, as it posted net profit of RM11.5mn, which was an increase of 37% q/q in 4QFY11 and more than doubled the RM4.9mn during the same period last year. The strong improvement in its financial results was mainly due to better sales achieved for phases under development and improved profit margins.



- ◆ **Earnings outlook:** We expect Hua Yang to turn in a strong 3 year EPS CAGR of 34%. Earnings growth is backed by: (i) a substantial margin expansion owing to an improved product mix (gross margin improved 2.8ppt y/y in FY11); (ii) unbilled sales RM372.3mn (as at 30 June 11) or 2.0x FY11 revenue, (iii) undeveloped landbank of 790 acres worth GDV of RM2.2bn, with RM525.0mn new launches targeted for FY12.

- ◆ **Healthy balance sheet:** As at 30 Jun 2011, Hua Yang had total borrowings of RM73.4mn and cash of RM6.2mn, translating to net gearing of 29%. With its strong balance sheet, Hua Yang has the capacity to take on new debt and scout for new land in the Klang Valley to underpin the next phase of its growth. The management intends to cap its net gearing at 60%. Assuming a maximum 60% net gearing, the group can raise an additional RM35.0mn for future land acquisition, after excluding borrowings to be financed for Desa Pandan and Shah Alam land acquisitions, which will be finalized in Sept 11. We estimate a conservative benchmark of land cost being 20% of GDV, 60% net gearing and full utilization of borrowings on land acquisition; the group can add another RM175mn GDV to its books, before undertaking equity fund raising exercise.

- ◆ **Recent development:** The group has recently proposed to undertake a bonus issue of 36mn shares of RM1 each in the company, on the basis of one bonus share for every three existing shares held on an entitlement date to be determined later.

- ◆ **Peers Comparison:** Table 4 shows some of the listed developers in the property sector under RM1.0bn market capitalisation. In terms of PER valuations, Hua Yang's current PER of 5.6x is a 42% discount to the average 9.6x for its peers.

Table 4: Peers Comparison

Company	Share Price (RM)	Market Cap (RM mn)	P/B (x)	P/E (x)	ROE (%)	Net Gearing (%)	Dividend yield (%)
Bandar Raya Developments	2.00	975.1	0.6	8.9	6.3	33.9	2.8
YNH Property	1.93	790.0	1.0	13.3	7.7	23.1	3.1
KSL Holdings	1.82	710.8	0.8	6.0	15.0	16.7	2.1
Dijaya Corporation	1.52	692.8	0.8	11.0	5.2	Net Cash	2.5
Paramount Corp	2.05	692.5	1.1	4.4	25.1	Net Cash	4.5
Plenitude	2.06	556.2	0.7	5.8	13.0	Net Cash	3.6
Glomac	1.78	529.1	0.9	8.3	10.9	20.3	4.0
MKH Holdings	1.56	412.8	0.6	13.6	4.5	33.2	2.2
Bolton	1.05	325.5	0.7	23.2	2.9	15.4	1.4
Hunza Properties	1.64	318.8	0.7	4.4	16.3	4.6	4.9
Crescendo Corporation	1.67	295.3	0.6	6.5	8.8	18.5	4.9
Average		572.6	0.8	9.6	10.5		3.3
Hua Yang Bhd	1.70	183.6	0.8	5.6	14.7	28.9	3.3

Table 5: RNAV Estimate

Projects	NPV (WACC @ 10%)
Existing Projects	
Taman Pulau Indah	19.87
Bandar Universiti Seri Iskandar	67.68
Symphony Heights	0.49
One South	51.57
Senawang link @ 60%	3.20
New Projects	
Polo Park	3.33
Taman Pulau Hijauan	27.70
Desa Pandan	18.59
Shah Alam	17.66
NPV of Unbilled Sales	43.25
Shareholders Fund @ 30 Jun 11	230.76
Total RNAV (RM mn)	484.09
No of Shares (mn)	108.00
RNAV per share (RM)	4.48
Proposed 1 for 3 bonus issue	
Enlarged share base post bonus issue (mn)	144.00
RNAV per share post bonus issue (RM)	3.36

Ratings System

Ratings:	Description:
OUTPERFORM	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
UNDERPERFORM	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
m/m	Month-on-Month	PAT	Profit After Tax
q/q	Quarter-on-Quarter	EV	Enterprise Value
y/y	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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