

Hunza Properties Bhd

To infinity and beyond

26 November 2009

Syariah-compliant stock

TRADING BUY Maintained

RM1.41 Target: RM2.03

Mkt.Cap: RM212m/US\$63m

Property Devt & Invst

HPB MK / HUZP.KL

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- Overshot expectations; maintain TRADING BUY.** Annualised 1QFY6/10 core net profit overshoot our expectations by 31% and consensus by 37%, due largely to a better-than-expected showing from its Infinity project. As expected, no dividend was declared for the quarter. We are upgrading our FY10-12 earnings by 33-37% to account for the pick-up in construction progress. But our target price stays at RM2.03 as we continue to apply a 40% discount to its RNAV. The stock remains a TRADING BUY on the potential re-rating catalysts of 1) this set of good results, 2) better-than-expected construction progress, 3) margin expansion from lower building costs, and 4) increasing investor interest in the Penang property market.
- Strong results, underpinned by Infinity.** On yoy basis, 1Q revenue more than doubled (+127% yoy) on the back of 1) contribution from the newly acquired Diamaward, and 2) smooth construction progress, particularly for its Infinity project. Diamaward is the sole developer of the Infinity project. The 100% acquisition of Diamaward allows Hunza Prop to consolidate the former's earnings. Without Diamaward's RM44m contribution, revenue would have nearly halved due to lower contribution from Hunza Prop's other projects, particularly Mutiara Seputeh. 1Q net profit rose a corresponding 126% yoy.
- Improvement in sales.** Hunza Prop sold RM39m worth of properties in 1QFY10, double the RM19m achieved in 1QFY09 (Figure 1). Sales jumped 70% qoq from RM23m. In addition to a step-up in marketing efforts, the marked improvement in sales could also suggest an upturn in consumer sentiment. Hunza Prop's strong performance was largely underpinned by its Infinity project, which is on target for completion by year-end, with anticipated vacant possession by the beginning of 2010. The take-up rate of the project had risen to 71% as at end-Sep 09, from 61% three months ago while unbilled sales stood at RM67m.
- Earnings upgrade.** We are raising our FY10-12 earnings projections by 33-37% after revising our sales and construction schedules. The stronger-than-expected 1Q performance was encouraging and could suggest a recovery in consumer sentiment and subsequently better quarters ahead for the company. In addition, the stock is attractive from a valuation standpoint. It is trading at a 58% discount to its RNAV and 35% discount to its NTA/share. We maintain our TRADING BUY recommendation on the company.

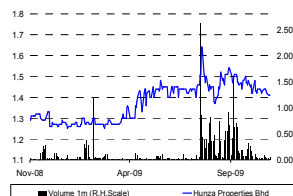
Results comparison

FYE June (RM m)	1QFY10	1QFY09	yoy % chg	4QFY09	qoq % chg	Prev. FY10	Comments
Revenue	57.1	25.2	126.5	23.3	145.4	173.3	Above. A pick up in construction progress.
Operating costs	(39.2)	(17.5)	124.0	(9.8)	298.6	(117.3)	Operating costs relatively stable.
EBITDA	17.9	7.7	132.1	13.4	33.2	56.0	Above. A pick up in construction progress.
EBITDA margin (%)	31.3	30.6		57.7		32.3	Margins in line with expectations.
Depn & amort.	(0.5)	(0.2)	176.9	(0.4)	14.8	(1.0)	Lower than-expected.
EBIT	17.4	7.5	131.0	13.0	33.8	55.0	Above on better-than-expected construction progress.
Interest expense	(0.2)	(0.6)	(56.5)	(0.2)	4.7	(0.7)	In line.
Interest & invt inc	-	-	nm	0.2	nm	(1.0)	
Associates' contrib	-	-	nm	-	nm	-	None as expected.
Exceptionals	-	-	nm	-	nm	-	None as expected.
Pretax profit	17.4	7.5	131.0	12.9	34.5	53.3	Annualised 31% above full-year estimate.
Tax	(4.6)	(2.1)	113.3	(3.4)	34.0	(13.3)	
Tax rate (%)	26.3	28.5		26.4		25.0	Tax rate above expectations due to non-deductible expenses and
Minority interests	(0.1)	0.2	(153.4)	(0.1)	24.0	(1.1)	losses of certain companies that can not be set-off against taxes.
Net profit	12.7	5.6	126.1	9.4	34.8	38.9	Annualised 31% above full-year estimate.
EPS (sen)	8.8	3.9	128.2	6.5	36.4	25.8	Annualised 31% above full-year estimate.

