RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

Corporate Highlights

Visit Note

17 October 2011

Hua Yang Bhd

Truly Affordable

Share Price : RM1.58

Not Rated

Table 1 : Investment Statistics (HUAYANG; Code: 5062) **Bloomberg: HYB MK**

FYE Mar	Turnover (RMm)	Net # profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/CF (x)	P/NTA (x)	ROE (%)	Net Gearing (%)	NDY (%)
2011	188.9	25.3	25.5	98.6	6.2	-	(19.3)	0.7	12.2	30.4	3.6
2012F	289.1	46.4	37.7	47.8	4.2	40.0	(29.7)	0.8	19.1	31.9	4.0
2013F	430.2	68.9	47.8	26.8	3.3	55.0	11.9	0.7	23.4	31.7	4.5
2014F	558.3	92.4	64.9	35.7	2.4	67.0	4.0	0.6	25.9	21.2	5.2

Main Market Listing /Non-Trustee Stock *# Normalised* ** Consensus Based On IBES Estimates*

- **Key beneficial for MFHS.** Strategically positioning itself in the affordable housing segment, we view Hua Yang the key beneficiary under the Government's My First Home Scheme (MFHS), which was introduced in Budget 2011. To recall, under the scheme, Cagamas will provide a guarantee on 10% downpayment for houses priced below RM220k for first time home buyers with monthly income of <RM3k. The house price limit has recently been expanded to RM400k in Budget 2012. This rightly matches the segment that Hua Yang has entrenched itself in the market. More than 90% of the company's products are priced below RM400k.

- **55% 3-year earnings CAGR**. We forecast an earnings growth of 84% and 48% for FY12-13. The solid earnings growth is backed by: (i) an unbilled sales of RM372m; (ii) RM525m worth of projects is scheduled in FY2012; and (iii) RM803m worth of projects is slated for launch in FY13, out of which RM455m is from the three parcels of land acquired recently. While we are negative on the property sector as a whole, we are more positive on the affordable mass market housing segment, due to the pent up demand, which is further supported by MFHS. Although the Government's affordable housing project – PR1MA will come onstream, Hua Yang will be able to capture the immediate market demand. Location of its projects is also more strategic and nearer to the KL city centre.

- **Undemanding valuations with good fundamentals**. Hua Yang is currently trading at undemanding valuations of 4-5x PE and 63% discount to RNAV. Net gearing currently stands at 30%. Acknowledging the concern of stock liquidity, the company has proposed a second round of bonus issue on the basis of one bonus share for every three existing shares in July. Management has also lined up more fundings via debt facility and 10% placement for its future landbanking exercise.

- **Key risks.** The risks include: 1) competition from peers; 2) delays in launches and approvals; 3) stock illiquidity; and (4) country risk.

- **Forecast**. The projected earnings growth is one of the strongest compared to the property stocks under our coverage.

- **Valuation.** Based on a 50% discount to RNAV, we value the stock at RM2.13 (RM1.60 adjusted for bonus issue – ex-date on 25th Oct). This gives an upside of 35%. As the industry is switching to the mass market housing, Hua Yang is the best proxy for affordable housing play. Solid earnings growth, flow of marketable projects lining up, improving stock's liquidity and cheap valuations are the key catalysts for the stock.

Issued Capital (m shares)	108.0
Market Cap (RMm)	170.6
Daily Trading Vol (m shs)	0.9
52wk Price Range (RM)	0.915 – 1.82
Major Shareholders:	**(%)**
Heng Holdings S/B	30.7
Poh Meng Cham	14.9

FYE Mar	FY11	FY12	FY13
EPS chg (%)	-	-	-
Var to Cons (%)	(5.7)	(13.1)	(3.2)

PE Band Chart

Relative Performance To FBM KLCI

Loong Kok Wen, CFA
(603) 92802237
loong.kok.wen@rhb.com.my

Please read important disclosures at the end of this report.

