CIMB Research Report

COMPANY UPDATE

21 April 2008

MALAYSIA

Hunza Properties Bhd

Feeling the post-election impact

OUTPERFORM	Maintained
RM1.88	@18/04/08
	Target: RM2.20

Property development & investment

HPB MK / HUZP.KL   **Soh May Yee** +60 (3) 2084 9964 – mayyee.soh@cimb.com

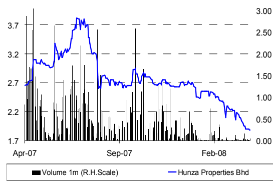
- **Lacklustre sales in 3QFY08.** 3QFY08 property sales amounted to RM20.7m, down 25% yoy and a staggering 83% qoq. Although 3Q is traditionally weaker owing to the CNY festive season, this quarter's weakness was also likely due to cautious buying sentiment during the elections.
- **3QFY08 results preview.** We gather that 9MFY08 results, to be released in mid-May 08, will likely come in short of our expectations, owing to poorer-than-expected property sales and minimal profit recognition from Gurney Paragon and Infinity.
- **Cutting our FY08-10 EPS by 12-13%.** In view of poorer-than-expected sales during 3Q, we are reducing our FY08-10 EPS forecasts by 11.9-13.4% to mainly reflect our scaled back property sales assumptions going forward.
- **Maintain OUTPERFORM.** Given the potential earnings disappointment and high political risk, we now attach a wider 40% discount (previously 30%) to our unchanged RNAV of RM3.68 to arrive at a lower target price of RM2.20 (previously RM2.58). Nevertheless, we are maintaining an OUTPERFORM rating as valuations are still very compelling despite the earnings downgrade with a dividend yield of 7%. Key re-rating catalysts include: i) likely sales pick up from up-coming overseas marketing drive, ii) approvals for its shopping mall, iii) resolution to the heritage issue and iv) more landbank acquisitions. We believe any negative reaction to up-coming poor results provides an opportunity to accumulate for better performances ahead.

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	226.2	259.2	275.8
EBITDA (RM m)	35.0	55.2	67.7	88.1	113.6
EBITDA margins (%)	30.0%	29.6%	29.9%	34.0%	41.2%
Pretax profit (RM m)	34.8	57.5	69.2	92.6	116.7
Net profit (RM m)	19.8	39.2	49.2	63.7	74.8
EPS (sen)	17.1	29.0	33.4	43.2	50.8
EPS growth (%)	21.2%	69.6%	15.2%	29.3%	17.5%
P/E (x)	11.0	6.5	5.6	4.4	3.7
Core EPS (sen)	17.1	27.4	33.4	43.2	50.8
Core EPS growth (%)	21.2%	60.4%	21.9%	29.3%	17.5%
Core P/E (x)	11.0	6.9	5.6	4.4	3.7
FD core EPS (sen)	13.4	24.0	31.0	40.0	47.0
FD core P/E (x)	14.0	7.8	6.1	4.7	4.0
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	4.0%	6.6%	7.2%	7.7%	8.2%
P/BV (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	10.6%	17.5%	17.4%	19.1%	19.4%
Net gearing (%)	72.4%	61.4%	46.7%	41.0%	31.7%
P/FCFE (x)	11.3	27.1	3.0	5.4	30.9
EV/EBITDA (x)	11.2	8.2	6.8	5.3	4.1
% change in EPS estimates			-13.4%	-11.9%	-13.4%
CIMB/Consensus (x)			0.96	0.96	0.89

Source: Company, CIMB Research, Bloomberg

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	RM277m/US$88m
12-mth price range	RM3.82/RM1.88
3-mth avg daily volume	0.1m
# of shares (m)	147
Est. free float (%)	19.0
Conv. secs (m)	9.0
Conv. price (RM)	1.50

Share price perf. (%)	1M	3M	12M
Relative	(21.4)	(19.1)	(26.6)
Absolute	(16.1)	(28.8)	(28.8)

