

# Hunza Properties Bhd

*A yield story*
**NEUTRAL** Maintained

**RM1.40** Target: RM1.65

Mkt.Cap: RM206m/US\$62m

Property Devt &amp; Invnt

HPB MK / HUZP.KL

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- **No surprises.** Hunza Properties' FY6/08 core net profit of RM48.4m was within our expectations but 4% above consensus. The group declared a final single-tier tax-exempt DPS of 5.5 sen. Although this is a departure from the usual gross final DPS, the grossed-up amount is broadly in line with last year's 7.5 sen. Including 3Q08's interim DPS, full-year gross DPS amounted to 12 sen, in line with our projections.
- **Paragon and Infinity boost.** FY08 EBIT rose 37% yoy on the back of a 31% topline growth, thanks to maiden contributions from Gurney Paragon and Infinity which started booking profits in 2QFY08. Despite i) one-off donations, ii) under-accruals in relation to its completed Alila project, and iii) possibly rising cost pressures, EBIT margins expanded 1.1% pts during the year, largely reflecting the project management arrangement for Infinity where only profits are consolidated.
- **RM268m property sales in FY08.** During 4Q, the group sold properties worth RM34m (-59% yoy; +32% qoq) (Figure 1). The qoq improvement was largely due to a pick-up in sales at Gurney Paragon and Mutiara Seputeh after 3Q's weakness which was attributable to the CNY festivity and election period. For the full year, property sales increased by 37% to RM268m, led primarily by stronger sales from Gurney Paragon. Including Infinity, property sales rose a commendable 68% yoy.
- **Rights exercise still on hold.** Given the current market conditions, the group's proposed 1-for-4 rights exercise remains in freeze mode. To recap, the group has received SC approval to further extend the timeline of implementation to Oct 08.
- **Fine-tuning FY09-10 forecasts.** After adjusting for FY08's actual numbers, our FY09-10 forecasts are tweaked by -0.9% to +0.4%. We have also introduced a core net profit of RM48m for FY11, down 34% from our FY10 estimate because we have conservatively excluded potential contributions from its Alila II and Segambut projects given the uncertainty over their launch timelines.
- **Maintain NEUTRAL.** There is no change to our end-CY08 target price of RM1.65 as we continue to attach a 55% discount to its unchanged RNAV/share of RM3.68 to reflect the difficult operating environment, its poor share liquidity, small market cap and sizeable exposure to the Penang market where political risk appears to be higher. We reiterate our NEUTRAL call, which is supported by its attractive dividend yields of 9%, the highest among the property stocks under coverage.

## Results comparison

FYE Jun (RM m)	4QFY08	4QFY07	yoy %	qoq %	4QFY08	4QFY07	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY08F	Comments
Revenue	53.3	66.4	(19.8)	(1.5)	245.1	186.7	31.3	237.8	In line with our full-year projection
Operating costs	(38.3)	(51.6)	(25.9)	(4.1)	(176.6)	(136.4)	29.4	(169.4)	Higher due to one-off expenses & underaccruals
EBITDA	15.0	14.8	1.5	5.8	68.6	50.3	36.3	68.3	Yoy margin expansion as Infinity is undertaken on a project management basis
EBITDA margin (%)	28.2	22.3			28.0	26.9	3.8	28.7	
Depn & amort.	(0.2)	(0.0)	nm	9.6	(0.7)	(0.7)	(2.3)	(0.9)	Slightly below full-year estimate
EBIT	14.8	14.8	0.3	5.8	67.8	49.6	36.9	67.4	Within expectations
Interest expense	(0.4)	(0.1)	nm	(52.7)	(1.4)	(0.1)	nm	(1.3)	Above. Sg. Petani's interest is now expensed
Interest & invt inc	0.5	4.3	(88.9)	40.1	1.8	5.1	(64.1)	1.7	Lifted by higher cash balance (+274% yoy)
Exceptionals	-	2.9	nm	nm	-	2.9	nm	-	FY07's revaluation surplus
<b>Pretax profit</b>	<b>14.9</b>	<b>21.9</b>	<b>(32.0)</b>	<b>10.6</b>	<b>68.3</b>	<b>57.5</b>	<b>18.9</b>	<b>67.8</b>	Within expectations
Tax	(4.7)	(5.2)	(10.1)	25.6	(19.3)	(15.2)	26.5	(18.0)	Above due to non-deductible expenses & underprovision of prior year taxes
Tax rate (%)	31.5	23.8			28.2	26.5	6.5	26.5	
Minority interests	(0.0)	(0.7)	(93.3)	9.1	(0.6)	(3.0)	(78.9)	(1.0)	Lower earnings recognition from Bertam
<b>Net profit</b>	<b>10.1</b>	<b>15.9</b>	<b>(36.4)</b>	<b>4.9</b>	<b>48.4</b>	<b>39.2</b>	<b>23.4</b>	<b>48.8</b>	Within expectations
<b>Core net profit</b>	<b>10.1</b>	<b>15.9</b>	<b>(36.4)</b>	<b>4.9</b>	<b>48.4</b>	<b>39.2</b>	<b>23.4</b>	<b>48.8</b>	Core net profit in line with our expectations
EPS (sen)	6.9	13.6	(49.4)	8.1	34.5	33.5	3.1	33.2	In line

