Publication : **The Borneo Post (Sarawak)**
Date : 23 January 2016
Section : Business / Bizbytes
Page : 10
Headline : Challenging outlook for Hua Yang as property sector remains difficult

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KUCHING: Hua Yang Bhd (Hua Yang) has slashed its FY16 sales target to RM400 million, representing a 20 per cent cut from its earlier guidance of RM500 million due to a more cautious market outlook.

The revision was largely on the back of the company's decision to scale down planned launches to RM281 million from RM648 million previously. Specifically, it has deferred the official launch of Astetica Residence to FY17 which Ta Securities Holdings Bhd's research division (Ta Research) analyst think is a prudent approach to slow down the group's new launches during this challenging period.

The group raked in RM255.4 million new sales in 9MFY16, which accounted for 64 per cent of its revised sales target.

According to the company, 9MFY16 sales was largely driven by the sale of existing projects, as it has only launched RM132 million worth of new properties in the period under review. In 4QFY16, the group will launch the second block of Citywoods Serviced Apartments in Johor and Ridgewood, Perak.

"Nevertheless, we conservatively forecast the group to achieve only RM360 million new sales in FY16," opined the research house.

The company aims to deliver modest earnings growth in FY16, underpinned by unbilled sales of RM530.5 million as at December 2015. In terms of breakdown, the bulk of the unbilled sales of approximately RM350.2 million comes from Sentrio Suite, Metia Residence and One South.

This suggests that the group's unbilled sales will deplete fast going into FY18, should it fail to generate sufficient new sales in the coming quarters.

Ta Research also highlighted that the company mentioned that the current down cycle in the property sector has not bottomed, and the current lull could last for another six months.

"High-rise projects appear to have been worst hit by the banks tight lending practices, whilst sales for landed residential products remain relatively steady. This is also evidenced from Hua Yang's recent high rise launches that only garnered 40-60 per cent take up as compared to the landed homes' 70-80 per cent," explained Ta Research.

"In addition, macro headwinds such as weakening commodities prices and Ringgit devaluation will continue to dampen consumers' sentiment. In this environment, developers will likely scale down or hold back on new launches to weather the challenging condition. Looking forward, the absence or limited supply of new homes for a prolonged period will eventually result in a shortage."

As such, the company expects the market to recover gradually from 2HCY16 onwards, underpinned by Malaysia's relatively young population, growing number of households with reducing average household size, and urban migration.

Meanwhile, the company sees ample land banking opportunities as landowners appear to be more open to negotiations. the company also finds that strategic lands are now made available at a more reasonable pricing.

The group expects to conclude one or more land deals in FY17, despite already purchasing several parcels of land in FY16 with GDV replenishment worth RM837 million. In terms of funding, the group's RM250 million Sukuk Murabahah will come in handy should good land deals arise.

"Although Hua Yang has replenished GDV worth RM1.2 billion over the past two years, we do not expect the new lands to lift earnings immediately."