

Hunza Properties

Solid earnings foundation

OUTPERFORM	Maintained
RM3.62	@19/07/07
	Target: RM4.80
	Property

HPB MK / HUZZP.KL

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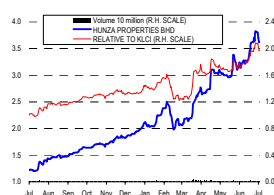
- **Upward revisions in project GDVs.** Thanks to encouraging preliminary take-up rates, the GDVs of Hunza Properties' latest two projects, notably Gurney Paragon and Infinity, have increased by up to 10%.
- **On the prowl for Klang Valley land.** The group is actively looking for pocket-sized land bank to maintain its presence in the Klang Valley market. It expects to secure at least one piece of land over the next 12 months.
- **FY07 results preview.** Hunza Properties is scheduled to release its FY6/07 results during the third week of Aug 07. We understand that encouraging property sales and accelerated construction works are likely to push full-year net profit past our RM33.7m projection.
- **Upping estimates.** We are upping our FY07-09 earnings forecasts by 5-8% to reflect our revised construction schedule and property sales assumptions. Despite the earnings upgrade, there is still room for further upward revisions as our earnings projections remain conservative relative to management's guidance.
- **Maintain OUTPERFORM with a higher target price.** Hunza Properties is our preferred choice of a deep-value developer with Penang exposure. Post earnings-upgrade, our end-CY07 target price is raised from RM4.50 to RM4.80, based on an unchanged 40% discount to our 20x sector P/E target. Re-rating catalysts include i) higher-than-expected sales and margins, and iii) entry of reputable partners for its Gurney Drive project.

Financial summary

FYE Jun	2005	2006	2007F	2008F	2009F
Revenue (RM m)	112.3	116.6	178.6	248.0	297.1
EBITDA (RM m)	32.3	35.0	55.8	77.4	105.4
EBITDA margins (%)	28.8	30.0	31.3	31.2	35.5
Pretax profit (RM m)	31.8	34.8	55.3	77.1	105.9
Net profit (RM m)	16.3	19.8	36.3	52.2	71.8
EPS (sen)	14.1	17.1	30.1	38.6	53.1
EPS growth (%)	+7%	+21%	+76%	+28%	+38%
P/E (x)	25.7	21.2	12.0	9.4	6.8
FD EPS (sen)	11.2	13.4	23.5	33.6	46.0
FD P/E (x)	32.3	27.0	15.4	10.8	7.9
Gross DPS (sen)	7.5	7.5	12.5	13.5	14.5
Dividend yield (%)	2.1	2.1	3.5	3.7	4.0
P/NTA (x)	2.3	2.2	2.0	1.7	1.4
ROE (%)	9.9	10.6	16.6	19.7	23.0
Net gearing (%)	64.0	72.3	72.2	74.4	66.5
P/CF (x)	13.5	11.2	7.3	5.1	3.7
EV/EBITDA (x)	11.1	11.0	7.6	6.0	4.6
% change in EPS estimates			7.8	8.1	5.2
CIMB/Consensus (x)			1.08	1.10	1.09

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	RM489.9m	Share price perf. (%)	1M	3M	12M
12-mth price range	RM1.18/RM3.88	Relative	15.3	30.1	96.6
3-mth avg daily volume	RM2.5m	Absolute	15.3	37.1	196.7
# of shares (m)	135.3	Major shareholders			% held
Est. free float (%)	19	Dato' Khor Teng Tong & Family			53.2
2004/2009 warrants (m)	22.3	Yayasan Bumiputra Pulau Pinang			7.4
Conv. price (RM)	1.50	Koperasi Permodalan Felda			4.9

Source: Company, CIMB/CIMB-GK Research, Bloomberg

Roadshow highlights

Last week, we took Hunza Properties on a one-day non-deal roadshow in Singapore where we met up with six fund management firms. Hunza Properties was represented by its executive chairman and founder, Dato' Dr. Khor Teng Tong, its general manager, Khor Siang Gin and its corporate planning deputy GM, Tay Phaik Huat. During the one-on-one meetings, management gave a comprehensive update of the group's development projects and shared with us some of their medium-term strategies.

