

Investing in affordable housing developers

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The segment is less cyclical and offers more sustainable growth

KUALA LUMPUR: While finding a decent home or any home under RM220,000 in the Klang Valley is a daunting task, it is much easier finding affordable property stocks listed on Bursa Malaysia.

For those who cannot afford a home, perhaps the next best thing may be to invest in a portfolio of stocks with good capital appreciation prospects — plus a decent yield to pay the rent.

Shares in affordable housing developers like YNH Property Bhd and Hua Yang Bhd are also surprisingly affordably priced, with single digit price-to-earnings ratios (PER) and low price-to-book ratios. Some of these stocks may appeal to investors looking for exposure to the affordable housing segment, which is less cyclical and offers more sustainable growth.

Among the two, YNH is better known among investors, although the once high-flying stock had in recent years fallen under the radar after the aborted sale of Menara YNH in Kuala Lumpur to Middle Eastern parties during the recent global credit crisis.

Listed in 2003, YNH started out as a plantation company in 1982 before venturing into property development in Perak in 1987 with projects in Sitiawan, Manjung and Lumut. The company's flagship project is Bandar Manjung Point, where it has about 400ha.

Over the past decade, YNH has aggressively expanded its reach into the Klang Valley, with several high-end projects in the Kuala Lumpur city centre and Mont'Kiara.

After lying under the radar, is the stock ripe for a re-rating? Hong Leong Investment Bank (HLIB) Research seems to think so. Yesterday, it initiated coverage on the stock with a "buy" rating and a target price of RM2.68 based on 40% discount to its revised net asset value (RNAV). The stock ended at RM1.93 yesterday, just above its net assets per share of RM1.86 as at Dec 31.

At current valuations, HLIB Research said YNH's shares are trading at single-digit forward PER of 6.5-10 times for FY11-13 and at a steep 57% discount to its sum-of-parts based RNAV estimate of RM4.47 per share.

The research house said YNH is on the verge of embarking on a multi-year phase of earnings growth, with a sizeable, low-cost and fully paid-for landbank. It noted YNH's property margins were significantly higher than industry peers, and the company paid consistent dividends.

Re-rating catalysts include about 400ha of landbank with exposure to numerous value enhancing developments in Seri Manjung, while its Klang Valley projects will benefit from the new MRT line, it added. HLIB Research expects earnings growth of 37%-51% for FY11-12, supported by RM1 billion in unbilled sales.

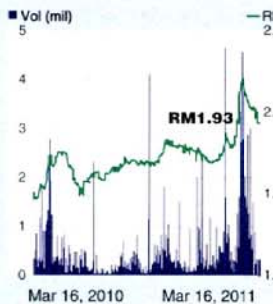
Meanwhile, market observers said Hua Yang, which is less covered by investors, also appeared undervalued. At RM1.04, the stock is valued at a considerable discount to its net assets per share of RM1.97 as at Dec 31. The company is trading at a PER of 4.4 times annualised earnings for FY11 ending March 31, based on earnings per share of 17.58 sen for the first nine months of the financial year.

An earlier report by TA Securi-

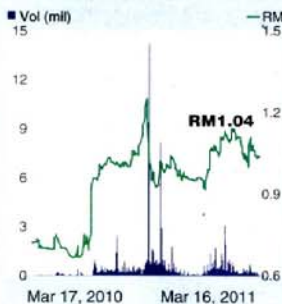


Ho Wen Yan, CEO of Hua Yang.

YNH Property Bhd



Hua Yang Bhd



ties said that Hua Yang's low PER is unjustifiable given its projected earnings growth rate of 59% to 87% over FY11 to FY13. It expects Hua Yang's NTA per share to increase from RM1.86 to RM2.63 from FY11 to FY13, which will put the stock at just under 0.4 times book by FY13.

For its third quarter ended Dec 31, the company registered a net profit of RM7.68 million, some 2.8 times higher than RM2.7 million a year earlier. For its total nine-month period, net profit doubled to RM16.9 million.

Listed on Bursa Malaysia in 2001, Hua Yang focuses on the affordable homes segment. The Perak-based developer has been in the property business for 32 years, with ongoing developments in Perak, the Klang Valley and Johor.

These projects include Bandar University Seri Iskandar in Perak, One South and Symphony Heights in the Klang Valley, Senawang Link in Seremban and Taman Pulau Indah in Johor. Hua Yang has two new projects in the pipeline — Taman Pulau Hijauan and Polo Park Land in Johor. Its current undeveloped landbank of about 252ha has a potential gross development value (GDV) of RM1.78 billion.

In a press briefing last month, Hua Yang's CEO Ho Wen Yan said the company planned to expand to Penang and east Malaysia, and was exploring the possibility of a rights issue to raise funds for the expansion.

Ho said initial sales of One South in Sungei Besi, with a GDV of RM750 million, was the main earnings driver for the latest quarter, and is expected to be one of the major revenue drivers going forward as the project is expected to be fully completed within five to seven years.