Major shareholders	% held
Dato' Khor Teng Tong & Family	54.3
Lembaga Tabung Haji	8.3
Yayasan Bumiputra Pulau Pinang	7.5

Source: Company, CIMB Research, Bloomberg

Property sales update

Lacklustre sales in 3QFY08 ... During 3QFY08, the group sold properties worth RM20.7m collectively, down 25% yoy and a staggering 83% qoq (Figure 1). Including RM32.6m sales from Infinity, which is undertaken on a project management basis, 3Q08's property sales amounted to RM53.3m, up 92% yoy but still weaker on a sequential basis. Although 3Q is traditionally weaker owing to the CNY festive season, this quarter's weakness was also likely affected by the cautious buying sentiment prevailing during the recent general election period.

… bringing YTD figure to RM228.5m. Including the RM207.8m sales achieved during 1H08, YTD property sales amount to RM228.5m, which is double 9MFY07's figure. We note that the yoy uptick in cumulative property sales is mainly due to maiden contributions from its latest Gurney Paragon project. Including Infinity's portion, 9MFY08 property sales amounted to RM326.1m, which is a record for the group.

Figure 1: Property sales summary

	3QFY08 RM m	3QFY07 RM m	yoy increase %	qoq increase %	9MF08 RM m	9MFY07 RM m	yoy increase %
Bandar Putra Bertam	2.5	5.4	-54%	19%	8.5	18.4	-54%
Sungai Petani	-	1.5	-100%	n/m	3.4	4.8	-30%
Alila	9.0	13.5	-33%	-4%	31.1	29.3	6%
Mutiara Seputeh	9.2	7.3	26%	-46%	52.5	60.9	-14%
Gurney Paragon	-	-	n/m	n/m	133.0	-	n/m
Total	**20.7**	**27.7**	**-25%**	**-83%**	**228.5**	**113.5**	**101%**
Infinity	32.6	-	n/m	-16%	97.6	-	n/m
Total (including Infinity	**53.3**	**27.7**	**92%**	**-67%**	**326.1**	**113.5**	**187%**

Source: Company, CIMB Research

Unbilled sales remain healthy at RM333.7m. As at end-Mar 08, the group's unbilled sales was RM333.7m (Figure 2). Although this represents 1.3x our forecasted revenue for FY08, we note that the bulk of unbilled sales is from its newest Gurney Paragon and Infinity projects, both of which are still in early stages of construction works where profit recognition is expected to be minimal.

Figure 2: Unbilled sales as at end-March 08

	RM m
Bandar Putra Bertam	2.9
Sungai Petani	0.0
Alila	18.0
Mutiara Seputeh	20.2
Gurney Paragon	155.0
Total	**196.1**
Infinity	137.6
Total (including Infinity)	**333.7**

Source: Company, CIMB Research

Update on development projects

Gurney Paragon

A lull period ... Unlike in the past three quarters where Gurney Paragon drove overall property sales, this quarter witnessed minimal sales from this project. We suspect the main reason for this is because approximately 60% of its buyers are foreigners. With i) minimal overseas marketing activities during the current quarter and ii) foreigners preferring to wait-and-see until the political dust settles, it is not overly surprising that Gurney Paragon's sales have slowed down significantly. Additionally, the marked weakness in sales during the quarter could have also been affected by ongoing concerns stemming from press reports which highlighted that the project could potentially be reviewed by the new state government if there is "justifiable grounds".

… but proactive marketing activities in the pipeline. Notwithstanding 3Q's weak showing, we understand that that the group will be marketing this project in London next week. Additionally, Hunza Properties will also participate in a Hong Kong property expo in Jun-08. Furthermore, our quick check with the local sales office revealed that take-up rates have inched up to the 50% level over the past two weeks.

Construction works progressing well. The group has completed all the necessary piling works and have progressed to undertake construction works for the basement portion. According to management, construction works is slightly ahead of their internal construction schedule. To recap, we are expecting the service condos to be completed by FY10.

