

Hunza Properties Bhd

Still a value play
OUTPERFORM

Maintained

RM1.84

Target: RM2.20

Mkt.Cap: RM271m/US\$84m

Property development & investment

HPB MK / HUZP.KL

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- Within expectations.** At 3.7% above our forecast and 5.4% ahead of consensus, Hunza Properties' annualised 9MFY08 core net profit was in line as we expect 4Q numbers to be weak, in line with our more cautious outlook for the property sector. The 3.7 sen tax-exempt single-tier DPS declared for the quarter was a surprising shift from the usual gross DPS though the grossed-up quantum is consistent with last year's maiden interim DPS of 5 sen.
- Moving to a higher platform...** YTD pretax profit rose 50% yoy on the back of a 60% growth in revenue, lifted primarily by maiden contributions from the group's latest two projects, i.e. Gurney Paragon and Infinity. Accelerated profit recognition resulting from the recent completion of Alila and semi-Ds at Mutiara Seputeh during the quarter could have also contributed to the yoy uptick.
- ... but temporary margin pressures?** However, pretax margins fell 1.7% pts yoy, probably due to i) minimal earnings contribution from the two new projects as both are still at the early stage of construction works and ii) a 9% drop in profits from the trading business despite the more than doubling of its topline.
- Rights exercise on hold.** Hunza Prop's proposed 1-for-4 rights exercise to raise capital primarily for its upcoming shopping mall has been put on hold given the current market conditions. To recap, the group recently received SC approval to further extend the timeline of implementation by another six months to Oct 08.
- Shaving 0.8% off FY08 forecast.** We are tweaking our FY08 net profit downwards by 0.8% after accounting for i) higher interest and tax expenses and ii) lower minority interests. Our FY08-10 DPS projection is also revised downwards to 12.5 sen from 13.5-15.5 sen as we expect the group to stick closer to its payout policy of yields averaging 4-5%. Despite the downward revision, our DPS forecast still implies a very-solid 7% yield.
- Maintain OUTPERFORM.** Notwithstanding the slight earnings adjustment, we retain our end-CY08 target price of RM2.20, based on an unchanged 40% discount to our unchanged RNAV/share of RM3.68. The stock is still an OUTPERFORM with the main re-rating catalysts being: i) approvals for its shopping mall, ii) sales pick-up from its overseas marketing drive, iii) resolution to the heritage issue and iv) more landbank acquisitions.

Results comparison

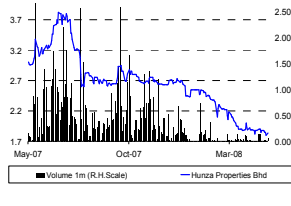
FYE Jun (RM m)	3QFY08	3QFY07	yoy % chg	qoq % chg	3QFY08 Cum	3QFY07 Cum	yoy % chg	Prev. FY08F	Comments
Revenue	54.1	44.7	21.0	(22.8)	191.9	120.3	59.5	226.2	Above. Boosted by higher trading revenue
Operating costs	(39.9)	(33.2)	267.2	(18.6)	(138.3)	(84.8)	63.1	(158.8)	Slightly higher than expected
EBITDA	14.2	11.5	223.1	(32.7)	53.6	35.5	50.8	67.4	Group margins skewed by higher composition of lower-margined trading profits
EBITDA margin (%)	26.2	25.8			27.9	29.5	(5.4)	29.8	
Depn & amort.	(0.2)	(0.3)	(45.4)	(0.6)	(0.5)	(0.7)	(27.8)	(0.9)	Within expectations
EBIT	14.0	11.2	25.2	(33.0)	53.0	34.8	52.5	66.5	Slightly ahead of full-year forecast
Interest expense	(0.9)	(0.0)	>100	>100	(0.9)	(0.0)	>100	(0.3)	Above expectations
Interest & invt inc	0.3	0.3	30.4	75.6	1.4	0.9	58.5	2.7	Lower-than-expected deposits
Pretax profit	13.4	11.5	17.4	(40.3)	53.5	35.6	50.1	69.2	Make up 77% of our full-year forecast
Tax	(3.7)	(3.0)	23.9	(35.3)	(14.6)	(10.0)	45.6	(18.0)	Higher-than-expected ETR owing to non-deductible expenses
Tax rate (%)	27.8	26.3			27.3	28.1	(3.0)	26.0	
Minority interests	(0.0)	(0.8)	(94.3)	(70.7)	(0.6)	(2.3)	(74.5)	(2.0)	Lower earnings recognition from Bertam
Net profit	9.7	7.7	26.1	(41.7)	38.3	23.3	64.4	49.2	Annualised figure 4% above our estimate
EPS (sen)	6.4	6.7	(5.6)	(47.6)	27.7	20.5	35.0	33.4	Above expectations

