

# Hunza Properties Bhd

*A vibrant landscape*

3 February 2010

Syariah-compliant stock

**OUTPERFORM** Maintained

**RM1.28** Target: RM1.93

Mkt.Cap: RM251m/US\$73m

Property Devt &amp; Invst

HPB MK / HUZP.KL

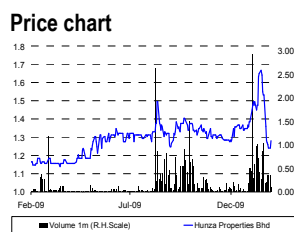
Loke Wei Wern +6(03) 2084 9946 – weiwern.loke@cimb.com

- Within expectations; maintain OUTPERFORM.** 1HFY6/10 core net profit was within our expectations but topped consensus estimates by 24% on an annualised basis. As expected, no dividend was declared for the quarter. Given the improving consumer sentiment and pace of construction work, we expect 1H's solid performance to be sustainable. We are leaving our FY10 earnings unchanged but are cutting FY11-12 earnings by 7-9% after scaling back our sales assumptions for the Mutiara Seputeh project. However, our target price stays at RM1.93 as we continue to apply a 40% discount to its fully-diluted RNAV. The stock remains an OUTPERFORM on the potential re-rating catalysts of 1) stronger property sales, 2) better-than-expected construction progress, 3) margin expansion from lower building costs, and 4) increasing investor interest in the Penang property market.
- Another firm set of results,...** 1HFY10 net profit leapt 108% yoy as revenue soared 134% yoy on the back of 1) contribution from Diamaward which Hunza Prop acquired last year, and 2) increased sales and billings, particularly for its Infinity project. Diamaward is the sole developer of the Infinity project.
- ...thanks to Infinity and Gurney Paragon.** Hunza Prop chalked up RM37m worth of sales in 2QFY10, 5% shy of 1QFY10's RM39m but well ahead of the RM10m achieved in 2QFY09 (Figure 1). We attribute the marked yoy improvement to an upturn in consumer sentiment, which has helped raise the take-up rate from 71% at end-Sep 09 to 75% at end-Dec 09 for Infinity, and from 55% to 58% for Gurney Paragon. The take-up for Mutiara Seputeh has also risen from 15% to 25%. Infinity is on target for completion by year-end, with vacant possession expected by Mar 10. The group's total unbilled sales stood at RM194m at end-Dec 09, down from RM220m at end-Sep 09.
- Cutting FY11-12 earnings.** We are leaving our FY10 earnings projection unchanged but are lowering FY11-12 numbers by 7-9% after scaling back our sales assumptions for the Mutiara Seputeh project as only one of the 10 remaining bungalows has been sold since its relaunch.

## Results comparison

FYE Jun (RM m)	2QFY10	2QFY09	yoy % chg	qoq % chg	2QFY10 Cum	2QFY09 Cum	yoy % chg	Prev. FY10F	Comments
Revenue	59.4	24.6	141.4	4.0	116.5	49.8	133.8	234.3	In line. Driven by Infinity and Gurney Paragon condo.
Operating costs	(41.6)	(14.8)	181.5	5.2	(80.9)	(32.0)	152.8	(160.0)	Within expectations.
EBITDA	17.8	9.8	81.0	1.4	35.6	17.8	99.7	74.3	In line. Driven by Infinity and Gurney Paragon condo.
EBITDA margin (%)	30.0	39.9			30.6	35.8		31.7	
Depn & amort.	(0.5)	(0.2)	126.8	2.6	(1.0)	(0.4)	149.0	(1.0)	Above expectations.
EBIT	17.3	9.6	79.9	1.4	34.6	17.4	98.5	73.3	Below due to higher depreciation.
Interest expense	(0.2)	(0.5)	(62.6)	(25.1)	(0.4)	(1.1)	(59.3)	(0.7)	Within expectations.
Interest & invt inc	0.4	0.6	(33.8)	8.9	0.7	0.9	(15.4)	2.0	Below on lower cash holdings.
Associates' contrib	-	-	nm	nm	-	-	nm	-	None as expected.
Exceptionals	-	-	nm	nm	-	-	nm	-	None as expected.
<b>Pretax profit</b>	<b>17.5</b>	<b>9.7</b>	<b>80.5</b>	<b>0.5</b>	<b>34.9</b>	<b>17.2</b>	<b>102.6</b>	<b>74.6</b>	Annualised 93% of full-year forecast.
Tax	(4.5)	(2.6)	73.0	(0.9)	(9.1)	(4.8)	91.1	(18.7)	
Tax rate (%)	25.9	27.0			26.1	27.7		25.0	Above due to non-deductible expenses and
Minority interests	0.1	(0.3)	120.1	nm	(0.1)	(0.1)	(11.3)	(2.5)	losses of certain companies that cannot be set-off.
<b>Net profit</b>	<b>13.0</b>	<b>6.8</b>	<b>92.4</b>	<b>2.4</b>	<b>25.7</b>	<b>12.4</b>	<b>107.7</b>	<b>53.5</b>	Annualised 96% of full-year forecast. Strong quarters
<b>Core net profit</b>	<b>13.0</b>	<b>6.8</b>	<b>92.4</b>		<b>25.7</b>	<b>12.4</b>	<b>107.7</b>	<b>53.5</b>	ahead.
EPS (sen)	8.9	4.7	91.2	1.4	17.7	8.5	107.2	27.3	Annualised 96% of full-year forecast. Strong quarters
Core EPS (sen)	8.9	4.7			17.7	8.5		27.3	ahead.

