



Hua Yang Berhad

Still in the Earnings Upcycle

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BUY

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Briefing Takeaways:

3 key takeaways from the analyst briefing:

1) Puchong West, an improved version of One South.

This project is targeted for launch in 2015, replacing sales from One South which has come to its final launch. While the company has submitted the development plan for Puchong West with higher plot ratio, the development approval is expected to be received by end-14. According to management, the launch would likely take place after the implementation of GST (ie: April-15) so the company will have a clear view of the GST impact on sales, if any.

Based on the current conservative plot ratio of 4x, the project GDV works out to RM1.35bn, comprising 6 phases of commercial units, residential units (serviced apartments) as well as SOHOs. For starters, the company would roll out serviced apartments with an estimated GDV of RM300mn. The selling price is expected to range in between RM400-500k/unit. For the time being, we maintain the project GDV of RM1.35bn until the company receives approval on the increase in plot ratio.

We do not think the company will have problems in securing sales, despite seeing a slew of supply in Puchong. This is underpinned by management strengths in controlling costs, ensuring affordable prices for its properties.

2) One land deal in the making for 2014, at least.

Landbanking exercise and GDV replenishment are crucial to achieve the company's long term goals, ie: annual sales of more than a billion and a market capitalisation of more than a billion by 2018. In the meeting, the management is positive that there would be at least one land deal for the remainder of 2014. Although management is tight-lipped on the locations, we believe the targeted landbank would be outside of Klang Valley as the group currently has a plate-full of undeveloped projects in the Klang Valley with an estimated GDV of RM1.8bn.

Hua Yang has proposed and received approval on a RM250mn Sukuk programme, which could replenish GDV up to RM1.25bn assuming 20% land costs and without equity financing. Note that based on Hua Yang's current financial standings, it can handle and replenish GDV up to RM5bn at any point in time without affecting company's cash flow or dividend. Currently, the group has undeveloped GDV of RM3.4bn.

3) Earnings upcycle is not over yet.

Hua Yang reported a decent net profit growth of 94% YoY in 1QFY15. This was underpinned by strong progress billing and also a low-base effect in 1QFY14 (see Chart 1). As we expect net profit of more than RM20mn to be a trend and also a low-base effect in 2QFY14, Hua Yang's earnings growth would remain strong in 2QFY15 before moderating towards 3Q-4QFY15.

TP: RM3.05 (+29.4%)

Last traded: RM2.36

Share Information

Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	264.0
Market Cap (RMmn)	623.0
Par Value	1.00
52-wk Hi/Low (RM)	1.57/0.945
12-mth Avg Daily Vol ('000 shrs)	363.0
Estimated Free Float (%)	54.5
Beta	1.3

Major Shareholders (%)

Heng Holdings - 30.65
Cham Poh Meng - 14.83

Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	108.3	117.4
Consensus	101.2	106.5
TA's / Consensus (%)	107.0	110.3
Previous Rating	Buy (Maintained)	

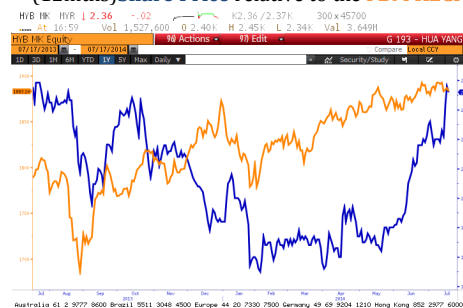
Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	38.3	24.3
FCFPS (sen)	27.3	31.0
Price / CFPS (x)	8.6	7.6
ROE (%)	25.5	23.4
ROA (%)	12.8	13.1
NTA/Share (RM)	1.7	2.0
Price/NTA (x)	1.4	1.2

Share Performance (%)

Price Change	HUAYANG	FBM KLCI
1 mth	11.8	0.3
3 mth	22.9	1.6
6 mth	18.6	3.9
12 mth	1.5	5.1

(12mths) Share Price relative to the FBM KLCI



Source: Bloomberg

Chart 1: RM20mn profit is set to be a trend



Source: Hua Yang & TA Research

In our forecast, we project earnings growth of 31.7% driven by unbilled sales of RM756mn and our new sales assumptions of RM550mn for FY15. Specifically, the group is expected to complete the Gardenz series of serviced apartment (Phase 3 of One South) and Flexis SoHo (Phase 4 of One South) in Oct-14 and May-15 respectively. Meanwhile, the 3 new launches in FY14, i.e. Greenz @ One South, Sentries Suites @ Desa Pandan and Metia Residence @ Shah Alam would also contribute significantly to the group's bottomline in FY15. Note that both Metia Residence and Sentries Suites are now at 15% completion and on track for delivery in 3QCY16 and 1QCY17 respectively.

As far as new sales are concerned, Hua Yang has lined up new launches worth RM1.1bn for 2Q-4Q/2014 (see Table 1). Project previews and marketing campaigns are underway to create project awareness.

Impact

No change to our FY15-17 earnings forecasts. We continue to project the group to record new sales of RM550-760mn over the next three years.

Valuation

We maintain Hua Yang as our top pick for the property sector for 2014 with an unchanged target price of RM3.05/share, based on 7x CY15 EPS. At a current FY15 PE of 5.8x EPS, the stock undervalued given the superior earnings growth and the appealing dividend yield. Maintain Buy.

Earnings Summary (RM mn)

FYEMar 31	FY13	FY14	FY15F	FY16F	FY17F
Revenue	408.7	509.9	669.7	726.9	782.9
EBITDA	96.5	114.1	149.8	161.9	173.8
EBITDA margin (%)	23.6	22.4	22.4	22.3	22.2
Pretax profit	95.3	112.4	144.4	156.6	168.6
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
EPS* (sen)	26.7	31.1	41.0	44.5	47.9
EPS growth (%)	21.0	16.6	31.8	8.4	7.7
PER (x) #	8.8	7.6	5.8	5.3	4.9
GDPS* (sen)	9.9	12.0	13.0	14.0	15.0
Div yield (%) #	4.2	5.1	5.5	5.9	6.4
Core ROE (%)	23.5	22.8	25.5	23.4	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

Table 1: FY15 New Launches

	Projects	GDV (RM mn)	Target Launch Date	Remark
	Klang Valley			
	One South - Phase 6 - SoHo & Serviced Apartment	185	3Q4Q CY14	30 units booked out of 90 units open for selection
	Puchong West - Office Suites & Shops	300	1Q CY15	
	Johor			
*	Taman Pulai Hijauan - Residential township	127	2Q3Q CY14	Launched RM37mn (21% sold)
	Taman Pulai Indah - Residential township	26	3Q CY14 & 1Q CY15	
	The Gardens - Semi-detached	64	3Q CY14	
	Citiwoods - Serviced apartments	216	3Q CY14	30% booked out of 100 units open for selection
	Perak			
*	Bandar Universiti Seri Iskandar - Residential township	130	2Q3Q CY14	Launched RM65mn (11% sold)
*	Greenview Residence - Double-storey Terrace Houses	12	2Q CY14	Launched RM12mn (70% sold)
	Negeri Sembilan			
*	Senawang Link	26	2Q CY14	
	Total	1086		
* Denote Launched				

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