Source: Company, CIMB Research

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	237.8	270.8	287.3
EBITDA (RM m)	35.0	55.2	68.4	87.9	112.8
EBITDA margins (%)	30.0%	29.6%	28.8%	32.5%	39.3%
Pretax profit (RM m)	34.8	57.5	67.8	91.3	115.4
Net profit (RM m)	19.8	39.2	48.8	63.7	74.8
EPS (sen)	17.1	29.0	33.2	43.2	50.8
EPS growth (%)	21.2%	69.6%	14.4%	30.4%	17.5%
P/E (x)	10.8	6.3	5.5	4.3	3.6
Core EPS (sen)	17.1	27.4	33.2	43.2	50.8
Core EPS growth (%)	21.2%	60.4%	20.9%	30.4%	17.5%
Core P/E (x)	10.8	6.7	5.5	4.3	3.6
FD core EPS (sen)	13.4	24.0	30.8	40.0	47.0
FD core P/E (x)	13.7	7.7	6.0	4.6	3.9
Gross DPS (sen)	7.5	12.5	12.5	12.5	12.5
Dividend yield (%)	4.1%	6.8%	6.8%	6.8%	6.8%
P/BV (x)	1.1	1.0	0.9	0.8	0.6
ROE (%)	10.6%	17.5%	17.3%	19.0%	19.2%
Net gearing (%)	72.4%	61.4%	48.2%	41.8%	31.8%
P/FCFE (x)	11.0	26.5	3.2	5.5	35.7
EV/EBITDA (x)	11.1	8.1	6.7	5.3	4.1
% change in EPS estimates			-0.8%	-	-
CIMB/Consensus (x)			1.01	1.03	0.94

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Other updates

3Q property sales reflect seasonal weakness and more. 3Q08's property sales amounted to RM25.7m collectively, down 7% yoy and a staggering 79% qoq (Figure 1). Including RM32.6m sales from Infinity, which is undertaken on a project management basis, 3Q08's property sales reached RM58.3m, up 110% yoy but still weaker on a qoq basis. Although 3Q is traditionally weaker owing to the CNY festive season, we suspect that it was affected by cautious buying sentiment after the general election.

Unbilled sales of RM192m. As at end-Mar 08, the group's unbilled sales stood at RM192m (Figure 2). Including Infinity's portion, unrecognised billings are a healthy RM330m. Assuming a conservative 25% pretax margin, locked-in profits amount to RM82.5m, which is equivalent to 0.9x FY09 pretax profit. But a large portion of Hunza Prop's unbilled sales comes from its newest Gurney Paragon and Infinity projects, both of which are still at early stages of construction works where profit recognition is expected to be minimal.

Figure 1: Property sales as at end-Mar 08

	3QFY08	3QFY07	yoy	qoq	9MF08	9MFY07	yoy
	RM m	RM m	increase	increase	RM m	RM m	increase
			%	%			%
Bandar Putra Bertam	2.4	5.4	-56%	14%	8.4	18.4	-54%
Sungai Petani	0.8	1.5	-47%	n/m	4.2	4.8	-13%
Alila	9.1	13.5	-33%	-3%	31.2	29.3	6%
Mutiara Seputeh	5.4	7.3	-26%	-68%	48.7	60.9	-20%
Gurney Paragon	8.0	-	n/m	n/m	141.0	85.7	n/m
Total	25.7	27.7	-7%	-79%	233.5	113.5	106%
Infinity	32.6	-	n/m	-16%	97.6	0.0	n/m
Total (including Infinity)	58.3	27.7	110%	-64%	331.1	113.5	192%

Source: Company, CIMB Research

Figure 2: Unbilled sales as at end-Mar 08

	RM m
Bandar Putra Bertam	2.9
Sungai Petani	0.0
Alila	18.0
Mutiara Seputeh	20.2
Gurney Paragon	151.0
Total	192.1
Infinity	137.6
Total (including Infinity)	329.7

Source: Company, CIMB Research

Figure 3: Computation of Hunza Properties' RNAV

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				75.0
Net current asset less dev. prop.				36.8
Total long term borrowings				(135.7)
Proceeds from warrants conversion & rights issue				222.5
Total revised RNAV				870.1
Fully diluted no. of shares post cash call exercise (m)				236.6
Revised RNAV per share (RM)				3.68
Target price @ 40% discount to RNAV/share estimate				2.20

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.

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.

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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, 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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