CIMB Research Report

QUICK TAKES

26 February 2008

MALAYSIA

Hunza Properties Bhd

Value for money

OUTPERFORM	Maintained
RM2.46	Target: RM4.50
	Mkt.Cap: RM362m/US$113m
	Property development & investment

HPB MK / HUZP.KL

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1HFY08 results briefing

Hunza Properties organised an analyst briefing yesterday in conjunction with its 1HFY6/08 results which were released last Wednesday evening. This briefing is part of management's biannual meeting with the investment community. The well-attended session did not reveal any major surprises. Summarised below are the main points from the briefing:

Briefing highlights

Update on property projects

Record high property sales in 1HFY08. The group sold RM121.3m worth of properties during 2Q08, bringing YTD property sales to RM207.8m (+142% yoy) (Figure 1). The surge in property sales was driven by maiden contributions from its Gurney Paragon development. Mutiara Seputeh contributed 21% to 1HFY08's property sales while Alila chipped in 11%.

Figure 1: Summary of property sales

	2QFY08 RM m	2QFY07 RM m	1QFY08 RM m	yoy increase %	qoq increase %	1HFY08 RM m	1HFY07 RM m	yoy increase %
Bandar Putra Bertam	2.1	10.8	3.9	-81%	-46%	6.0	13.0	-54%
Sungai Petani	1.5	1.8	1.9	-17%	-21%	3.4	3.3	2%
Alila	9.4	8.5	12.7	11%	-26%	22.1	15.8	40%
Mutiara Seputeh	17.1	13.9	26.2	23%	-35%	43.3	53.6	-19%
Gurney Paragon	91.2	-	41.8	n/m	118%	133.0	-	n/m
Total	**121.3**	**35.0**	**86.5**	247%	40%	**207.8**	**85.8**	142%
Infinity	38.6	-	26.4	n/m	46%	65.0	-	n/m
Total (including Infinity)	**159.9**	**35.0**	**112.9**	357%	42%	**272.8**	**85.8**	218%

Source: Company, CIMB Research

Figure 2: 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

Infinity's take-up rate continues heading north. In Jan 08, take-up rates for Infinity continued heading north, helped by a recently organised marketing event in Hong Kong. From 38% as at end-Dec 07, take-up rates have inched up to 43% as at end-Jan 08. We understand that the group will be marketing Gurney Paragon in Hong Kong sometime over the next few weeks. Gurney Paragon's take-up rate is not much changed from end-Dec 07's 46%.

Unbilled sales at RM171m. 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 (Figure 2).

More on Alila II

Upward revision in GDV? In our recent update, we highlighted that Hunza Properties will embark on another niche, residential development project, Alila II, on Penang island come FY10. We understand that there is upside bias to Alila's II indicative gross development value (GDV) of RM206m resulting from pricing and layout revisions. Also, Alila II will be largely targeting the participants of the Malaysian My Second Home Programme (MM2H).

A project management undertaking. Similar to Infinity, Alila II will be undertaken on a project management basis with the landowner on an 80:20 basis. This 9.6-acre plot is just next to the group's almost-completed Alila project and will involve some 280 units comprising a mix of medium-sized high-rise and landed properties. The group is targeting maiden launches for Alila II in FY10.

More landbank on the way

A KL piece very soon. Management reiterated that the group is actively looking for more landbank to sustain its presence in the Klang Valley market. The group has identified a pocket-sized plot and is close to sealing the deal sometime over the next few weeks. This is positive as it reaffirms its commitment to maintaining a presence in the Klang Valley given that its maiden Klang Valley project,, i.e. Mutiara Seputeh is slated for completion by Sep 09.

Shopping mall progressing well

Groundbreaking by Apr 08. The group is finalising the design of its upcoming shopping mall. Management guided a timeline of Apr 08 for the groundbreaking for the shopping mall. The shopping mall's site is currently occupied by Gurney Paragon's show units. We understand management intend to synchronise the completion of Gurney Paragon's service condos and shopping mall.

Still looking for a reputable partner. Given that Hunza Properties is a novice in the management of shopping mall, the group is still in talks with potential partners that could enhance the value of its shopping mall. To this end, management are willing to offer a 20-30% stake to potential partners. Based on an indicative selling price of RM800m, the 20-30% stake would be worth RM160m-240m. Management estimate a cost of RM380m-400m for the shopping mall inclusive of land. In our model, we are more conservative, projecting the mall to be worth RM670m while construction costs including land are estimated to hover around RM420m-RM430m.

