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## Hua Yang-Magna Prima merger on the cards?

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Last Wednesday, Hua Yang Bhd announced that it would raise its stake in Magna Prima Bhd from 10.84% to 30.96% — just 2% shy of the mandatory takeover offer threshold. Sources close to the management of the two property groups say they are looking to merge eventually, possibly via a share swap.

The merger, which will create a bigger entity with a sizeable land bank and which could undertake larger projects, could take about two years to complete and requires shareholders' approval. It is understood that Hua Yang will take the leading role.

"I can't comment on the merger," Hua Yang CEO Ho Wen Yan tells *The Edge*. "Currently, it is still an investment... Magna Prima is an associate company."

However, he does not rule out the possibility

Ho sees value in Magna Prima as it has a decent price tag and prime land bank



KENNY YAP/THE EDGE



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Rahadian says with Ho coming in as a board member, there will be more development opportunities

of a share swap in the future. "There are many strategic options but for the short term, our plans are for operational needs, consolidation, cost management, improving the visibility of both brands, investor interest and valuations."

Ho, who is also executive director of Magna Prima, says the purchase of the additional 20% stake will be partly funded by borrowings. He adds that the group has room to gear up as

its net gearing ratio stood at just 0.32 times as at Dec 31 last year. This will rise to 0.52 times, assuming the latest share purchase is funded entirely by borrowings.

"Our full-year results may not be great but in the past three to four years, we have been strong. So, we are still able to fund this," Ho says.

Lower property sales saw Hua Yang's net profit plunge 65.45% year on year to RM10.42 million

in 3QFY2017 while net profit for the nine-month period dropped 42.21% y-o-y to RM51.28 million.

In January, Hua Yang acquired 10.84% equity interest in Magna Prima for RM66.6 million or RM1.85 per share. Last week, it entered into a share sale agreement with Fantastic Realty Sdn Bhd and several shareholders to acquire another 20.12% in Magna Prima for RM123.75 million or RM1.85 per share.

Magna Prima closed at a five-year high of RM1.67 on Feb 15 — after Hua Yang announced that it was buying into the company. The counter has been volatile in the past few months and closed unchanged at RM1.56 last Friday.

Hua Yang closed at RM1.11 last Friday, up 3.74% from Thursday.

"The property market is very challenging now and developers are getting bigger. If you are not cost-efficient, aggressive and don't have the scale, you cannot compete," Ho points out.

He sees value in Magna Prima as it has a decent price tag and prime land bank. "I think that's the positive part. Of course, there are other property companies but their valuation is not what we want."

Magna Prima's main attraction is its land bank, which has a gross development value (GDV) of up to RM4 billion. It owns 20 acres in Section 15, Shah Alam (net book value: RM125.1 million); seven acres in Jalan Gasing (RM65 million) and 2.6 acres close to KLCC where the Lai Meng School once stood (RM171.8 million).

In a research note, Kenanga Research says it is mildly positive on the deal as it will give Hua Yang the opportunity to replenish its land bank in the Klang Valley by undertaking the development of Magna Prima's parcels in KLCC and Shah Alam. "We do not rule out a potential M&A play in the future," it adds.

Hua Yang, whose focus has been affordable housing, will now have exposure to the mid to high-end property segments, Ho notes.

"Magna works in the mid to high-end sector. Its key developments are in the Klang Valley and it is known for its KLCC project. It still has a piece of land — Lai Meng School — [in Jalan Ampang].

"What we can share is our experience in the management of costs, site and corporate systems, and ideas about branding and communications. These are the key areas we are sharing," he says.

Magna Prima posted a net loss of RM8.36 million in its 4QFY2016 ended Dec 31, compared with a net profit of RM235.43 million a year ago, due to a provision for liquidated ascertained damages for a residential project in Jalan Kuching.

Its net profit for FY2016 slumped 89.03% year on year to RM44.83 million while revenue fell 82% to RM142.73 million.

"I am aware of the quarterly losses... we will look into that. As it has become our associate company, we have to recognise it if there are further losses," Ho says, adding that his first task is to turn around Magna Prima by helping it launch new projects.

Magna Prima managing director Datuk Wira Rahadian Mahmud Mohammad Khalil does not rule out further losses in 1QFY2017 as the group will only hand over its serviced apartment project in Jalan Kuching in 2QFY2017. He expects the company to return to profitability after that.

Magna Prima plans to launch two residential projects — in Kepong and Shah Alam — this year with an estimated GDV of RM300 million each.

"These two projects will keep us busy this year," says Rahadian, who expects the property market to pick up next year.

The developer has not been actively undertaking projects in the past year due to poor market sentiment, he explains.

It is no secret that the company has been finding it difficult to dispose of the Lai Meng School land in the past few years.

With Ho coming in as a board member, there will be more development opportunities, says Rahadian, who held a 6.44% stake in Magna Prima as at April 21. ■