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# Property sector to stay neutral this year

## With projected slower economic growth and GST implementation, developers not active in launching projects as buyers remain cautious

by Laura Lee

**THE** property sector has been given a neutral rating this year from an overweight one last year in the 11th edition of RHB Top Malaysia Small-Cap Companies. RHB Research Institute Sdn Bhd also expects transaction volumes and aggregate new property sales to fall by 3-5% and 10-20%, respectively.

Given the projected slower economic growth and the April implementation of the Goods and Services Tax (GST), it notes that year-to-date, developers have not been active in property launches as buyers remain cautious. "We expect the physical market to recover only from the late third quarter. Meanwhile, given challenging market conditions, landed township developments and affordable-housing players should fare better," it adds.

The two property stocks that made it into RHB's latest edition are Hua Yang Bhd and SHL Consolidated Bhd.

RHB analyst Alia Arwina remarks in the book that take-up rates for Hua Yang's ongoing projects have been "relatively decent, albeit slower than expected".

"We note its launches over the past six months have received lukewarm response, with take-up rates of only 25-30% so far.

"Given the soft outlook, its management is pacing its launches and aiming to launch about RM633 mil worth of new projects," he says.

One of them is the Mines South project with a gross development value (GDV) of RM368 mil.

### Hua Yang's niche in affordable housing

Aside from a cautious guidance of RM500 mil in new sales for its financial year ending March 31 next year, Alia says Hua Yang has delayed the launch of flagship Puchong West to FY17 when it expects the market to recover.

This mixed development, close to the bustling Pusat Bandar Puchong and next to the Damansara-Puchong Expressway, sits on 11.7ha (29.2 acres) and has a GDV of RM1.35 bil.

Pricing has yet to be finalised but indications are the units will be priced below RM500,000 each to maintain a competitive edge. As the company's developments are in relatively mature areas, Alia believes there will be demand for its affordable housing.

Describing Hua Yang as a mid-cap developer focusing on the affordable-housing segment priced mainly at RM400,000-RM500,000, she says 60% of its first-time local homebuyers are aged 25-40.

"Given its affordable product offering, we believe Hua Yang is in a better position than some of its peers to weather the current challenging property market conditions," she states, adding the company has a strong potential growth profile with RM2.75 bil in outstanding GDV on its portfolio.

Aside from land in the Klang Valley's hotspots, Alia says Hua Yang also has about 32ha (80 acres) in Johor and 144ha (359 acres) in Perak which have yet to be developed. With a combined GDV of RM1 bil, the projects will help drive earnings.

While the company has begun landbank replenishment for FY15, Alia expects more opportunities from acquisitions and major launches over the next one or two years, despite market uncertainties.

She reiterates Hua Yang will continue to focus on land in second-tier towns to maintain its gross margin of about 30%.

So far, it has acquired land at Pasir Puteh in Ipoh, Perak, Bukit Mertajam in Penang and Selayang in Selangor, with a GDV of RM800 mil. It recently announced plans for a highrise mixed development next to Taman Seri Murni in Batu Caves, Selangor, comprising 1,264 units of serviced apartments with clubhouse facilities, and 154 retail units.

The company, she says, will focus on existing projects in FY16, and has indicated it will launch projects for its recently-acquired land from FY17.

The analyst cautions Hua Yang's net gearing is expected to increase from 0.5 times to around 0.65 times over the short term as it is expected to draw down some of its RM250 mil sukuk facility to fund land acquisitions.

Hua Yang is led by Ho Wen Yan, who has been with the company for over 10 years. An architect by training, he was appointed group CEO in August 2010. He began as project coordinator at the company's Johor branch before moving up through the ranks.

***"Given its affordable product offering, we believe Hua Yang is in a better position than some of its peers to weather the current challenging property market conditions."***

– Alia

### Hua Yang's launches in FY16

| Project | GDV (RM mil) | Development type | Launch period |
|---|---|---|---|
| Bandar Universiti Seri Iskandar, Perak | 49 | Single-storey terraced houses | Q1FY16 |
| Taman Pulai Hijauan, Johor | 45 | Two-storey cluster houses | Q1FY16 |
| Mines South, Selangor | 368 | Serviced apartments and retail lots | Q2FY16 |
| Citywoods, Johor | 93 | Serviced apartments | Q2FY16 |
| Senawang Link, Negeri Sembilan | 19 | Semi-detached factories | Q2FY16 |
| Taman Pulai Indah, Johor | 18 | Shoplots and two-storey terraced houses | Q2/Q3 FY16 |
| Ridgewood, Perak | 41 | Cluster and link bungalows | Q3FY16 |

Artist's impression of Hua Yang's single-storey terraced houses to be launched at Bandar Universiti Seri Iskandar, Perak in Q1FY16

### SHL's flagship

As for SHL Consolidated, RHB analyst Chaw Sook Ting says Goodview Heights, with an estimated GDV of RM1.5 mil, will keep the company busy for the next six years and will drive earnings growth.

Close to Bandar Sungai Long and Kajang, the development is accessible via a direct exit from the Kajang Dispersal Link Expressway and two other exits from Kajang town.

Chaw says since the 71ha (177 acres) for this project were acquired 20 years ago, the company expects to enjoy low land costs with higher margins. It plans to develop a mixed township with residential units, a commercial hub and a park.

The Klang Valley-based developer's major projects are Bandar Sungai Long and Alam Budiman. It also has a construction team undertaking earthwork, building and infrastructure construction.

It owns the country's largest clay-brick plant in Sepang with an annual production capacity of 144 million bricks. The company is also involved with Sunway Quarry in quarrying granite on 80ha with large reserves in Kajang.

The company is managed by the Yap family, with senior management headed by executive directors Datuk Yap Teiong Choon and Datuk Yap Chong Lee, an engineer.

RHB Research Institute says the upper band in the market capitalisation of stocks has been lowered to RM2 bil from RM3 bil last year, adding 80% of this year's jewels have market capitalisation of below RM1 bil.

SHL Consolidated has a market capitalisation of RM782.1 mil and Hua Yang has RM543.8 mil based on March 13 closing share prices.

Aside from market capitalisation, this year's 30 selected stocks or "jewels" are chosen based on profit and management track records, price-earnings ratios, price-to-net tangible asset ratios, net gearings, returns on equity, compounded annual growth rates, dividend prospects as well as stock and industry-related focuses.

Of its top five picks for last year's edition, RHB Research Institute says property stock SBC Corporation Bhd (-34.8%) underwhelmed expectations, with the other four non-property stocks selected – Berjaya Auto Bhd, Inari Amertron Bhd, OCK Group Bhd and Press Metal Bhd – posting spectacular returns averaging 49.4%.

The research house says there is no liquidity hurdle imposed this year as it believes liquidity is a function of price, adding its picks are concentrated in 12 sectors against last year's 15.

Hua Yang group CEO Ho Wen Yan

SHL's affordable housing scheme in Alam Budiman, Shah Alam