Property projects and sales

Gurney Paragon

Encouraging response... Since Gurney Paragon's soft launch in Mar 07, buying interest has been respectable, with take-up rates excluding registered interests approximating 11% (c.RM42m sales) as at end-Jun 07. The response is encouraging considering the: i) lack of aggressive marketing activities, ii) absence of a show unit, and iii) cancellation of early bird discounts. Furthermore, despite the c.10% across-the-board price increase effective end-Jun 07, the take-up rate has inched up to 15%.

... leads to upward revision in GDV. Post price hike, Gurney Paragon's average selling prices are now RM430-530 psf, up from RM420 psf during the initial launch in Apr 07. The company believes that the final average selling prices will reach RM500-550 psf, translating into an effective 20-30% increase from the initial listed prices. Accordingly, Gurney Paragon's GDV is expected to rise to RM380m from RM344m previously (Figure 1). As a benchmark, we gather that a competitor is releasing bumi units at its Tanjung Bungah high-rise development at RM580 psf.

Preliminary construction going well. As highlighted in our previous note, trial piling works started at the Gurney Paragon site last month and are progressing well. Actual piling works are slated to start in Aug 07. Also, the construction of the show unit for its upcoming service condos is progressing well and is on schedule for completion by the end of this month.

Still in talks with potential equity partners. To enhance the profile of its upcoming shopping mall, Hunza Properties is offering equity participation of up to 30% to potential reputable partners. Discussions are ongoing with several potential parties.

Infinity

Revised GDV of RM240m. Similar to Gurney Paragon, Hunza Properties' beachfronting project, Infinity, has achieved a respectable 11% take-up rate as at end-Jun 07. Because of the encouraging preliminary response despite the absence of aggressive marketing activities, the group has put a stop to the 5% early bird discount and is now selling units at the listed price of RM420-450 psf. With the termination of the discounts, Infinity's GDV is estimated to increase to RM240m from RM225m previously (Figure 1).

Show unit = actual unit. For Infinity, owing to the limited on-site space, the show unit will not be constructed separately but will instead be a furnished actual unit that is part of the permanent structure. The show unit should be ready by Feb 08. The group is expected to raise prices by at least 10% in conjunction with the opening of the show unit.

Strong foreign interest. Some 70% of the RM26m sales secured thus far came from foreigners. Management expect interest from foreigners to pick up when marketing activity is stepped up.

Sales in lockstep with construction. Because of i) the absence of aggressive marketing activities, ii) the buying interest that foreigners have displayed thus far and iii) the expected completion of the show unit only by Feb 08, the group expects sales of this project to move in tandem with its construction progress.

Figure 1: Upward revision of GDV for Gurney Paragon & Infinity

	Initial GDV	Revised GDV	% increase
	RM m	RM m	
Gurney Paragon	344.0	380.0	10%
Infinity	225.0	240.0	7%

Source: Company, CIMB/CIMB-GK Research

Bandar Putra Bertam

To offer mid-high end products. Bandar Putra Bertam holds strong promise as i) it has been earmarked an administrative, education and automotive hub and ii) Hunza Properties is one of only two developers within the area. As such, the group intends to maximise the development potential of this project by focusing on mid- to high-end products. Conservatively, this project carries a balance GDV of close to RM1bn and should sustain development efforts over the next 8-10 years.

Reaping the most from its land bank. When the project initially started back in 2002, the group reaped approximately RM1.2m GDV on a per acre basis. Current launches extract approximately RM1.6m GDV per acre. The group plans to increase this to RM2.0m GDV per acre in the immediate term to maximise the development potential of this land bank.

