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Hua Yang 1HFY19 profit below expectations

Hua Yang Bhd
(Oct 25, 39 sen)

Maintain market perform with a lower target price (TP) of 41 sen: First half of 2019 (1HFY19) core net profit (CNP) of RM2.9 million came below both our and consensus estimates, only making up 30% and 39% of respective full-year estimates.

Despite revenue coming in broadly within expectations, the negative deviation in CNP was due to the higher-than-expected tax expense incurred. Property sales of RM166.6 million for 1HFY19 is broadly within our FY19 expected sales target of RM249.7 million as we expect take-up for new launches to be lower on slower property market. No dividend is declared as expected.

Year to date and year-on-year, 1HFY19 revenue increased by 43%, backed by sales from its completed units at OneSouth, Citywoods and Metia Residences, as well as better billings from its ongoing developments. However, 1HFY19 CNP increased only by 13% as it is dragged down by a leap in net interest expense (+100%) from increased borrowings and higher effective tax rate of 59% (+8 percentage points [ppts]), as some of its expenses were non-tax deductible. Quarter-on-quarter (q-o-q), 2QFY19 CNP saw 88% growth mainly from (i) improvement in earnings before interest, taxes, depreciation and amortisation margins to 11% (+1 ppt) likely from recognition of better margin products and lower operating cost, and (ii) lower income tax expense (-27%).

Despite the challenging operating landscape in the property sector, we think that Hua Yang is on the right path given its continuous effort in clearing inventories as shown by the 37% drop (from FY18 to 1HFY19) in inventories from completed projects while also seeking to launch new serviced apartment projects in Bukit Mertajam in 2HFY19. Moreover, we are also comforted by the group's commitment to lower its net gearing as shown by the recent proposed disposal of 30% stake in Kajang Height Land for RM21 million. We hope to see more aggressive efforts to do so as we still estimate that net FY20E gearing will remain at 0.75 times. Unbilled sales had increase 28% q-o-q and currently stands at RM258.3 million, providing slightly more than one year of earnings visibility.

Post results, we reduced FY19-FY20E earnings down by 32%-26% to RM6.5 million to 7.9 million after factoring in the higher-than-expected effective tax rate seen in 1HFY19. We maintain our FY19-FY20E sales target of RM249.7 million to RM246.8 million compared to management's FY19 sales target of RM400 million due to the soft property outlook.

Maintain "market perform" with a lower TP of 41 sen. We lowered our revalued net asset valuation (RNAV) from RM2.78 to RM2.74 on lower project margin assumption to better reflect its current margin trend while also widening our RNAV discount to 85% (previously 83%) which is now at the historical trough level.

Risks to our call include (i) lower-than-expected sales, (ii) higher than-expected administrative costs, (iii) negative real estate policies, and (iv) less conducive lending environment. — *Kenanga Research, Oct 25*

Hua Yang Bhd

FYE MARCH (RM MIL)	2018A	2019E	2020E
Turnover	230.7	223.2	228.1
Ebit	21.3	24.8	27.6
PBT	11.6	13.1	14.3
Net profit (NP)	4.4	6.5	7.9
Consensus (NP)	NA	7.5	11.2
Earnings revision (%)	NA	-32	-26
EPS (sen)	1.3	1.9	2.2
EPS growth (%)	-93	48	21
NDPS (sen)	2.0	0.0	0.0
NTA/share (RM)	1.65	1.63	1.65
PER (x)	30.7	20.8	17.2
Price/NTA (x)	0.2	0.2	0.2
Net gearing (x)	0.7	0.8	0.8
Dividend yield (%)	5.2	0.0	0.0

Source: Kenanga Research