Source: Company, CIMB Research

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

Price chart



Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (RM m)	245.3	91.8	234.3	262.6	193.4
EBITDA (RM m)	68.6	40.1	75.9	73.1	47.8
EBITDA margins (%)	28.0%	43.6%	32.4%	27.8%	24.7%
Pretax profit (RM m)	68.3	39.1	74.6	74.6	52.6
Net profit (RM m)	48.4	27.6	53.5	54.9	36.6
EPS (sen)	34.5	18.3	35.5	36.5	24.3
EPS growth (%)	3.1%	(47.0%)	93.8%	2.8%	(33.3%)
P/E (x)	4.1	7.7	4.0	3.9	5.8
Gross DPS (sen)	12.4	7.5	10.0	10.5	10.0
Dividend yield (%)	8.8%	5.3%	7.1%	7.4%	7.1%
P/BV (x)	0.7	0.7	0.6	0.5	0.5
ROE (%)	17.2%	8.7%	15.4%	14.1%	8.6%
Net gearing (%)	21.7%	24.6%	46.4%	35.5%	32.7%
P/FCFE (x)	4.1	(3.8)	3.2	2.6	6.8
EV/EBITDA (x)	4.3	8.1	5.6	5.4	8.3
% change in EPS estimates			37.3%	33.8%	0.1%
CIMB/Consensus (x)			1.39	1.40	1.01

Source: Company, CIMB Research, Bloomberg

Figure 1: Property sales

	1QFY10	1QFY09	yoy	qoq	4QFY09
	RM m	RM m	increase	increase	RM m
Bandar Putra Bertam	2.0	0.0	nm	0%	2.0
Sungai Petani	0.0	0.0	nm	nm	0.0
Alila	4.0	2.0	100%	33%	3.0
Mutiara Seputeh	0.0	11.0	-100%	nm	0.0
Gurney Paragon	8.0	3.0	167%	-11%	9.0
Infinity	25.0	3.0	733%	257%	7.0
Others	0.0	0.0	nm	-100%	2.0
Total	39.0	19.0	105%	70%	23.0

Source: Company, CIMB Research

Figure 2: Unbilled sales as at end-Sep 09

	RM m
Gurney Paragon	153.0
Infinity	67.0
Total (including Infinity)	220.0

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 @ 50% discount to RNAV/share estimate				2.03

Source: Company, CIMB Research

Other developments

Rights issue approved. Hunza Prop has obtained approval for its 3-for-10 rights issue with one free detachable 5-year warrant, subject to several conditions. Under the exercise, up to 45.2m rights shares will be issued. Assuming a rights issue price and warrant exercise price of RM1.10, close to RM100m would be raised (assuming all warrants are exercised). We think that the rights issue is needed for its upcoming Gurney Paragon mall project as cash flows from other projects such as the Infinity and Gurney Paragon condo are unlikely to be sufficient to single-handedly fund the construction of the mall. The estimated construction cost for the project is about RM400m.

Theoretical ex-rights price of RM1.38. Based on an indicative price of RM1.10, the rights are priced at a 20% discount to the theoretical ex-rights price of RM1.38 $[(RM1.47 \times 10 + RM1.10 \times 3)/13]$. Relative to yesterday's closing price of RM1.41, the discount is 22%. However, we note that the theoretical ex-all price should be lower than RM1.38 due to the value of the detachable warrant. Assuming a fair value of 22 sen for the warrant, the ex-all price should be closer to RM1.32 $[(RM1.47 \times 10 + RM1.10 \times 3)/13 - 3 \times RM0.22 / 10]$.

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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.

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.

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