Shopping mall still in progress. As highlighted in our previous note, Hunza Properties has yet to obtain the final approval for the shopping mall i.e. its building plans. We understand that the architects are expected to finalise the building design by next week and subsequently, submission to the local council will take place thereafter.

No official call for review yet. Despite press reports highlighting the potential call for a review of the project by the new state government if there are “justifiable grounds”, the group has yet to be summoned with an official request for review. To recap, the potential call for a review was in response to calls by the Penang Heritage Trust (PHT) and Bar Council Legal Aid Centre to review and hold an open hearing on the project. We note that although the group is conserving the 92-year old St Joseph’s Novitiate Building and its chapel, the nearby National Shrine of the Boy Jesus, which is found in the grounds of the project site, is set to be dismantled, salvaged and rebuilt at a new location within the site. Given that the upcoming shopping mall has been earmarked as a tourism mall, we believe the likelihood that the project is scrapped is minimal. Nevertheless, we do acknowledge that the final building approvals might take longer than expected given the recent change in state government.

Business as usual. We note that management still expects to start work on the shopping mall in 2H08. At this juncture, we have yet to factor in any recurring income from the shopping mall component.

Alila

Completed in March-08. The group’s Alila project in Tanjung Bungah was recently completed last month. While the CF for the high-rise portion has been issued, those for the landed portion is expected to be issued over the next few weeks.

Overall take-up rate at >90%. Overall, all of the high-rise units have been fully taken up. However, there are still some 30-40 units of the garden villas which are three-storey link houses that remain unsold. We had earlier expected these units to be fully taken up by end-Mar 08.

Mutiara Seputeh

Over at Mutiara Seputeh, take-up rates for the semi-Ds have inched up to 86% from 81% as at end-Dec 07. We note that construction works for the semi-Ds have already completed and the group is currently waiting for the CFs to be issued. Construction works for the 13 units of bungalows, which commenced only in 3QCY07, are currently on-going. So far, only two units have been sold, translating into a 15% take-up rate.

Infinity

Thanks to more aggressive marketing efforts in recent months, Infinity’s take-up rate has been on an uptrend, rising from 39% as at end-Dec-07 to 52% by end-Mar 08. Construction progress appears to be quicker at Infinity, where works for Tower A is up to third floor while Tower B is at ground floor. Similar to Gurney Paragon, Infinity’s construction progress is slightly ahead of management’s internal construction schedule.

3QFY08 results preview

3QFY08 results preview. Hunza Properties is scheduled to release its 9MFY08 results in mid-May 08. We gather that, on an annualised basis, the numbers are likely to come in short of our expectations, owing to poorer-than-expected property sales. Additionally, recognised billings form its two newest projects i.e. Gurney Paragon and Infinity, is expected to be minimal given that both are still at initial stages of construction works.

Interim dividends to stay. Nevertheless, despite the potential earnings disappointment, we gather that management will likely maintain its interim DPS of 5 sen, which was first declared in 3QFY07.

Valuation and recommendation

Cutting our FY08-10 earnings by 12-13%... In view of poorer-than-expected sales during 3Q, we are reducing our FY08-10 earnings forecasts by up to 11.9-13.4% as we scale back our property sales assumptions going forward. Our earnings revision also reflects a larger share cap resulting from recent warrant conversions. We expect buyers, especially foreigners, to wait-and-see until there is greater clarity to the political situation. Given the less bullish property sector outlook, we also do not expect the group to raise selling prices, at least in the near term.

… and lowering target price... Given the potential earnings disappointment that could lead to slower-than-expected earnings growth alongside high political risk, we are now attaching a wider discount of 40% (from 30% previously) to our unchanged RNAV estimate of RM3.68 to arrive at our new target price of RM2.20. This is the second time we are cutting earnings forecasts post-election and we are disappointed that the company is unlikely to meet our already conservative forecasts and the EPS growth now is much lower than originally expected. Our discount also reflects the stock's small market cap, poor share liquidity and sizeable exposure to the Penang market, which currently carries a higher degree of political risk.