Key Highlights

- **Key beneficial for My First Home Scheme.** Strategically positioning itself in the affordable housing segment, we view Hua Yang the key beneficiary under the Government's My First Home Scheme (MFHS), which was introduced in Budget 2011. To recall, under the scheme, Cagamas will provide a guarantee on 10% downpayment for houses priced below RM220k for first time home buyers/household with monthly income of <RM3k. This means qualified buyers will be able to obtain 100% loan without any down payment. Hua Yang previously did not really benefit from the scheme, as the ceiling was too low. Prices for properties closer to the KL city centre area are mostly more than RM220k. However, with the house price limit recently being lifted to RM400k in Budget 2012, this rightly matches the segment that Hua Yang already has a firmed footing in the market. More than 90% of the company's products are priced below RM400k, and management intends to keep the pricing below this level for all its products.

Table 2: Pricing range for current projects (by location)

Location	Pricing range
Ipoh	RM110k to RM200+k
Johor Bahru	RM160k to less than RM400k
Klang Valley	RM130k to RM320k

Source: Company

- **Industry switching to the same direction.** With surging property prices over the past two years and given challenging economic outlook ahead, the property sector is gradually moving from high-end to sustainable affordable mass housing segment. Key industry players such as SP Setia and Mah Sing have both built up landbanks in Klang Valley suburbs for township development in Beranang and Rawang, targeting to price their products between RM300k->400k for entry level terrace homes. As their first launch will be from 2Q next year, Hua Yang will be able to capture the immediate rising demand for this segment.

- **Highly marketable products**. Most of Hua Yang's projects are highly marketable, in our view. Pricing and location are the key determinants. Location for many of its ongoing and upcoming projects, such as One South, Desa Pandan and Shah Alam, is close to the KL city centre. We are positive on the three parcels of land that the company recently acquired:

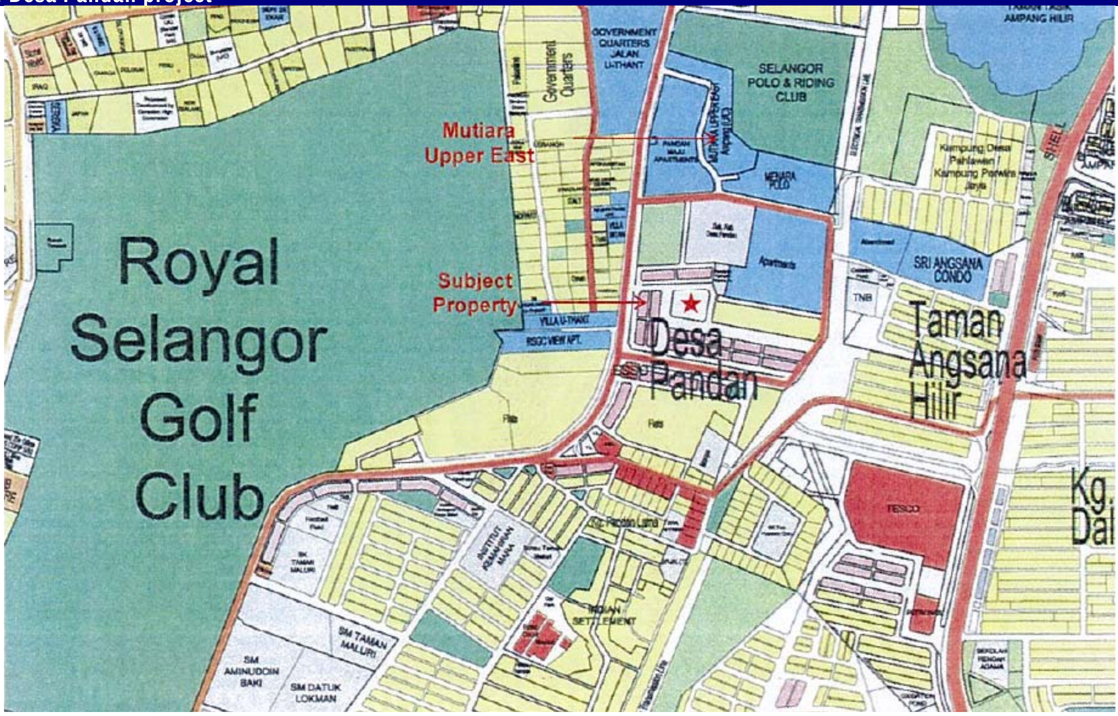
(i) Desa Pandan

This 1.55-acre leasehold commercial land was purchased at a cost of RM473 psf. The land is located at the middle of Desa Pandan Commercial Centre, behind Royal Selangor Golf Club and very near to the KL city centre. It will be developed into service apartments with a retail podium, yielding a GDV of RM160m. Management expects to receive approval for development plans in Jan next year, and hence the project is slated for launch in Apr. While psf price has not been fixed, selling price per unit will be kept below RM400k.

(ii) Shah Alam

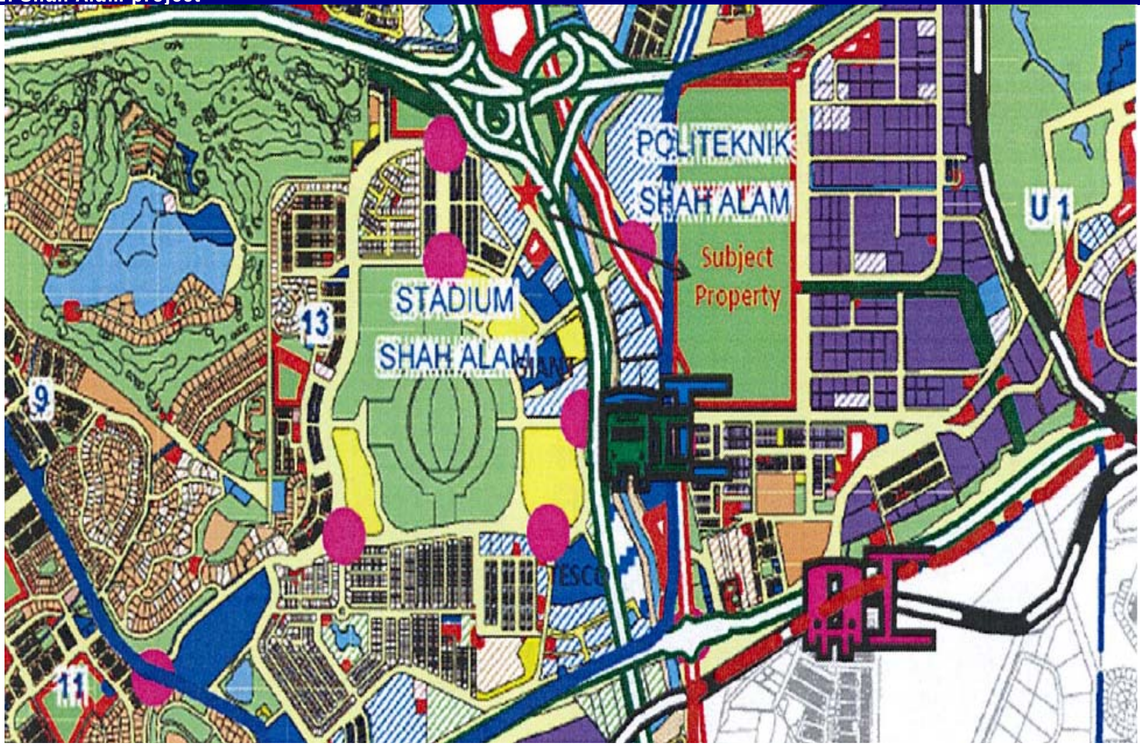
Located near the Stadium Shah Alam and Laman Seri Business Centre, this piece of 3.73-acre leasehold commercial land was acquired at a cost of RM80 psf. The site is easily accessible via Federal Highway, Guthrie Corridor and New Klang Valley Expressway (NKVE). Similar concept will be adopted – service apartment on top of a retail podium, with an estimated GDV of RM175m. We believe the project will be able to capture the Malay upgraders in Shah Alam. Population is well captured in Shah Alam (it is reported that Shah Alam has a total population of 482k), as it is an established industrial/commercial area.

