

Hunza Properties Bhd

Propped up by 4Q
TRADING BUY

Maintained

RM1.43

Target: RM2.03

Mkt.Cap: RM215m/US\$61m

Property Devt & Invnt

HPB MK / HUZP.KL

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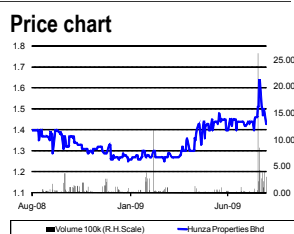
- A positive surprise.** Hunza Properties' FY6/09 core net profit was a positive surprise, making up 108% of our forecast and 112% of consensus. The deviation stemmed largely from lower minority interests and stronger-than-expected margins. The company declared a final single-tier dividend of 5.6 sen/share, in line with our projection of a gross DPS of 7.5 sen/share.
- Topline fell yoy as expected, but rose qoq.** Against the backdrop of cautious consumer sentiment, FY09 revenue plunged 63% due to shaky demand for both its ongoing and completed project. The group sold RM64m worth of properties in FY09, less than a quarter of the RM373m achieved in FY08. On the flip side, 4Q revenue rose 25% qoq on the back of intensified marketing efforts. We think that the marked improvement could also suggest a turnaround in consumer sentiment. Sales almost doubled to RM23m in 4Q, from just RM12m in 3Q.
- ...but margins jumped.** FY09 EBITDA margin expanded 15% pts yoy, courtesy of increased contribution from the Infinity project. Construction of this condominium project is progressing well and is on track for completion by end-09. Thanks to the better margin, FY09 net profit fell 43%, narrower than the 63% decline at the topline. On a qoq basis, net profit jumped 63%, albeit from a small base, on the back of a 6% pt EBITDA margin gain.
- Earnings adjusted.** Given the better-than-expected performance and the improving consumer sentiment, we are raising our FY10-11 earnings projections by 4-17% after revising our sales and construction schedule assumptions. We are also introducing a projection for FY12 in this note.
- Reiterate TRADING BUY.** Our SOP-based target price is raised from RM1.76 to RM2.03 after i) updating some key variables and ii) scaling back our RNAV discount from 50% to 40% in view of the better-than-expected results. 4Q's performance was encouraging and suggests a recovery in consumer sentiment, implying better quarters ahead for the company. In addition, the company is attractive from a valuation standpoint. It is trading at a 58% discount to its RNAV and 34% discount to its NTA/share. Another positive is the lower price of building materials, specifically steel, which should reduce overall construction cost for Gurney Paragon mall. We maintain our TRADING BUY recommendation, premised on the potential re-rating catalysts of the 1) shift of investors' preference to higher-beta property stocks, 2) this strong set of 4Q result, and 3) margin expansion from lower building material costs.

Results comparison

FYE Jun (RM m)	4QFY09	4QFY08	yoy % chg	qoq % chg	4QFY09 Cum	4QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	23.3	53.4	(56.4)	24.9	91.8	245.3	(62.6)	101.3	-63% yoy on weaker consumer sentiment.
Operating costs	(9.8)	(37.5)	(73.8)	9.1	(51.7)	(175.8)	(70.6)	(66.4)	Better-than-expected margins.
EBITDA	13.4	15.9	(15.7)	39.8	40.1	69.5	(42.3)	34.9	Above. Higher contribution from Infinity resulted
EBITDA margin (%)	57.7	29.8			43.7	28.3	54.1	34.4	in yoy margin expansion.
Depn & amort.	(0.4)	(0.2)	125.1	36.8	(1.2)	(0.7)	59.8	(1.0)	Higher than expected.
EBIT	13.0	15.7	(17.5)	39.9	38.9	68.8	(43.4)	34.0	15% above. Strong contribution from Infinity.
Interest expense	(0.2)	(0.4)	(45.2)	(17.2)	(1.1)	(1.4)	(16.7)	(1.6)	Lower-than-expected interest expense.
Interest & invt inc	0.2	(0.4)	138.5	1,010.5	1.3	0.9	45.6	6.9	Below on lower cash holdings.
Exceptionals	-	-	nm	nm	-	-	nm	-	None, as expected.
Pretax profit	12.9	14.9	(13.0)	43.9	39.1	68.3	(42.7)	39.3	Within expectations.
Tax	(3.4)	(4.7)	(27.4)	26.6	(10.9)	(19.3)	(43.7)	(9.8)	Higher than statutory rate due to non-deductible
Tax rate (%)	26.4	31.6			27.8	28.2	(1.6)	25.0	expenses and underprovision.
Minority interests	(0.1)	(0.0)	108.3	(80.2)	(0.7)	(0.6)	6.3	(4.0)	Below expectations.
Net profit	9.4	10.1	(6.9)	62.8	27.6	48.4	(43.0)	25.5	8% above estimate.
EPS (sen)	6.5	6.9	(6.8)	61.1	19.0	34.6	(45.0)	17.3	

