

19 July 2018

Property | Real Estate

Hua Yang

Neutral (Maintained)

Remains Challenging

Target Price: MYR0.50
Price: MYR0.47
Market Cap: USD40.5m
Bloomberg Ticker: HYB MK

Maintain NEUTRAL with an unchanged MYR0.50 TP, 7% upside. Hua Yang's earnings were within our expectation but below consensus, down 41% YoY due to a higher tax rate. We believe the property sales outlook for Hua Yang will remain challenging this year. Existing residential stocks in the market have been increasing in the recent years, attributed to the large supply of non-landed residential properties, particularly in Selangor.

Hua Yang's 1QFY19 (Mar) net profit of MYR1m was within our expectation, but below consensus. Revenue rose 38.8% YoY on the back of steady construction progress at existing projects, as well as new sales in completed projects such as One South (Selangor), Citywoods (Johor), and The Gardens at Polo Park. However, earnings plunged by a greater 41% YoY due to a higher tax rate on deductible income and interest expenses. Having said that, income contributions from associate Magna Prima (MAGNA MK, NR) stabilised at MYR1m vs a full-year MYR1.31m in FY18.

Sales still sluggish. New sales slowed down in 1QFY19, with only MYR63.3m sales secured (4QFY18: MYR83.7m). Sales in this quarter were contributed by the slightly higher take-up at One South (MYR14.2m), Citywoods (MYR10.7m), and Astetica Residences (MYR8.4m) in Selangor. However, this was still a far cry from management's MYR400m target for FY19. We are hopeful that its recently-launched Aviary Residence @ Puchong will help to boost sales in the upcoming quarters.

Unbilled sales in 1QFY19 rose slightly to MYR201.4m from MYR179m in the previous quarter on new sales at Astetica Residence, Meritus Residensi (Penang) and Elemence at Taman Denai Alam, Johor. For FY19, management plans to launch MYR284m worth of new phases at its existing township and service apartments in Bukit Mertajam.

The overall take-up rate for most of Hua Yang's projects remains slow. Since their launches in early FY18, Astetica Residences and Meritus Residensi are only 19.3% and 39.9% sold. Both projects are slated for completion in Jul 2020. Therefore, we expect management to continue to focus on driving sales for these projects in FY19.

We maintain our DDM-based TP of MYR0.50 based on unchanged discount to RNAV of 85%. We also retain our NEUTRAL recommendation, as we believe the outlook for property sales for Hua Yang will remain challenging this year. Existing residential stocks are increasing every year, attributed to the large supply of non-landed residential properties, particularly in Selangor.

Risk. An upside risk to our forecasts is likely to be a strong recovery in sales, especially for the key launches, while downside risks include a higher rejection rate.

Share Data

Avg Daily Turnover (MYR/USD) 0.08m/0.02m
52-wk Price low/high (MYR) 0.45 - 0.93
Free Float (%) 58
Shares outstanding (m) 352
Estimated Return 7%

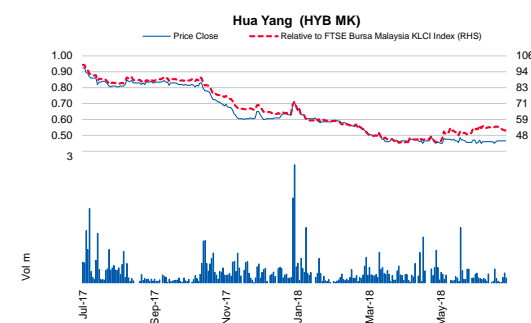
Shareholders (%)

Heng Holdings 30.3
AIA 4.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.8)	2.2	1.1	(32.1)	(49.5)
Relative	(20.5)	3.6	8.7	(27.1)	(48.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (MYRm)	385	231	239	232	237
Reported net profit (MYRm)	60.7	2.9	4.3	6.4	4.5
Recurring net profit (MYRm)	60.7	4.4	4.3	5.4	6.5
Recurring net profit growth (%)	(44.8)	(92.7)	(2.7)	25.8	20.0
Recurring EPS (MYR)	0.17	0.01	0.01	0.02	0.02
DPS (MYR)	0.02	0.02	0.00	0.00	0.00
Recurring P/E (x)	2.7	37.1	38.1	30.3	25.3
P/B (x)	0.27	0.28	0.28	0.27	0.27
Dividend Yield (%)	4.3	4.3	0.3	0.3	0.4
Return on average equity (%)	10.7	0.5	0.7	1.1	0.7
Return on average assets (%)	6.1	0.3	0.4	0.5	0.4
Net debt to equity (%)	39.3	72.1	69.2	69.0	74.4
Our vs consensus EPS (adjusted) (%)			(47.0)	(58.6)	(67.7)

Source: Company data, RHB

Analyst

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Financial Exhibits

Financial model updated on: 2018-07-18.

