

Hunza Properties Bhd

A paragon of conservatism

11 September 2009

Syariah-compliant stock

TRADING BUY Maintained**RM1.46** Target: RM2.03

Mkt.Cap: RM151m/US\$43m

Property Devt & Invst

2HFY09 results briefing

Hunza Properties held an analyst briefing yesterday following the release of its 2HFY6/09 results on 25 Aug 09. Similar to the last meeting in March, the briefing was mainly a Q&A session with Hunza Prop's founder and executive chairman, Dato' Dr. Khor Teng Tong. The three main points we took away were: 1) The company expects to start piling works for Gurney Paragon mall in 1Q next year. 2) Hunza Prop will launch its bungalows in Mutiara Seputeh this weekend following the completion of construction. 3) The performance in FY10 and FY11 will largely be supported by its Gurney Paragon condo and Infinity project. Management's slightly conservative view on the property market was a negative surprise. We gather that it is not aggressively looking for landbank, preferring instead to concentrate on the projects at hand.

Key developments

Green light for Gurney Paragon mall. Save for the approval of the amendments to Gurney Paragon mall's design works, Hunza Prop has obtained all the necessary approvals for construction and hopes to start piling by early 2011. Including land cost, the total construction cost for the mall is estimated at c.RM400m. Assuming construction starts early next year, the mall could be ready by 2012.

Funding. The construction of the mall will be partly financed by internally generated funds, comprising its current cash on hand, progress billings and future sales of its existing projects. Funding is also expected to come from external borrowings and a rights issue. Given the improvement in investors' sentiment and the uptick in the stock market, we do not rule out the possibility of a rights issue by the end of this year.

Gurney Paragon condo's stop-work order. Hunza Prop was slapped with a stop-work order on 6 July after a 9m stretch of road by the adjacent Gurney Park condominium sank. Following the completion of the rectification works by Hunza Prop, the stop-work order was lifted a month later and construction resumed. After this slight hiccup, construction for Gurney Paragon is now in full swing and the condo is on track for completion by end-2010 or early-2011. Management aims to construct up to 22 to 25 storeys by year-end.

Arbitration notice served on basement contractor. On 3 Sep 09, Hunza Prop issued a notice of arbitration to PLB-KH Bina, the basement contractor for its Gurney Paragon condo for breaches of contract which we gather involved several work delivery delays. Hunza Prop is still in the midst of assessing the loss and damage incurred from the breaches of contract. We do not expect this arbitration to disrupt Gurney Paragon condo's end-2010 to early-2011 completion timeline. While the basement works are contracted to external parties, construction of its superstructures, i.e. the two towers, is undertaken by Hunza Prop's construction unit, Masuka Bina, and is progressing well.

Gurney Paragon, half taken up. The overall take-up rate stood at 53% as at end-Jun 09, a marginal improvement from end-Mar 09's 51%. While the slight increase in the 2Q take-up rate was not impressive, it is still positive compared to the flat take-up recorded in 1Q this year. Sales of the condos should improve given the pick-up in consumer sentiment. We gather that recent transacted prices averaged RM650/psf compared with RM400/psf when it was first launched in 2007.

Infinity near completion and... The Infinity project looks well on course for completion by Dec 09. Construction progress has moved on to the interior works. As at end-Jun 09, the overall take-up rate stood at 61%, slightly higher from end-Mar 09's 58%. Infinity has unbilled sales of RM51m which should be recognised by this year,

with estimated pretax margins of close to 40%. We gather that the highest transacted price for the Infinity is c.RM750/psf, which is much higher than the c.RM400/psf it commanded during its launch in 2007.

...now fully owned by Hunza Prop. The Infinity project is now fully owned by Hunza Prop following the latter's acquisition of 100% of the project's sole developer, Diamaward (M) Sdn Bhd, last month for slightly under RM3m. Hunza Prop was previously the project manager cum consultant for the implementation of the Infinity project which entitled it to only a share of the project's profits.

