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Property developer picks Penang as one of its top choices

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AN abrupt announcement to abort a planned land purchase earlier this week has failed to dent sentiment on Hua Yang Bhd.

The property developer's shares have held up well at a strong trading range of RM1.80 to RM1.88 despite the aborted land deal to acquire two parcels of freehold land in Bukit Mertajam, Penang measuring 3.14 acres.

The terminated land purchase was the second in recent months and the company said in an earlier press release that it would disrupt the strategic development plan the company had for the land.

In June 2015, Hua Yang also terminated its planned acquisition of 8.09 cares leasehold land in Selayang.

In both cases, the termination was initiated due to the vendor's inability to fulfil conditions that were precedent to the sale and purchase agreement.

In a reply to *StarBizWeek*, Hua Yang's chief executive officer Ho Wen Yan (*pic*) says that despite the minor setback, the company continues to be actively on the lookout for landbanking opportunities.

"Our current landbank stands at 468 acres with an estimated gross development value (GDV) of RM3.36bil. Any potential acquisitions must meet the criteria set by the company and must be able to deliver tangible value to our shareholders in a long-term and sustainable manner," Ho says.

In a recent meeting with analysts, the company's management indicated that it was close to securing more landbanking deals in the near-term and indicated that Penang mainland is one of its preferred choices, Kenanga Research says.

"We reckon that the upcoming GDV replenishment would easily be in the range of around RM500mil, as it is its priority to replenish at least RM800mil worth of GDV in the near to mid-term replacing its cancelled Selayang land deal," Kenanga says in a report on Oct 23.

The research house notes that Hua Yang had replenished at least RM494mil worth of GDV in the first half of financial year 2016 (FY16 ending March).

"We are still expecting its net gearing to stay at 0.6 times levels in FY16, as Hua Yang looks to secure another landbank of similar size with the Selayang land," it says.

According to estimates by Kenanga, most of Hua Yang's remaining landbank was in Puchong West, Selangor and Bandar Universiti Seri Iskandar, Perak with remaining GDVs of RM1.35bil and RM850.5mil respectively.

When asked if there may be a need for the company to raise funds for future expansion plans, Ho says that its capital structure gives it enough headroom any of such plans.

"Our balance sheet remains healthy, providing us with the financial resources to sustain our development activities and further expand our landbank portfolio. At this juncture, we do not intend to raise any funds," he says.

The company also says it has the option to draw down its RM250mil Sukuk Murabahah Programme should the need arise in the future for potential land acquisitions.

Kenanga Research's property analyst Adrian Ng says that Hua Yang's landbank inventory can easily last it for up to eight more years based on its developmental plans.

"That period (of time) will not be a problem for them. But they are continuing to replenish their landbank and do not usually rush into landbank deals," Ng says.

Sentiment in the stock had held up well in the past three weeks or so and this is likely due to the company being well-positioned and operating in the affordable property segment, analysts say.

Hua Yang would be able to gain from a relatively higher demand of its products following the slump in sales in the broader market due to present economic circumstances.

Commenting on this matter, Ho says that he expects demand for affordable homes in key urban centres to remain strong and this will augur well for the company.

"Moving forward, our goal is to consistently deliver RM500mil in new sales and our proven competencies in this segment will enable us to create sustainable value for both our shareholders and stakeholders at large," he says.

However, he also cautioned that the operating landscape for the property industry in the immediate term would remain challenging and that managing costs effectively would be one of its focus areas.

Hua Yang is one of the cheapest property developer stocks on the Bursa Malaysia.

With a market capitalisation of less than RM500mil, it is also one of the smaller players in the property scene in the country compared with its peers.

The company was trading at level of 4.12 times financial year 2015 (FY15 ended March) earnings against a forward level of 4.25 times far below its peers' mean valuations of 11.5 times, excluding Eco World Development Group Bhd.

At current prices, the company is trading at gross yields of 7.1% and had seen growth in yields of 63% on average over the past five years.

"Hua Yang is a stable stock with a decent yield but there is not much liquidity. However, catalysts to the stock will depend very much on how the wider property sector can revive. The company also has bottom line growth, but it is a smallish sort of growth," Ng says.