Riding on NCER? Hunza Properties also expects the Prime Minister's detailed announcement of the Northern Corridor Economic Region (NCER) at the end of the month to benefit this township development given that Bandar Putra Bertam is situated in the PM's Kepala Batas constituency. The group has of late been holding back launches in anticipation of further appreciation of land values after favourable NCER announcements. To recap, Hunza Properties is carrying its Bandar Putra Bertam land at less than RM2 psf in its books. Recent land transactions within the vicinity hovered around RM7-10 psf.

Other projects

30% foreign buyers. For its newer, niche projects, notably Alila and Mutiara Seputeh, the group enjoys good buying interest from foreigners. On average, foreign buyers account for some 30% of property sales for each project. Worth mentioning is the strong interest shown by Britons. The company attributes this good foreign support to networking efforts which started some 10 years ago. The group has over the years developed good rapport with property agents in the UK, Singapore and Hong Kong, among others.

Another RM210m GDV project to be revealed in FY09. With the anticipated completion of Alila by FY08 and Mutiara Seputeh by FY09, Hunza Properties will kick-start another RM210m GDV project during FY09. This project, an 80:20 JV with the land owner, sits on a 10-acre site adjacent to its existing Alila project. The group intends to offer a mix of landed and high-rise properties with indicative pricing of RM300-700 psf. This will be another of its niche, mid-high end projects where development margins average more than 30%. As we expect meaningful contributions to filter through only in FY10, we have yet to incorporate this project into our earnings projections.

More land bank?

Actively seeking for Klang Valley land bank. The group indicated that it is actively looking for land bank to maintain its presence in the Klang Valley market. Its focus will be on small land parcels for niche, boutique-type developments in high-growth areas such as Kuala Lumpur City Centre, Ampang and Damansara Heights. Hunza Properties is looking to secure at least one piece of land in the Klang Valley over the next 12 months. This acquisition is expected to generate an indicative GDV of RM200m-300m.

A piece in Penang? Although the group is not actively scouting for land bank in Penang, it does not completely rule out such possibilities if the deal is attractive enough. As a rule of thumb, the company will only consider buying land in Penang if it provides more than 30% development margins.

FY07 results preview

Ahead of our forecast? Hunza Properties is scheduled to release its FY6/07 results during the third week of Aug 07. We understand that the full-year net profit is likely to exceed our RM33.7m projection, thanks to encouraging property sales and accelerated construction works.

7.5 sen final DPS? Since its listing, the group has been consistently declaring final gross DPS of 7.5 sen. We expect it to maintain this practice during the upcoming results announcement since it started paying a maiden interim DPS in the current financial year to maintain a decent dividend yield. To recap, the group declared a maiden 5 sen gross DPS in conjunction with the announcement of its 9MFY6/07 results. Dividend yield is now 3.6%, in line with the sector's average.

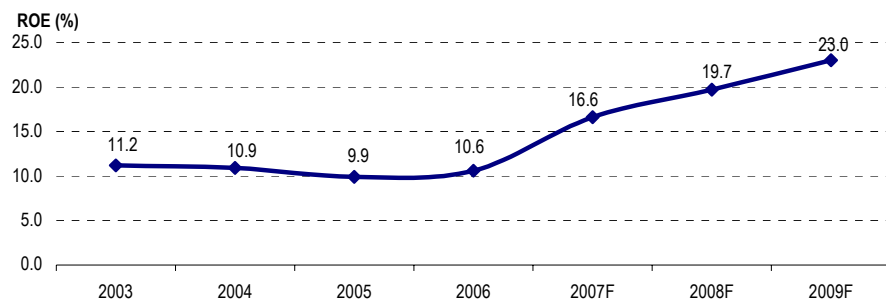
Financials

0.5-0.75x gearing ratio. One of the most frequently asked questions during the meetings related to the group's gearing position. Management are not overly concerned about the existing gearing (0.88x as at end-Mar 07) as the group is still at the growth stage. Hunza Properties will maintain a gearing of 0.5-0.75x though management indicated that they may tolerate a gearing of up to 1.0x if need be. We take some comfort in noting that the group usually secures all the financing it needs before starting on any project.

