

Publication : **The Edge Financial Daily**
Date : 24 May 2018
Section : Brokers Call
Page : 11
Headline : No more landbanking activities seen for Hua Yang
PR Value : 6,378.96

No more landbanking activities seen for Hua Yang

Hua Yang Bhd (May 23, 45 sen)

Maintain market perform with a lower target price (TP) of 47 sen: Hua Yang Bhd's core net profit (CNP) for its financial year 2018 (FY18) ended March 31, 2018 of RM4.4 million came in above expectations, accounting for 147%/191% of our/consensus full-year estimates.

The positive variance could be from the improved performance from its associate Magna Prima Bhd. For FY18, Hua Yang registered RM221.8 million worth of sales, which was within our sales target of RM219 million. No dividend was declared as expected.

CNP for FY18 saw a drastic decline of 93%, year-on-year, premised on several factors: i) the decline in revenue (-40%) due to the timing of recognition as its newly launched projects had yet to reach meaningful billing stage coupled with weak sales; and ii) the compression of pre-tax margins due to the loss of economies of scale due to the slump in revenue coupled with high fixed overhead and financing costs (+613%) incurred for the investment in Magna Prima. On a quarter-on-quarter basis, it registered a net profit of RM3.1 million in the fourth quarter of FY18 (4QFY18) ended March 31, 2018 compared to a RM1 million loss in 3QFY18, mainly due to positive contri-

bution from Magna Prima.

Going forward, we do not expect any more major landbanking activities as we believe Hua Yang needs to focus on realising its pipelines and also its future plans with Magna Prima. Unbilled sales have fallen to a low of RM178.9 million, which is only sufficient for another one to two quarters. We opine that Hua Yang should be more aggressive in driving its sales of launched projects that received slow response from the market albeit being positioned as an affordable housing player (more than 50% of products priced around RM550,000 per unit) in the Klang Valley, Penang, and Johor.

Post FY18 results, we keep our FY19 earnings estimate for now, and also introduce our FY20 earnings estimate of RM12.5 million, backed by a sales target of RM246.8 million. Despite the better performance in earnings, we still keeping our "market perform" call with a lower TP of 47 sen (from 50 sen previously) on Hua Yang, as we lower our project margin assumptions in revalued net asset valuation (RNAV) to better reflect its current margin trend, while maintain our RNAV discount of 83%, which is at -2.5 standard deviation levels. — *Kenanga Research, May 23*