Fig 1: Desa Pandan project



Source: Company

Fig 2: Shah Alam project



Source: Company

(iii) Johor Bahru – Jalan Abdul Samad

The site is very close to the new CIQ complex, only 3.5km away. It is located along Jalan Abdul Samad, which is within the city of Johor Bahru, very close to the Thistle Hotel. This freehold residential land was acquired at a cost of RM117 psf. Depending on whether the management is able to acquire the adjacent land parcel, at this juncture, the development plan (also) includes retail and condo components. GDV is estimated at RM120m. Given its location, we believe the project will sell for itself, considering that KSL has almost fully sold its service apartment D'Esplanade at an average selling price of RM600-650 psf. The project is likely to capture the rising housing demand for the O&G workers in Tg Langsat and Pengerang.

Fig 3: Jalan Abdul Samad, Johor Bahru project

Source: Company

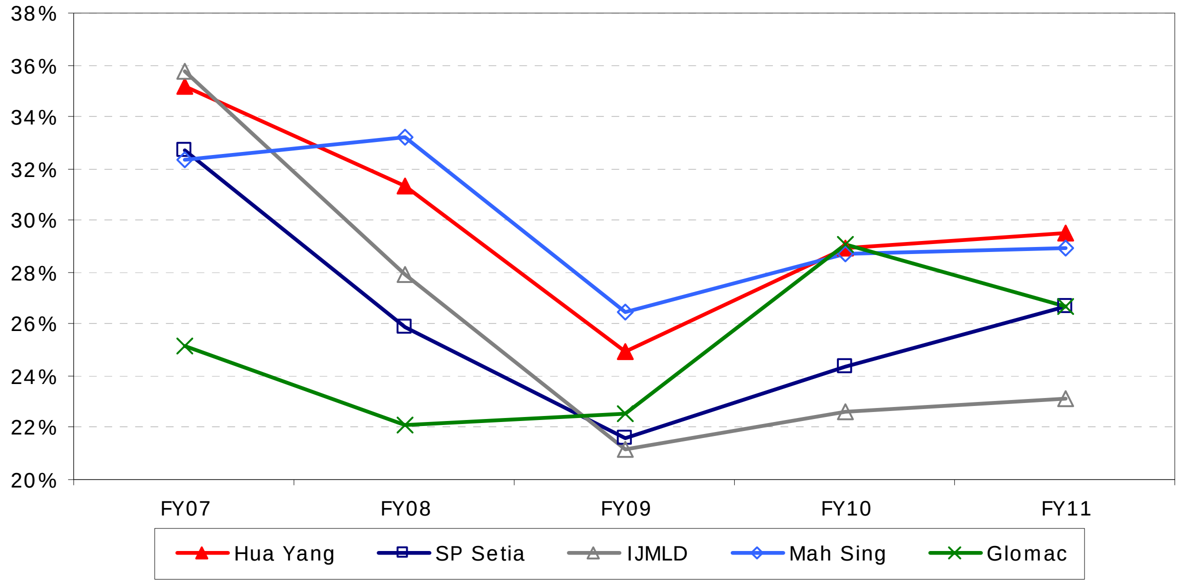
♦ **Ongoing projects achieved high take-up rate.** Hua Yang's ongoing project One South at Seri Kembangan has seen strong sales since its launch in early 2010, with an overall take-up of more than 80% to-date. The leasehold project had an initial GDV of RM750m, and was subsequently raised to RM840m due to better pricing power. Phase 1, which comprises retail and office units, is >70% sold. Out of which, 73 retail units worth RM105m were sold en bloc at a price of RM900 psf. Phase 2 and 3, which are the residential service apartments, are all fully booked. Starting from a launching price of RM300 psf, the last block was sold at an average price of RM370 psf, and RM400 psf for the premium units. The remaining Phase 4 is the SOHO units, targeted to be released in 1QFY13 (2QCY2012), while Phase 5, which comprises two blocks of office tower, will be launched in FY14. Indicative selling price for SOHO has yet to be fixed, but management will keep the unit price at below RM400k. We are confident that the remaining phases will continue to attract positive response, given the successful sales in initial phases, as well as its location, which is just 15-20min away from the city centre.