Medium-term growth strategies

Emphasis on ROE. Hunza Properties focuses on ROE as one of its KPIs since the indicator reflects not only how hard but also how smart they work their capital. The group has a minimum internal target where ROE has to be at least a double-digit figure. Looking at its track record, the group has typically met this internal target (Figure 2). We expect the group's ROE to trend even higher given our revised 54% 3-year net profit CAGR projection.

Figure 2: Comparison of ROE



Source: Company, CIMB/CIMB-GK Research

Building a brand name. The group reiterated its intention to nurture the Hunza brand name into one that is associated with luxurious lifestyle properties. It will concentrate on leaving a lasting impression in the niche, mid-high end segment. The group believes this brand-building exercise will take place gradually and expects buyers to start differentiating them from other property developers in 3-5 years' time.

Bringing up Penang's property market. Although 90% of Penang properties are high rise, the island still lacks modern, iconic properties. Hunza Properties intends to change Penang's skyline by introducing landmark designs for its newer project undertakings. Citing an example, its Gurney Paragon 43-storey service condo development is set to become the tallest residential building in Penang. Hunza Properties has also engaged a conceptual architect from Singapore, DP Architect, to ensure that designs and structures remain iconic.

A presence in the third high-growth area? In Malaysia, the three major property markets are the Klang Valley, Penang and Johor. Having established a firm foothold in Penang and more recently, a presence in Klang Valley, the group has revealed its intention to penetrate the Johor market in 3-5 years' time. It foresees huge potential for the southern state, thanks to the proposed RM4.3bn Iskandar Development Region (IDR) and spillover effects from Singapore's booming property market. Hunza Properties expects the Johor property market to flourish in 7-10 years' time, possibly even matching the Klang Valley as it is today.

Others

Penang – a tourist destination. The group views the government's efforts to improve Penang's infrastructure as a big plus for the island's property market. Penang's continuous promotion as a tourism destination also bodes well for the developer given the sizeable proportion of foreign buyers for its projects.

Unfazed by entry of KV players. The bigger property boys, notably SP Setia and Mah Sing, recently ventured into the Penang property market. Hunza Properties views their entry positively and expect these established players to lift the image and value of Penang properties.

Other updates

Strong 4Q property sales... In Jun 07, Hunza Properties managed to rake in a whopping RM83.6m worth of property sales, taking 4QFY6/07 property sales to RM108.8m. This makes 4Q the strongest quarter in terms of property sales contribution. The surge in property sales this time around was mainly due to maiden contributions by the Gurney Paragon and Infinity projects.

... lifting FY07 property sales to RM222.2m. Cumulatively, the group achieved RM222.2m property sales in FY07 versus RM166m achieved in FY06 (Figure 3). For FY07, the Mutiara Seputeh development emerged as the major sales contributor with an estimated 35% stake.

Unbilled sales at RM222.4m... As at end-Jun 07, the group's unbilled sales stood at RM222.4m, up from end-May 07's RM140m. The spike in unbilled sales was largely caused by maiden contributions from the Gurney Paragon and Infinity developments.

...mainly from Alila. Nevertheless, in terms of percentage contribution, Alila is still the main contributor with its RM90.9m of unrecognised billings. Construction of this project is going well, with the condos reaching 70% completion and the landed properties 53%. The group should be booking more significant earnings from here on.