Source: Company, CIMB Research



Source: Bloomberg

## Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (RM m)	245.3	91.4	234.3	249.7	185.8
EBITDA (RM m)	68.6	40.1	74.3	67.5	46.2
EBITDA margins (%)	28.0%	43.9%	31.7%	27.0%	24.9%
Pretax profit (RM m)	68.3	39.1	74.6	70.5	52.1
Net profit (RM m)	48.4	27.6	53.5	51.8	36.7
EPS (sen)	34.5	17.1	27.3	26.5	18.7
EPS growth (%)	3.1%	(50.4%)	59.4%	(3.0%)	(29.3%)
P/E (x)	3.7	7.5	4.7	4.8	6.8
FD core EPS (sen)	26.7	13.9	22.6	22.0	15.7
FD core P/E (x)	4.8	9.2	5.7	5.8	8.2
Gross DPS (sen)	12.4	7.0	10.0	10.5	10.0
Dividend yield (%)	9.7%	5.5%	7.8%	8.2%	7.8%
P/BV (x)	0.7	0.6	0.6	0.6	0.5
ROE (%)	17.2%	8.7%	14.4%	12.0%	7.9%
Net gearing (%)	21.7%	24.6%	31.0%	24.5%	23.7%
P/FCFE (x)	3.8	(3.7)	3.8	3.5	7.9
EV/EBITDA (x)	4.0	7.9	5.6	5.9	8.7
% change in EPS estimates			-	(8.7%)	(7.0%)
CIMB/Consensus (x)			1.06	1.01	1.13

Source: Company, CIMB Research, Bloomberg

## Figure 1: Property sales

	2QFY10	2QFY09	yoy	qoq	1QFY10
	RM m	RM m	increase	increase	RM m
Bandar Putra Bertam	0.0	1.0	-100%	-100%	2.0
Sungai Petani	0.0	0.0	nm	nm	0.0
Alila	7.0	3.0	133%	75%	4.0
Mutiara Seputeh	4.0	0.0	nm	nm	0.0
Gurney Paragon	14.0	0.0	nm	75%	8.0
Infinity	11.0	2.0	450%	-56%	25.0
Others	1.0	4.0	-75%	nm	0.0
<b>Total</b>	<b>37.0</b>	<b>10.0</b>	<b>270%</b>	<b>-5%</b>	<b>39.0</b>

Source: Company, CIMB Research

## Figure 2: Unbilled sales as at end-Dec 09

	RM m
Gurney Paragon	151.0
Infinity	43.0
<b>Total (including Infinity)</b>	<b>194.0</b>

Source: Company, CIMB Research

## Figure 3: RNAV computations

Project	Size/units	Market value (RM psf)	Stake	Value (RM m)
Bandar Putra Bertam - Residential	435.6	10.00	70%	132.8
Bandar Putra Bertam - Commercial	48.4	40.00	70%	59.0
Sungai Petani, Kedah	393.0	3.00	100%	51.4
Alila, Penang	5.0	175.00	100%	38.1
Mutiara Seputeh	12.0	90.00	100%	47.0
Gurney Drive	3.5	400.00	100%	61.0
Infinity	3.0	200.00	90%	23.5
Alila II, Penang	9.6	175.00	80%	58.5
Surplus value from shopping mall & retail lots				186.1
Surplus value from Phase 3's office lots				14.0
Fixed assets				48.0
Net current asset less dev. prop.				44.5
Total long-term borrowings				(86.2)
Proceeds from rights issue and warrants conversion				99.5
<b>Total revised RNAV</b>				<b>777.4</b>
Fully diluted no. of shares post cash call exercise (m)				241.1
<b>Revised fully-diluted RNAV per share (RM)</b>				<b>3.22</b>
<b>Target price @ 40% discount to fully-diluted RNAV/share estimate (RM)</b>				<b>1.93</b>

Source: Company, CIMB Research

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**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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## RECOMMENDATION FRAMEWORK #2 \*\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** Expected positive total returns of 15% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -15% and +15% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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