Other updates

Interim dividends to stay. Management reiterated their intention of maintaining a decent dividend yield. To recap, the group declared a maiden interim gross DPS of 5 sen during 3Q07. We believe it is likely to stick to last year's timing of interims, i.e. during 3Q. Together with a 7.5 sen gross final DPS, dividend yield is an attractive 5%.

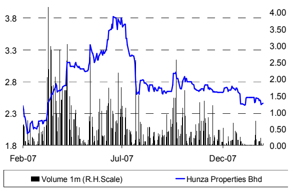
Still committed to rights issue. As for its proposed cash call, although the group has obtained all the necessary approvals, it is waiting for an appropriate time to fix the pricing and entitlement dates.

Valuation and recommendation

No changes to earnings and target price. We retain our FY08-10 earnings and DPS projections. Accordingly, our rights-adjusted target price remains at RM4.50, which we continue to base on a 40% discount to our 20x target CY09 P/E for the sector.

Reiterate OUTPERFORM. Hunza Properties remains our preferred choice for a deep-value developer with a Penang exposure. Although the group could deliver one of the highest ROEs and EPS growth in the sector, along with decent dividend yields, valuations remain cheap at just 4.4x CY09 EPS vs. the sector's 9.0x average (ex-MK Land). We maintain our OUTPERFORM call, predicated on the re-rating catalysts of i) higher-than-expected sales and margins, ii) entry of reputable partners for its shopping mall, iii) landbank acquisitions and iv) higher dividends.

Price chart



Source: Bloomberg

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	259.7	308.7	296.2
EBITDA (RM m)	35.0	55.2	78.4	104.5	126.9
EBITDA margins (%)	30.0%	29.6%	30.2%	33.8%	42.9%
Pretax profit (RM m)	34.8	57.5	79.7	108.6	130.5
Net profit (RM m)	19.8	39.2	56.8	73.5	86.9
EPS (sen)	17.1	29.0	39.4	51.0	60.2
EPS growth (%)	21.2%	69.6%	35.8%	29.5%	18.1%
P/E (x)	14.4	8.5	6.2	4.8	4.1
Core EPS (sen)	17.1	27.4	39.4	51.0	60.2
Core EPS growth (%)	21.2%	60.4%	43.6%	29.5%	18.1%
Core P/E (x)	14.4	9.0	6.2	4.8	4.1
FD core EPS (sen)	13.4	24.0	36.4	47.1	55.6
FD core P/E (x)	18.3	10.2	6.8	5.2	4.4
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	3.0%	5.1%	5.5%	5.9%	6.3%
P/BV (x)	1.5	1.3	1.1	1.0	0.8
ROE (%)	10.6%	17.5%	19.9%	21.5%	21.3%
Net gearing (%)	72.4%	61.4%	48.4%	39.6%	25.8%
P/FCFE (x)	14.8	35.5	4.2	6.2	11.6
EV/EBITDA (x)	13.1	9.6	6.9	5.3	4.1
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.01	1.06	1.00

Source: Company, CIMB Research, Bloomberg

Figure 1: 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	2.46	4.50	113	5.4	4.4	32.3	1.0	20.8	5.7
IOI Properties	IOIP MK	TB	13.10	18.50	1,361	11.8	9.2	22.6	1.8	16.1	6.3
KLCC Property	KLCC MK	O	3.34	4.85	972	12.9	12.5	185.1	0.7	5.4	4.2
Mah Sing	MSGB MK	O	1.84	3.80	351	9.4	6.8	18.4	1.6	18.1	4.3
MK Land	MKL MK	N	0.62	0.83	231	nm	67.4	9.0	0.7	(0.2)	1.6
SP Setia	SPSB MK	O	4.98	7.67	1,573	16.7	14.1	10.2	2.5	15.7	4.9
UM Land	UML MK	O	1.80	3.57	130	6.8	6.1	19.5	0.5	7.7	7.2
Simple average						**10.5**	**17.2**	**42.4**	**1.3**	**11.9**	**4.9**

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

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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.	

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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

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.

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