Asia		Financial summary	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Malaysia		Recurring EPS (MYR)	0.17	0.01	0.01	0.02	0.02
Property		EPS (MYR)	0.17	0.01	0.01	0.02	0.01
Hua Yang		DPS (MYR)	0.02	0.02	0.00	0.00	0.00
Bloomberg	HYB MK	BVPS (MYR)	1.69	1.68	1.69	1.70	1.72
Neutral		Weighted avg adjusted shares (m)	352	352	352	352	352
Valuation basis		Valuation metrics	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
RNAV.		Recurring P/E (x)	2.7	37.1	38.1	30.3	25.3
Key drivers		P/E (x)	2.7	56.6	38.1	25.6	36.6
Improvement in domestic consumer sentiment.		P/B (x)	0.27	0.28	0.28	0.27	0.27
Key risks		FCF Yield (%)	(35.2)	(59.1)	(16.1)	(38.1)	(28.7)
i. Termination of proposed land deals;		Dividend Yield (%)	4.3	4.3	0.3	0.3	0.4
ii. Higher/lower loan rejection rates.		EV/EBITDA (x)	3.9	18.7	20.9	19.4	22.4
Company Profile		EV/EBIT (x)	4.0	20.1	23.0	21.4	25.1
Hua Yang is a mid-cap property developer with a niche in affordable housing. Its landbank is located in property hotspots in the Klang Valley, Johor and Perak.		Income statement (MYRm)	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
		Total turnover	385	231	239	232	237
		Gross profit	133	69	66	68	67
		EBITDA	84	21	18	20	19
		Depreciation and amortisation	(1)	(2)	(2)	(2)	(2)
		Operating profit	82	20	17	18	17
		Net interest	(2)	(11)	(11)	(10)	(12)
		Income from associates & JVs		1	0	0	1
		Pre-tax profit	81	10	6	8	6
		Taxation	(20)	(7)	(1)	(2)	(2)
		Recurring net profit	61	4	4	5	6
		Cash flow (MYRm)	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
		Change in working capital	(43)	(48)	1	(0)	1
		Cash flow from operations	20	(33)	18	18	20
		Capex	(78)	(64)	(44)	(80)	(67)
		Cash flow from investing activities	(97)	(71)	(44)	(80)	(67)
		Proceeds from issue of shares	88	0	0	0	1
		Dividends paid	(7)	(7)	(0)	(1)	(1)
		Cash flow from financing activities	123	166	24	(1)	23
		Cash at beginning of period	46	45	16	31	29
		Net change in cash	46	62	(2)	(63)	(24)
		Ending balance cash	92	107	14	(32)	5
		Balance sheet (MYRm)	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
		Total cash and equivalents	45	16	31	29	13
		Tangible fixed assets	355	514	472	471	529
		Intangible assets	9	0	0	0	0
		Total investments	68	191	191	191	191
		Total other assets	26	42	42	42	42
		Total assets	1,043	1,204	1,185	1,188	1,220
		Short-term debt	86	212	212	212	222
		Total long-term debt	193	230	230	230	242
		Other liabilities	29	38	13	13	14
		Total liabilities	448	614	591	589	615
		Shareholders' equity	595	590	594	599	606
		Total equity	595	590	594	599	606
		Net debt	234	426	411	413	451
		Total liabilities & equity	1,043	1,204	1,185	1,188	1,220
		Key metrics	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
		Revenue growth (%)	(33.1)	(40.1)	3.4	(2.8)	2.4
		Recurrent EPS growth (%)	(58.6)	(92.7)	(2.7)	25.8	20.0
		Gross margin (%)	34.4	29.8	27.6	29.5	28.2
		Operating EBITDA margin (%)	21.7	9.2	7.7	8.6	8.0
		Net profit margin (%)	15.8	1.3	1.8	2.8	1.9
		Dividend payout ratio (%)	11.6	243.5	10.0	8.4	14.5
		Capex/sales (%)	20.3	27.6	18.4	34.6	28.3
		Interest cover (x)	53.0	1.8	1.5	1.6	1.5

