

BEST DISCOVERY



**TA Research analyst
Tan Kam Meng's coverage
of Hua Yang Bhd**

If Tan needed an extra reason to stay in equities research after seven years, recognition for having introduced niche developer Hua Yang Bhd to clients just before the stock began running might just do the trick.

The 36-year-old, who helped with



the family business and did two years of investment banking work before joining TA's equities research team seven years ago, initiated coverage of Hua Yang on March 4 this year as part of his usual coverage of the construction and real estate sector.

At the time, Hua Yang had a RM116 million market capitalisation with its shares going for 83 sen ex-bonus issue (RM1.08-cum-bonus). But having considered how the developer's sales and earnings had steadily increased in the four years since FY2008, Tan figured Hua Yang should be easily worth RM1.52

ex-bonus issue (RM2.03-cum-bonus) each.

By the end of the same month, Hua Yang shares were fetching RM1.20 apiece, also reportedly thanks to promotion by CIMB's retail research team in late March that the stock was worth RM2 apiece (RM2.76-cum-bonus). Whatever sparked the re-rating, those who followed Tan's recommendation would have seen their money grow 50% within weeks. Today, Hua Yang's market capitalisation stands at RM165 million.

When asked what prompted him to start covering Hua Yang actively, Tan said it was part of his job to look within his sectors for companies that show good earnings growth but for some reason are under-appreciated.

"Steady earnings growth over the past four years was reason enough to start coverage," Tan said, adding that confidence was also derived from the willingness of Hua Yang's top management — headed by CEO Ho Wen Yan, whose family controls 33% of the company; and its chairman Tan Sri Ting Chew Peh, former MCA secretary-

general — to be transparent on operations.

"Management had been very transparent about its plans, launches and sales. That is a positive point."

In a note dated Dec 5, 2011, Tan retained his fair value of RM1.56 based on four times FY2012 earnings and kept his "buy" call. "Contributions from its One South development [built on 16.65 acres of leasehold land along the Sungei Besi Highway in the Klang Valley, facing the Mines Lake and the Palace of The Golden Horses with a gross development value of RM750 million] are expected to be significant this year," Tan said, adding that its strong unbilled sales figures and order book provide two years of earnings visibility.

In a recent note, Tan said Hua Yang is expected to roll out RM2 billion worth of new launches over the next two years, focusing on properties priced between RM90,000 and RM400,000 each.

"We remain upbeat about the property industry and believe demand will tilt towards affordable homes in line with the government's aim to encourage and aid homeownership for first-time buyers," Tan said, adding that Hua Yang

would benefit from this trend.

When asked for advice for younger analysts, Tan said he reminds himself that it is important to constantly be aware of everything that could impact the companies and sectors he or she is responsible for.

Notable mention also goes to Chan Ken Yew, who started coverage of Hua Yang in September 2010 at MIMB Investment Bank (now part of Hong Leong Bank) but has since gone on to head Kenanga Research in Kuala Lumpur. At the time, Hua Yang's comparable stock price was about 75 sen apiece. Chan rightly foresaw that developers of affordable homes like Hua Yang would soon warrant greater attention. But our judges took into account the fact that there was a break in active coverage and while Chan introduced Hua Yang to clients at Kenanga, there is no official call on the stock. Therefore, TA's recommendation was selected, given that Tan had initiated coverage just ahead of Hua Yang's share price jump and because there had been continuous active coverage and guidance given to clients.