… but maintain OUTPERFORM. Notwithstanding the earnings downgrade and a lower target price, we are maintaining an OUTPERFORM rating. Valuations remain undemanding at just 4x CY09 EPS vs. the sector's 8x (ex-MK Land). This is despite potentially offering i) one of the highest 3-year EPS CAGR of 25% vs. the sector's 17% (ex-KLCC Property) and ii) attractive dividend yields of 7%. Key re-rating catalysts include: i) likely sales pick up from up-coming overseas marketing drive, ii) approvals for its shopping mall, iii) resolution to the heritage issue and iv) more landbank acquisitions. We believe any negative reaction to up-coming poor results provides an opportunity to accumulate for better performances ahead.

Figure 3: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2008	Core P/E (x) CY2009	3-yr EPS CAGR (%)	P/BV (x) CY2008	ROE (%) CY2008	Div yield (%) CY2008
Hunza Prop	HPB MK	O	1.88	2.20	88	4.9	4.0	25.1	0.8	18.4	7.4
IOI Properties	IOIP MK	N	10.90	13.09	1,158	10.5	8.5	18.0	1.5	15.2	7.6
KLCC Property	KLCC MK	N	2.89	3.40	859	11.2	10.8	185.1	0.6	5.4	4.9
Mah Sing	MSGB MK	O	1.44	2.27	286	8.6	6.3	20.0	1.2	15.8	5.2
MK Land	MKL MK	N	0.49	0.58	186	nm	53.1	9.0	0.6	(0.2)	2.1
SP Setia	SPSB MK	O	3.70	4.93	1,197	13.4	10.9	9.6	1.9	14.4	5.8
UM Land	UML MK	N	1.38	1.82	103	6.3	5.6	17.4	0.4	6.2	8.0
Simple average						**9.2**	**14.2**	**40.6**	**1.0**	**10.7**	**5.9**

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

Financial tables

PROFIT & LOSS

(RM m, FYE Jun)	**2006**	**2007**	**2008F**	**2009F**	**2010F**
Revenue	117	187	226	259	276
Operating expenses	(82)	(132)	(159)	(171)	(162)
EBITDA	35	55	68	88	114
Depreciation & amortisation	(1)	(1)	(1)	(1)	(1)
EBIT	34	54	67	87	113
Net interest & invt income	1	0	2	5	4
Associates' contribution	0	0	0	0	0
Exceptional items	0	3	0	0	0
Others	0	0	0	0	0
Pretax profit	**35**	**58**	**69**	**93**	**117**
Tax	(10)	(15)	(18)	(23)	(29)
Minority interests	(5)	(3)	(2)	(6)	(13)
Net profit	**20**	**39**	**49**	**64**	**75**
Adj. wt. shares (m)	116	135	147	147	147
Unadj. year-end shares (m)	116	135	147	147	147

KEY RATIOS

(FYE Jun)	**2006**	**2007**	**2008F**	**2009F**	**2010F**
Revenue growth (%)	3.8	60.2	21.2	14.6	6.4
EBITDA growth (%)	8.4	57.7	22.6	30.2	28.9
Pretax margins (%)	29.9	30.8	30.6	35.7	42.3
Net profit margins (%)	17.0	21.0	21.8	24.6	27.1
Interest cover (x)	1,492.1	535.7	249.4	139.2	102.0
Effective tax rates (%)	28.3	26.5	26.0	25.0	25.0
Net dividend payout (%)	31.6	31.0	29.9	24.8	22.6
Debtors turnover (days)	137.8	106.4	92.7	95.1	98.5
Stock turnover (days)	54.7	52.2	57.0	58.5	60.6
Creditors turnover (days)	74.8	49.0	49.8	51.1	53.0

