

Publication : **The Malaysian Reserve**
 Date : 31 October 2017
 Section : Money
 Page : 11
 Headline : Hua Yang cuts sales target by 38 plans to launch new project by 2H18
 PR Value : 7,085.90



▶ HUA YANG BHD				
FYE MAR 31	FY17	FY18F	FY19F	FY20F
REVENUE (RM mil)	385.4	212.1	227.5	294.3
NET PROFIT (RM mil)	60.7	36.0	38.0	48.0
EPS* (sen)	17.3	10.2	10.8	13.6
PER (x)	4.8	8.1	7.7	6.1

*Adjusted for 1.3 bonus issue completed in FY17

Hua Yang cuts sales target by 38%, plans to launch new project by 2H18

► Recommendation:

Sell

TARGET Price: RM0.96
by TA Securities Holdings Bhd (Oct 30)

Review

HUA Yang Bhd's 1HFY18 net profit of RM2.3m came in grossly below expectations. It only accounted for 6% of both ours and consensus' forecasts respectively.

The variance was largely due to: 1) Slower than expected construction progress; 2) weaker than expected property development margin; and 3) higher than expected interest expense.

Its 1HFY18 net profit plunged 94% YoY to RM2.3m, underpinned by: 1) 60% drop in revenue; 2) 3.5ppt contraction in gross margin; and 3) higher interest expense as it has drawn down new borrowings to fund the acquisition of

Magna Prima Bhd (MPB). The decline in revenue was due to lower sales achieved in FY15-FY17.

QoQ, its 2QFY18 revenue declined 5.7% to RM45.2m but gross profit increased 22.7% to RM15.7m, driven by 8.1% ppt margin improvement.

Nevertheless, 2QFY18 net profit plunged 66% QoQ to RM0.6m, impacted by higher interest and tax expenses.

Hua Yang recorded RM50m sales in 2QFY18 (+4% YoY, -4% QoQ), bringing the YTD sales to RM102.2m (+1% YoY). Meritus Residensi in mainland Penang was the key contributor to its 1HFY18 sales, which made up about 24% of total property sales achieved during the period under review.

Unbilled sales inched up slightly to RM209m as at Sept 30, 2017, from RM204m a quarter ago.

The group's net gearing remained elevated at 0.7x as at end-September 2017 from 0.63x a quarter ago, attributed to higher borrowings to fund the acquisition of MPB.

Impact. Earnings unchanged, pending more updates from analyst briefing.

Outlook. Management has slashed its sales target by 38% to RM250m, mainly due to timing of new launches. We are not surprised with the revision as it now comes within our FY18 sales assumptions of RM242m.

To achieve the sales target, the group plans to launch RM380m worth of new projects in 2HFY18.

Valuation. Our target price is currently under review pending management's guidance on the group's future plans in an analyst briefing held yesterday. Maintain 'Sell'.