THE STAR ONLINE

Hua Yang plans to maintain dividend

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Ho: 'Demand is expected to outstrip supply.'

Company upbeat about its projects and offerings

PROPERTY developer Hua Yang Bhd says it will maintain its dividend payout for 2016 despite a bleak operating landscape amid strict lending rules and the rising cost of living.

With total unbilled sales of RM530.5mil as of Dec 31, 2015, Hua Yang is convinced its projects and product offerings will do well, with the focus on affordable homes.

"We will continue to focus on affordable homes, especially within vibrant urban centres throughout the country.

"Demand is expected to outstrip supply and our proven competencies in this segment will enable the group to create sustainable value for both our shareholders and stakeholders at large," chief executive officer Ho Wen Yan told *StarBizWeek* in an email reply.

The group's confidence stems from the fact that demand for quality and affordable homes will cater to the middle-income and younger market segments, he says.

While he does not expect many developers from the high-end housing sector to enter the affordable housing segment, he points out that competition will likely come from new local and foreign entrants to the market.

Plunging currencies, collapsing stock markets and destabilising economies have curbed spending, resulting in firms being cautious on the overall outlook.

Although the road ahead remains bumpy, the property developer, whose niche lies in the affordable home segment, says it is confident of its performance in 2016 and that most of its launches are on track.

The company's Ridgewood project in Ipoh. Hua Yang aims to expand its landbank.

"We will continue to monitor and review the market, and time product launches accordingly," he adds.

The Main Market-listed company has been persistent with its goal of procuring RM500mil new sales annually. This helps with the fact that the company does not have significant recurring income.

Last year, industry players adjusted the timing of new launches, while boosting promotional campaigns including rebates to sustain their sales targets.

Some offered "easy entry" to potential buyers by way of lower downpayment as well as sorting the first downpayment to be paid by credit cards.

Property firms underperformed the FTSE Bursa Malaysia KL Composite Index (FBM KLCI) in 2015 with an average loss of 7.3% versus a decline of 3.4% by the FBM KLCI. Further weakness was noticed in the second half of 2015 due to the goods and services tax, poor macro environment and weak ringgit, noted Hong Leong Investment Bank.

The research house said the annual house price index growth eased to 5.4% in the third quarter after a rise in the compounded annual growth rate of 12.6% from 2010 to 2014, attributable to a series of cooling measures by the Government to bring property prices under control.

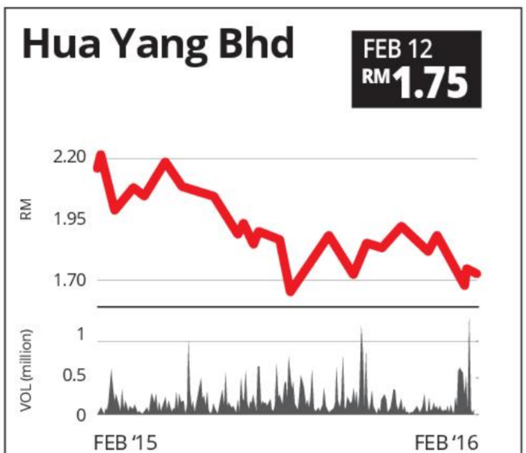
Hua Yang's project launches in 2016 include Ridgewood (Phase 2) in Perak comprising three-storey cluster semi-detached units, three-storey link bungalows and bungalows.

Other projects involving single-storey terrace homes, serviced residents and apartments are Seri Andaman (Phase 2) also in Perak, Citywoods (Tower A) in Johor and Mines South close to The Mines Shopping Centre.

Its net profit slipped 2.5% to RM30.16mil in the third quarter ended Dec 31, 2015 from RM30.94mil in the previous corresponding quarter, on a revenue that marginally dipped to RM154.98mil from RM155.50mil.

Basic earnings per share dropped to 11.42 sen from 11.72 sen a year ago.

An interim single-tier dividend of five sen per share was declared for the period under review.



3-year financial highlight

	2013	2014	2015
Revenue (RM mil)	408.67	509.89	583.58
Pre-tax Profit (RM mil)	95.31	112.36	153.45
Net Profit (RM mil)	70.47	82.17	110.57

Source: Hua Yang Bhd's 2015 Annual Report

For financial year 2015 (FY15) ended March 31, 2015, Hua Yang's net profit jumped 34.6% to RM110.57mil from RM82.17mil in FY14.

Revenue in FY15 was higher at RM583.58mil from RM509.89mil a year ago.

The group saw earnings per share leap to 41.88 sen in FY15 from 31.12 sen the previous year.

Since 2011, the group has been consistent with its dividend payout. For FY13, FY14 and FY15, it paid out 12 sen per share to shareholders.

With undeveloped landbank at 540 acres and a potential gross development value (GDV) of RM4bil, Ho says the group aims to expand its landbank, primarily in areas that are mature, established with ready infrastructure and good accessibility.

"These areas include the Klang Valley, Johor, Perak, Negri Sembilan and Penang," says Ho, adding that plans to enter Sabah remain preliminary.

Johor and Penang have always been key regions, as these states have much potential despite land prices being on the high side, he points out.

Hua Yang's current benchmark is RM350,000 for suburban areas and RM500,000 for urbanised areas.

The company has developed homes under the MyHome Scheme and the People's Housing Programme, which include Seri Andaman (Phase 1) and Seri Idaman (Phase 1) projects located within its Bandar University Seri Iskandar township in Perak.

Projects in the Klang Valley make up 47% of group revenue, followed by Johor with 30%, Perak with 21% and Negri Sembilan with 2%.

The group recently acquired the entire paid-up share capital of Grand View Realty Sdn Bhd for RM52.9mil in January.

Grand View owns eight parcels of freehold land measuring 73.16 acres, which Hua Yang intends to develop into eight phases of mixed development, including cluster and semi-detached homes, shop offices and homes under the Johor Affordable Housing scheme, among others, all with an estimated GDV of RM346.4mil.

Kenanga Research has maintained its "outperform" call and target price of RM2.20, at a 38% discount to its discounted cashflow-driven revalued net asset value at a 10% weighted average cost of capital of RM3.52.

The firm says it is not surprised that Hua Yang acquired Grand View, stating that the purchase consideration for the land would translate to RM23.72 per sq ft.

"The land is strategically located but in terms of land cost, we think it is slightly on the high side, as the total purchase consideration of RM75.6mil implies a land cost-to-GDV ratio of 22%.

"This is beyond Hua Yang's and our comfortable threshold of 20%," said the research firm, adding that the transacted price of RM23.72 per sq ft is much lower compared to the average asking price of RM36 per sq ft in that region.

The firm believes that Hua Yang would be able to further enhance its GDV in future just as how it managed in some of its projects such as One South and Sentrio Suites.

As of the second quarter of FY16, the developer's net gearing remained fairly healthy at 0.32 times, although it's expected to surge 0.56 times in FY16, as it continues to grow its landbank, said Kenanga Research.

The stock is currently trading at a forward price-to-earnings ratio (PER) of 3.97 times, with a dividend yield of 7.4%, compared with its small and mid-cap peer average PER of 7.9 times and dividend yield of 4.3%.

Hua Yang's cash and cash equivalents as of Dec 31, 2015 stood at RM36.1mil, with borrowings amounting to RM221.7mil.

The stock closed down one sen or 0.57% at RM1.75 yesterday, arriving at a market capitalisation of RM462mil.