Source: Company, CIMB Research

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



Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (RM m)	245.3	91.8	115.1	140.7	158.8
EBITDA (RM m)	68.6	40.1	54.0	59.1	54.6
EBITDA margins (%)	28.0%	43.6%	46.9%	42.0%	34.4%
Pretax profit (RM m)	68.3	39.1	51.0	54.4	48.4
Net profit (RM m)	48.4	27.6	37.4	39.4	35.9
EPS (sen)	34.5	18.3	24.8	26.1	23.8
EPS growth (%)	3.1%	(47.0%)	35.4%	5.3%	(8.9%)
P/E (x)	4.1	7.8	5.8	5.5	6.0
Core EPS (sen)	34.5	18.3	24.8	26.1	23.8
Core EPS growth (%)	9.0%	(47.0%)	35.4%	5.3%	(8.9%)
Core P/E (x)	4.1	7.8	5.8	5.5	6.0
Gross DPS (sen)	12.4	7.5	10.0	10.5	10.0
Dividend yield (%)	8.7%	5.2%	7.0%	7.3%	7.0%
P/BV (x)	0.7	0.7	0.6	0.6	0.5
ROE (%)	17.2%	8.7%	11.0%	10.7%	9.1%
Net gearing (%)	21.7%	24.6%	62.3%	62.1%	65.7%
P/FCFE (x)	4.2	(3.9)	(9.3)	9.4	(14.0)
EV/EBITDA (x)	4.3	8.1	8.8	8.4	9.7
% change in EPS estimates			3.6%	17.1%	-
CIMB/Consensus (x)			0.92	1.14	N/A

Source: Company, CIMB Research, Bloomberg

Figure 1: Property sales

	4QFY09	4QFY08	yoy	qoq	3QFY09
	RM m	RM m	increase	increase	RM m
Bandar Putra Bertam	2.0	1.0	100%	-60%	5.0
Sungai Petani	0.0	0.0	nm	-100%	2.0
Alila	3.0	6.0	-50%	200%	1.0
Mutiara Seputeh	0.0	16.0	-100%	nm	0.0
Gurney Paragon	9.0	11.0	-18%	nm	0.0
Others	2.0	0.0	nm	nm	0.0
Total	16.0	34.0	-53%	100%	8.0
Infinity	7.0	8.0	-13%	75%	4.0
Total	23.0	42.0	-45%	92%	12.0

Source: Company, CIMB Research

Figure 2: Unbilled sales as at end-June 09

	RM m
Gurney Paragon	149.0
Infinity	51.0
Total (including Infinity)	200.0

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				48.0
Net current asset less dev. prop.				44.5
Total long term borrowings				(86.2)
Proceeds from warrants conversion & rights issue				122.3
Total revised RNAV				800.2
Fully diluted no. of shares post cash call exercise (m)				236.7
Revised RNAV per share (RM)				3.38
Target price @ 40% discount to RNAV/share estimate				2.03

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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