

# Hunza Properties Bhd

*Post-election blues*

|                                   |                |
|-----------------------------------|----------------|
| <b>OUTPERFORM</b>                 | Maintained     |
| <b>RM2.12</b>                     | Target: RM2.58 |
| Mkt.Cap: RM327m/US\$102m          |                |
| Property development & investment |                |

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## Political uncertainty more apparent

Since the opposition parties wrested control of the Penang state government some three weeks ago, there has been talk of possible reviews for some of the mega projects proposed for the state by the previous administration. We list below some recent developments as highlighted in numerous press reports:

- The new Penang government will review the suitability of the RM25bn Penang Global City Centre (PGCC) project that has raised much concern among Penangites.
- It has also asked the federal government to use Petronas funds to build the second Penang bridge.
- Meanwhile, Umno Penang said that it will persuade the federal government to scrap all the mega projects in the state.
- IJM Corp (IJM MK, Neutral) and E&O Property Development (ENOP MK, Not Rated) have also come into the limelight as their development projects along the Jelutong Expressway and Tanjung Tokong have been beneficiaries of land reclamation projects which have hardly benefited state coffers.
- The Penang state government will review Hunza Properties' (HPB MK, Outperform) Gurney Paragon project if there are "justifiable grounds". According to the new chief minister Lim Guan Eng, they will revisit the projects approved by the previous administration and if necessary, review them if these projects are adversely affecting people's lives.
- Another news article highlighted that property transactions in Penang appear to have come to a standstill as investors wait and see how the state's economic landscape unfolds.

## Comments

**A web of uncertainties...** Potential reviews of planning and approval processes in the Penang state spell great uncertainty, especially for the property developers, as it is far from clear how the new policies, if any, would affect their development plans. Furthermore, the new administration, which has no experience in governing, will need time to learn the ropes. From our checks with some companies, we gather that it could take the new state leaders 2-3 months to familiarise themselves with the administrative aspects of the job before the work flow resumes smoothly.

**... but positive in the longer-term.** Although the potential reviews and new policies could derail some of these development projects, we do not discount the possibility of a faster approval process over the longer term. It is no secret that the time from acquisition of land bank to actual launch in Penang is significantly longer than in the Klang Valley or Johor. Furthermore, greater transparency is a positive over the longer term.

**Recent launches remain lukewarm.** Given the higher degree of political uncertainty in Penang, we believe that property transactions will remain unexciting, at least over the next 3-6 months. Our quick checks with a few developers with projects on the island indicate that property transactions have indeed slowed down over the past month.

**Gurney Paragon – construction works already in progress...** Although the potential review of Hunza Properties' Gurney Paragon mixed development is not good news, we note that construction works for Phase 1's service condos breached the 10% internal milestone in 4QCY07 last year, allowing for the booking of maiden contributions in 2QFY08. The take-up rate for the service condos was already 46% as at end-Dec 07. We believe the likelihood of a halt to the development of Phase 1 is

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very low, especially since the group had obtained all the necessary approvals before proceeding with construction works.

... **but shopping mall approval might take longer than expected.** However, there could be delays for the shopping mall as the building plans have not been approved by the local council and the new state government may exercise a more stringent approval policy. However, management do not foresee any significant delays on this front and still expect to start work on the shopping mall in 2H08.

## Valuation and recommendation

**Higher degree of uncertainty.** Political uncertainty is quite apparent in Penang given the new state government's call for project reviews. With Gurney Paragon being the first target, we do not dismiss the possibility of a review of some of the other development projects. Although we do not expect a freeze in the state's development plans, it remains to be seen if a revisit through the approval process will derail the timing for some of the projects. Furthermore, all this uncertainty will inevitably constrain property price appreciation and transactions, at least in the near term. We remain NEUTRAL on the property sector.

**Big Penang exposure for Hunza Props.** Among the companies under our coverage, Hunza Properties has the largest exposure to the Penang market (Figure 1). Although we do not expect any significant long-term impact, we do acknowledge that there is a higher degree of risk. Gurney Paragon accounts for 9-36% of our FY08-10 earnings projection and 23% of our RNAV computation. At this juncture, we have yet to factor in any recurring income from the upcoming shopping mall. In terms of GDV, Gurney Paragon's entire GDV of RM1.05bn (including our projected RM670m market value for the shopping mall portion) makes up more than one-third of the group's outstanding GDV of RM3.0bn.

