

Hua Yang Bhd

Ambitious Sales Target for FY19

TP: RM0.49 (+8.9%)

Last Traded: RM0.45

Hold

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Key Takeaways from yesterday's analyst briefing are:

4QFY18 sales boosted by inventory sales

4QFY18 sales more than doubled to RM83.7mn, from RM36mn recorded in 3QFY18. The significant pickup in 4Q sales was largely driven by higher sales from completed projects such as Cube @ One South and Citywoods & The Gardens @ Polo Park in Johor, which collectively accounted for 39% of total sales in 4QFY18. Meanwhile, Astetica Residences, Seri Kembangan, recorded cumulative take up of 13%, representing a 4%-pts growth over a 3 month period. We gather that the improved sequential performance was driven by aggressive marketing efforts.

FY18 sales of RM222mn was deemed as satisfactory

Despite FY18 sales being the lowest in recent years – see **Figure 1**, we deem the performance as satisfactory. This is given that it has officially launched RM130mn worth of new projects in FY18, comprising landed homes in its new township in Kota Masai, Johor and retail units in Taman Pulau Hijauan in Johor. Meanwhile, the official launch of Aviary Residence @ Puchong Horizon (GDV: RM248mn) is now scheduled in 2QFY19 as the project team is re-strategising the marketing packages after gathering feedback from the registrants during the soft-launching campaign held in Mar-18.

FY19 Sales Target of RM400mn

Management has set an ambitious sales target of RM400mn for FY19, anchored by new launches worth RM284mn – see **Figure 2**. Bukit Mertajam (GDV: RM146mn) is the key launch for the year. Targeted for launch in 2HFY19, Bukit Mertajam will feature affordable serviced apartments priced at RM400k/unit. In addition, Hua Yang will also focus on driving sales of on-going projects. We estimate that the company has on-going stocks worth RM800mn available for sale as at Mar-18. Meritus Residensi, Astetica Residences and Aviary Residence form bulk of the on-going stocks. During the briefing, management shares that it will continue to offer attractive packages to clear unsold stocks. We are not entirely surprise with this move, given the slow sell-through rate for Hua Yang's recent launches. In view of rigid lending policies adopted by financial institutions and most of the new launches are only scheduled for launch in 2HFY19, we conservatively project the group to record sales of RM301mn in FY19.

Guiding for a Better FY19

While the market environment is expected to remain challenging, management appears less pessimistic. All in, management is guiding for a better FY19, driven by higher property sales and improved profitability. Besides, management also aims to pare down its net gearing level to 0.6x by end-2018 from 0.7x currently, premised on higher inventory sales and revenue recognition from on-going projects.

Share Information

| | |
|----------------------------------|-------------|
| Bloomberg Code | HYB MK |
| Stock Code | 5062 |
| Listing | Main Market |
| Share Cap (mn) | 352.0 |
| Market Cap (RMmn) | 279.8 |
| 52-wk Hi/Lo (RM) | 1.08/0.44 |
| 12-mth Avg Daily Vol ('000 shrs) | 266.9 |
| Estimated Free Float (%) | 50.5 |
| Beta | 1.0 |

Major Shareholders (%)

Heng Holdings - 31.7

Forecast Revision

| | FY19 | FY20 |
|-----------------------|-----------------|--------|
| Forecast Revision (%) | (6.6) | (12.9) |
| Net profit (RMmn) | 11.2 | 21.1 |
| Consensus | 9.0 | 14.1 |
| TA's / Consensus (%) | 124.3 | 149.3 |
| Previous Rating | Sell (Upgraded) | |

Financial Indicators

| | FY19 | FY20 |
|-----------------|--------|--------|
| Net gearing (%) | 75.8 | 75.8 |
| CFPS (sen) | (12.6) | (6.1) |
| P/CFPS (x) | (4.8) | (10.0) |
| ROE (%) | 1.9 | 3.4 |
| ROA (%) | 0.9 | 1.7 |
| NTA/Share (RM) | 1.7 | 1.7 |
| Price/ NTA (x) | 0.4 | 0.4 |

Share Performance (%)

| Price Change | HUAYANG | FBM KLCI |
|--------------|---------|----------|
| 1 mth | (1.1) | (3.3) |
| 3 mth | (23.7) | (3.1) |
| 6 mth | (29.1) | 5.1 |
| 12 mth | (58.3) | 1.9 |

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Landbanking and dividend payment halted temporarily to ease cash flow

Lower earnings and heavy capital commitment have put significant pressures on Hua Yang's cash flows. Note that the group has been reporting negative free cash flows for the past two financial years. As such, management has decided to put landbanking activities and dividend payments on hold to ease cash flow. Given it has total undeveloped landbank of 476 acres with GDV potential of RM5.2bn, management believes there is no urgency to replenish its landbank. In addition, it is also able to tap into development potential of its 31%-owned Magna Prima's 35 acres land within the Klang Valley. For opportunistic land deals, management would consider forming up JV with landowners. Meanwhile, management believes that the board will consider paying dividends again once the company shows sustainable earnings growth and better cash flows. We project the group's free cash flows to turn positive in FY21, and thus assume a 2sen dividend per share, representing a 22% payout ratio.

