



Hua Yang Berhad

Expecting a Steady 1HFY15

TP: RM3.05 (+41.2%)

Last traded: RM2.16

BUY

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Result Preview

Hua Yang will release its 2QFY15 results on 23 Oct 2014. We expect the construction progress of One South to remain in full swing. Thus, 2QFY15 earnings should come in relatively flat QoQ in the range between RM22-28mn. Nonetheless, this still represents a strong double-digit earnings growth of 78-127% YoY, supported by unbilled sales of RM767mn. Specifically, Hua Yang is expected to complete Gardenz @ One South (Phase 3, Serviced Apartments) and Flexis @ One South (Phase 4, SoHo units) in Oct-14 and May-15 respectively.

1HFY15 sales driven by bread-and-butter properties

For FY15, management has lined up several new projects with a combined GDV of RM1.1bn. To recap, the group recorded new property sales of RM82mn in 1QFY15, mainly from its bread and butter township projects. Two new projects were launched in 2QFY15, namely Cube @ One South (270 SoHo units; GDV: RM95mn) and Citywoods @ Johor Bahru (417 Serviced Apartments, GDV: RM216mn). All in, we believe Hua Yang's internal sales target of RM500-600mn would remain intact, and expect the group to record higher sales in 2HFY15, driven by 1) bookings conversion from Cube @ One South and Citywoods; 2) new launches such as Zeta @ One South (104 serviced apartments, GDV: RM90mn) and Puchong West (serviced apartments, GDV: RM300mn)

More landbank replenishment in 2HFY15

Following a quiet period during Jul-13 until Aug-14, Hua Yang recently bought four parcels of land in Ipoh for RM25.3mn. This 7.2 acres land is slated for a commercial development with an estimated GDV of RM84mn that will feature 86 units of shop lots. We expect more news flows on landbanking in 2HFY15 to sustain the group's future earnings growth. More importantly, GDV replenishment is crucial to achieve the group's revenue target of RM800mn by 2018. In terms of locations of preferences, we understand the group is especially keen in mainland Penang and Kota Kinabalu. Note that Hua Yang has proposed and received approval on a RM250mn Sukuk Programme, which allows the group to replenish GDV up to RM1.25bn. As management has indicated that the company will utilize bulk of the Sukuk this year, we believe the group is confidence in securing some land acquisitions in its key operating regions, such as the Klang Valley and Johor over the near term.

Forecast

No change to our FY15-17 earnings estimates. We continue to project the group to record new sales of RM550-760mn for FY15-17.

Share Information

Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	264.0
Market Cap (RMmn)	570.2
Par Value	1.00
52-wk Hi/Low (RM)	2.52/1.74
12-mth Avg Daily Vol ('000 shrs)	479.3
Estimated Free Float (%)	47.0
Beta	1.2

Major Shareholders (%)

Heng Holdings - 30.7
Cham Poh Meng - 6.5

Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	108.3	117.4
Consensus	101.5	116.0
TA's / Consensus (%)	106.7	101.2
Previous Rating	Buy (Maintained)	

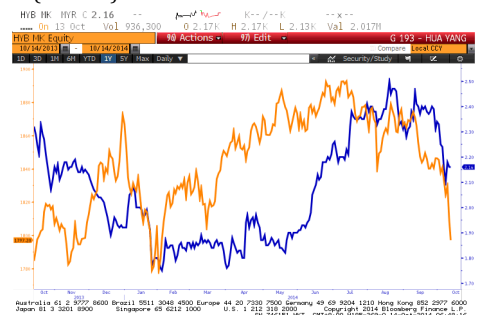
Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	38.3	24.3
FCFPS (sen)	27.3	31.0
Price / CFPS (x)	8.0	7.0
ROE (%)	25.5	23.4
ROA (%)	12.8	13.1
NTA/Share (RM)	1.7	2.0
Price/NTA (x)	1.3	1.1

Share Performance (%)

Price Change	HUAYANG	FBM KLCI
1 mth	(10.0)	(3.1)
3 mth	(6.9)	(4.7)
6 mth	20.0	(2.9)
12 mth	(6.9)	0.7

(12mths)Share Price relative to the FBM KLCI



Source: Bloomberg

Valuation

We like Hua Yang's strategy to continue focusing on affordable housing and believe the group's sales to be less affected by cooling measures. We view the group as one of the key beneficiaries for My First Home Scheme, which the house price ceiling has recently been raised to RM500k in Budget 2015. Valuation remains attractive as it is currently trading at forward P/E of 5.3x FY15 EPS vs the average P/E of 7.4x for the small-cap property developers under our coverage. In addition, the group also offers compelling net dividend yields of 6-7% based on 25-30% payout ratio.

We maintain Hua Yang as our top **Buy** pick for the property sector with an unchanged target price of RM3.05/share, based on 7x CY15 earnings.