Figure 1: Comparison of exposure to Penang property market

|                  | % of pretax profits from Penang |      |      | % of RNAV | % of GDV |
|------------------|---------------------------------|------|------|-----------|----------|
|                  | FY08                            | FY09 | FY10 |           |          |
| Hunza Properties | 67%                             | 78%  | 98%  | 66%       | 86%      |

Source: Company, CIMB Research,

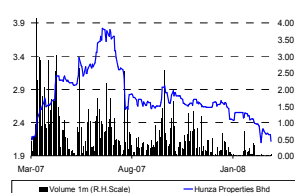
**Maintain OUTPERFORM.** In view of the murky political picture, we are now attaching a wider discount of 30% (20% previously) to our unchanged RNAV estimate of RM3.68 to arrive at our new end-CY08 target price of RM2.58 vs. RM2.94 previously (Figure 2). Even if we stripped out the surplus values for Gurney Paragon, our RNAV estimate would be RM2.57, providing 28% upside including the 6.6% dividend yield. We maintain our OUTPERFORM call on the stock. Key re-rating catalysts include i) greater clarity on Gurney Paragon's development plans, ii) higher sales and margins, iii) building approvals for its shopping mall, iii) landbank acquisitions and iv) higher dividends.

**Accumulate on share price weakness.** Hunza Properties' share price has fallen 21% since the beginning of the year and dropped 5% yesterday after press reports on the potential review of Gurney Paragon. We view this as a good opportunity for investors to accumulate the stock on weakness as prospects for this developer remain bright in light of its i) mid-high end segment focus in high-growth areas, i.e. Penang and the Klang Valley and ii) eventual transformation into an integrated property player when it completes its Gurney Paragon development.

## Financial summary

| FYE Jun                   | 2006  | 2007  | 2008F | 2009F | 2010F |
|---------------------------|-------|-------|-------|-------|-------|
| Revenue (RM m)            | 116.6 | 186.7 | 254.3 | 296.7 | 297.6 |
| EBITDA (RM m)             | 35.0  | 55.2  | 76.7  | 100.1 | 124.9 |
| EBITDA margins (%)        | 30.0% | 29.6% | 30.2% | 33.8% | 42.0% |
| Pretax profit (RM m)      | 34.8  | 57.5  | 78.0  | 104.2 | 128.2 |
| Net profit (RM m)         | 19.8  | 39.2  | 55.7  | 70.7  | 84.5  |
| EPS (sen)                 | 17.1  | 29.0  | 38.6  | 49.1  | 58.6  |
| EPS growth (%)            | 21.2% | 69.6% | 33.2% | 27.1% | 19.5% |
| P/E (x)                   | 13.0  | 7.7   | 5.8   | 4.5   | 3.8   |
| Core EPS (sen)            | 17.1  | 27.4  | 38.6  | 49.1  | 58.6  |
| Core EPS growth (%)       | 21.2% | 60.4% | 40.8% | 27.1% | 19.5% |
| Core P/E (x)              | 13.0  | 8.1   | 5.8   | 4.5   | 3.8   |
| FD core EPS (sen)         | 13.4  | 24.0  | 35.7  | 45.3  | 54.1  |
| FD core P/E (x)           | 16.5  | 9.2   | 6.2   | 4.9   | 4.1   |
| Gross DPS (sen)           | 7.5   | 12.5  | 13.5  | 14.5  | 15.5  |
| Dividend yield (%)        | 3.4%  | 5.6%  | 6.1%  | 6.5%  | 7.0%  |
| P/BV (x)                  | 1.3   | 1.2   | 1.0   | 0.9   | 0.7   |
| ROE (%)                   | 10.6% | 17.5% | 19.6% | 20.8% | 21.0% |
| Net gearing (%)           | 72.4% | 61.4% | 48.6% | 40.6% | 27.4% |
| P/FCFE (x)                | 13.3  | 32.0  | 3.8   | 5.8   | 12.3  |
| EV/EBITDA (x)             | 12.3  | 9.0   | 6.6   | 5.2   | 4.0   |
| % change in EPS estimates |       |       | -     | -     | -     |
| CIMB/Consensus (x)        |       |       | 0.99  | 1.14  | 0.97  |

## Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 2: Hunza Properties' RNAV computation

| Project   | Size/units | Market value<br>(RMpsf) | Stake | Value<br>(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  |            |                         |       | 75.0           |
| Associated company                                      |            |                         |       | 0.0            |
| Net current asset less dev. prop.                       |            |                         |       | 36.8           |
| Total long term borrowings                              |            |                         |       | (135.7)        |
| Proceeds from warrants conversion & rights issue        |            |                         |       | 222.5          |
| <b>Total RNAV</b>                                       |            |                         |       | <b>870.1</b>   |
| Fully diluted no. of shares post cash call exercise (m) |            |                         |       | 236.6          |
| <b>RNAV per share (RM)</b>                              |            |                         |       | <b>3.68</b>    |

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.

**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.

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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.

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