BALANCE SHEET

(RM m, end Jun)	**2006**	**2007**	**2008F**	**2009F**	**2010F**
Fixed assets	28	87	89	91	93
Intangible assets	0	0	0	0	0
Other long-term assets	117	163	150	160	170
Total non-current assets	**145**	**249**	**239**	**251**	**263**
Cash and equivalents	5	25	73	97	79
Stocks	21	32	39	44	47
Trade debtors	57	52	63	72	77
Other current assets	187	166	206	243	285
Total current assets	**271**	**276**	**380**	**457**	**488**
Trade creditors	22	28	34	39	41
Short-term borrowings	40	62	74	81	89
Other current liabilities	20	20	21	24	26
Total current liabilities	**82**	**110**	**129**	**144**	**157**
Long-term borrowings	119	136	155	175	135
Other long-term liabilities	2	1	0	0	0
Total long-term liabilities	**121**	**136**	**155**	**175**	**135**
Shareholders' funds	**192**	**256**	**309**	**357**	**415**
Minority interests	21	24	26	31	44
NTA/share (RM)	1.66	1.89	2.10	2.42	2.81

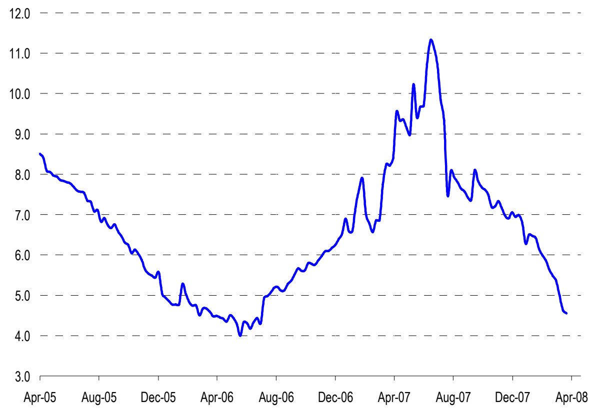
KEY DRIVERS

(FYE Jun)	**2007**	**2008F**	**2009F**	**2010F**
Sales (RMm)	196	240	200	200
Unrecognised billings (RMm)	114	90	110	130
Undeveloped landbank (acres)	890	880	870	860
Unsold stock value (RM m)	60	70	80	70

CASH FLOW

(RM m, FYE Jun)	**2006**	**2007**	**2008F**	**2009F**	**2010F**
Pretax profit	35	58	69	93	117
Depreciation & non–cash adj.	1	1	1	1	1
Working capital changes	(37)	0	1	(10)	(5)
Cash tax paid	(11)	(13)	(18)	(23)	(29)
Others	11	(15)	(21)	(42)	14
Cash flow from operations	**(2)**	**30**	**32**	**18**	**98**
Capex	(4)	(52)	(5)	(5)	(5)
Net investments & sale of FA	0	(29)	30	9	(52)
Others	1	5	0	0	0
Cash flow from investing	**(3)**	**(75)**	**25**	**4**	**(57)**
Debt raised/(repaid)	24	55	35	30	(30)
Equity raised/(repaid)	(1)	35	0	0	0
Dividends paid	(6)	(12)	(15)	(16)	(17)
Cash interest & others	(15)	6	(27)	(9)	(10)
Cash flow from financing	**2**	**83**	**(7)**	**6**	**(57)**
Change in cash	**(3)**	**38**	**50**	**28**	**(17)**
Change in net cash/(debt)	**(27)**	**(17)**	**15**	**(3)**	**13**
Ending net cash/(debt)	**(154)**	**(171)**	**(156)**	**(159)**	**(146)**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB Research, Bloomberg

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RECOMMENDATION FRAMEWORK #1*

STOCK RECOMMENDATIONS	SECTOR RECOMMENDATIONS
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.	**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 stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**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.
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.	**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 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.	

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange.*

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RECOMMENDATION FRAMEWORK #2 **

STOCK RECOMMENDATIONS	SECTOR RECOMMENDATIONS
OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.	**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: Expected total returns of between -15% and +15% 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.
UNDERPERFORM: Expected negative total returns of 15% or more 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: 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.	

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange.*