

Hunza Properties Bhd

Not spared the industry-wide concerns

NEUTRAL Maintained

RM1.40 Target: RM1.65

Mkt.Cap: RM206m/US\$62m

Property Devt & Invnt

HPB MK / HUZP.KL

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FY08 post-results briefing

Hunza Properties organised a briefing yesterday following the release of its FY6/08 results last Wednesday evening. The results briefing which is a biannual event was chaired by Corporate Planning General Manager Tay Phaik Huat who gave a comprehensive overview of the group's financial details and property development projects. Executive chairman and founder Dato' Dr. Khor Teng Tong took over during the Q&A session, addressing questions relating mainly to the group's upcoming shopping mall and plans to revive its construction arm. The tone during the briefing was sombre, with Dato' Khor painting a somewhat bleak outlook for the property sector in the near term. For us, the briefing revealed two major surprises: i) a more modest earnings growth outlook as property sales are expected to remain lacklustre in the near term and ii) revised launch timeline for its flagship Bandar Putra Bertam project. The key takeaways from the session are summarised below:

Key highlights

Property sales to remain lacklustre. To recap, 4QFY08 sales improved 32% qoq, driven primarily by a pick-up in sales at Gurney Paragon and Mutiara Seputeh after 3Q's CNY festivity and election period weakness. Nevertheless, management expect property sales to remain lacklustre in light of the depressed global economic outlook and uncertain local environment. Having said that, the group is still actively marketing overseas its two latest projects i.e. Gurney Paragon and Infinity. Having recently completed its marketing drives in Singapore and the UK, the group is targeting the Hong Kong market next.

Gurney Paragon's construction works in full swing. Construction of its Gurney Paragon serviced condos is ongoing. As Gurney Paragon covers a 10-acre site vs. 3 acres for Infinity, construction works at the former is still at the ground floor level. As at end-Jun 08, overall take-up rates stood at 50%, a slight improvement from end-Dec 07's 46% and end-Mar 08's 48%. The slow uptick in take-up rates is not overly surprising given the high percentage of foreign purchasers.

Shopping mall – issues remain unresolved. As the group is still waiting for the authorities' approval of building technicalities for its upcoming shopping mall, it is likely to be able to start construction sometime in 1H09 instead of our earlier timeline estimate of 2H08. Given the unprecedented rise in building material prices, the overall construction cost of the mall is now estimated at RM450m-500m, up from RM400m previously. Funding-wise, given the deferment of its proposed rights exercise, the group is likely to rely on external borrowings to fund the development. Simultaneously, the group is still talking with prospective partners to take a 20-30% stake in the mall.

Infinity – show unit by next week. Construction of its beach-fronting Infinity project is progressing well, with works reaching the 10th storey for one tower and 16th storey for the other. Two units are earmarked as show units. With fit-out works almost completing, the show units are expected to be formally opened by next week. As at end-Jun 08, overall take-up rates stood at 54%, a slight pick-up from end-Mar 08's 52%.

Average selling prices still on an uptrend. For its two latest projects, i.e. Gurney Paragon and Infinity, the group has been steadily increasing selling prices on the back of rising costs. From an initial launch price of approximately RM400 psf, average selling prices are now hovering at around RM600 psf, with the highest price achieved recently being a record RM790 psf.

Reviving construction arm. In an effort to counter rising construction costs, the group has decided to revive its in-house construction arm, Masuka Bina, to carry out construction works for the serviced condos and the shopping mall at Gurney Paragon. Apart from greater management control, the move will allow the group to improve pretax margins by circa 6-10%.

Segambut – a post-FY10 undertaking. In Feb 08, the group purchased 6.28 acres of freehold land in Segambut for RM21m. This RM300m GDV project will be Hunza Properties' second Klang Valley-based project. The group intends to target Malaysia My Second Home (MM2H) participants, particularly from Indonesia and S. Korea for this project. As a rough indication, pricing will be at a 40% discount to the average pricing for the Mont' Kiara area. The group is targeting to launch this project after FY6/10.

Valuation and recommendation

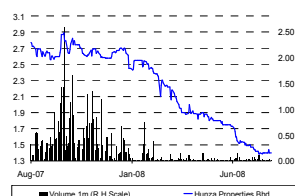
Adjusting FY09-11 earnings for new recognition timelines. Our FY09-10 earnings forecasts are revised downwards by about 13%, largely to reflect i) the deferred launch timeline of Zone L2 at its flagship Bandar Putra Bertam project to post-FY12 from FY09 previously, ii) a 10-15% cut in our property sales assumption and an extended construction timeline. FY11 net profit forecast is raised by 12%, largely reflecting i) the delayed profit recognition from FY09-10 and ii) small contributions from Alila II. At this juncture, we are still conservatively excluding potential earnings contribution from its Segambut project as the proposed launch timeline remains uncertain.

Reiterate NEUTRAL. Our end-CY08 target price of RM1.65 remains intact as we continue to attach a 55% discount to its unchanged RNAV/share of RM3.68. The discount is in line with the targeted property sector average discount and reflects the difficult operating environment, Hunza Properties' poor share liquidity, small market cap and sizeable exposure to the Penang market where political risk appears to be higher. The stock's attractive dividend yields of 9%, the highest among the property stocks under coverage, supports our NEUTRAL call.

Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (RM m)	186.7	245.1	219.9	228.5	216.5
EBITDA (RM m)	55.2	68.6	72.2	95.9	80.0
EBITDA margins (%)	29.6%	28.0%	32.9%	42.0%	37.0%
Pretax profit (RM m)	57.5	68.3	76.4	97.2	78.8
Net profit (RM m)	39.2	48.4	53.3	63.3	53.7
EPS (sen)	33.5	34.5	36.2	43.0	36.5
EPS growth (%)	96.0%	3.1%	4.8%	18.8%	(15.2%)
P/E (x)	4.2	4.1	3.9	3.3	3.8
Core EPS (sen)	31.7	34.5	36.2	43.0	36.5
Core EPS growth (%)	85.3%	9.0%	4.8%	18.8%	(15.2%)
Core P/E (x)	4.4	4.1	3.9	3.3	3.8
FD core EPS (sen)	27.1	31.9	33.6	39.8	33.8
FD core P/E (x)	5.2	4.4	4.2	3.5	4.1
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%	16.3%	17.0%	12.8%
Net gearing (%)	61.3%	21.7%	27.0%	55.8%	52.4%
EV/EBITDA (x)	6.5	4.3	4.6	5.1	6.3
% change in EPS estimates			-12.6%	-13.2%	11.8%
CIMB/Consensus (x)			0.95	0.94	1.10

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: RNAV computation for Hunza Properties

Project	Size/units (acres)	Market value (RM psf)	Stake	Value (RM m)
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
Total revised RNAV				870.2
Fully diluted no. of shares post cash call exercise (m)				236.6
Revised RNAV per share (RM)				3.68
Target price @ 55% discount to RNAV/share estimate				1.65

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.

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