

# Hunza Properties Bhd

*Imprinting its foothold on Klang Valley*

**OUTPERFORM**

Maintained

**RM2.45**

Target: RM4.50

Mkt.Cap: RM361m/US\$112m

Property development &amp; investment

HPB MK / HUZP.KL

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## Acquiring Segambut land

Hunza Properties announced yesterday the acquisition of two pieces of contiguous freehold land measuring 2.54ha (6.28 acres) collectively in the Segambut area in Kuala Lumpur for a total consideration of RM21.3m. The acquisition, to be financed by a mix of internally generated funds and/or borrowings, is expected to be completed by end-CY08.

### Our comments

**Not entirely a surprise.** The acquisition does not come as a surprise as the group had indicated all along that it was looking for more landbank, both in the Klang Valley and Penang. We have a positive take on the purchase as it will enable the group to maintain its presence in the Klang Valley since its maiden Klang Valley project, i.e. Mutiara Seputeh is scheduled for completion by Sep 09.

**Details on the land.** The 6.28-acre piece of freehold land is situated in the Segambut area. It is surrounded by established developments such as Bukit Prima Pelangi and is adjacent to Anjung Tiara, which is a semi-D development project by Alam Jati Development Sdn. Bhd. On the map, the land appears to be quite close to the successful Desa Park City development by privately-owned Perdana Parkcity Sdn Bhd.

**Fairly priced.** The RM21.3m acquisition price works out to approximately RM77psf which is fair given its location and freehold status. Recent transactions of freehold land around the Mont Kiara vicinity but closer to Segambut tagged a psf pricing of RM100-150.

**Payment on a deferred basis.** Having paid 10% of the purchase consideration, the group will need to pay another 10% within 90 days from the date of the SPA while the remaining 80% is expected to be settled by the completion date which is within the next 150 days. Given the group's RM35m cash balance as at end-Dec 07, we do not expect any funding issues.

**Another niche, mid-high end development.** We understand that this land is earmarked for a high-rise residential development, targeted for the mid-high end market. We expect the group to reveal maiden launches, earliest in FY10. Margin-wise, given the reasonable land cost, we expect Hunza Properties to reap similar gross margins as the 30% enjoyed by its other niche, quick-turnaround projects.

**Six niche projects under its belt.** This latest purchase expands the group's portfolio to six niche, quick-turnaround projects (Figure 1). This should comfortably sustain its development efforts until FY11-12.

**Figure 1: Hunza Properties' landbank summary**

	Undeveloped landbank (acres)	Development period
Bandar Putra Bertam	484.0	FY02 - FY015
Sungai Petani	330.0	FY00 - FY15
Alila	5.0	FY06 - FY08
Mutiara Seputeh	12.0	FY06 - FY10
Gurney Paragon	3.5	FY07 - FY10
Infinity	3.0	FY07 - FY10
Alila II	9.6	FY10 - FY12
Segambut land	6.2	FY10 - FY12 *
<b>Total</b>	<b>853.3</b>	

\* Our estimation

Source: Company, CIMB Research,

## Valuation and recommendation

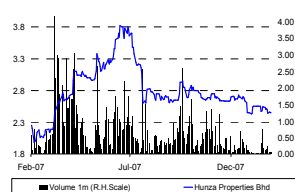
**No change to earnings forecasts for now.** Although the proposed development will be earnings-accretive, we do not expect any short-term earnings impact as the project will be launched in FY10, at the earliest. Hence, earnings contribution, if any, will be minimal in FY10.

**Reiterate OUTPERFORM.** Hunza Properties is still our pick of deep-value developers with Penang exposure. Although the group could deliver one of the highest ROEs and EPS growth in the sector, along with decent dividend yields, valuations remain cheap at just 4.8x CY09 EPS vs. the sector's 9.0x average (ex-MK Land). We retain our OUTPERFORM call, with key re-rating catalysts being i) this landbank acquisition ii) higher-than-expected sales and margins, iii) entry of reputable partners for its shopping mall and iv) higher dividends.

### Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	259.7	308.7	296.2
EBITDA (RM m)	35.0	55.2	78.4	104.5	126.9
EBITDA margins (%)	30.0%	29.6%	30.2%	33.8%	42.9%
Pretax profit (RM m)	34.8	57.5	79.7	108.6	130.5
Net profit (RM m)	19.8	39.2	56.8	73.5	86.9
EPS (sen)	17.1	29.0	39.4	51.0	60.2
EPS growth (%)	21.2%	69.6%	35.8%	29.5%	18.1%
P/E (x)	14.3	8.4	6.2	4.8	4.1
Core EPS (sen)	17.1	27.4	39.4	51.0	60.2
Core EPS growth (%)	21.2%	60.4%	43.6%	29.5%	18.1%
Core P/E (x)	14.3	8.9	6.2	4.8	4.1
FD core EPS (sen)	13.4	24.0	36.4	47.1	55.6
FD core P/E (x)	18.3	10.2	6.7	5.2	4.4
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	3.1%	5.1%	5.5%	5.9%	6.3%
P/BV (x)	1.5	1.3	1.1	1.0	0.8
ROE (%)	10.6%	17.5%	19.9%	21.5%	21.3%
Net gearing (%)	72.4%	61.4%	48.4%	39.6%	25.8%
P/FCFE (x)	14.7	35.4	4.2	6.2	11.6
EV/EBITDA (x)	13.1	9.6	6.9	5.2	4.1
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.01	1.06	1.00

### Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

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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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**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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