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Analysts say Hua Yang undervalued

PETALING JAYA: Even though its shares have surged 80% year-to-date, developer of affordable homes Hua Yang Bhd remains a favourite of analysts due to its perceived undervaluation.

The stock whipsawed between an intraday high of RM3.07 on May 20, two days before the release of its fourth quarter 2013 financial results, to RM2.72 last Thursday.

But it rebounded strongly yesterday, closing 19 sen higher to RM2.91 with 1.42 million shares traded, giving it a market capitalisation of RM576.2mil.

TA Securities urged investors to "think twice" before taking profit on Hua Yang, citing its potential double-digit earnings growth, new landbanking activities and undervaluation relative to other small to mid-cap property firms.

Kenanga Research flagged Hua Yang's exposure to Johor and the resilient affordable homes sector as catalysts, adding that the company's fiscal 2014 is poised for 52% and 26% growth in sales and earnings, respectively, backed by a record-high launch target of RM1bil and unbilled sales of RM523mil.

"We also like its ability to source landbank at competitive costs and maintain its pricing strategy within the affordable range while preserving decent gross margins of 35%.

"Coupled with a decent dividend yield of 4.9%, we reiterate our outperform call on Hua Yang with a target price of RM3.52," it said.

Hua Yang's net profit and revenue improved to RM17mil and RM102.4mil in the three months to March, up 30.8% and 21.5%, respectively, over the same period in 2012.

For the year ended March 31, it posted a 33% rise in both net profit and revenue to RM70.5mil and RM408.7mil, underpinned by its flagship and on-going projects like One South, Taman Pulau Indah in Johor and Bandar Universiti Seri Iskandar in Perak.

Its gross profit margin increased to 37% while net profit margin dropped slightly on the back of a one-off RM20mil consulting fee incurred for the en-bloc sale of a retail block in One South. Its sales moderated to RM401.5mil versus RM519.7mil in the year prior because it held back new launches before the elections.

The company is expected to register better sales of RM613mil and RM754mil during fiscal 2014 to 2015, according to Kenanga Research.

Hua Yang is also said to be eyeing pocket

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— KENANGA RESEARCH

landbank in Klang Valley and is in the midst of finalising a deal. "Its strategy is to focus on high density, which allows more flexibility in pricing housing units below RM500,000 per unit within populated areas. Hua Yang is currently well-positioned to embark on more acquisitions as its net gearing is at a low level of 0.26 times, meaning it has the capacity to borrow up to RM125mil based on its comfortable net gearing of 0.6 times.

"If so, the group can replenish up to RM1.2bil worth of new GDV, assuming similar parameters to its recent Puchong land acquisition where land cost made up some 10% of GDV. This provides the company decent room for growth as management intends to replenish about RM600mil in new GDV per annum to ensure healthy earnings growth of 20% year-on-year," Kenanga Research explained.

TA Securities believes Hua Yang is on track to achieve its internal target of RM800mil revenue by 2018. The developer has RM3.7bil in outstanding GDV to last for eight years.

TA Securities also raised its earnings forecast for Hua Yang's fiscal 2014-2016 by between 1.2% and 9.4% and target price to RM3.96, calling it the research house's top pick in the property sector.

"All in, we believe Hua Yang share price is undervalued on two counts. First, the forward price-earnings ratio of 5.7 times and 4.5 times based on respective fiscal 2014 and 2015 earnings are unjustifiable against the strong earnings growth of 27%-34% over the next two years. Second, the compelling net dividend yield of 5.3% to 5.9% based on a payout ratio of 26% to 30% suggests further upside to the current share price and the reward to shareholders could be decent as compared with other property stocks," TA Securities said.