

Hunza Properties Bhd

Post-election adjustments

OUTPERFORM	Maintained
RM2.27	Target: RM2.94
Mkt.Cap: RM334m/US\$106m	
Property development & investment	

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Political risks emerging

The outcome of the recent general elections confounded all the political pundits as big opposition wins denied Barisan Nasional (BN) a two-thirds majority in parliament for the first time since 1969. Also a first is the opposition's control of five out of Malaysia's 13 states including the rich and developed states of Selangor and Penang. This is where the change in political landscape will have the biggest impact on the property sector.

Some potential pluses and minuses. Opposition parties' control of the Selangor and Penang state governments is likely to have a mixed impact on the process of development in those states. The potential removal of bumiputra quotas and discounts on properties sold to bumis may be a positive for corporate earnings and cash flow. Another potential plus is speedier approvals by the state, particularly for Penang, over the medium term. But in the immediate term, there may be approval delays until the novice state leaders learn the administrative ropes.

Property sector outlook less bullish. We believe that the longer-term prospects for the property sector are still promising due to previous government policies: 1) relaxation of Foreign Investment Committee regulations, 2) suspension of real property gains tax and 3) monthly withdrawal by EPF contributors. However, we expect political concerns to weigh on the stock market and the sector in the coming months. The shorter-term outlook for the sector is also likely to be beset by political intrigue, stock market volatility and global economic issues.

Business as usual

Political uncertainty is more apparent for Hunza Properties as its main geographical focus is in Penang where the opposition has just formed the new state government. Nevertheless, we do not expect the group's development activities to be severely affected. For one, construction of its two newest projects, Gurney Paragon and Infinity, is already in full swing. Alila is almost nearing completion and the CF is expected to be issued at the end of this month.

Nod for mall in final stage. However, we understand that the local council has yet to approve the final plans of its upcoming shopping mall. Approvals might be delayed as the new state leaders will need to familiarise themselves with the administrative aspects before the work flow resumes smoothly. But even if there are delays, it will not affect our forecasts as we have not imputed any rental income since we only expect recurring income to kick in post FY10.

Anchored by RM171m unbilled sales. As at end-Jan 08, the group's unbilled sales stood at RM170.5m, the bulk of which comes from Gurney Paragon. Including Infinity's portion, Hunza Properties' unrecognised billings would reach RM257.3m. Assuming a conservative 20% net profit margin, locked-in earnings have reached RM51.5m.

Figure 1: Unbilled sales as at end-Jan 08

	RM m
Bandar Putra Bertam	0.2
Alila	14.7
Mutiara Seputeh	13.6
Gurney Paragon	142.0
Total	170.5
Infinity	86.8
Total (including Infinity)	257.3

Source: Company, CIMB Research

Valuation and recommendation

Twaking earnings down 2-4%. As our forecasts do not imply any price appreciation for its development projects, we are shaving our FY08-10 numbers by 1.9-3.8%, to reflect more modest take-up rates. Having said that, we do not expect take-up rates to slow down significantly given the strategic location, mid-high end focus and unique traits of its projects. For Hunza Properties, the potential delay in launches will not affect our earnings numbers significantly as its earnings over the next three years will be largely anchored by existing projects. For Alila II, which is expected to come onstream in FY10, we have assumed only minimal contributions in FY10.

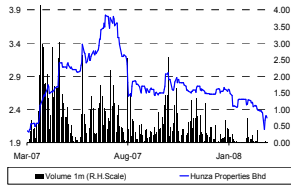
Maintain OUTPERFORM. We change our target price methodology from P/E (40% discount to our previous sector target P/E of 20x) to RNAV, leading to a lower end-08 target price of RM2.94 (RM4.50 previously). Our new target price factor in a 20% discount to our RNAV estimate of RM3.68 in view of Hunza Prop's smaller market cap and poor share liquidity. The stock remains an OUTPERFORM with key re-rating catalysts being i) higher-than-expected sales and margins, ii) entry of reputable partners for its shopping mall, iii) landbank acquisitions and iv) higher dividends.

Figure 2: Hunza Properties' RNAV computation

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				75.0
Associated company				0.0
Net current asset less dev. prop.				36.8
Total long term borrowings				(135.7)
Proceeds from warrants conversion & rights issue				222.5
Total revised RNAV				870.1
Fully diluted no. of shares post cash call exercise (m)				236.6
Revised RNAV per share (RM)				3.68

Source: Company, CIMB Research

Price chart



Source: Bloomberg

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	254.3	296.7	297.6
EBITDA (RM m)	35.0	55.2	76.7	100.1	124.9
EBITDA margins (%)	30.0%	29.6%	30.2%	33.8%	42.0%
Pretax profit (RM m)	34.8	57.5	78.0	104.2	128.2
Net profit (RM m)	19.8	39.2	55.7	70.7	84.5
EPS (sen)	17.1	29.0	38.6	49.1	58.6
EPS growth (%)	21.2%	69.6%	33.2%	27.1%	19.5%
P/E (x)	13.3	7.8	5.9	4.6	3.9
Core EPS (sen)	17.1	27.4	38.6	49.1	58.6
Core EPS growth (%)	21.2%	60.4%	40.8%	27.1%	19.5%
Core P/E (x)	13.3	8.3	5.9	4.6	3.9
FD core EPS (sen)	13.4	24.0	35.7	45.3	54.1
FD core P/E (x)	16.9	9.5	6.4	5.0	4.2
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	3.3%	5.5%	5.9%	6.4%	6.8%
P/BV (x)	1.4	1.2	1.0	0.9	0.8
ROE (%)	10.6%	17.5%	19.6%	20.8%	21.0%
Net gearing (%)	72.4%	61.4%	48.6%	40.6%	27.4%
P/FCFE (x)	13.6	32.8	3.9	5.9	12.6
EV/EBITDA (x)	12.5	9.1	6.7	5.2	4.0
% change in EPS estimates			-1.9%	-3.8%	-2.7%
CIMB/Consensus (x)			0.99	1.14	0.97

Source: Company, CIMB Research, Bloomberg

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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.

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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.

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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

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