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Optimism for Hua Yang from land grab news

KUALA LUMPUR: Analysts were optimistic on Hua Yang Bhd (Hua Yang) yesterday, following news of its acquisition of land from Kajang Heights Development Sdn Bhd worth RM70 million.

In a report on Wednesday, Hua Yang said following the acquisition, the group planed to unveil mixed projects with a gross development value (GDV) of RM800 million in Kajang, Selangor, comprising serviced apartments, retail units and affordable homes.

Chief executive officer, Ho Wen Yan said the Klang Valley currently contributes 31 per cent to the company's total revenue in the second quarter of the financial year ending 31 March 2018 (FY2018).

"By stepping up land acquisitions in the Klang Valley with focus on affordable pricing, we will be in a better position to meet market demand," he said.

The acquisition entails four parcels of freehold land measuring 19.8 acres for a total consideration of RM70 million or at RM81.3 per square feet. The land is adjacent to Kajang 2 development and is accessible via Jalan Reko via Kajang SILK Highway.

Researchers with Kenanga Investment Bank Bhd (Kenanga Research) were surprised with this land banking move as they were not expecting any land banking activities for the year given its high net gearing of 0.70 times as of the second quarter of 2018.

"Management have an estimated gross development value (GDV) of RM800 million for these four parcels of land, which we believe is fair, as it would translate to an average selling price of RM300 per square feetderived from a plot ratio of four times," it calculated in a note yesterday.

This would enable Hua Yang to position its product below RM500,000 per unit in Klang Valley for the affordable segment, it added.

"In terms of land cost, we deem that it is reasonable as the land cost to GDV ratio of 8.8 per cent is still within our comfortable range of 15 to 20 per cent," it said.

While Kenanga Research was positive with the land bank replenishment, it remained worried about Hua Yang's high net gearing of 0.70 times which is set to rise to 0.82 times upon complete of the deal.

"Going forward, we are not expecting any more major land banking activities as we believe that HUAYANG needs to focus on realizing their pipelines and also future plans with Magna Prima Bhd.

"Considering their unbilled sales, which have fallen to a historical low level of RM209 million which is only sufficient for another one or two quarters, we opine that Huayang should be more aggressive driving its sales from launched projects that received slow response from the market albeit its positioning as an affordable housing player in Klang Valley, Penang and Johor.

"As we believe that the average selling price of RM300 psf for its Kajang land is reasonable in the long term, we think that HUAYANG will need to step up its marketing efforts, as they are set to face stiff competition from other developers in Kajang given that the current pricing for condo/apartments ranges between RM240-260psf."

This led the firm to maintain its FY18/19E earnings for now as Kenanga Research only expects the earliest launch from these 4 parcels of land to take place in FY20.

"While we upgrade our call to market perform as we believe that there is limited earnings risk in FY19, we lowered our target price to RM0.630 per share."