

Hua Yang Berhad

FY19 Dragged by Associate

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FY19 recorded CNL of RM12.6m, which missed our estimated CNP of RM11.0m, mainly attributable to the losses in its associate MAGNA. Property sales of RM287m came within our, but fell short of management's target. No dividend declared as expected. Post-results, we cut FY20E earnings by 39% after lowering MAGNA's contribution. Maintain MP with lower TP of RM0.335 after lowering valuation for its stake in MAGNA.

Below expectation. FY19 recorded Core Net Losses (CNL) of RM12.6m, which missed our estimated Core Net Profit (CNP) of RM11.0m. Despite recording stronger-than-expected operating profit, the negative deviation was mainly attributable to the losses made by its 30.95% associate MAGNA. For FY19, the group recorded property sales of RM287m which came within our FY19E sales target of RM300m, but below management's target of RM400m. No dividend declared as expected.

Results' highlight. Despite stronger top-line numbers (+22%) YoY from better billings from its on-going projects and sales from completed units (inventories fell by 45%), FY19 recorded CNL of RM12.6m vs FY18 CNP of RM5.3m, mainly due to share of loss from its associate MAGNA. The losses made by MAGNA were attributable to: (i) reversal of sales of service apartments at Jalan Kuching, (ii) fair value loss adjustment on the Lai Meng land, and (iii) provision of deferred tax asset. **QoQ**, 4Q19 recorded CNL of RM21.3m vs 3Q19 CNP of RM5.8m mainly due to: (i) higher net interest expense (+186%), and (ii) losses made by its associate MAGNA due to the above-mentioned reasons.

Outlook. Despite the challenging operating landscape in the property sector, we believe HUAYANG is on the right track given their continuous effort in clearing inventories as shown by the 45% drop (from FY18 to FY19) in inventories from completed projects. Moreover, we are also comforted by the group's commitment to lower net gearing from 0.72x in FY18 to 0.68x currently with the disposal of 30% stake in Kajang Heights Land for RM21.0m. We expect to see more efforts to reduce gearing with FY20-21 net gearing estimated to taper to 0.66-0.65x. Unbilled sales currently stand at RM204.9m, providing slightly less than one year of earnings' visibility.

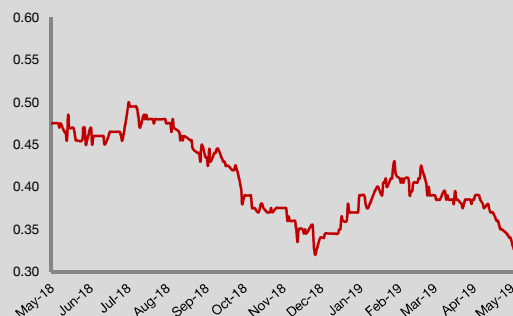
Cut FY20E earnings by 39%. Post results, we cut our FY20E earnings by 39% after we lowered associate MAGNA's contribution. We also introduce FY21E CNP of RM7.2m with sales target of RM251.6m. Our FY20E sales target of RM251.7m is lower than the management's guided sales target of RM400m because we prefer to remain conservative as HUAYANG had been unable to meet its own sales target for five consecutive financial years.

Maintain MARKET PERFORM with lower Target Price of RM0.335. We lower our target price to RM0.335 (from RM0.410) after lowering our valuation for its stake in MAGNA, which saw RNAV per share lowered from RM2.74 to RM2.23. To recap, we previously lowered our TP for MAGNA (report dated 17th May 2019) in view of the challenging property market and its earnings volatility. We ascribe an unchanged RNAV discount of 85%, which is at its historical trough level, as there is no strong catalyst ahead while earnings/sales had been volatile. At current Target Price, our valuation implies Fwd FY20-21E PBV of 0.2-0.2x, which is still at its historical trough levels.

MARKET PERFORM ↔

Price : RM0.330
Target Price : RM0.335 ↓

Share Price Performance



KLCI 1,623.67
YTD KLCI chg -4.0%
YTD stock price chg -4.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HYB MK Equity
Market Cap (RM m)	116.2
Shares Outstanding	352.0
52-week range (H)	0.50
52-week range (L)	0.30
3-mth avg daily vol:	617,498
Free Float	61%
Beta	0.8

Major Shareholders

Heng Holdings Sdn Bhd	31.8%
AIA Bhd	4.2%
Overseas Chinese Banking Corp Ltd	2.8%

Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	277.6	247.1	244.1
EBIT	31.7	24.9	22.8
PBT	-12.0	12.0	10.6
Net Profit (NP)	-20.5	8.2	7.2
Core Net Profit	-12.6	8.2	7.2
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-39%	n.a.
EPS (sen)	-5.8	2.3	2.1
EPS growth (%)	-564%	-140%	-12%
NDPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.63	1.53	1.55
PER (x)	n.m.	14.1	16.0
Price/NTA (x)	0.2	0.2	0.2
Net Gearing (x)	0.68	0.66	0.65
Dividend Yield (%)	0.0%	0.0%	0.0%