Figure 3: Property sales summary

	4QFY07	FY07	FY06
	RM m	RM m	RM m
Bandar Putra Bertam	5.1	23.5	57.0
Sungai Petani	2.9	7.7	9.0
Alila	16.0	45.2	83.0
Mutiara Seputeh	16.6	77.6	17.0
Gurney Paragon	41.8	41.8	-
Infinity	26.4	26.4	-
Total	108.8	222.2	166.0

Source: Company, CIMB/CIMB-GK Research

Becoming more institutionalised. As at end Jun-07, institutional shareholders make up about 31% of Hunza Properties' shareholdings, against c. 12% a year ago. Foreign shareholding has also increased from less than 1% to 13%.

Valuation and recommendation

Revising turnover estimates. Since Infinity is a project management undertaking, the group would not be recognising turnover and property sales from this project and would only book in its 90% share of profits. Accordingly, our FY08-09 top line figures are adjusted downwards by up to 16% to reflect this. Post revision, FY08-09 EBIT margins goes up to 31-36% from 30% previously.

Upping earnings forecasts... Although YTD net profit made up 74% of our full-year estimate, we understand that 4Q numbers could be much stronger than expected and full-year net profit is likely to exceed our RM33.7m projection. This is mainly due to accelerated construction works and encouraging property sales. Accordingly, we are upping our FY07 earnings forecast by 8%, mainly to reflect i) Mutiara Seputeh's revised construction progress and ii) FY07's higher actual property sales of RM222.2m versus our RM200m projection. Our FY08-09 numbers are also adjusted upwards by 5-8% to reflect our revised construction schedule and property sales assumptions.

.... higher target price. Post earnings revision, our end-CY07 target price is raised from RM4.50 to RM4.80, based on an unchanged 40% discount to our 20x sector P/E target.

More upside to earnings. Even after this earnings upgrade, there is still room for more upward revisions as our earnings projections are conservative vis-à-vis management's guidance. Upside surprise could spring from higher-than-expected property sales.

Still undemanding. Although Hunza is forecast to deliver the highest EPS growth (revised 48% 3-year CAGR) and one of the highest CY08 ROEs (21%) in the sector, the stock is trading at an undemanding 9.1x CY08 EPS, a huge discount to the 16x sector P/E (ex-MK Land). Dividend yields are also respectable at 3.6%. Furthermore, despite its quick turnaround strategy, the company is still trading at a 16% discount to our RM4.31 RNAV/share estimate.

Maintain OUTPERFORM. Hunza remains an OUTPERFORM and our preferred choice for a deep-value developer with exposure to Penang. Re-rating catalysts include i) higher-than-expected sales and margins and iii) entry of reputable partners

for its Gurney Drive project.

Warrants are in the money. Investors with a higher appetite for risks can consider its 2004/2009 warrants (RM2.04, HPBW MK, exercise price RM1.50, expiry 10 March 2009) which are currently in the money.

