HUAYANG

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Hua Yang: Builder of Affordable Housing

Hua Yang Bhd's business model of building residential units within the means of city dwellers is expected to help it weather market and economic uncertainties.

MALAYSIA enjoys a sizeable young population, with 53.9% of it being below 35 years old.

Add to that its annual growth rate of approximately 2% and the migration of young people to the cities, and you get a thriving market for first-home buyers and family upgraders.

Thus, it is not surprising that the country's property market has remained resilient despite the challenges of late.

Kenanga Research says residential transactions are increasing across Malaysia, with the demand for residential units costing between RM250,000 and RM500,000 seeing stronger growth.

In fact, residential units transacted in this range remain in the top three, or 24%, of the total number transacted in the Klang Valley.

But which developer is really exploiting this segment? According to the research house, relatively low-profile Hua Yang Bhd is likely to benefit as it is building more units in this segment compared to most other developers.

BACKGROUND OF HUA YANG

Hua Yang is a national property developer of over 30 years standing, with subsidiaries

involved in investment holding, provision of management services, property development and building construction.

The group is helmed by its CEO, Ho Wen Yan, 37. Hua Yang was listed on the then main board on Nov 29, 2002.

The group's property development projects are in the Klang Valley, Perak and Johor. To date, it has completed over 10,000 residential, commercial and industrial projects, generating more than RM1.1 billion.

Kenanga Research says Hua Yang's Klang Valley developments are mainly affordable niche housing priced below RM600,000 per unit and targeted at first home owners. This is unlike many other developers, where affordable housing only makes up less than half of their gross development value (GDV).

Hence, Hua Yang's demand profile is seen as being extremely resilient against the typical property cycles.

CONTINUOUS RE-RATING

Hua Yang is apparently the only developer under Kenanga Research's coverage whose price-to-book and price-earnings valuations have been re-rated over the last 12 months.

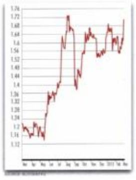
The research house attributes this to the company's defensive business model, which also strengthens its dividend payout abilities. It expects the re-rating momentum to continue for Hua Yang as long as affordable housing remains in "vogue".

Although many reputable developers have achieved record sales growth in 2012, their high exposure to projects priced beyond the affordable level of more than RM600,000 per unit has made investors apprehensive of their ability to sustain future sales and earnings growth given the general uncertainties afflicting the global/local scene.

Kenanga Research believes that Hua Yang's highly affordable housing exposure caps the downside risks for those looking for property investment now.

PRICECHART

HUA YANG'S SHARE PRICE PERFORMANCE



HUA YANG'S HISTORICAL AND FORWARD EARNINGS FORECASTS

FYE Mar (RM m)	2012A	2013E	2014E
Turnover	306	427	533
EBIT	75	99	121
PBT	74	97	119
Net Profit (NP)	54	72	89
Consensus (NP)	-	64.55	83.35
Earnings Revision	-	-	-
Core EPS (sen)	27.4	36.4	44.8
Core EPS growth (%)	106	33	23
BV/share (RM)	1.34	1.90	2.25
NDPS (sen)	9.0	10.9	13.4
NTA/Share (RM)	1.20	1.78	2.13
Core PER (x)	5.7	4.3	3.5
Price/NTA (x)	1.3	0.9	0.7
Gearing (x)	0.3	0.4	0.2
Dividend Yield (%)	5.7	7.0	8.6

DECENT DIVIDEND YIELDS

Could a developer make good profits from affordable housing units? Hua Yang makes a gross profit margin of around 34% on its launches. It has also consistently distributed dividends in the past five years, with an average net payout ratio of 24%. Over the last three years, the group has been paying out 18%-34% of its net profit.

Kenanga Research says Hua Yang's management is comfortable with a 25% payout per annum, which translates into a financial year (FY) 2013-15E net dividend per share of 10.9 sen, 11.2 sen and 13.3 sen, implying net dividend yields of a strong 7%-8.6% based on 30% (FY13E) and 25% (FY14-15E) net payouts respectively.

This, the research house says, is more attractive than the bigger sized developers' yields of 0.7%-6.6% and the small to mid-cap developers' yields of 1%-7.4%.

STABLE SALES GROWTH

Kenanga Research says Hua Yang's ability to show strong growth is also due to its "low base effect".

For example, developers recording more than RM2 billion in sales may have difficulty achieving a high sales growth rate given the higher base number, apart from the fact that they have lower exposure to the affordable segment. In contrast, Hua Yang is only making around RM300mil-RM400mil in sales now.

Hua Yang is also in the midst of acquiring its next flagship project in Puchong, with a GDV of RM1.5bil, which will be launched in FY15. It is similar to its One South integrated project, where the pricing per unit will start from only RM350,000.

Meanwhile, its FY14 new growth drivers are seen coming from its Desa Pandan and Shah Alam projects, which have a combined GDV of RM363bil and would be

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HUA YANG'S EARNINGS TREND OVER THE YEARS

mostly priced at RM350,000-RM600,000 per unit.

Kenanga Research estimates new launches of RM833mil-RM933mil for Hua Yang for FY14-15, with an average take-up rate of 48%-54%.

Hua Yang's current unbilled sale of RM506mil also provides a one-year visibility to group earnings. Kenanga Research is estimating FY14 and FY15 earnings of RM89mil (+23% year-on-year) and RM106mil (+19% y-o-y) respectively for Hua Yang.

CONCLUSION

Kenanga Research is assigning a target price (TP) of RM2.10 for Hua Yang, implying a 44% total return potential from its current share price of around RM1.55.

Its TP is at a 40% discount to its revalued net asset value (RNAV) calculated for the stock of RM3.52, which is higher than its average applied discount of 32%, due to the stock's smaller market capitalisation and tighter liquidity.

On top of the TP upside is its attractive yields of 7%-8.6%, which could be of comfort to investors in times of uncertain markets.