# Hua Yang sees potential in affordable homes

BY **Siow Chen Ming**

While most developers have ventured into the high-end segment in recent years, Hua Yang Bhd — which has been in the property business for 32 years — is sticking to its strategy of developing affordable homes.

Its CEO Ho Wen Yan says the affordable home segment has been underserved for the past few years and sees a lot of potential to be tapped going forward.

"Our definition of affordable homes is that the monthly instalment should be one third of total household income. While prices will vary depending on the location, in general, we are talking about properties priced below RM350,000", he says.

He believes the shortage of supply in this segment will result in high take-up rates, provided developers have good products at the right price.

Hua Yang was set up by Ho's late father, Ho Mok Heng, in 1978, in Perak. The company expanded to Johor in the mid-1990s and entered the Klang Valley market in 2007. The Ho family now owns a 32.85% stake in the company, which was listed on the then Main Board of Bursa Malaysia in 2002.

Hua Yang's revenue has been flat over the past five years, with yearly revenue maintained at about RM100 million, except for FY2008 and FY2009 (ending March), when revenue fell to about RM60 million due to soft market conditions.

But Ho says the company's financial performance will be much stronger in FY2011 and subsequent years as it has built up a bigger pipeline of projects.

"In just seven months into FY2011, our unbilled sales have already hit RM167 million. If you look at our 2Q (ended September) revenue of RM72.8 million, this is already equivalent to 70% of full- year revenue for FY2010," he says.

Some RM1 billion worth of projects are slated to be launched in the next two years, says Ho, the bulk of them in the Klang Valley and Johor. These are projects for which the company has already got approvals, or is in the process of doing so, from the relevant authorities.

**Ho says RM1 billion worth of projects are set to be launched in the next two years**

The scale of Hua Yang's future launches is double that of its current yearly launches of RM200 million to RM300 million. "We have spent the last two to three years building our capacity, so that we can have this pipeline of projects to push out to the market," says Ho.

Hua Yang's current undeveloped landbank of about 630 acres has a potential total gross development value (GDV) of RM1.78 billion.

Among its major ongoing and future projects is the OneSouth office-retail-cum service apartment project in Sri Kembangan with a GDV of RM750 million, Taman Pulai Indah in Johor Bahru (RM332 million GDV), Taman Pulai Hijauan in Skudai (RM320 million GDV), and Bandar Universiti Seri Iskandar project in Ipoh (RM563 million GDV).

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## Expanding in the Klang Valley

The bulk of the company's remaining landbank is in Perak where it has 523 acres, followed by Johor with 219 acres. In the Klang Valley, it has 17 acres in Sri Kembangan, where the OneSouth project is located.

With Hua Yang targeting to grow its Klang Valley operation to contribute more than 50% of revenue from FY2012, compared with 30% in FY2011, Ho says the company is on the lookout for more land. Among the areas the company is eyeing are Sungai Besi, Sungai Buloh and Selayang, so-called "secondary locations" but which have good upside potential.

CONTINUES ON PAGE 34

# Plans to raise RM100 mil for land purchases

FROM PAGE 16

"We are trying to raise RM100 million for land purchases over the next three years. This will be funded from internal cash flow as well as borrowings," says Ho. He adds that the capital expenditure (capex) will be manageable as it will be close to the company's yearly operating cash flow as revenue grows.

On whether Hua Yang's balance sheet can support the capex with its aggressive development plan in the next two years, Ho says some of the upcoming developments, such as OneSouth, will be "faster turnaround" projects.

"Not just fast turnaround, but faster," he stresses. The company, he says, is currently negotiating the en bloc sale of OneSouth's retail component, which has a GDV of RM80 million, to a consortium of buyers. This will help accelerate cash flow. He also expects brisk sales of OneSouth's serviced apartment component, which has a GDV of RM550 million.

Ho reckons there is a strong rental market in Seri Kembangan as there are several higher education institutions in the vicinity, with more planned, such as the local campus of the Johns Hopkins Medical School in nearby Serdang.

As at Sept 30, 2010, Hua Yang had net total borrowings of RM73 million against total shareholders' funds of RM205 million, translating into a net gearing of 0.36 times. Its share price closed at RM1 last Wednesday, giving it a market value of RM106.9 million.

Pricing its net borrowings of RM73 million, Hua Yang's enterprise value stands at about RM180 million, which is about 6.8 times its annualised 1HFY2011 operating profit before working capital changes of RM13.1 million.

Such a valuation is not really a steal, according to market observers. However, stronger results are anticipated for subsequent quarters, underscoring the 58% YTD gain in Hua Yang's share price from below 65 sen early this year.

Ho is eager to prove that Hua Yang, with its long history, is here to stay as a sustainable developer in the affordable homes segment. Despite not having any high-end projects in its stable, the company's track record, in terms of gross margins as well as net profit margin, bolsters his case.

For 1HFY2011, Hua Yang posted a gross profit of RM20.8 million and net profit of RM9.18 million, on revenue of RM72.85 million. This translates into a gross net profit margin of 29% and 13% respectively.

"We are doing all right in terms of profit margin. We have achieved this by being able to spot and acquire good secondary locations with strong upside potential and at the same time, keeping our operating cost low," he says. Such a strategy, he says, will continue to stand Hua Yang in good stead. E

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