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Hua Yang Bhd
(Jan 28, RM1.79)

Maintain hold at RM1.77 with a revised target price of RM1.93 from RM2.15 previously: Hua Yang's sales for the third quarter ended Dec 31 of financial year 2014 (3QFY14) hit a record level of RM382.4 million, propelled by resilient demand for affordable homes. The strong 3Q sales brought Hua Yang's nine-month (9M) new sales to RM580.1 million, surpassing FY13's new sales and also the previous high in FY12. The significant jump in new sales was attributed to new projects launched in this quarter — Sentrio Suites, Metia Residences and Greenz which collectively contributed about 50% of total year-to-date sales.

The three new projects launched in November last year received encouraging responses. Specifically, the affordable serviced apartments with average selling prices per unit ranging between RM380,000 and RM600,000 at Greenz and Metia Residences were fully booked within a month. Notwithstanding the new cooling measures, the healthy sales numbers were a clear sign that the demand for affordable homes in urban areas was still strong.

In view of the strong 9MFY14 new sales, we believe the group is tracking ahead of its internal sales target of RM600 million for FY14. New sales for 4Q are expected to come from bookings conversion at Greenz and Metia Residences (bookings worth RM50 million). Note that these two projects do not offer the developer interest bearing scheme (DIBS), hence the prohibition of DIBS will not result in cancellations of bookings.

Besides, we expect both existing and new projects to contribute to 4Q new sales. The group plans to offer two new township projects in 4Q, targeting the more demand-resilient landed property segment. Semi-detacheds at The Gardens @ Polo Park Johor Baru (gross development value [GDV]: RM54 million) as well as double-storey terraced houses at Anjung Bercham Permai, Perak (GDV: RM10 million) are likely to come onto the market in 1Q calendar year 2014 (CY14).

Despite a 19.3% year-on-year decline in 9MFY14 net profit, management said the group strives to achieve steady profit growth in FY14, driven by its record unbilled sales of RM838 million. Management also commits to closely ensure that the contractors are fulfilling progress delivery.

Nevertheless, we came away from Hua Yang's analyst briefing feeling profit growth is likely to be flattish at best as the broader construction sector is now experiencing a labour shortage. As such, we believe the group may face the challenge of speeding up the pace of construction significantly.

We expect the group to post net profit of about RM25 million in 4QFY14, representing a strong 25% and 44% q-o-q and y-o-y growth respectively, driven by: (i) maiden contribution from three new projects — Greenz, Metia Residences and Sentrio Suites; and (ii) increasing billings from of Parc and Gardenz @ One South which will be handed over to buyers in February and October this year.

Over the next six months, management will be focusing on project execution and handling over of completed Parc & Gardenz @ One South units to buyers. The group's next flagship project at Puchong (GDV: RM1.5 billion) will likely be marketed in 4QCY14. Hence, we believe that FY15's sales trend could be a replica of FY14's, implying an uninspiring sales performance in 1H and better sales prospects in 2H.

As far as the implementation of the Goods and Services Tax (GST) in 2015 is concerned, management intends to tender out its FY15 and FY16 construction orders on "net basis", which means Hua Yang will lock in the contract amount up front, with future cost escalation borne by the contractor. At this juncture, management is unable to estimate the GST impact on property selling prices, as it is still waiting for the full list of GST exempt products and services from authority in order to access the impact on construction costs. Therefore, we hold the view that developers may need to partially absorb the increasing raw material and construction costs due to the timing effect, which will lead to margin contractions.

All in, we trim our FY14 earnings forecasts by 0.4%, FY15 by 11% and FY16 by 8% after factoring in: (i) new sales assumptions of RM630 million for FY14, RM620 million for FY15 and RM690 million for FY16 (from RM600 million, RM602 million and RM621 million previously); (ii) change in progress billing assumptions as new launches for FY14 and FY15 are expected in 2H; (iii) lower earnings before interest and tax margin assumptions of 19.3 to 20.1% (from 20.8% to 21.5% previously).

We maintain our "hold" recommendation on Hua Yang with a revised target price of RM1.93 per share from RM2.15 previously, in tandem with our earnings revisions. Our target price implies a CY14 price-earnings ratio of six times, slightly lower than the one standard deviation above the three-year mean at 6.4 times. —*TA Research, Jan 28*

Hua Yang Bhd

FYE Mar (RM mil)	2012	2013	2014F	2015F	2016F
Revenue	306.4	408.7	474.8	625.3	731.3
Ebitda	74.2	96.1	95.8	125.5	142.2
Ebitda margin (%)	24.2	23.5	20.2	20.1	19.4
Pre-tax profit	72.5	95.3	92.8	121.8	138.6
Net profit	53.0	70.5	69.2	90.7	03.2
Core net profit	53.0	70.5	69.2	90.7	103.2
EPS* (sen)	22.1	26.7	26.2	34.4	39.1
EPS growth (%)	92.1	21.0	(1.9)	31.2	13.8
PER (x) #	8.0	6.6	6.8	5.2	4.5
GDPS* (sen)	9.0	9.9	10.0	11.0	12.0
Div yield (%) #	5.1	5.6	5.6	6.2	6.8
Core ROE (%)	21.8	23.5	19.1	21.3	20.4

*Adjusted for the 1:5 bonus issue completed in FY11, 1:3 bonus issue completed in FY12, 1:4 bonus issue completed in FY13 & 1:3 bonus issue completed in FY14

Source: Company, TA Research