

Hunza Properties

A work in progress

OUTPERFORM	Maintained
RM2.69	@13/11/07
Target: RM4.50	Mkt.Cap: RM366.8m
Properties	

HPB MK / HUZP.KL

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- **Broadly in line.** Although Hunza Properties' annualised 1QFY6/08 net profit was 9% below our forecast and 6% below consensus, we regard this set of numbers to be largely within our expectations. This is because profit bookings should be more significant in subsequent quarters when Gurney Paragon and Infinity reach the required construction milestone. Consistent with last year, no dividends were declared for the quarter.
- **Anchored by Alila and Mutiara Seputeh.** Net profit rose 67% yoy on the back of a 86% jump in revenue, led primarily by stronger sales and steady construction progress for its Alila and Mutiara Seputeh projects.
- **Profitability blip.** 1Q pretax margins fell 4.0% pts yoy, dragged down by one-off provisions relating to bonds that it subscribed to as a condition of its CLO debt. Nevertheless, we believe the margin compression is a temporary setback and expect better quarters ahead as i) construction works for Alila and Mutiara Seputeh approach the tail end, ii) Gurney Paragon makes maiden contributions and iii) the group earns project management profits from Infinity.
- **Strong property sales.** The group sold properties worth RM86.4m during the quarter, a modest increase of 5% qoq but a whopping 70% rise yoy (Figure 1). Similar with the previous quarter, the yoy push came from maiden contributions from its newest project, the Gurney Paragon. Its maiden Klang Valley-based Mutiara Seputeh project was the second largest sales contributor, raking in some RM26m sales during the period.
- **FY08-10 earnings projections intact.** We retain our FY08-10 earnings forecasts as we expect this quarter's underperformance to be covered in the remaining quarters. Our earnings forecasts are still conservative vis-à-vis management's guidance.
- **Reiterate OUTPERFORM.** In the absence of any earnings revision, our rights-adjusted target price is kept at RM4.50, as we continue to tag a 12x P/E multiple (40% discount to the sector's 20x target P/E) to CY09 EPS. This deep-value developer with Penang exposure should OUTPERFORM given the i) upside to our conservative sales and margin assumptions, ii) entry of reputable partners for Gurney Paragon and iii) landbank acquisitions.

Results comparison

FYE June (RM m)	1QFY08	1QFY07	yoy %	4QFY07	qoq %	Prev.	
			chg		chg	FY08F	Comments
Revenue	67.7	36.4	86.3	69.7	(2.8)	254.6	Higher sales & steady construction progress at Alila & Seputeh
Operating costs	(50.1)	(25.3)	97.6	(47.3)	5.8	(176.3)	Annualised figures are 14% higher but in line with higher topline
EBITDA	17.7	11.0	60.4	22.4	(20.9)	78.3	Lower-than-expected margins as newer projects have yet to reach construction milestone to book profits
EBITDA margin (%)	26.1	30.3		32.1		30.8	
Depn & amort.	(0.2)	(0.2)	(17.1)	(0.2)	(0.6)	(0.9)	Below our full-year forecast
EBIT	17.5	10.8	61.9	22.2	(21.1)	77.5	
Interest expense	(0.0)	(0.0)	-	(0.0)	20.0	(0.3)	Slightly below expectations
Interest & invt inc	0.0	0.0	(20.0)	0.1	(29.4)	0.8	Below our projections despite higher deposits as at end-Sep
Exceptionals	-	-	nm	2.9	nm	-	Revaluation gains on investment properties during 4Q
Pretax profit	17.5	10.8	61.6	25.1	(30.2)	78.2	Accounting for 22% of our full-year estimate
Tax	(5.1)	(3.1)	61.7	(8.4)	(39.5)	(20.3)	Higher due to certain non-deductible expenses
Tax rate (%)	28.9	28.9		33.4		26.0	
Minority interests	(0.4)	(0.5)	(17.2)	(0.6)	(38.0)	(5.0)	Minimal earnings recognition from its JV projects
Net profit	12.1	7.2	66.8	16.1	(25.0)	52.9	Annualised numbers are 9% below our estimate
Core net profit	12.1	7.2	66.8	13.2	(8.5)	52.9	
EPS (sen)	8.9	6.4	40.0	10.7	(16.5)	39.1	Stronger contributions expected in subsequent quarters

Source: CIMB/CIMB-GK Research

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	190.0	254.6	303.7	298.2
EBITDA (RM m)	35.0	58.4	78.6	106.5	130.4
EBITDA margins (%)	30.0	30.7	30.9	35.1	43.7
Pretax profit (RM m)	34.8	60.7	78.2	107.0	130.9
Net profit (RM m)	19.8	39.4	52.9	73.5	86.9
EPS (sen)	17.1	29.1	39.1	54.3	64.2
EPS growth (%)	+21%	+70%	+34%	+39%	+18%
P/E (x)	15.7	9.2	6.9	5.0	4.2
Core EPS (sen)	17.1	27.0	39.1	54.3	64.2
Core EPS growth (%)	+21%	+58%	+45%	+39%	+18%
Core P/E (x)	15.7	10.0	6.9	5.0	4.2
FD EPS (sen)	17.1	29.1	34.0	47.1	55.6
FD P/E (x)	15.7	9.2	7.9	5.7	4.8
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	2.8	4.6	5.0	5.4	5.8
P/NTA (x)	1.6	1.4	1.3	1.0	0.9
ROE (%)	10.6	17.6	19.7	23.0	22.6
Net gearing (%)	72.3	61.0	64.8	53.1	36.5
P/CF (x)	11.2	6.7	5.0	3.6	3.1
EV/EBITDA (x)	11.0	6.9	5.6	4.1	3.1
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.03	1.06	na

Source: Company, CIMB/CIMB-GK estimates, Reuters Estimates

Figure 1: Property sales summary

	1QFY08	1QFY07	yoy increase	4QFY07	qoq increase
	RM m	RM m	%	RM m	%
Bandar Putra Bertam	3.9	2.2	77%	5.1	-23%
Sungai Petani	1.9	1.5	22%	2.9	-35%
Alila	12.7	7.3	74%	16.0	-21%
Mutiara Seputeh	26.2	39.7	-34%	16.6	57%
Gurney Paragon	41.8	0.0	n/m	41.8	0%
Total	86.4	50.8	70%	82.4	5%
Infinity - Project management	26.4	0.0		26.4	
Total (including Infinity)	112.8	50.8	122%	108.8	4%

Source: Company, CIMB/CIMB-GK Research

Cash call. The Securities Commission and Bank Negara recently approved the 1-for-4 rights issue together with one free detachable 5-year warrant that the group proposed in August. We understand that management have submitted the necessary documentation for Bursa Malaysia's approval. Pricing will be determined once these two approvals are secured along with shareholders' consent, probably by the end of this year. Management expect the entire exercise to be completed by early CY08.

Another 10.8m warrants converted during 1Q. During 1Q, another 10.8m warrants (RM1.32, HPBW MK, exercise price RM1.50, expiry 10 March 2009) were converted, enlarging its share base by some 8% to 146m.

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