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Hua Yang's earnings in line on improved sales, billings

▶ Recommendation: Market Perform
TARGET Price: **RM0.465**
by Kenanga Investment Bank Bhd (July 19)

Highlights

WE DEEMED Hua Yang Bhd's 1Q19 core net profit (CNP) of RM1m to be in line, although it only accounts for 10%/12% of our/consensus full-year estimates respectively as we expect subsequent quarters to be better, backed by improved sales, progressive billings and normalised effective tax rate.

Property sales of RM63.3m are on track with our target of RM249.7m. No dividend declared as expected. FY19-FY20E earnings unchanged. Maintain 'Market Perform' with an unchanged TP of RM0.465.

▶ HUA YANG BHD

FYE MARCH	2018A	2019E	2020E
TURNOVER (RM mil)	231	223	228
NET PROFIT (RM mil)	4	10	11
EPS (sen)	1.3	2.9	3.2
PER (x)	37.1	15.8	14.5

Deemed in line. Although only making up 10% and 12% of our and consensus full-year estimates, we deem the 1Q19 results to be in line as we are banking on a stronger performance in subsequent quarters, backed by better sales, progressive billings and normalised effective tax rate by 2H19.

Property sales of RM63.3m are on track to meet our target of RM249.7m. No dividend declared as expected.

Results highlight. Its 1Q19 revenue saw a major improvement of 39% YoY, but CNP was down by 41%. We believe the revenue growth was backed by better sales from inventories and also ongoing projects, while the sharp drop in CNP was due to a 122% increase in taxes as some of its expenses are non-deductible and higher net interest cost, which rose 420%. Positively, Ebit margins improved by 3.5ppt to 9.6% driven by the improvement in revenue.

QoQ, both revenue and CNP fell by 23% and 67% respectively. The drop in revenue was mainly due to the lack of handover of projects for the quarter, which solely relies on property sales and progressive billings.

Notably, we are positive with its inventories from completed projects coming down by 27%, but cashflows remain tight with its net gearing creeping up to 0.80x from 0.72x arising from the completion of the Kajang land acquisition.

Outlook. Despite the challenging operating landscape in the property sector, we believe that Hua Yang is on the right path to recovery given their focus on clearing inventories. Its unbilled sales in 1Q19 improved by 12% QoQ, from RM178.9m to RM201.4m with one-year visibility.

Earnings maintained. Post-results, we make no changes to our FY19-FY20E earnings for now as we are banking on stronger performance in subsequent quarters.

Maintain 'Market Perform'. We reiterate our 'Market Perform' call with an unchanged target price of RM0.465 on Hua Yang.

To recap, previously we lowered our RNAV from RM2.84 to RM2.81 as we had lowered our project margin assumptions in our RNAV to better reflect the current margin trend, while maintaining our RNAV discount of 83%, which is at -2SD and historical high level.

We believe its profitability would improve backed by its recent sales performance, which we deem to be encouraging under current market circumstances.

Risks to our call include: i) lower than expected sales; ii) higher than expected administrative costs; iii) negative real estate policies; iv) less conducive lending environment; and v) lower than expected dividend pay-out.