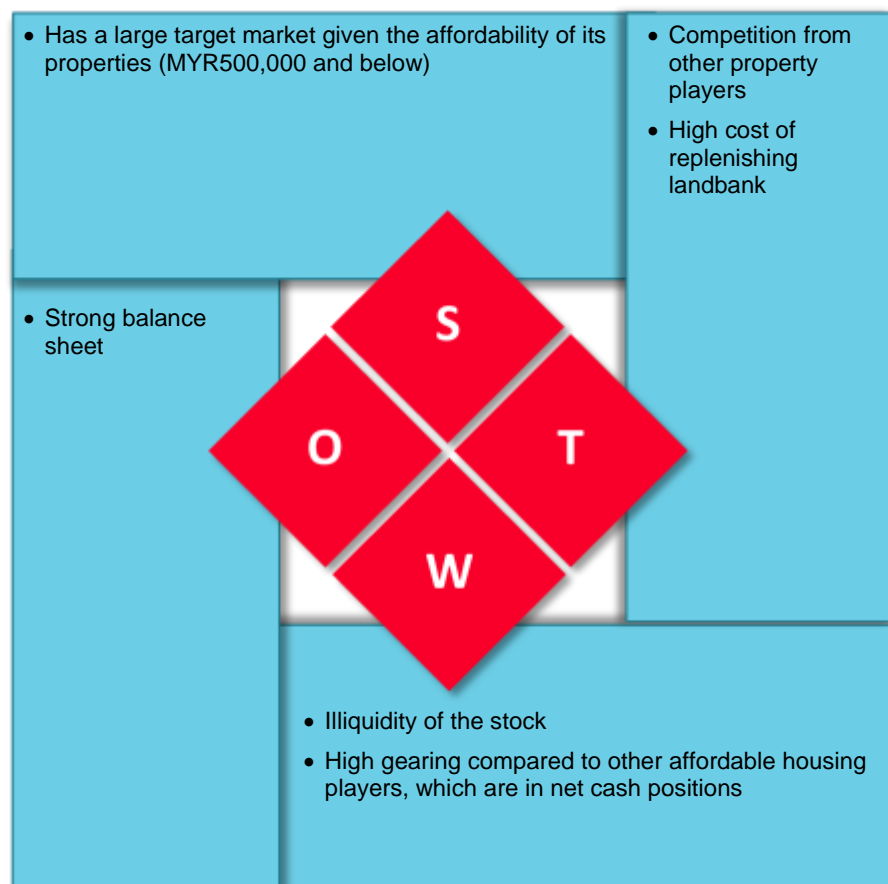
Source: Company data, RHB

Figure 1: Hua Yang's results comparison

FYE Mar (MYRm)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
Revenue	47.9	86.7	66.5	(23.3)	38.8	Higher revenue underpinned by construction progress and continuing sales at completed projects.
EBITDA	3.2	8.8	7.1	(19.1)	>100	
Depreciation	(0.2)	(2.0)	(0.7)	(63.2)	>100	
EBIT	2.9	6.8	6.4	(5.9)	>100	
Interest expense	(0.8)	(4.1)	(3.9)	(4.3)	>100	
Interest income	0.5	0.6	0.7	18.9	39.5	
Associates	0.6	2.9	1.0	(65.4)	58.8	Associate Magna Prima's contribution.
El/others	0.6	2.9	1.0	(65.4)	58.8	
Pretax profit	2.8	5.5	3.4	(37.9)	22.2	
Tax	(1.1)	(2.5)	(2.4)	(1.5)	>100	Higher tax rate due to non-deductible income.
Minority interest	0.0	0.0	0.0	nm	nm	
Net profit	1.7	3.1	1.0	(67.0)	(41.0)	
Core profit	1.7	3.1	1.0	(67.0)	(41.0)	In line with expectations.
<i>EBITDA margin (%)</i>	<i>6.6</i>	<i>10.1</i>	<i>10.7</i>			
<i>EBIT margin (%)</i>	<i>6.1</i>	<i>7.8</i>	<i>9.6</i>			
<i>Pretax margin (%)</i>	<i>5.9</i>	<i>6.4</i>	<i>5.2</i>			
<i>Effective tax rate (%)</i>	<i>38.8</i>	<i>44.5</i>	<i>70.5</i>			
<i>Net margin (%)</i>	<i>3.6</i>	<i>3.5</i>	<i>1.5</i>			

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-23	Neutral	0.50	0.45
2018-01-25	Sell	0.50	0.61
2017-12-28	Neutral	0.65	0.61
2017-10-30	Sell	0.76	0.80
2017-07-14	Sell	0.92	0.98
2017-05-18	Neutral	1.16	1.07
2017-04-21	Neutral	1.18	1.11
2017-04-14	Neutral	1.18	1.07
2017-01-18	Neutral	1.05	1.06
2017-01-17	Neutral	1.18	1.08

Source: RHB, Bloomberg

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