27 November 2008

Hunza Properties

A very soft 1Q09

BUY
RM1.30

Target Price: RM2.70

Stock data

Market cap (RMm):	191.5
Issued shares (m):	147.3
52-week range:	RM1.00-RM2.80
3-mth avg daily volume:	42, 525 shrs
Bloomberg code:	HPB MK
YTD price chg:	-52.0%
YTD KLCI chg:	-40.7%
Est. free float:	31.3%
Major shareholders:	
Dato' Dr Khor Teng Tong:	53.1%
Lembaga Tabung Haji:	8.2%
Yayasan Bumiputera	7.4%
Pulau Pinang Bhd:	

KLCI	FBM30	FBM70	Syariah	Hijrah
No	No	No	Yes	No

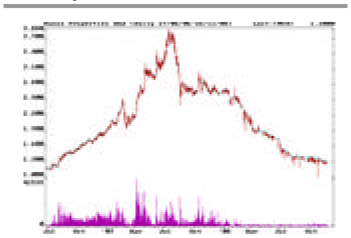
Consensus

FYE 30 Jun	2009E	2010E
Net profit (RMm):	54.6	65.3
EPS (sen):	36.5	42.3

Forecast revision

FYE 30 Jun	2009E	2010E
Prev. net profit (RMm):	52.3	62.5
Revision (%):	-50%	-50%
Revised net profit (RMm):	25.9	31.4

Share price chart



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- **1Q09 was below our and market expectations**. 1Q09 net profit of RM5.6m accounted for 11% and 10% of our and market FY09E forecasts of RM52.3m and RM54.6m, respectively. Macroeconomic uncertainties caused stagnant take-up rates for Hunza Properties' (Hunza) iconic Penang projects; Gurney Paragon and Infiniti registered 51% and 55% take-up rates at 30/9/08 versus last quarter's 50% and 54% at 30/6/08, respectively. Nevertheless, Hunza has sufficient unbilled sales of RM256m to last them another 2 years.
- **1Q09 pretax profit falls 57% YoY to RM7.5m** as 1Q08 net profit was bolstered by significant progress billings from Alila and Mutiara Seputeh (semi-detached). These projects were at near-to-completion construction stages with high take-up rates of 85% and 70%, respectively.
- **QoQ, 1Q09 net profit declines 45%**. Starting August 08, rainy weather disrupted construction progress, particularly for Gurney Paragon. However, 1Q09 sales of finished products from Alila and Mutiara Seputeh boosted gross margin by 5.4ppt to 29.0%.
- **We are anticipating higher net gearing by 1Q10 of up to 1.0x** from current 0.3x. Hunza may undertake more borrowings to fund the construction of the Gurney Paragon mall in mid CY09. They are in a good position gear-up given the recently lower BLR rates of 6.5% and their healthy balance sheet (cash balance of RM72).
- **Downward revision in FY09E and FY10E net profit by 50% respectively** to RM25.9m and RM31.4m, respectively. Corresponding GDPS is also lowered by 39% to 7.5sen each, to reflect softer returns and management's intention of conserving cash to acquire bargain landbank in the near future. We expect interest in property, especially investment properties like Gurney Paragon and Infiniti, to remain subdued until global economies are on stronger footing. Management reassures us that there are **no issues of financing the completion of Gurney Paragon and Infiniti** as they will breakeven at slightly over 60% take-up rate.
- **Lowering fair value to RM2.70**, from RM3.59, to reflect slower earnings recognition and softer land values in the future based on sum of parts RNAV. Nonetheless, the upside remains high at 108% while trading cheaply at 7x and 6x PER for FY09E and FY10E, respectively. **Maintain BUY**.

Results Highlights

FYE: 30 Jun (RMm)	**1Q08**	**2Q08**	**3Q08**	**4Q08**	**1Q09**	**±QoQ**	**±YoY**
Revenue	67.7	70.1	54.1	53.3	25.2	-53%	-63%
Operating costs less depn/amort	(49.7)	(49.9)	(42.9)	(44.2)	(21.0)	-52%	-58%
Profit share from proj mgmt	0.0	2.2	3.5	7.0	3.8	-47%	>100%
EBITDA	18.2	23.2	15.0	16.6	8.6	-48%	-53%
Net int inc/(exp)	(0.0)	(0.0)	(0.9)	(0.4)	(0.3)	-22%	>100%
Pretax profit	**17.5**	**22.5**	**13.4**	**14.9**	**7.5**	**-49%**	**-57%**
Taxation	(5.1)	(5.8)	(3.7)	(4.7)	(2.1)	-54%	-58%
Net profit	**12.1**	**16.6**	**9.7**	**10.1**	**5.6**	**-45%**	**-53%**
EPS (sen)	8.92	12.14	6.37	6.88	3.86	-44%	-57%
Dil EPS (sen)	8.26	11.50	6.21	6.80	n.a.		
NTA/share (RM)	1.96	2.06	2.05	2.08	2.11	2%	8%
Net gearing (x)	0.4	0.3	0.3	0.4	0.3		
Pretax margin	25.9%	32.1%	24.9%	27.9%	29.9%		
Effective tax rate	28.9%	25.7%	27.8%	31.5%	28.5%		

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Results Review

QoQ (RMm)	4Q08	1Q09	Chg	Comments
Gross Margins	23.6%	29.0%	5.4ppt	Margin enhancement from further sale of completed projects (Alila and Mutiara Seputeh).
Net Profit	10.1	5.6	-45%	Sharp decline result of rainy weather disrupting construction progress, particularly for Gurney Paragon.

