

Hunza Properties Bhd

The cracks are showing

HPB MK / HUZP.KL

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- **Within expectations.** Hunza Properties' 9MFY6/09 core net profit was in line with our and market expectations, coming in at 96% of estimates on an annualised basis. 4Q is likely to be stronger. As expected, no dividends were declared for the quarter.
- **Disappointing topline...** Against the backdrop of cautious consumer sentiment, 3Q revenue plunged 66% yoy as demand for both its ongoing and completed projects weakened. The group sold RM12m worth of properties in 3QFY09, less than a quarter of the RM58m achieved in 3QFY08. Apart from the still-fragile consumer sentiment, the sales collapse also reflects 3QFY08's much higher base.
- **...but margins jumped.** 3Q's sales registered a 20% improvement from 2QFY09's RM10m. However, the higher sales failed to lift revenue, which fell 25% qoq as over 30% of 3Q's sales came from Infinity, which is undertaken on a project management basis. EBITDA margins expanded 11% pts qoq and nearly doubled yoy, thanks to increased contribution from Infinity. As a result, the yoy drop in 3Q net profit was a milder 40%.
- **Status of rights issue.** Hunza Prop's application for a further extension of time for its proposed 1-for-4 rights exercise with warrants has been rejected by the Securities Commission (SC). The previous timeline extension expired on 3 Apr 09. However, the group may still proceed with the exercise as a new ruling which takes effect on 3 Aug 09 exempts it from SC approval.
- **Earnings tweaked.** Due to the disappointing topline performance, we have scaled back our FY09 sales forecast by 25%. However, we have raised our EBITDA margin estimates to account for higher contribution from Infinity. The net effect is a marginal 1% increase in our FY09-11 earnings numbers.
- **Reiterate TRADING BUY.** Our target price of RM1.76 remains intact as we continue to tag a 50% RNAV discount to the stock. Hunza Prop's reported earnings could remain subdued in the coming quarters but the company is attractive from a valuation standpoint. It is trading at a 59% discount to its RNAV and 31% discount to its NTA/share. A positive is the lower price of building materials, specifically steel, which will reduce Gurney Paragon mall's overall construction costs. We maintain our TRADING BUY recommendation, premised on the potential re-rating catalysts of 1) investors' shift of preference to higher-beta property stocks, 2) better-than-expected 4Q, and 3) margin expansion from lower building material costs.

Results comparison

FYE Jun (RM m)	3QFY09	3QFY08	yoy % chg	qoq % chg	3QFY09 Cum	3QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	18.6	54.1	(65.5)	(24.6)	68.5	191.9	(64.3)	129.9	Below due to still-weak property demand,
Operating costs	(9.0)	(39.9)	(77.4)	(38.7)	(41.9)	(138.7)	(69.8)	(95.8)	coupled with CNY festive season.
EBITDA	9.6	14.2	(32.3)	(3.7)	26.6	53.2	(49.9)	34.1	Margin expansion due to higher contribution
EBITDA margin (%)	51.6	26.2			38.9	27.7	40.3	26.3	from Infinity
Depn & amort.	(0.3)	(0.2)	80.3	40.8	(0.7)	(0.5)	36.1	(1.0)	Depreciation in line with expectations.
EBIT	9.3	14.0	(33.7)	(4.7)	25.9	52.6	(50.8)	33.2	Above due to better-than-expected margins.
Interest expense	(0.3)	(0.9)	(68.8)	5.9	(0.9)	(0.9)	(3.4)	(1.6)	Lower-than-expected finance costs.
Interest & invt inc	(0.0)	0.3	(105.6)	(109.6)	1.2	1.4	(14.6)	6.3	Below due to lower cash holdings.
Pretax profit	9.0	13.4	(33.1)	(7.2)	26.2	53.5	(51.0)	37.9	Above due to better-than-expected margins.
Tax	(2.7)	(3.7)	(27.9)	2.9	(7.5)	(14.6)	(48.9)	(9.5)	Within expectations.
Tax rate (%)	30.0	27.8			28.5	27.3	4.3	25.0	Higher than statutory tax rate.
Minority interests	(0.5)	(0.0)	1,050.0	67.0	(0.6)	(0.6)	(2.0)	(3.2)	Within expectations.
Net profit	5.8	9.7	(40.1)	(14.4)	18.2	38.3	(52.6)	25.2	YTD made up 72% of our full-year estimate.
EPS (sen)	4.0	6.4	(37.0)	(14.1)	12.5	27.7	(54.7)	17.4	Expect better 4Q ahead.

Source: Company, CIMB Research

Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (RM m)	186.7	245.3	101.3	194.4	163.2
EBITDA (RM m)	55.2	68.6	34.9	54.9	50.6
EBITDA margins (%)	29.6%	28.0%	34.4%	28.3%	31.0%
Pretax profit (RM m)	57.5	68.3	39.3	58.1	50.2
Net profit (RM m)	39.2	48.4	25.5	36.1	33.6
EPS (sen)	33.5	34.5	17.3	24.5	22.8
EPS growth (%)	96.0%	3.1%	(50.0%)	41.7%	(6.8%)
P/E (x)	4.3	4.2	8.3	5.9	6.3
Gross DPS (sen)	12.5	12.4	7.5	7.5	7.5
Dividend yield (%)	8.7%	8.6%	5.2%	5.2%	5.2%
P/BV (x)	0.8	0.7	0.7	0.6	0.6
ROE (%)	17.5%	17.2%	8.1%	10.6%	9.2%
Net gearing (%)	61.3%	21.7%	18.5%	56.4%	59.8%
P/FCFE (x)	6.3	4.2	4.6	(6.8)	(11.3)
EV/EBITDA (x)	6.6	4.3	8.7	8.5	9.9
% change in EPS estimates			1.1%	1.3%	1.2%
CIMB/Consensus (x)			1.02	1.02	0.99

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Property sales

	3QFY09	3QFY08	yoy	qoq	2QFY09
	RM m	RM m	increase	increase	RM m
Gurney Paragon	0.0	8.0	nm	nm	0.0
Others	8.0	17.7	-55%	0%	8.0
Total	8.0	25.7	-69%	0%	8.0
Infinity	4.0	32.6	-88%	100%	2.0
Total (including Infinity)	12.0	58.3	-79%	20%	10.0

Source: Company, CIMB Research

Figure 2: Unbilled sales as at end-Mar 09

	RM m
Gurney Paragon	141.0
Others	4.0
Total	145.0
Infinity	68.0
Total (including Infinity)	213.0

Source: Company, CIMB Research

Figure 3: 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				59.4
Net current asset less dev. prop.				63.1
Total long term borrowings				(82.7)
Proceeds from warrants conversion & rights issue				122.3
Total revised RNAV				833.6
Fully diluted no. of shares post cash call exercise (m)				236.7
Revised RNAV per share (RM)				3.52
Target price @ 50% discount to RNAV/share estimate				1.76

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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