

Publication : **The Edge**
Date : 28 November 2016
Section : Corporate
Page : 28
Headline : Hua Yang feels the heat as affordable housing peers keep pace
PR Value : 65,230.23

Hua Yang feels the heat as affordable housing peers keep pace

BY CHUA SUE-ANN

Hua Yang Bhd, once the darling of investors betting on strong demand for affordable properties, has seen its share price come under significant pressure in recent times.

Like other affordable property counters, Hua Yang had a decent run for most of the year, hitting a year high of RM1.41 on Aug 26 and Sept 28.

But as at last Friday, when it closed at RM1.10, the counter had fallen 22% or 31 sen from its recent peak.

Year to date, the company's value has dropped almost 20% and it is trading at a price-earnings ratio of seven times and half its net asset value of RM2.21 seen on Sept 30.

It is noteworthy that the last time Hua Yang dropped below RM1.10 was over four years ago in May 2013. Its share price soared in the best of times, reaching an all-time high of RM1.657 on Aug 19, 2014.

Hua Yang was not the only affordable property counter that was seeing heightened interest.

Investors, anticipating unmet demand for affordable homes, placed their bets on property developers that built such homes, which tended to be priced around RM500,000 or below.

This was the time the local property market was bemoaning a "mismatch" between a disproportionately large supply of high-end properties and an undersupply of sought-after affordable homes.

In fact, almost all the affordable property stocks rose to a year or multi-year high in the last two to three months.

Both LBS Bina Group Bhd and

Matrix Concepts Holdings Bhd hit a five-year high — of RM1.78 on Sept 15 and RM1.53 on Sept 27 respectively.

MKH Bhd rose to a year high of RM2.98 on Sept 28, as did Tambun Indah Land Bhd (RM1.53 on Sept 27) and Gabungan AQRS Bhd (RM1.18 on July 13 and RM1.17 on Aug 16).

Granted, these stocks have since dropped to more moderate levels but not many have seen as drastic a fall as Hua Yang's 22%.

For instance, LBS Bina had shed only 3.93% or seven sen as at its close of RM1.71 last Friday while MKH had given up 5.4% or 16 sen from a recent peak to end at RM2.82.

Meanwhile, Tambun Indah had lost 5.88% or nine sen from a recent peak to close at RM1.44 last Friday and Matrix Concepts some 7.16% or 19 sen to end at RM2.46.

Apart from Hua Yang, the only other affordable property counter whose share price plunged was Gabungan AQRS. It lost 29 sen or 24.8% from a recent peak to close at 87 sen last Friday.

Trading in Gabungan AQRS' shares has been weak, given that it only returned to the black in 3QFY2016 ended Sept 30.

It reportedly lost a deal to rival LBS Bina recently to build affordable properties with an estimated total gross development value of RM1.83 billion over 12 years for the Selangor government.

Most of the other affordable property players posted higher net profits in their respective recent quarters, unlike Hua Yang which saw its earnings come under intense pressure in its current financial year ending March 31, 2017 (FY2017).

To be fair to Hua Yang, peers like MKH and Gabungan AQRS are not primarily involved in developing affordable properties.

MKH for instance has a plantations division while Gabungan AQRS also has a construction and a precast concrete division.

Nevertheless, what Hua Yang's case underscores is that the affordable home story cannot be taken for granted.

While affordable property developers are believed to be more resilient in a downturn, they are certainly not immune to market conditions.

In its 2QFY2017 ended Sept 30, Hua Yang reported a 41% year-on-year fall in net profit to RM16.953 million — the biggest drop in three years — as revenue declined 31.8% to RM102.765.

In the first six months of FY2017 (1HFY2017), net profit decreased 30% to RM40.858 million while revenue fell 21.3% to RM230.726 million due to lower sales on the back of delayed launches.

As TA Securities points out, Hua Yang only launched RM15 million worth of properties in 1HFY2017 and the sales of RM48 million recorded in 2QFY2017 were its lowest ever in 26 financial quarters.

Does pressure on Hua Yang's share price present an opportunity to make a cheaper entry into the longtime affordable home builder that started out some 38 years ago in Perak?

Going by its current earnings and sales numbers, it may be quite a while before the counter regains investor confidence.

In the last five years, Hua Yang has posted strong annual growth in earnings with revenue breaching RM500 million and net profit crossing the RM110 million mark in FY2015.

More recently, however, Hua Yang's earnings, and consequently its share price, have been hurt by its overly cautious move to hold back launches this year, likely spooked by downcast consumer sentiment and the tightening of liquidity.

