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Hua Yang nine-month profit above expectations

Hua Yang Bhd
(Jan 24, 39 sen)

Upgrade to outperform with an unchanged target price (TP) of 41 sen: Cumulative nine months for the financial year 2019 (9MFY19) core net profit (CNP) of RM8.7 million came above both our and consensus estimates, at 133% each of full-year estimates.

The positive deviation came mainly from stronger-than-expected property billings and stronger contribution from its associate — Magna Prima Bhd (TP:95.5 sen). Property sales of RM239.7 million also came in higher than our estimated FY19 (FY19E) sales target at 96%, of which Astetica Residences project made up about 37% of the sales.

Our sales target was previously overly conservative as the group had previously been unable to meet its own sales target. No dividend was declared as expected.

9MFY19 CNP increased by close to four times to RM8.7 million driven by better billings from its ongoing projects and sales from its completed units, which saw inventories falling by 29%, positive contribution from its associate Magna Prima of RM3.7 million (versus a loss of RM1.5 million in 9MFY18), and lower effective tax rate at 43% (-30 percentage points [ppts]). The previously high effective tax rate was due to the non-deductible tax expense arising from borrowings they took to acquire Magna Prima in 2018.

The third quarter (3QFY19) CNP was higher by 204% mainly from improvement in earnings before interest, taxes, depreciation and amortisation margin to 15% (+4ppts), likely from recognition of better margin products and lower operating costs, lower net interest expense (-22%), stronger contribution from its associate (+46%), and lower effective tax rate at 28% (-20ppts) from the same reason above.

Despite the challenging operating landscape in the property sector, we think that Hua Yang is on the right path given their continuous effort in clearing inventories as shown by the 29% drop (from FY18 to 9MFY19) in inventories from completed projects.

Moreover, we are also comforted by the group's commitment to lower its net gearing as shown by the recent disposal of a 30% stake in Kajang Heights Land for RM21 million completed in October 2018 that saw net gearing now at 0.7 times.

We expect to see more aggressive efforts to reduce gearing with FY19 to FY20E net gearing estimated at 0.69 to 0.67 times.

Unbilled sales currently stand at RM217.3 million, providing slightly less than one year of earnings visibility.

Post results, we increased our FY19-20E earnings to RM11.0-13.4 million after revising our sales target up to RM300 million. We are also factoring in the stronger-than-expected associate contribution seen in 9MFY19.

Our sales target is still lower than the management's guided sales target of RM400 million for FY19 because we prefer to remain conservative as Hua Yang had previously been unable to meet its own sales target for four consecutive financial years.

Our TP is left unchanged and is based on a RNAV discount of 85% (at historical high level) to its RNAV of RM2.74.

We will only seek to review our TP should Hua Yang shows stronger earnings over the next one to two quarters as previously earnings had been volatile.

However, we upgrade our call to "outperform" as share price has seen a sharp retracement recently. At our current TP, our valuation implies a forward FY19 to FY20E price-to-book value of 0.2 to 0.2 times, which is still at its historical trough levels.
— Kenanga Research, Jan 24

Hua Yang Bhd

FYE MARCH (RM MIL)	2018A	2019E	2020E
Turnover	230.7	251.4	252.2
Ebit	21.3	27.9	30.5
PBT	11.6	18.3	19.2
Net profit (NP)	4.4	11.0	13.4
Consensus (NP)	NA	6.5	10.4
Earnings revision	NA	68	71
EPS (sen)	1.3	3.1	3.8
EPS growth (%)	-93	149	22
NDPS (sen)	2.0	0.0	0.0
NTA/share (RM)	1.65	1.63	1.66
PER (x)	29.5	11.9	9.7
Price/NTA (x)	0.2	0.2	0.2
Net gearing (x)	0.7	0.7	0.7
Dividend yield (%)	5.4	0.0	0.0

Source: Kenanga Research