



investor

## Hua Yang Berhad - Broadly In-line

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**1HFY20 CNP of RM4.6m makes up 57% of our estimate, but below consensus' full-year estimate at 41%. Property sales of RM120.6m are on track to meet our full-year target of RM251.7m. No dividends declared as expected. No changes to FY20-21E earnings. Maintain MP with lower TP of RM0.330.**

**Broadly in-line.** 1HFY20 CNP of RM4.6m make up 57% of our estimate which we deem as broadly in-line as we expect slower progress billing in coming quarters. However, the result is below consensus expectation at 41% of full-year estimates. Property sales of RM120.6m are on track to meet our full-year target of RM251.7m. No dividends declared as expected.

**Results' highlight.** 1HFY20 CNP surged by 60%, YoY, to RM4.6m compared to RM2.9m in 1HFY19 mainly due to: i) higher revenue achieved in first half of 2020 contributed by smooth construction progress from Meritus Residence, Penang and Astetica Residence, Seri Kembangan, and ii) slightly better margin of 7% compared to 5% in 1HFY19. However, the improved performance was partly offset by losses shared from its associate company of RM4.4m compared to profit of RM2.1m a year ago. QoQ, 2QFY20 registered CNP of RM1.0m (-73%) compared to RM3.7m in the preceding quarter largely due to: i) decrease in revenue to RM68.0m (-17%) from RM82.2m, ii) deteriorated performance in MAGNA, where losses increased close to three times compared to first quarter, and iii) higher effective tax rate of 67% compared to 47% in 1QFY20.

**Outlook.** Despite the challenging operating landscape in the property sector, we believe HUAYANG is on the right track as they continue to derive sales from Penang, Johor and the Klang Valley backed by unbilled sales of RM182.9m (as at Sep 2019) with a year's visibility and lower inventory of completed properties to RM34.3m. In terms of net gearing, it is down marginally from 0.67x to 0.61x and management remains optimistic of lowering it to the 0.5x level backed by certain projects that are nearing completion.

**Earnings maintained.** Post results, no changes to FY20-21E earnings.

**Maintain MARKET PERFORM with lower Target Price of RM0.330 (from RM0.335) based on implied 85% discount (close to historical high level) to its RNAV/share of RM2.22.** Despite its improving outlook, we reiterate our **MARKET PERFORM** call on HUAYANG due to its short earnings visibility coupled with the earnings uncertainty from its associate, i.e. MAGNA, which could continue to be a drag. We reduced our **TP** to **RM0.330** (from RM0.335) mainly due to revised TP in MAGNA to RM0.710 (from RM0.740) in our previous MAGNA's report. At current Target Price, our valuation implies Fwd. FY20-21E PBV of 0.2-0.2x, which is still at its historical trough levels.

**Risks to our call include:** (i) higher-than-expected sales, (ii) lower-than-expected administrative costs, (iii) changes in real estate policies, and (iv) changes in lending environment.

Source: [Kenanga Research](#) - 24 Oct 2019