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Property developer Hua Yang braces for slowdown in property market

KUCHING: Property developer Hua Yang Bhd (Hua Yang) is well prepared to face any potential slowdown in the property market.

RHB Research Institute Sdn Bhd (RHB Research) yesterday said the property developer is already anticipating some buyers who could hold off on the purchase of properties until after the Goods and Services Tax (GST) comes into effect.

Following a dialogue with the company's management, the research firm gathered that buyer sentiment will likely be affected due to the uncertainties over the change in property prices during the GST implementation period.

In spite of that, RHB Research believes Hua Yang's new prop-

erty sales target of RM500 million to RM600 million for financial year 2015 (FY15) is achievable supported by the company's new launches worth RM1.1 billion that have been planned for FY15.

The research firm explained that most of the company's properties which are priced reasonably at RM500,000 and below as well as focus on land-banking activities and affordable housing segment in new markets.

As these new markets can yield reasonable 25 per cent to 30 per cent gross profit margin, this move will allow the property developer to achieve its sales target and support its earnings growth.

Additionally, RHB Research

observed that Hua Yang's land-banking track record has been prudent.

On a larger picture, the research firm is less optimistic on the outlook of the property sector for the short-term and has downgraded the sector to neutral.

For the short-term, RHB Research expects property transaction volumes to decline by three to five per cent in 2015 attributed to slower economic growth and a high loan rejection rate.

The research firm also anticipates property prices to remain flat as property developers would have difficulty passing on the incremental costs in an environment of weakening demand.

RHB Research believes property buyers or investors and developers are likely to adopt a 'wait-and-see' stance in monitoring the market conditions in the first half of 2015 (1H15) as the impact of GST is being implemented.

Nonetheless, it views Hua Yang's prospects to be better than other property developer given the company's affordable product offerings.

With a challenging outlook for the property market next year, RHB Research has reduced the fair value of Hua Yang's share price to RM2.28 per share from RM2.74 per share using a 25 per cent discount of revised net asset value (RNAV) valuation methodology.