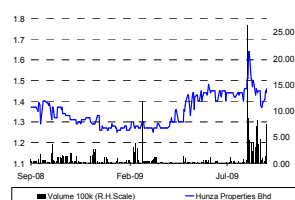
Launch of Mutiara Seputeh bungalows. Hunza Prop will be relaunching its Mutiara Seputeh bungalows following the completion of construction. A total of 11 units are on offer at an average price of RM4m-5m/unit, higher than the previous price tag averaging RM3.5m. To recap, initial response to the project was weak, prompting the company to withhold sales towards the end of last year until construction is completed and consumer sentiment improves.

Valuation and recommendation

Brighter days ahead. Hunza Prop's 4QFY09 results were generally encouraging and suggest a turnaround in consumer sentiment. In addition, newly launched property projects in Penang such as SP Setia (SBSP MK, Trading Buy)'s Setia Vista, Mah Sing (MSGB MK, Trading Buy)'s Southbay Residences and Eastern & Oriental (EAST MK, Trading Buy)'s Seri Tanjung Pinang have been quite well-received, reaffirming our bullish view on the sector. We think that Hunza Prop, which has arguably the largest exposure to the Penang market, is well-positioned to ride on the strength in demand for Penang properties. Total unbilled sales currently stand at RM200m, which we expect the company to recognise over the next two years.

Maintain TRADING BUY. Our FY10-12 earnings estimates have been raised by 2-4% to reflect Hunza Prop's full entitlement to Infinity's earnings following the acquisition of Diamaward. However, our target price remains at RM2.03, still pegged to a 40% discount to RNAV. Valuation is undemanding at a 57% discount to RNAV and 32% discount to its NTA/share. Hunza Prop is also trading at the lowest P/E in the property sector. We reiterate our TRADING BUY recommendation, which is underpinned by the potential re-rating catalysts of the 1) increasing investor interest in the Penang property market, 2) better-than-expected construction progress, and 3) margin expansion from lower building material costs.

Price chart



Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (RM m)	245.3	91.8	173.3	203.2	185.2
EBITDA (RM m)	68.6	40.1	56.0	60.9	55.0
EBITDA margins (%)	28.0%	43.6%	32.3%	29.9%	29.7%
Pretax profit (RM m)	68.3	39.1	53.3	56.9	49.4
Net profit (RM m)	48.4	27.6	38.9	41.1	36.6
EPS (sen)	34.5	18.3	25.8	27.2	24.3
EPS growth (%)	3.1%	(47.0%)	41.2%	5.4%	(10.9%)
P/E (x)	2.9	5.5	3.9	3.7	4.1
Gross DPS (sen)	12.4	7.5	10.0	10.5	10.0
Dividend yield (%)	12.4%	7.5%	10.0%	10.5%	10.0%
P/BV (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	17.2%	8.7%	11.5%	11.1%	9.2%
Net gearing (%)	21.7%	24.6%	59.9%	59.1%	63.4%
P/FCFE (x)	2.9	(2.7)	47.4	5.7	(5.1)
EV/EBITDA (x)	3.4	6.5	7.2	6.9	8.3
% change in EPS estimates			4.2%	4.3%	1.9%
CIMB/Consensus (x)			1.01	1.05	1.01

Source: Company, CIMB Research, Bloomberg

Figure 1: RNAV computation for Hunza Properties

Project	Size/units	Market value (RMpsf)	Stake	Value (RMm)
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 warrants conversion & rights issue				122.3
Total revised RNAV				800.2
Fully diluted no. of shares post cash call exercise (m)				236.7
Revised RNAV per share (RM)				3.38
Target price @ 40% discount to RNAV/share estimate				2.03

Source: Company, CIMB Research

For more information, kindly contact Loke Wei Wern at (603) 2084 9946 or weiwern.loke@cimb.com

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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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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.

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