Financial tables

PROFIT & LOSS (RM m, FYE Jun)	2005	2006	2007F	2008F	2009F
Revenue	112.3	116.6	178.6	248.0	297.1
Operating expenses	(80.0)	(81.6)	(122.8)	(170.6)	(191.7)
EBITDA	32.3	35.0	55.8	77.4	105.4
Depreciation & amortisation	(0.8)	(0.9)	(0.7)	(0.7)	(0.8)
EBIT	31.5	34.1	55.1	76.7	104.5
Net interest & invt income	0.3	0.7	0.2	0.3	1.4
Associates' contribution	-	-	-	-	-
Exceptional items	-	-	-	-	-
Pretax profit	31.8	34.8	55.3	77.1	105.9
Tax	(9.2)	(9.9)	(14.9)	(20.0)	(27.5)
Minority interests	(6.3)	(5.2)	(4.1)	(4.8)	(6.6)
Net profit	16.3	19.8	36.3	52.2	71.8
Wt. shares (m)	115.8	115.8	120.5	135.3	135.3
Shares at year-end (m)	115.8	115.8	135.3	135.3	135.3
BALANCE SHEET (RM m, 30 Jun)	2005	2006	2007F	2008F	2009F
Fixed assets	28.4	27.8	8.1	10.4	12.6
Intangible assets	-	-	-	-	-
Other long-term assets	156.4	117.2	198.6	214.2	229.6
Total non-current assets	184.8	145.0	206.7	224.6	242.2
Cash and equivalents	6.7	4.9	9.3	11.3	41.3
Stocks	13.5	21.4	26.3	36.4	43.7
Trade debtors	31.1	56.9	69.7	96.8	116.0
Other current assets	145.0	187.3	207.2	249.9	298.5
Total current assets	196.4	270.5	312.5	394.5	499.4
Trade creditors	25.6	22.2	27.2	37.7	45.2
Short-term borrowings	36.7	39.8	61.6	82.0	109.3
Other current liabilities	21.6	19.8	15.4	20.8	24.6
Total current liabilities	84.0	81.8	104.2	140.5	179.2
Long-term borrowings	97.0	119.0	143.0	163.0	183.0
Other long-term liabilities	1.8	1.7	1.7	1.7	1.8
Total long-term liabilities	98.8	120.7	144.7	164.7	184.8
Shareholders' funds	179.9	191.9	245.1	283.7	341.0
Minority interests	18.6	21.2	25.3	30.1	36.7
NTA/share (RM)	1.55	1.66	1.81	2.10	2.52
CASH FLOW (RM m, FYE Jun)	2005	2006	2007F	2008F	2009F
Pretax profit	31.8	34.8	55.3	77.1	105.9
Depreciation & non-cash adjustments	0.8	0.9	0.7	0.7	0.8
Working capital changes	22.7	(37.1)	(12.7)	(26.7)	(18.9)
Cash tax paid	(9.8)	(11.2)	(14.9)	(20.0)	(27.5)
Others	(99.2)	9.9	(13.1)	(40.7)	(46.6)
Cash flow from operations	(53.7)	(2.8)	15.3	(9.7)	13.7
Capex	(5.0)	(3.7)	(5.0)	(5.0)	(5.0)
Net investments & sale of FA	(5.5)	0.1	(37.7)	(15.5)	(15.5)
Others	1.0	0.5	-	-	-
Cash flow from investing	(9.5)	(3.1)	(42.7)	(20.5)	(20.5)
Debt raised/(repaid)	7.1	24.2	41.6	45.7	51.2
Equity raised/(repaid)	14.3	(1.4)	-	-	-
Dividends paid	(5.7)	(6.1)	(12.3)	(13.5)	(14.5)
Cash interest & others	(6.9)	(13.6)	(2.0)	6.0	4.0
Cash flow from financing	8.8	3.0	27.2	38.2	40.7
Change in cash	(54.4)	(2.8)	(0.1)	8.0	34.0
Change in net cash/(debt)	(61.5)	(27.0)	(41.7)	(37.7)	(17.2)
Ending net cash/(debt)	(126.9)	(153.9)	(195.6)	(233.4)	(250.6)
KEY RATIOS (FYE Jun)	2005	2006	2007F	2008F	2009F
Revenue growth (%)	(4.3)	3.8	53.2	38.8	19.8
EBITDA growth (%)	19.1	8.4	59.5	38.6	36.1
Pretax margins (%)	28.3	29.9	31.0	31.1	35.6
Net profit margins (%)	14.5	17.0	20.3	21.0	24.2
Interest cover (x)	33.1	2,950.1	472.8	222.5	120.5
Effective tax rates (%)	28.9	28.3	27.0	26.0	26.0
Net dividend payout (%)	38.3	31.6	29.9	25.2	19.7
Debtors turnover (days)	115.0	137.8	129.4	122.6	130.7
Stock turnover (days)	55.0	54.7	48.7	46.1	49.2
Creditors turnover (days)	71.4	74.8	50.4	47.8	51.0

Source: CIMB/CIMB-GK Research

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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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