TA SECURITIES
A MEMBER OF THE TA GROUP
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COMPANY UPDATE
Friday, 23 May, 2014
FBMKLCI: 1,875.12
Sector: Property

Hua Yang Berhad

A Bounce Play Not to Be Missed

TP: RM3.05 *(+63.1%)*
Last traded: RM1.87
BUY

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Briefing Takeaways:
Hua Yang held an analyst briefing following the release of its FY14 results. The main takeaways are:

1) **4QFY14 quarterly earnings of RM37.4mn will likely be a trend.** Management indicated the strong 4QFY14 earnings were due to the construction progress of One South project, which was at full swing. According to management, the construction progress in 4QFY14 was not affected by seasonality factors as construction workers continued working during the Chinese New Year Period. The company has completed the Parc serviced apartments (Phase 2 of One South) and handed over the project in Feb-14. This was 3-months ahead of the project delivery deadline.

Looking forward, the group is expected to complete the Gardenz series of serviced apartments (Phase 3 of One South) in Aug-14. Importantly, Also, we understand that the rainy season these days has little impact on the construction progress as the superstructure works have almost been completed. In view of this, we believe the strong RM198mn revenue and RM37.4mn profit are likely to repeat in 1QFY15. Note that our full year revenue of RM198mn represents 25% of the group's current unbilled sales of RM808mn.

2) **RM1.1bn worth of launches for FY15 and sales target of at least RM500mn.** To ensure its earnings sustainability, Hua Yang has lined-up RM1.1bn worth of new launches for FY15 – see **Table 1**. Management is confident to achieve new sales of at least RM500mn in FY15. We believe this is a reasonable target as the company would likely spend more time on project execution this year. However, for 2016, we believe sales would be explosive as the Puchong West project is targeted for launched in 1QFY15 (see Table 1). We expect this new project to garner strong buying interest as the property will be priced at the affordable range from below RM500k/unit onwards.

3) **More news flows on landbanking in FY15.** Management expects to conclude a few land deals this year to replenish its landbank. On the land banking strategy, management reiterated that the Klang Valley, Johor and Penang (mainland) will remain as the key regions to be focusing on.

Although management believes that this is still a "seller market" in terms of land transactions, landowners have started to give way in negotiating for land sales. Note that the land cost is sensitive to Hua Yang's profit margins as the company is mainly building affordable housing. As such, management reassures that the company will not be chasing for land for the sake of landbank replenishment.

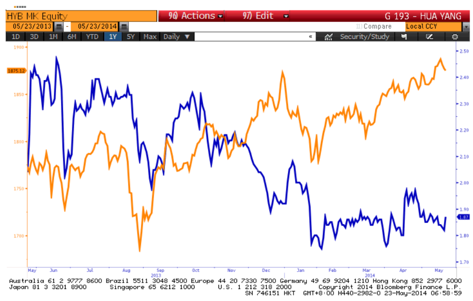
Share Information	
Bloomberg Code	HYB MK
Stock Name	HUAYANG
Stock Code	5062
Listing	Main Market
Share Cap (mn)	264.0
Market Cap (RMmn)	493.7
Par Value	1.00
52-wk Hi/Lo (RM)	2.51/1.74
12-mth Avg Daily Vol ('000 shrs)	613.0
Estimated Free Float (%)	60.0
Beta	1.4
Major Shareholders (%)	
	Heng Holdings - 30.8
	Cham Poh Meng - 6.5

Forecast Revision	FY15	FY16
Forecast Revision (%)	19.4	13.7
Net profit (RMm)	108.3	117.4
Consensus	101.2	106.5
TA's / Consensus (%)	107.0	110.3
Previous Rating	Hold (Upgraded)	

Financial Indicators	FY15	FY16
Net Debt / Equity (%)	38.2	24.1
FCFPS (sen)	27.5	31.2
Price / CFPS (x)	6.8	6.0
ROE (%)	25.5	23.4
ROA (%)	12.8	13.1
NTA/Share (RM)	1.7	2.0
Price/NTA (x)	1.1	0.9

Share Performance (%)		
Price Change	HUAYANG	FBM KLCI
1 mth	(3.1)	0.4
3 mth	0.5	2.4
6 mth	(12.6)	4.5
12 mth	(8.3)	5.8

(12mths)**Share Price** relative to the **FBM KLCI**



Source: Bloomberg

4) Continues focusing on affordable housing segment. Management shared its view that GST implementation in Apr-2015 and the upcoming interest rates hikes are not the key determining factors affecting those first-time home buyers. For this specific customer group, the purchase decisions always hinge on project locations as the property are usually for own-stay purpose instead of investment purpose. As such, management believes that the GST impact is manageable on affordable housing development.