Despite knowing that demand for affordable housing would remain strong, it decided to pace its new launches in a soft market.

In an email interview, Hua Yang CEO Ho Wen Yan says the group's 2QFY2017 results were impacted mainly by the challenging operating landscape.

According to him, the company did not face significant pressure in terms of material and land costs.

It has locked in the construction and material prices for all its launches and ongoing projects and thus does not see any cost fluctuations for them, says Ho.

Although land costs could be higher in some of the company's operating regions, Ho says he is confident of unlocking the value of its 517-acre land bank.

After the fall in its earnings, there seems to be a change in strategy, and an urgent one at that.

For its FY2017 ending March 31, 2017, Hua Yang has announced plans to launch projects worth RM721 million, including two serviced apartment developments, namely Meritus Residensi in Perai, Penang, and Astetica Residences in Mines South, Serdang, Selangor.

In comparison, in FY2016, the developer launched only RM227 million worth of new projects, just one-third of what it unveiled in FY2015.

For property developers, near-term earnings visibility can be gleaned from the total value of their launches as well as unbilled sales for the year.

Hua Yang's unbilled sales in FY2016 stood at RM463 million, 34% lower than the RM702 million it reported in FY2015.

Launching RM721 million worth of projects in FY2017 may in some part dispel doubts about the developer's financial performance in the near future.

Ho concedes that Malaysia's property market is likely to remain subdued in the near term,

given increasing concerns over the sluggish macroeconomic conditions. Competition is also getting more intense in the affordable housing space, he points out.

"With our niche positioning in the affordable segment, we expect Hua Yang to benefit from the eventual turnaround in the property sector," says Ho.

Nevertheless, property analysts covering the stock are worried about the sales targets.

Hua Yang briefed analysts and fund managers on Oct 24 but some of them are less than enthused about the company's ability to maintain its FY2017 sales target of RM500 million.

Analysts largely expect a modest earnings performance by Hua Yang in FY2017.

Even if it could sell most of its unsold housing stock, it takes several quarters for billed earnings to be reflected in the P&L statement.

TA Securities is unconvinced about Hua Yang's ability to secure another RM400 million in sales in 2HFY2017 in a soft market and strict lending environment.

The research house has slashed its sales forecast for Hua Yang for the next three years: -13% to RM326 million in FY2017; -8% to RM434 million in FY2018; and -6% to RM590 million in FY2019.

RHB Research similarly comments that Hua Yang's sales target is a "tall order", given the current weak market and the fact that Hua Yang achieved only RM101.2 million in new sales in 1HFY2017, mainly from ongoing projects.

Combining the values of the company's unsold properties of RM297.1 million and future projects of RM721 million, Hua Yang would have around RM1 billion of available properties to be sold from its existing and upcoming projects.

"We expect Hua Yang to weather the current slowdown in the sector due to its experience in the affordable housing segment, which would be an advantage in this challenging market," says RHB Research.

Like the broader property market, Hua Yang will have to ride out the slump by pushing sales hard in the next few quarters to convince investors that it can return to its previous growth momentum. ■

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COMPANY	CLOSING STOCK PRICE NOV 25 (RM)	MARKET CAP (RM MIL)	YTD PERFORMANCE (+/-%)	ANNUALISED EPS (SEN)	NAV (RM)	PE RATIO	PB RATIO	UNBILLED SALES (RM MIL)	LANDBANK SIZE (ACRES)	EST GOV PIPELINE (RM BIL)
Hua Yang	RM1.10	387.2	-20.72	30.96	2.21	3.55	0.5	311.15 (Sept)	517 (as at Nov 2016)	4
Matrix Concepts	RM2.46	1,405.7	-1.20	34.8	1.68	7.07	1.46	765.3 (Sept)	NA	NA
LBS Bina Group	RM1.71	1,096.2	25.31	13.32	1.85	12.84	0.92	1,250 (July)	2,870 (as at Dec 2015)	21.7
MKH	RM2.82	1,182.8	17.50	48.9	2.63	5.77	1.07	827.5 (Sept)	NA	12
Gabungan AQRS	88 sen	343.6	6.02	5.19	0.82	16.96	1.07	143.25 (Sept)	NA	NA
Tambun Indah Land	RM1.44	615	2.13	24.28	1.08	5.93	1.33	259.6 (Sept)	442 (as at Dec 2015)	3.4

HARIS HASSAN/THE EDGE



Hua Yang



Earnings under pressure