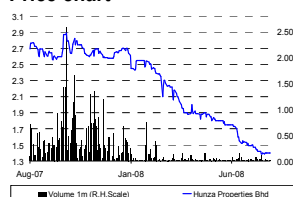
Source: Company, CIMB Research

Please read carefully the important disclosures at the end of this publication.

## Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (RM m)	186.7	245.1	254.7	275.1	196.5
EBITDA (RM m)	55.2	68.6	82.3	107.2	65.0
EBITDA margins (%)	29.6%	28.0%	32.3%	39.0%	33.1%
Pretax profit (RM m)	57.5	68.3	87.6	112.8	71.7
Net profit (RM m)	39.2	48.4	61.0	73.0	48.0
EPS (sen)	33.5	34.5	41.4	49.5	32.6
EPS growth (%)	96.0%	3.1%	19.8%	19.7%	(34.1%)
P/E (x)	4.2	4.1	3.4	2.8	4.3
Core EPS (sen)	31.7	34.5	41.4	49.5	32.6
Core EPS growth (%)	85.3%	9.0%	19.8%	19.7%	(34.1%)
Core P/E (x)	4.4	4.1	3.4	2.8	4.3
FD core EPS (sen)	27.1	31.9	38.4	45.8	30.3
FD core P/E (x)	5.2	4.4	3.7	3.1	4.6
Gross DPS (sen)	12.5	12.4	12.4	12.4	12.4
Dividend yield (%)	8.9%	8.9%	8.9%	8.9%	8.9%
P/BV (x)	0.7	0.7	0.6	0.5	0.5
ROE (%)	17.5%	17.2%	18.4%	18.9%	11.1%
Net gearing (%)	61.3%	21.7%	15.3%	9.2%	8.0%
P/FCFE (x)	6.1	3.5	5.5	8.6	11.3
EV/EBITDA (x)	6.5	4.3	3.6	2.7	4.5
% change in EPS estimates			-0.9%	+0.4%	
CIMB/Consensus (x)			1.07	1.10	N/A

## Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

## Figure 1: Property sales

	4QFY08	4QFY07	yoy	qoq	FY08	FY07	yoy
	RM m	RM m	increase	increase	RM m	RM m	increase
Bandar Putra Bertam	1.0	5.1	-80%	-58%	9.4	10.5	-10%
Sungai Petani	-	2.9	nm	nm	4.2	4.4	-4%
Alila	6.0	16.0	-62%	-34%	37.2	29.5	26%
Mutiara Seputeh	16.0	16.6	-4%	196%	64.7	77.5	-17%
Gurney Paragon	11.0	41.8	-74%	38%	152.0	41.8	264%
<b>Total</b>	<b>34.0</b>	<b>82.4</b>	<b>-59%</b>	<b>32%</b>	<b>267.5</b>	<b>195.9</b>	<b>37%</b>
Infinity	8.0	26.4	-70%	-75%	105.6	26.4	300%
<b>Total (including Infinity)</b>	<b>42.0</b>	<b>108.8</b>	<b>-61%</b>	<b>-28%</b>	<b>373.1</b>	<b>222.3</b>	<b>68%</b>

Source: Company, CIMB Research

## Figure 2: Unbilled sales as at end-Jun 08

	RM m
Mutiara Seputeh	4.4
Gurney Paragon	151
<b>Total</b>	<b>155.4</b>
Infinity	105
<b>Total (including Infinity)</b>	<b>260.4</b>

Source: Company, CIMB Research

**Figure 3: RNAV computation for Hunza Properties**

<b>Project</b>	<b>Size/units (acres)</b>	<b>Market value (RM psf)</b>	<b>Stake</b>	<b>Value (RM m)</b>
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				52.7
Net current asset less dev. prop.				58.9
Total long term borrowings				(135.4)
Proceeds from warrants conversion & rights issue				222.5
<b>Total revised RNAV</b>				<b>870.2</b>
Fully diluted no. of shares post cash call exercise (m)				236.6
<b>Revised RNAV per share (RM)</b>				<b>3.68</b>
<b>Target price @ 55% discount to RNAV/share estimate</b>				<b>1.65</b>

Source: Company, CIMB Research

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### STOCK 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.

**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.

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

## 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.

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