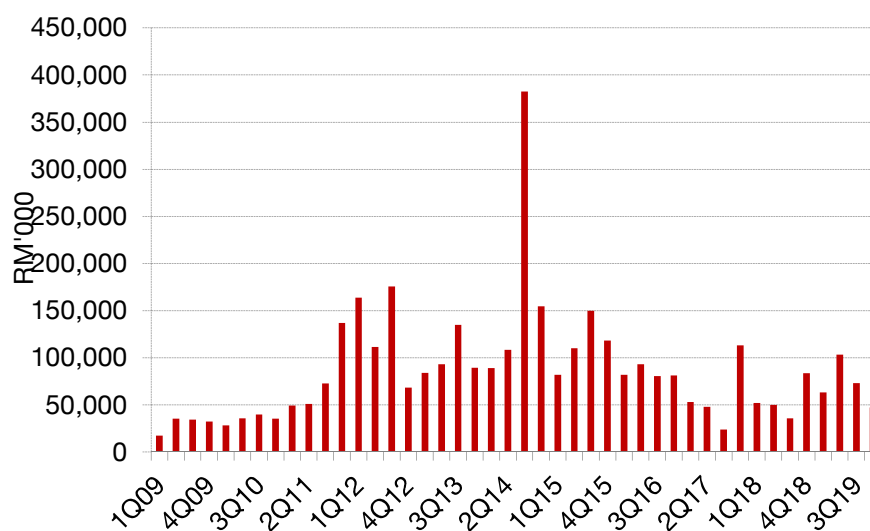
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OTHER POINTS

Risks to our call include: (i) higher/lower-than-expected sales, (ii) higher/lower-than-expected administrative costs, (iii) changes in real estate policies, and (iv) changes in lending environment.

Result Highlight								
FYE 31 Mar (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Revenue	77.9	68.4	14%	86.1	-10%	277.4	227.4	22%
Op costs w/o depn/amort	-67.0	-58.6	14%	-75.6	-11%	-243.5	-201.7	21%
Other Op Income	0.0	0.1	-73%	0.2	-76%	0.6	0.8	-32%
EBITDA	10.9	10.0	9%	10.6	2%	34.4	26.5	30%
EBIT	10.2	9.3	9%	9.9	2%	31.7	24.7	28%
Net Interest	-8.8	-3.1	186%	-7.5	18%	-19.2	14.0	n.m.
Associate & JCE	-20.4	1.6	n.m.	-2.2	828%	-16.6	1.3	n.m.
One-off items	-7.9	0.0	n.m.	0.0	n.m.	-7.9	0.0	n.m.
Pretax profit	-27.0	7.9	n.m.	0.3	n.m.	-12.0	12.0	n.m.
Taxation	-2.5	-2.2	12%	-1.9	33%	-8.8	6.7	32%
Minority Interests	0.3	0.1	170%	0.0	n.m.	0.4	0.0	n.m.
Net profit	-29.2	5.8	n.m.	-1.6	n.m.	-20.5	5.3	n.m.
Core Net profit	-21.3	5.8	n.m.	-1.6	n.m.	-12.6	5.3	n.m.
EPS (sen)	-6.0	1.6		-0.4		-3.6	0.1	
Diluted EPS (sen)	-6.0	1.6		-0.4		-3.6	0.1	
NDPS (sen)	0.0	0.0		0.0		0.0	2.0	
NTA/share (RM)	1.5	1.7		1.6		1.5	1.6	
Net gearing/(cash) (x)	0.68	0.70		0.72		0.68	0.72	
EBITDA margin	14%	15%		12%		12%	12%	
Pretax margin	-35%	11%		0%		-4%	5%	
Effective tax rate	9%	28%		656%		-74%	56%	

