

Hunza Properties Bhd

An uphill task

26 February 2009

Syariah-compliant stock

UNDERPERFORM Maintained

RM1.27 Target: RM1.20

Mkt.Cap: RM187m/US\$51m

Property Devt & Invnt

HPB MK / HUZP.KL

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- Within expectations.** Hunza Properties' performance at the interim stage was within our expectations though it disappointed the market. Annualised 1HFY6/09 core net profit was 2% below our forecast and 25% short of consensus. 2Q core net profit plunged 59% yoy due to continued softening of the property market and slower construction progress for some of its projects. No dividends were declared for the quarter, as expected.
- Poor 2Q sales.** Amid concerns over the economy, 2Q revenue took a hit, falling 65% yoy and 2% qoq as demand for both its ongoing and completed projects softened. It sold only RM8m worth of properties in 2QFY09, less than a tenth of the RM121.3m achieved in 2QFY08 and half of 1QFY09's sales. This is as good as a standstill and is worrisome. It did not sell any units for its Mutiara Seputeh and Gurney Paragon projects, which are slated for completion by Jun 09 and end-2010, respectively. On a more positive note, 1H EBITDA margins expanded 6% pts yoy, thanks to contribution from Infinity which is undertaken on a project management basis.
- Hiccup in construction.** While construction of its Mutiara Seputeh bungalows is on track to meet its Jun 09 completion date, construction progress for its Gurney Paragon condo was hampered by delays, thus weighing down 1HFY09's revenue. However, the company expects to complete the construction of its podium and basement by mid-09, after which billings to end-buyers will be expedited as work will then be solely on the residential component.
- Maintain UNDERPERFORM.** We have left our FY09 earnings unchanged. Also intact is our target price of RM1.20, which is pegged to an unchanged 65% discount to its RNAV. If the weak 1HFY09 performance is anything to go by, the rest of FY09 is likely to be an uphill battle given the slowing economy. Hunza Prop has also lost its appeal as the highest-yielding stock in the sector as we now project yields of only c. 6%. These factors, coupled with its cloudier earnings prospects and low share liquidity, underpin our UNDERPERFORM recommendation on the company. Degrating catalysts include 1) the poor quarterly results 2) persistently weaker sales and 3) further delays to the construction of its shopping mall. We recommend KLCC Prop (KLCC MK, Neutral) for exposure to the property sector.

Results comparison

FYE Jun (RM m)	2QFY09	2QFY08	yoy % chg	qoq % chg	2QFY09 Cum	2QFY08 Cum	yoy % chg	Prev. FY08F	Comments
Revenue	24.7	70.1	(64.8)	(2.1)	49.9	137.8	(63.8)	129.9	Contracted due to softer property market and delays in construction works.
Operating costs	(14.7)	(47.6)	(69.1)	(14.3)	(32.3)	(97.6)	(66.9)	(95.8)	
EBITDA	10.0	22.5	(55.6)	24.0	17.6	40.2	(56.1)	34.1	Yoy margin expansion as Infinity is undertaken on a project management basis
EBITDA margin (%)	40.4	32.1			35.3	29.2		26.3	
Depn & amort.	(0.2)	(0.2)	27.4	25.3	(0.4)	(0.4)	14.2	(1.0)	Below our full-year forecast.
EBIT	9.8	22.3	(56.2)	24.0	17.2	39.8	(56.7)	33.2	Contracted yoy due to weaker sales.
Interest expense	(0.3)	(0.0)	6,625.0	(20.2)	(0.6)	(0.0)	5,960.0	(1.6)	Below expectations.
Interest & invt inc	0.2	0.2	(14.0)	-	0.6	0.2	155.5	6.3	Below, on lower-than-expected cash levels.
Pretax profit	9.7	22.5	(57.0)	28.6	17.2	40.0	(57.0)	37.9	Below due to higher-than-expected interest income.
Tax	(2.6)	(5.8)	(54.7)	22.1	(4.8)	(10.8)	(56.1)	(9.5)	
Tax rate (%)	27.0	25.7			27.7	27.1		(25.0)	Higher effective tax rate due to non-deductible expenses.
Minority interests	(0.3)	(0.2)	102.0	nm	(0.1)	(0.5)	(87.0)	(3.2)	
Net profit	6.8	16.6	(59.2)	20.3	12.4	28.6	(56.8)	25.2	Annualised number is in line with our forecast.
Core net profit	6.8	16.6	(59.2)		12.4	28.6	(56.8)	25.2	
EPS (sen)	4.7	12.1	(61.5)	21.0	8.5	21.2	(59.7)	39.1	
Core EPS (sen)	4.7	11.5			8.5	20.0			