Forecasts

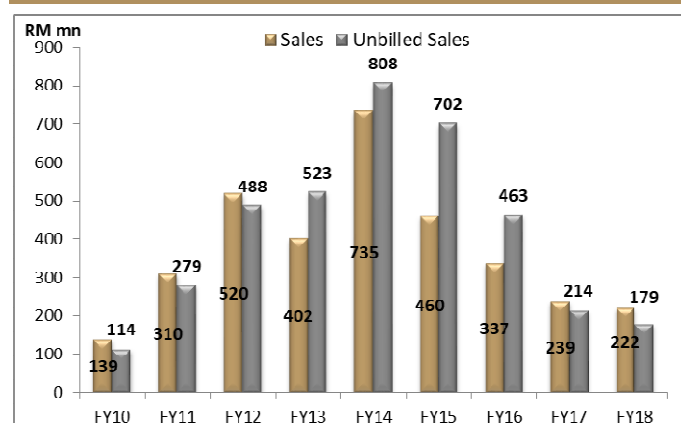
We cut our FY19 & FY20 earnings by 7% and 13% respectively as we incorporate: 1) the actual FY18 results, and 2) slower progress billing assumptions to reflect the timing of the new launches. Supported by improving property sales, we introduce our FY21 earnings forecasts of RM32.7mn, which implies a 56% YoY growth. Our FY19/20/21 sales assumptions are RM301mn/RM411mn/RM527mn respectively.

Valuation

As we roll forward our valuation base year to CY19, we arrive at a new target price of RM0.49/share (previous RM0.58/share). Our TP is based on target average blended PE/PB of 6x/0.4x against our revised CY19 EPS and BPS of RM0.05 and RM1.67 respectively. We believe the steep discount attached to Hua Yang is justifiable given its relatively small market capitalisation and high gearing level vis-à-vis its small cap peers. Note that our target blended PE/PB for small cap developers under our coverage is 8x/0.7x.

Share price has retreated 26% since the release of the 3QFY18 results. Looking beyond the weak FY18 results, Hua Yang should be able to deliver better earnings in FY19-21, premised on a pickup in sales. Consistently delivered annual sales of ~RM200mn during the challenging FY17 & FY18, we believe Hua Yang is slowly cruising out of the rough waters. With a potential upside of 8.6%, we upgrade Hua Yang to **Hold** from **Sell** previously.

Figure 1 : Historical Sales And Unbilled Sales



Source: Hua Yang, TA Securities

Figure 2 : FY19 Planned Launches

| Projects | GDV (RM mn) | Target Launch Date |
|---|-------------|--------------------|
| Johor | | |
| Taman Pulai Hijauan | 36 | 2HFY19 |
| - Double Storey terrace houses & shops | | |
| Elemence @ Taman Denai Alam | 46 | 2HFY19 |
| - Double storey clusters & shop offices | | |
| Perak | | |
| Bandar Universiti Seri Iskandar | 56 | 2QFY19 |
| - Double & single storey terrace houses | | |
| Penang | | |
| Bukit Mertajam | 146 | 2HFY19 |
| - Serviced apartments with retail units | | |
| Total | 284 | |

Source: Hua Yang, TA Securities

Earnings Summary

Profit & Loss (RMm)

| YE Mar 31 | 2017 | 2018 | 2019f | 2020F | 2021F |
|---------------------|--------|--------|--------|--------|--------|
| Revenue | 385.4 | 230.7 | 178.5 | 273.3 | 395.0 |
| EBITDA | 83.6 | 23.2 | 32.4 | 46.6 | 66.7 |
| Dep. & amortisation | (1.5) | (1.8) | (3.4) | (4.8) | (5.8) |
| Net finance cost | (1.6) | (11.1) | (16.3) | (16.2) | (19.6) |
| Share of associates | 0.0 | 1.3 | 3.3 | 4.5 | 5.4 |
| PBT | 80.6 | 11.6 | 16.0 | 30.1 | 46.8 |
| Taxation | (19.7) | (7.2) | (4.8) | (9.0) | (14.0) |
| MI | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 60.9 | 4.4 | 11.2 | 21.1 | 32.7 |
| Core net profit | 60.9 | 4.4 | 11.2 | 21.1 | 32.7 |
| Reported EPS (sen) | 17.3 | 1.3 | 3.2 | 6.0 | 9.3 |
| Core EPS (sen) | 17.3 | 1.3 | 3.2 | 6.0 | 9.3 |
| PER (x) | 2.6 | 36.0 | 14.2 | 7.5 | 4.8 |
| GDPS (sen) | 4.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| Div Yield (%) | 8.9 | 0.0 | 0.0 | 0.0 | 4.4 |