Fig 4: Location of One South

Source: Company

- **Comparable industry average margin.** Although Hua Yang positions itself in the affordable housing segment, its profit margins are comparable to the industry average. Historical gross margin ranged from 25% and 35%, and stabilised at around 30% in FY11. Based on its landbanking history, land cost typically makes up less than 10% of its estimated GDV, except for the newly acquired Desa Pandan land, its land cost is 20% of GDV. Given the uncertain economic outlook and hence minimal upward pressure on building material prices, we believe Hua Yang's gross margin will remain healthy, hovering around 30-33% for FY12-14.

Chart 1: Gross margins comparison



Source: Company

Financial Performance and Forecasts

- **Solid earnings growth.** We forecast a 3-year earnings CAGR of 55% for FY12-14. The projected earnings growth is one of the strongest compared to the other property stocks under our coverage. The solid earnings growth is underpinned by: (i) an unbilled sales of RM372m; (ii) RM525m worth of projects is scheduled in FY2012; and (iii) RM803m worth of projects is slated for launch in FY13, out of which RM455m is from the three parcels of land acquired recently. While we are negative on the property sector as a whole, we are more positive on the affordable mass market housing segment, due to the pent up demand, which is further supported by MFHS. Although the Government's affordable housing project – PR1MA will come onstream over the next few years, Hua Yang will be able to capture the immediate market demand. Location of its projects is also more strategic and closer to the KL city centre.

Table 3: Projects to be launched in FY13

Region	Project	GDV (RM mil)
Klang Valley		
1	One South (Phase 4)	191
2	Desa Pandan	160
3	Shah Alam	175
Johor Bahru		
4	Jalan Abdul Samad	112
5	Taman Pulai Indah	40
6	Polo Park	30
7	Taman Pulai Hijauan	69
Perak		
8	Bandar Universiti Seri Iskandar	26
Total		**803**

Risks

- **Risks to our view.** The risks include: 1) competition from peers; 2) delays in launches and approvals; 3) stock illiquidity; and (4) country risk.

Valuations and Recommendations

- **Undemanding valuations.** We value Hua Yang at RM2.13 or RM1.60 adjusted for bonus issue, based on a 50% discount to RNAV. This gives an upside of 35%. Note that, ex-date for the bonus issue is on 25th Oct. The stock is currently trading at a deep 63% discount to RNAV, and a PE of only 4-5x. Although management has received shareholders approval for the 10% placement, there is no fixed timeline yet for the placement exercise to be undertaken. We believe the company will time it concurrently with its upcoming landbank acquisition, possibly next year. We estimate that the exercise could potentially raise about RM20m. The expected dilution impact will be mitigated by the incremental value from the new landbank and development projects, as well as the earnings growth. To reiterate, we view Hua Yang the best proxy for affordable housing play, as the industry is switching to the sustainable mass market housing. Management's effort to reward shareholders via bonus issue and at the meantime improve the stock's liquidity should help to re-rate the stock. It is also worth noting that Hua Yang's earnings growth is one of the strongest among the property stocks under our coverage.

