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Hua Yang eyes Sabah next after its foray into Penang

Kenanga Research says Hua Yang's earnings are driven by strong billings as a result of higher recognition from higher-margin projects like One South in Seri Kembangan, Selangor.

AFFORDABLE housing developer Hua Yang Bhd has set its sights on Sabah as the next market to venture into, following its maiden foray into Penang recently.

Chief executive officer Ho Wen Yan says that the company is constantly seeking opportunities to expand available landbank for development. “It has been our intention to broaden our reach into Penang and Sabah. The recent land acquisitions in Bukit Mertajam, Penang, is in line with our broad landbanking strategy to diversify developing activities to fuel longer-term growth,” he tells *StarBizWeek* via email.

The mid-cap developer valued at RM583.44mil has 11 ongoing projects in the key regions of the Klang Valley, Johor, Perak and Negri Sembilan.

It has a total landbank of 486 acres across these areas with a potential gross development value (GDV) of RM2.8bil that will keep the company busy for the next five to six years. “The recent land acquisitions in Bukit Mertajam have expanded our available acreage to 494 acres and raised our total available GDV to about RM3.1bil,” says Ho.

Last month, Hua Yang announced that it was acquiring two land parcels measuring 4.9 acres and 3.1 acres in Bukit Mertajam for RM31mil. This translates into land costs of RM66 per sq ft and RM103 per sq ft for the two land parcels, respectively. Early this month, it announced plans to acquire an 8.09-acre land parcel in Selayang, Selangor, for RM120mil, which works out to RM340.51 per sq ft.

The Bukit Mertajam parcels of land, earmarked for the development of serviced apartments, commercial shoplots as well as a condominium block, is estimated to garner a GDV value of about RM313.5mil, while the Selayang project will also comprise a mixed development with a GDV estimated at RM800mil. Analysts expect Hua Yang to price most of its products at below RM500,000/unit for its Selayang development.

Explaining the company’s landbanking strategy, Ho says the focus is on matured and established areas that have ready infrastructure and good accessibility, as well as potential for population growth.

He says the softening property market presents opportunities to acquire new landbanks and Penang fits into its criteria. “Further, we believe we have the ability to introduce innovative and affordable projects to appeal to our buyers, whom are largely first-time home buyers within the age group of 25-40 years." He also believes that the company's focus on the affordable market segment, where demand has been more resilient in the current market environment, will serve it well.

Chief executive officer Ho Wen Yan

As to observations that it had paid a higher price for its Bukit Mertajam land, given that land transactions in that area are typically below RM100 per sq ft, Ho says that the company has so far been able to ensure that land cost is not more than 20% of a project's estimated GDV. "Through our efficient development approach and discipline in land acquisitions, we have been successful in delivering gross margins in excess of 30% for our development projects. These two land transactions (in Penang) will not be exceptions," he explains.

Hua Yang's back-to-back land acquisitions have not gone unnoticed by the market. The stock has risen 11% to RM2.20 from the low of RM1.98 it had done in early January. In the last 52-week range, the stock had traded to a high of RM2.52, which, incidentally, is the target price RHB Research had set for the stock in its recent report.

Its substantial shareholder is Heng Holdings Sdn Bhd, the private vehicle of the Ho family, with 30.3%. The stock is fairly liquid with a free float of 63%.

Hua Yang, which was founded by the late Ho Mok Heng and has its roots in Ipoh starting with eight four-storey shoplots in Jalan Gopeng, today gets 60% of its available GDV from its Klang Valley projects.

With RM250mil in a sukuk programme in place solely for landbanking purposes, more acquisitions are expected. Notes Kenanga Research in a recent report, “Upon completion of the three parcels of land acquisition, Hua Yang would have about RM100mil of its sukuk programme left. In terms of target GDV replenishment, it has met 22% of its targeted RM5bil replenishments, and we reckon that it would be able to achieve that target in one-to-two years’ time.”

One concern is Hua Yang’s relatively higher-than-average net gearing for a developer. “We expect net gearing to climb up to a high of 0.84 times from the current level of 0.50 times and expected to end at 0.70 times at the end of financial year 2016. This is still beyond our comfort levels of 0.5 times to 0.60 times for developers,” Kenanga Research says in the report. One way to ease balance sheet strain is cash calls to finance future landbanking. However, Kenanga Research notes that the company has not openly indicated that it intends to do a cash call in the near term.

On how the company will perform this year amid a softer property market, Ho believes it will be satisfactory. For the first nine months of its financial year ending March 31 (9MFY15), it had achieved a net profit of RM80.9mil – an increase of 82.2% over the corresponding nine-month period previously.

“Our unbilled sales as at Dec 31, 2014 stood at a high of RM733mil – this is expected to provide us earnings visibility, going forward,” says Ho. Kenanga Research estimates that this unbilled sales will give it at least 1½ years of earnings visibility.

The research firm notes that Hua Yang’s earnings for the 9MFY15 were driven by a strong billings and growth in earnings before tax, interest, depreciation and amortisation to 26.1% as a result of higher recognition from higher-margin projects like One South in Seri Kembangan, Selangor, plus Taman Pulai Indah and Taman Pulai Hijauan in Johor.

Still, Hua Yang has not been spared the effects of a weaker property market. “Its 9MFY15 sales of RM342mil is still proportionally behind our estimate, making up only 59% of our full-year sales estimate of RM580mil and management’s target of RM500mil,” says Kenanga Research.

On the whole, however, analysts reckon that the company should continue to fare better than some of its peers, riding on its affordable product offerings.