Table 1: FY15 New Property Launches

Projects	GDV (RM mn)	Target Launch Date
Klang Valley		
One South - Phase 6 - SoHo & Serviced Apartment	185	3Q4Q CY14
Puchong West - Office Suites & Shops	300	1Q CY15
Johor		
Taman Pulai Hijauan - Residential township	127	2Q3Q CY14
Taman Pulai Indah - Residential township	26	4Q CY14
The Gardens - Semi-detached	64	2Q CY14
Citiwoods - Serviced apartments	216	2Q CY14
Perak		
Bandar Universiti Seri Iskandar - Residential township	130	2Q3Q CY14
Greenview Residence - Double-storey Terrace Houses	11	2Q CY14
Negeri Sembilan		
Senawang Link	26	2Q CY14
Total	1085	

Source: Company, TA Research

Turning Bullish on Hua Yang

We are positive on the future earnings prospect and expect the company to deliver a solid earnings growth for FY15. Recall, management expressed its confidence in achieving double-digit earnings growth in FY14 despite weak earnings in 1Q-2QFY14, which fell short of guidance (1HFY14 only accounted for 39% of reported FY14 net profits). Finally, the company has managed to achieve 17% earnings growth in FY14 and beat analyst's expectations. This has provided a strong credibility to the management team, we believe. Also, the management has strong commitment to increase the return for shareholders via its generous dividend payout of 30%, which work out to a yield of 7%.

We continue to like Hua Yang's strategy to focus on the affordable housing segment and targeting first-time buyers. This strategy has yielded resilient sales growth as affordable housing segment is less vulnerable to policy risks, which is evidenced by the encouraging responses at the three new projects launched in Nov-13 – see **Table 2**. Specifically, the affordable serviced apartments with ASP/unit ranging between RM380k-600k at Greenz and Metia

Residence were fully-booked within a month. Notwithstanding the new cooling measures, the healthy sales numbers were clear signs that the demand for buying affordable homes in the urban areas was still very strong. Going into FY15, we expect serviced apartments and SoHo that will be priced below the RM500k/unit mark within Puchong West (GDV: RM300mn) and Citiwoods @ Johor Bahru (GDV: RM216mn) to be the key contributors sales.

Table 2: Sales Performance of Key Projects as at Dec-13

Project	GDV (RM mn)	Take Up (%)	Unit Size (sq ft)	Unit Price from (RM'000)	ASP psf (RM)	Remark
Greenz @ One South	104	96	1,035 - 1,210	520.7	500	Fully Booked
Metia Residences	134	97	854 - 1,365	388.2	455	Fully Booked
Sentrio Suites	224	54	570 - 1,230	428.4	750	Only launched lvl 9 - 30

Source: Company, TA Research

Forecast

All in, we raise our FY15 and 16 earnings by 19% and 14% respectively after fine-tuning our progress billing assumptions.

Valuation

Hua Yang is trading at 4.3x CY15 PER. We think it deserves a higher multiple given its stellar earnings growth outlook and attractive dividends vis-à-vis its peers. The sale of affordable homes which is less vulnerable to policy risks also gives it significant competitive advantage. Hence, we now value the stock at 7x PER (from 5x) after removing our 2x multiple discount to our small-cap property sector target PER given its decent dividend yields and stronger earnings growth as compared to its peers – see **Table 3**. We upgrade Hua Yang to **Buy** from Hold. We believe the **capital upside of 63%** and **dividend yields of 7-8%** making it ideal to be our **top buy pick** for the property sector which not to be missed. The stock could be further re-rated by value accretive land acquisitions.

Table 3: Peers Comparison

	Price (RM)	Target Price (RM)	Market Cap (RM mn)	CY13-15 EPS CAGR (%)	FY15 Dividend Yield (%)	CY15 PER (x)
Hua Yang	1.87	3.05	493.7	21.7	7.0	4.3
Glomac	1.06	1.15	770.4	4.1	5.7	6.4
Crescendo	2.84	3.20	646.4	13.6	5.6	6.2
Sentoria	0.90	1.20	396.0	20.4	2.2	5.1

Source: Company, TA Research

Earnings Summary (RM mn)

FYEMar 31	FY13	FY14	FY15f	FY16f	FY17f
Revenue	408.7	509.9	668.4	724.5	787.2
EBITDA	96.5	114.1	150.4	162.3	174.4
EBITDA margin (%)	23.6	22.4	22.5	22.4	22.1
Pretax profit	95.3	112.4	144.4	156.6	168.7
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	7.8
PER (x) #	7.1	6.1	4.6	4.3	4.0
GDPS* (sen)	9.9	12.0	13.0	14.0	15.0
Div yield (%) #	5.2	6.3	6.8	7.4	7.9
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*

for TA SECURITIES HOLDINGS BERHAD(14948-M)

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