Table 4: RNAV breakdown

Project	Type of Development	Remaining landbank (acres)	Future GDV (RM mil)	Development period	NPV @ 12.5% (RM mil)
Taman Pulai Indah, Johor Bahru	Mixed development	72.00	120.10	3 - 4 years	10.49
Bandar Universiti Seri Iskandar, Ipoh	Mixed development	490.00	867.80	10 years	55.85
One South, Sg. Besi, Selangor	Mixed development	14.00	469.50	6 - 8 years	42.51
Senawang Link, Senawang, Negeri Sembilan	Commercial & Industrial	24.00	38.00	4 - 5 years	1.89
Polo Park Land , Johor Bahru	Residential	5.00	28.00	2-3 years	2.30
Taman Pulai Hijauan, Johor Bahru	Mixed development	131.00	380.00	8 years	23.96
Jalan Abdul Samad, Johor Bahru	Residential	2.10	120.00	3 years	12.14
Desa Pandan, Selangor	Commercial	1.55	160.00	3 years	19.05
Shah Alam, Selangor	Commercial	3.73	175.00	3 years	19.79
Unbilled sales					52.12
Shareholders funds as at Mar FY11					219.32
Total RNAV					459.43
No. of shares					108.00
RNAV per share					4.25
Disount					50%
Fair value					2.13

Source: Company, RHBRI

Table 5: Sector peers comparison

	Year End	Price (RM/s)	Fair Value (RM/s)	EPS GWTH (%) FY12	EPS GWTH (%) FY13	PER (x) FY12	PER (x) FY13	P/NTA (x) FY12	P/CF(x) FY12	NDY(%) FY12	Rec
Sunway Bhd	Dec	2.25	2.10	9.4	15.4	9.2	7.9	1.0	5.4	1.8	OP
KLCC^	Mar	3.11	3.31	3.0	6.0	10.4	9.8	0.5	5.1	3.8	OP
SP Setia	Oct	3.84	3.90	-13.1	27.5	23.6	18.5	2.6	15.5	2.3	MP
Axis REIT	Dec	2.42	2.75	9.4	2.2	12.5	12.2	1.1	12.6	8.0	MP
Paramount	Dec	1.69	1.45	-0.9	10.2	7.1	6.4	1.0	7.3	6.3	MP
Quil Capita	Dec	1.03	1.25	3.8	1.8	11.1	10.9	0.7	2.8	7.7	MP
Sunway REIT	Jun	1.14	1.08	11.0	7.6	16.6	15.4	1.1	12.5	5.4	MP
CMMT	Dec	1.30	1.32	9.4	4.3	14.9	14.3	1.3	11.2	6.1	MP
YNHB	Dec	1.78	1.45	-7.2	16.7	12.9	11.1	0.9	8.7	2.2	UP
IJM Land^	Mar	2.17	1.53	0.7	26.6	13.6	10.8	1.1	10.2	2.1	UP
Mah Sing	Dec	1.91	1.55	8.5	37.1	9.1	6.7	1.4	7.6	4.0	UP
KSL	Dec	1.41	1.20	-16.2	9.0	8.7	7.9	0.6	7.4	3.2	UP
Glomac^	Apr	0.82	0.65	4.7	28.6	6.7	5.2	0.7	4.8	5.9	UP
UEM Land	Dec	1.92	1.40	-26.2	29.7	46.4	35.8	2.4	-120.1	0.4	UP
Sector Avg				**-3.0**	**15.7**	**15.1**	**12.7**				

Source: RHBRI

Table 6. Earnings Forecasts

FYE Mar (RMm)	FY11	FY12F	FY13F	FY14F
Turnover	**188.9**	**289.1**	**430.2**	**558.3**
Gross Op Profit	55.7	95.3	138.1	179.0
Op Profit	35.5	67.1	99.0	130.2
Int exp	(1.1)	(5.2)	(6.7)	(7.1)
Associates	0.0	0.0	0.0	0.0
Exceptional item	0.0	0.0	0.0	0.0
Pretax Profit	**34.4**	**62.6**	**93.0**	**124.8**
Tax	(9.2)	(16.3)	(24.2)	(32.4)
Minorities	0.1	0.0	0.1	0.1
Net Profit	25.3	46.4	68.9	92.4
Normalised net profit	**25.3**	**46.4**	**68.9**	**92.4**

Source: Company data, RHBRI estimates

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.