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ANALYST'S NOTE

HUA YANG UPGRADED TO 'OUTPERFORM'

Kenanga says comforted by company's commitment to further lower net gearing

KUALA LUMPUR

HUA Yang Bhd's nine-month performance came above expectations due to stronger-than-expected property billings and associate contributions, said Kenanga Investment Bank Bhd (Kenanga IB).

"Its nine-month 2018 core net

profit of RM8.7 million came in above both our and consensus estimates," it said.

"The positive deviation came mainly from stronger-than-expected property billings and contribution from Magna Prima Bhd."

For the nine-month period, Hua Yang's profit soared to RM8.68 million from RM1.77 mil-

lion previously, while revenue grew 41.2 per cent to RM199.51 million from RM141.30 million.

Kenanga IB said Hua Yang's property sales of RM239.7 million were also higher than the estimated sales target for last year, with its Astetica Residences project making up 37 per cent.

Kenanga IB upgraded Hua Yang to "outperform" but maintained the target price at 41 sen.

It said Hua Yang's core net profit in the nine months was driven by improved billings from its ongoing projects and sales of

completed units, which saw inventories falling by 29 per cent.

There was also positive contribution from Magna Prima of RM3.7 million, and lower effective tax rate at 43 per cent.

The previously high effective tax rate was due to the non-deductible tax expense arising from borrowings Hua Yang took to acquire Magna last year.

"Quarter-on-quarter, its third quarter core net profit was higher by 204 per cent, mainly from improvement in Ebitda (earnings before interest, taxes, depreciation, and amortisation) margin to

15 per cent."

Despite the challenging operating landscape in the property sector, Kenanga IB feels that Hua Yang is on the right path given its continuous efforts in clearing inventories, as shown by the 29 per cent drop 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 30 per cent stake in Kajang Heights Land for RM21 million, which reduced its net gearing to 0.70 times"