Source: Company, CIMB Research

Figure 1: Property sales

	2QFY09	2QFY08	yoy	qoq	1QFY09
	RM m	RM m	increase	increase	RM m
Bandar Putra Bertam	1.0	2.1	-52%	-	0.0
Sungai Petani	-	1.5	-100%	-	0.0
Alila	3.0	9.4	-68%	50%	2.0
Mutiara Seputeh	0.0	17.1	-	-100%	11.0
Gurney Paragon	0.0	91.2	-	-100%	3.0
Other	4.0	0.0	-	-	0.0
Total	8.0	121.3	-93%	-50%	16.0
Infinity	2.0	38.6	-95%	-33%	3.0
Total (including Infinity)	10.0	159.9	-94%	-47%	19.0

Source: Company, CIMB Research

Figure 2: Unbilled sales as at end-Dec 08

	RM m
Mutiara Seputeh	8.5
Gurney Paragon	144.0
Total	152.5
Infinity	86.0
Total (including Infinity)	238.5

Source: Company, CIMB Research

Figure 3: RNAV computation for Hunza Properties

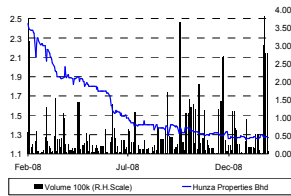
Project	Size/units	Market value (RMpsf)	Stake	Value (RMm)
Bandar Putra Bertam - Residential	435.6	10.00	70%	132.8
Bandar Putra Bertam - Commercial	48.4	40.00	70%	59.0
Sungai Petani, Kedah	393.0	3.00	100%	51.4
Alila, Penang	5.0	175.00	100%	38.1
Mutiara Seputeh	12.0	90.00	100%	47.0
Gurney Drive	3.5	400.00	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 @ 65% discount to RNAV/share estimate				1.20

Source: Company, CIMB Research

Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (RM m)	186.7	245.3	129.9	191.1	159.0
EBITDA (RM m)	55.2	68.6	34.1	55.8	52.2
EBITDA margins (%)	29.6%	28.0%	26.3%	29.2%	32.8%
Pretax profit (RM m)	57.5	68.3	37.9	57.5	49.8
Net profit (RM m)	39.2	48.4	25.2	35.6	33.2
EPS (sen)	33.5	34.5	17.1	24.2	22.6
EPS growth (%)	96.0%	3.1%	(50.5%)	41.5%	(6.7%)
P/E (x)	3.8	3.7	7.4	5.3	5.6
Core EPS (sen)	31.7	34.5	17.1	24.2	22.6
Core EPS growth (%)	85.3%	9.0%	(50.5%)	41.5%	(6.7%)
Core P/E (x)	4.0	3.7	7.4	5.3	5.6
Gross DPS (sen)	12.5	12.4	7.5	7.5	7.5
Dividend yield (%)	9.8%	9.8%	5.9%	5.9%	5.9%
P/BV (x)	0.7	0.6	0.6	0.5	0.5
ROE (%)	17.5%	17.2%	8.0%	10.5%	9.1%
Net gearing (%)	61.3%	21.7%	23.0%	63.9%	65.9%
P/FCFE (x)	5.5	3.7	6.5	(3.2)	(14.9)
EV/EBITDA (x)	6.2	4.0	8.7	8.4	9.6
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.65	0.74	0.98

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

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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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