Earnings Summary (RM mn)

Profit & Loss (RMm)						
YE Mar 31		2013	2014	2015f	2016f	2017f
Revenue		408.7	509.9	669.7	726.9	782.9
EBITDA		96.5	114.1	149.8	161.9	173.8
Dep. & amortisation		(1.0)	(0.8)	(1.1)	(1.7)	(2.3)
Net finance cost		(0.1)	(1.0)	(4.3)	(3.6)	(2.9)
PBT		95.3	112.4	144.4	156.6	168.6
Taxation		(24.8)	(30.2)	(36.1)	(39.1)	(42.2)
MI		-	-	-	-	-
Net profit		70.5	82.2	108.3	117.4	126.5
Core net profit		70.5	82.2	108.3	117.4	126.5
Reported EPS (diluted)	(sen)	26.7	31.1	41.0	44.5	47.9
Core EPS (diluted)	(sen)	26.7	31.1	41.0	44.5	47.9
PER	(x)	8.1	6.9	5.3	4.9	4.5
GDPS	(sen)	9.9	12.0	13.0	14.0	15.0
Div Yield	(%)	4.6	5.6	6.0	6.5	6.9
EV/EBITDA	(x)	3.3	3.9	2.7	2.3	1.8

Cash Flow (RMm)

YE Mar 31		2013	2014	2015f	2016f	2017f
PBT		95.3	112.4	144.4	156.6	168.6
Adjustments		(29.6)	(32.1)	(36.1)	(39.1)	(42.2)
Dep. & amortisation		1.0	0.8	1.1	1.7	2.3
Changes in WC		120.3	(126.5)	2.7	2.8	2.9
Operational cash flow		187.0	(45.5)	112.1	121.9	131.7
Capex		(197.6)	(86.9)	(30.0)	(30.0)	(30.0)
Interest received		-	-	-	-	-
Others		(2.2)	(10.0)	(10.0)	(10.0)	(10.0)
Investment cash flow		(199.8)	(96.9)	(40.0)	(40.0)	(40.0)
Debt raised/(repaid)		35.7	95.1	(35.0)	(35.0)	(35.0)
Equity raised/(repaid)		26.2	-	-	-	-
Dividend		(25.2)	(31.7)	(34.3)	(37.0)	(39.6)
Others		(19.4)	-	-	-	-
Financial cash flow		17.2	63.4	(69.3)	(72.0)	(74.6)
Net cash flow		4.4	(79.0)	2.8	9.9	17.1

Assumptions

YE Mar 31		2013	2014	2015f	2016f	2017f
New Sales	(RM m)	402.0	735.0	550.0	760.0	700.0
Property Development Margins	(%)	24.1	22.1	22.3	22.1	22.0

Balance Sheet (RMm)

YE Mar 31		2013	2014	2015f	2016f	2017f
Fixed assets		381.2	385.6	425.2	464.1	502.4
Others		30.0	17.8	17.2	16.6	15.9
Total		411.1	403.5	442.4	480.7	518.3
Cash		29.5	34.1	36.9	46.8	63.9
Others		193.0	386.7	389.0	391.4	393.9
CA		222.5	420.8	425.9	438.2	457.8
Total assets		633.7	824.2	868.3	918.9	976.1
ST debt		2.4	60.7	61.9	63.2	64.4
Other liabilities		166.5	175.9	180.9	186.1	191.4
CL		168.9	236.5	242.8	249.2	255.8
Shareholders' funds		334.5	387.0	461.0	541.5	628.3
LT borrowings		112.8	188.7	152.4	116.2	79.9
LT liabilities		17.5	12.0	12.0	12.0	12.0
Total long term Liabilities		130.3	200.7	164.5	128.2	92.0
Total Equity and Liabilities		633.7	824.2	868.3	918.9	976.1

Ratio

YE Mar 31		2013	2014	2015f	2016f	2017f
Profitability ratios						
ROE	(%)	23.5	22.8	25.5	23.4	21.6
ROA	(%)	13.0	11.3	12.8	13.1	13.3
EBITDA Margins	(%)	23.6	22.4	22.4	22.3	22.2
PBT Margins	(%)	23.3	22.0	21.6	21.5	21.5
Liquidity ratios						
Current ratio	(x)	1.3	1.8	1.8	1.8	1.8
Quick ratio	(x)	1.1	1.6	1.6	1.6	1.5
Leverage ratios						
Total liabilities / equity	(x)	0.9	1.1	0.9	0.7	0.6
Net debt / Equity	(x)	0.3	0.6	0.4	0.2	0.1
Growth ratios						
Revenue	(%)	33.4	24.8	31.3	8.5	7.7
Pretax Profit	(%)	31.4	17.9	28.5	8.4	7.7
Core net earnings	(%)	33.1	16.6	31.8	8.4	7.7
Total assets	(%)	41.7	30.1	5.3	5.8	6.2

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