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## ~~Analysts surprised with Hua Yang's~~ move to acquire stake in Magna

**KUALA LUMPUR:** Hua Yang Bhd (Hua Yang) left analysts surprised with the group's move to acquire 10.84 per cent stake in Magna Prima Bhd (Magna).

In a filing on Bursa Malaysia, Hua Yang's board of directors announced that wholly-owned subsidiary Prisma Pelangi Sdn Bhd had on January 25, 2017, acquired 36 million ordinary shares of RM0.25 each in Magna for a cash consideration of RM66.6 million via an off-market direct business transaction.

The research arm of Kenanga Investment Bank Bhd (Kenanga Research) was surprised with Hua Yang's move in taking up 10.84 per cent stake in Magna as part of the group's landbanking strategy as reported in its Bursa announcement.

The acquisition of the 10.84 per cent stake at RM1.85 represented a 13.5 per cent to Hua Yang's last closing price of RM1.63, and Kenanga Research would be expecting the group's first nine months of 2017 (9M17) net gearing of 0.32-fold to increase to 0.43-fold post acquisition of the aforementioned stake.

While there is no information from management on how they intend to replenish their landbank through this exercise, Kenanga Research did not rule that there could be a potential merger and acquisition in play or a scenario like WCT Holdings Bhd (WCT) to occur in the longer term as they have already been requesting for a board seat upon the completion of this particular exercise.

The research arm recapped that it was reported by the media that the controlling shareholders of Magna are understood to be looking to hive off a large stake of about 30 per cent in the company.

"If the reported news were

to be true, we believe that Hua Yang would have the appetite to increase their stake in Magna by another 20 per cent from this exercise bringing it up to 30.84 per cent, as it would only bring its net gearing up to 0.66-fold which is still within a manageable level," the research arm said.

Hua Yang's move on Magna have further reinforced Kenanga Research's view that there would not be any landbanking activities in the near term and dividends to be kept at a minimal level.

However, the research arm was mildly positive on the deal as it would give them the opportunity replenish their landbank in Klang Valley should they be able to take control of the company or form a joint-venture to undertake the development of Magna's landbank that is located right at KLCC (2.6 acres), Seksyen 15, Shah Alam (20 acres). On forecasts, Kenanga Research made no changes to its FY17-18E earnings.

"Its unbilled sales of RM215.6 million only provide visibility for the next two quarters," the research arm said.

Kenanga Research still kept its 'market perform' call on the stock despite a higher target price of RM1.18 per share, from RM1.10 per share previously, based on unchanged 58 per cent discount (near trough valuation) to Hua Yang's revalued net asset valuation (RNAV) of RM2.83.

The research arm raised its RNAV higher to RM2.83 from RM2.64 previously after factoring the 10.84 per cent stake of Magna into its RNAV. The research arm's new target price implied FY17-18E price earnings ratio (PER) of 5.9-fold to 6.7-fold, which was still lower compared to Hua Yang's small-mid cap peers average of 7.7-fold to seven-fold.