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Hua Yang comfortable with gearing

by Ng Wai Mun

HUA Yang Bhd, which recently snapped up several parcels of land totalling RM151 mil, has dismissed concerns its gearing is high amidst the gloomy property market outlook.

The property developer had announced in January the acquisition of two parcels in Bukit Mertajam, Penang, for RM31 mil. It is reportedly Hua Yang's maiden venture into the Penang mainland property market.

Shortly after, the company revealed it had entered into a conditional agreement with Nation Holdings Sdn Bhd to acquire 3.24ha of leasehold land in Selayang, Selangor for RM120 mil. It is also said to be setting its sight on Sabah.

Despite Hua Yang's enthusiasm for expansion, an analyst is concerned about its high gearing of about 0.5 times compared with other affordable housing players. In a recent report on Hua Yang, Inter Pacific Research highlighted the company's total debt to equity ratio of 64% against LBS Bina Group's 40%, Hunza Properties Bhd's 43% and Selangor Dredging Bhd's 79%.

However, Hua Yang tells ***FocusM*** its net gearing is at "a manageable level". "We are enjoying positive cash flows from our operations and are only raising our borrowings for land acquisitions," it elaborates.

Since Hua Yang is still in its growth phase as a property company, it explains that "having a healthy level of borrowings is an efficient deployment of our capital to sustain our growth trajectory".

It is confident sales from its project launches will fuel profit growth and improve operational cashflow. This will pare down borrowings in the medium term.

An analyst is neutral on the acquisitions. "It increases Hua Yang's gross development value only marginally. This may allay market's concerns in the short term but the apprehension remains whether affordable housing developers can continue to acquire new land parcels [aggressively]."

Hua Yang, which describes itself as a developer primarily focusing on affordable housing, previously stated it "can deliver gross profit margins in excess of 30% over the past years despite rising building material costs".

Given rising material costs and relatively slower rise in house prices, ***FocusM*** asked Hua Yang how it will counter the challenge to maintain margins. The company says with the recent fall in oil prices, there is less cost pressure on construction activities.

Its CEO Ho Wen Yan says: "Hua Yang has locked in prices of construction work and materials for projects that have been launched and also for ongoing [ones]. Hence, we do not foresee price fluctuation in terms of cost for our products."

Ho doesn't foresee price fluctuation in terms of cost for the company's products

With prices of construction work and materials locked in and unit pricing not expected to increase given the company is a developer of affordable housing, profit margin is expected to be maintained.

As prices are locked in, analysts say Hua Yang primarily focuses on improving sales of its various projects.

The main takeaway from Hua Yang's recent analysts' briefing, as reported by some research houses, is its performance for the rest of financial year ending March would be driven by unbilled sales and construction progress from ongoing development projects.

An investor, who is positive on Hua Yang, says the counter's price downside is buffered by high dividend yield, assuming dividend is sustained.

The investor says even if the payout is reduced to 10 sen, from 12 sen previously, the yield will still be a high of 5%.

However, another analyst is not convinced. "When gearing is high, the management might forgo high payout. It might not be a bad thing if dividend is withheld as it merely reflects a responsible management," he says.

In Hua Yang's case, hypothetically the company can preserve some RM30 mil cash if dividend is withheld for a year.

As highlighted by Inter Pacific Research, Hua Yang has a relatively high return on equity of almost 30%, compared with the returns of most developers which are lower, either in the low teens or single digit.

Inter Pacific Research says "generally, overall sentiments are against the property sector at this juncture".

"If the sector weathers the ongoing period of tight lending standards, Hua Yang may emerge as one of the favourite picks for the property sector."

The research house points out Hua Yang's 240.8ha of undeveloped land bank which have a potential gross development value of RM3.3 bil. FocusM