Cash Flow (RMm)

| YE Mar 31 | 2017 | 2018 | 2019f | 2020F | 2021F |
|------------------------------|----------------|----------------|---------------|---------------|---------------|
| PBT | 80.6 | 11.6 | 16.0 | 30.1 | 46.8 |
| Adjustments | 188.6 | 34.1 | (4.8) | (9.0) | (14.0) |
| Dep. & amortisation | 1.5 | 1.8 | 3.4 | 4.8 | 5.8 |
| Changes in WC | (106.0) | (33.9) | 22.1 | 28.0 | 37.5 |
| Operational cash flow | 164.7 | 13.6 | 36.7 | 53.8 | 76.1 |
| Capex | (66.0) | (54.0) | (60.0) | (60.0) | (60.0) |
| Others | (119.7) | (133.2) | (10.0) | (10.0) | (10.0) |
| Investment cash flow | (185.8) | (187.2) | (70.0) | (70.0) | (70.0) |
| Debt raised/(repaid) | 53.5 | 147.6 | 40.0 | 10.0 | 10.0 |
| Equity raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend | (13.2) | 0.0 | 0.0 | 0.0 | (7.0) |
| Others | (17.7) | (18.2) | 0.0 | 0.0 | 0.0 |
| Financial cash flow | 22.6 | 129.4 | 40.0 | 10.0 | 3.0 |
| Net cash flow | 1.6 | (44.2) | 6.7 | (6.2) | 9.0 |

Assumptions

| YE Mar 31 | 2017 | 2018 | 2019f | 2020F | 2021F |
|----------------------------------|-------|-------|-------|-------|-------|
| New Sales (RM mn) | 238.5 | 221.8 | 301.1 | 411.4 | 527.2 |
| Property Development Margins (%) | 25.0 | 14.6 | 16.3 | 15.3 | 15.4 |

Balance Sheet (RMm)

| YE Mar 31 | 2017 | 2018 | 2019f | 2020F | 2021F |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets | 460.9 | 514.3 | 580.9 | 646.2 | 710.4 |
| Others | 108.2 | 232.9 | 232.9 | 232.9 | 232.9 |
| Total | 569.1 | 747.2 | 813.8 | 879.1 | 943.3 |
| Cash | 44.6 | 16.3 | 23.0 | 16.8 | 25.8 |
| Others | 436.6 | 440.2 | 388.2 | 414.5 | 446.6 |
| CA | 481.2 | 456.5 | 411.2 | 431.3 | 472.4 |
| Total assets | 1,050.3 | 1,203.7 | 1,225.0 | 1,310.4 | 1,415.7 |
| ST debt | 86.9 | 211.7 | 216.7 | 219.2 | 221.7 |
| Other liabilities | 143.3 | 133.5 | 103.6 | 157.9 | 227.5 |
| CL | 230.3 | 345.2 | 320.3 | 377.1 | 449.2 |
| Shareholders' funds | 595.4 | 590.2 | 601.4 | 622.4 | 648.1 |
| LT borrowings | 191.5 | 230.1 | 265.1 | 272.6 | 280.1 |
| LT liabilities | 33.2 | 38.2 | 38.2 | 38.2 | 38.2 |
| Total long term Liabilities | 224.7 | 268.3 | 303.3 | 310.8 | 318.3 |
| Total Equity and Liabilities | 1,050.3 | 1,203.7 | 1,225.0 | 1,310.4 | 1,415.7 |

Ratio

| YE Mar 31 | 2017 | 2018 | 2019f | 2020F | 2021F |
|--------------------------------|--------|--------|--------|-------|-------|
| Profitability ratios | | | | | |
| ROE (%) | 10.7 | 0.7 | 1.9 | 3.4 | 5.2 |
| ROA (%) | 6.1 | 0.4 | 0.9 | 1.7 | 2.4 |
| EBITDA Margins (%) | 21.7 | 10.0 | 18.2 | 17.0 | 16.9 |
| PBT Margins (%) | 20.9 | 5.0 | 9.0 | 11.0 | 11.8 |
| Liquidity ratios | | | | | |
| Current ratio (x) | 2.1 | 1.3 | 1.3 | 1.1 | 1.1 |
| Quick ratio (x) | 1.9 | 1.3 | 1.2 | 1.1 | 1.0 |
| Leverage ratios | | | | | |
| Total liabilities / equity (x) | 0.8 | 1.0 | 1.0 | 1.1 | 1.2 |
| Net debt / Equity (x) | 0.4 | 0.7 | 0.8 | 0.8 | 0.7 |
| Growth ratios | | | | | |
| Revenue (%) | (33.1) | (40.1) | (22.6) | 53.1 | 44.5 |
| Pretax Profit (%) | (44.3) | (85.6) | 38.0 | 88.2 | 55.5 |
| Core net earnings (%) | (44.7) | (92.8) | 154.1 | 88.2 | 55.5 |
| Total assets (%) | 10.3 | 14.6 | 1.8 | 7.0 | 8.0 |

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Thursday, May 24, 2018, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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