Source: Company, Kenanga Research

Sales Trends

Source: Company, Kenanga Research

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RNAV					
Projects	Stake (%)	Remaining GDV (RM'm)	Remaining Net Profit (RM'm)	WACC (%)	NPV (RM'm)
<u>On-going projects and future launches:</u>					
Sentrio Suites, KL	100%	26.4	1.3	10%	1.4
One South, Selangor	100%	146.1	0.8	10%	0.7
Metia Residence, Selangor	100%	11.9	10.2	10%	8.4
Citywoods, Johor	100%	185.5	12.9	10%	10.2
The Gardens, Johor	100%	61.5	4.3	10%	3.5
Taman Pulai Indah, Johor	100%	27.8	1.9	10%	1.6
Taman Pulai Hijauan, Johor	100%	138.9	9.7	10%	7.3
Greenview Residence, Perak	100%	1.7	0.1	10%	0.1
Ridgewood, Perak	100%	66.3	3.5	10%	2.9
Bandar Universiti Seri Iskandar, Perak	100%	850.5	29.6	10%	17.9
Senawang Link, NS	100%	36.4	1.9	10%	1.6
Puchong West, Selangor	100%	1345	70.3	10%	42.4
Mines South, Selangor	100%	368	19.2	10%	14.4
Stulang Darat, Johor	100%	94	4.9	10%	4.0
Pasir Puteh 1, Perak	100%	19	1.0	10%	0.8
Pasir Puteh 2, Perak	100%	84	4.4	10%	3.6
Bukit Mertajam 1, Penang	100%	243	12.7	10%	10.0
Seberang Prai, Penang	100%	311	16.3	10%	12.8
Kota Masai, Johor	100%	346.4	18.1	10%	12.4
Bandar Meru, Ipoh	100%	295.1	15.4	10%	10.6
Kajang Heights	70%	800	19.5	10%	13.4
		5,458.5			
<u>Unbilled sales:</u>					
Sub-total of unbilled sales for on-going projects		701.8	69.5		57.2
Stake in Magna Prima (30.95% at TP:RM0.740)					80.6
Shareholders fund					465.9
RNAV					783.5
Shares outstanding					352.0
RNAV/share					2.23
Applied discount					85%
Target Price					0.335

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP
ECO WORLD DEVELOPMENT GROUP	0.865	2,546.9	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.4	12.5	10.1	0.7	0.7	4.5%	1.2%	1.15	OP
HUA YANG BHD	0.330	116.2	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.1	16.0	0.2	0.2	1.4%	0.0%	0.335	MP
IOI PROPERTIES GROUP BHD	1.32	7,268.1	Y	06/2019	-15.0%	-6.0%	5.3%	0.7%	11.0	10.4	10.4	0.4	0.4	3.8%	3.8%	1.65	OP
LBS BINA GROUP BHD	0.515	802.9	Y	12/2019	31.3%	0.9%	7.9%	3.4%	9.4	8.7	8.5	0.6	0.5	6.6%	3.4%	0.675	MP
MAGNA PRIMA BHD	0.880	292.7	Y	12/2019	40.0%	11.1%	9637.5 %	338.9%	N.A.	1,168.2	266.2	0.8	0.8	0.1%	0.0%	0.740	UP
MAH SING GROUP BHD	0.910	2,209.2	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	13.5	13.8	13.7	0.6	0.6	5.2%	4.4%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.920	4,047.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	53.5	42.2	35.3	0.8	0.8	2.0%	1.9%	0.750	UP
SIME DARBY PROPERTY BHD	1.02	6,936.9	Y	12/2019	13.6%	12.5%	7.8%	16.9%	18.9	17.5	15.0	0.7	0.7	4.1%	2.3%	1.10	OP
SP SETIA BHD	2.13	8,589.2	Y	12/2019	7.8%	29.7%	71.3%	50.5%	39.1	22.8	15.2	0.6	0.6	2.5%	3.3%	2.45	OP
SUNSURIA BHD	0.650	578.4	Y	09/2019	-36.0%	25.2%	-31.8%	26.6%	4.2	6.3	4.9	0.6	0.6	10.4%	0.0%	0.760	OP
SUNWAY BHD	1.70	8,302.8	Y	12/2019	-2.7%	12.5%	-8.5%	22.5%	14.2	15.5	12.6	1.0	1.0	6.3%	3.5%	1.60	MP
UEM SUNRISE BHD	0.865	3,924.9	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	12.0	11.0	12.5	0.6	0.6	4.9%	1.2%	0.850	MP
UOA DEVELOPMENT BHD	2.30	4,240.6	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.7	12.2	12.1	0.9	0.9	7.4%	6.1%	2.15	MP
Simple Average					5.0%	4.8%	703.2%	34.9%	18.4	99.7	33.5	0.6	0.6	4.3%	2.2%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.360	280.9	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	9.0	49.3	17.6	0.3	N.A.	0.6%	1.1%	0.390	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,518.5	Y	03/2019	25.1%	12.1%	-2.3%	11.5%	7.1	7.3	6.5	1.1	1.1	16.2%	6.2%	2.33	BUY
PARAMOUNT CORP BHD	2.09	905.7	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.9	9.6	9.1	0.8	N.A.	7.2%	4.3%	2.56	BUY
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-14.3%	10.6%	-22.4%	10.1%	5.9	7.7	7.0	0.5	N.A.	7.1%	5.7%	0.897	BUY
TITIJAYA LAND BHD	0.295	375.6	Y	06/2019	-14.3%	13.9%	-28.4%	17.1%	5.2	7.2	6.2	0.3	0.3	3.9%	1.7%	0.360	BUY
YONG TAI BHD	0.330	176.3	Y	06/2019	28.1%	108.6%	-168.0%	66.5%	11.4	N.A.	11.1	0.4	0.5	-4.5%	0.0%	0.343	NEUTRAL

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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