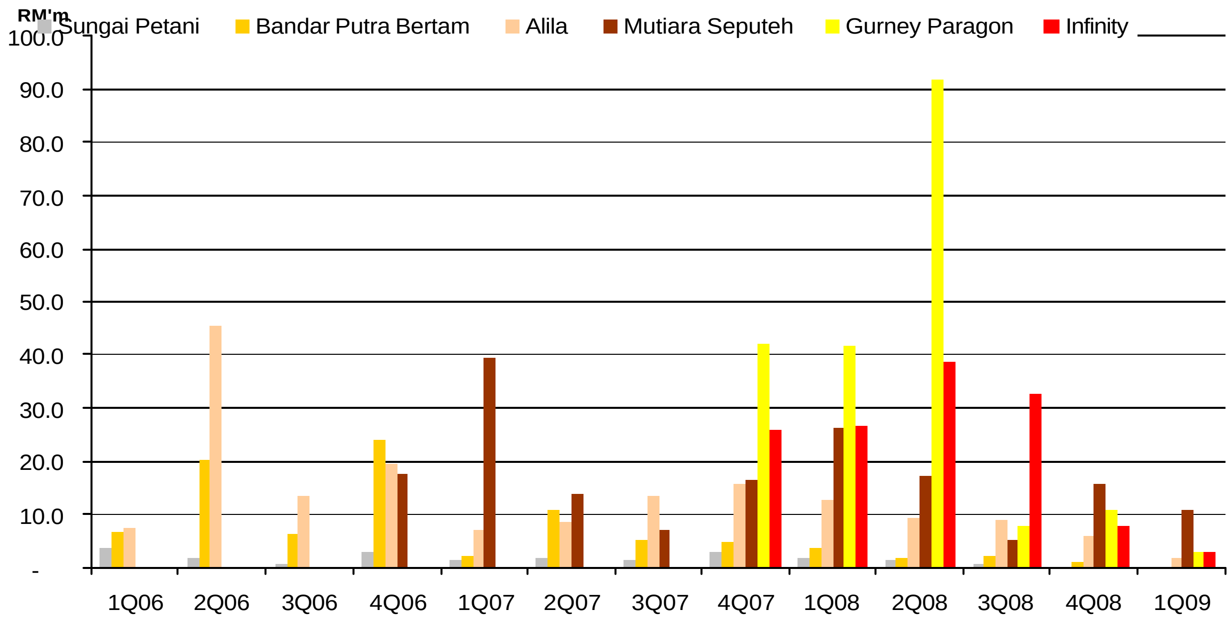
YoY (RMm)	1Q08	1Q09	Chg	Comments
Pretax Profit	17.5	7.5	-57%	Lower as 1Q08 saw higher earnings recognition of Alila and Mutiara Seputeh as these projects had high take-up rates and were near completion.
Net Profit	12.1	5.6	-53%	Fall caused by stagnating growth in Gurney Paragon and Infiniti sales.

Sum of parts RNAV

Investment Properties	**Tenure**	**Land size (ac)**	**Build-up (sft)**			**Book Value (RM'm)**	**BV psf (RM)**
Mukim 9, Seberang Prai Selatan, Penang	Freehold	7.0	304,920			**2.5**	8
Mukim 12, Seberang Prai Tengah, Penang	Freehold	39.0	1,698,840			**20.0**	12
Property for operations						**3.2**	
Development Land	**Share-holding**	**Land size (ac)**	**BV (RM'm))***	**BV psf (RM)**		**Market Value (RM'm)***	**Mkt Value psf (RM)**
Bertam, Penang	70%	486.0	9	0.62		**59.3**	4.0
Gurney Drive, SS1, Penang	100%	8.4	82	224.75		**131.7**	360.0
Sungai Petani, Kedah	100%	364.0	9	0.55		**31.7**	2.0
On-going Projects	**Share-holding**	**Land size (ac)**	**WACC**	**Pretax Margin**	**Remaining Pretax Profit (RM'm)***	**DCF Value (RM'm)**	
Bertam, Penang	70%	na	8%	27%	0.4	**0.3**	
Sungai Petani, Kedah	100%	na	8%	10%	0.2	**0.2**	
Alila, Tanjung Bungah, Penang	100%	3.0	8%	25%	5.7	**3.4**	
Infiniti, Tanjung Bungah, Penang	90%	3.0	8%	29%	54.9	**43.3**	
Gurney Paragon, Penang	100%	1.6	8%	26%	94.6	**74.3**	
Mutiara Seputeh, KL - Semi-D	100%	11.0	8%	27%	3.8	**3.4**	
Total Revised Asset Value						**395**	
Other LT assets (as at 30/9/08)						52	
Net Current Assets w/o prop dev cost (as at 30/9/08)						55	
Long Term Liabilities (as at 30/9/08)						(93)	
Total Revised Net Asset Value (RNAV)						**409**	
RNAV per share						**MYR 2.79**	
No of shares (m) (as at 31 Mar 07)						147	
Dillution impact on RNAV						16	
Diluted RNAV per share (RM)						**MYR 2.70**	
Diluted No of Shares (m)						157	

**After shareholding*

Sales



Source: Company, Kenanga Research

Earnings Estimates

FYE: 30 Jun (RMm)	2007	2008	2009E	2010E	2011E
Revenue	190	245	105	143	154
Pretax profit	61	68	35	42	50
Net profit	**39**	**48**	**26**	**31**	**36**
Net profit growth (%)	99%	23%	-47%	21%	13%
Recur. Net Profit	**36**	**47**	**26**	**31**	**36**
EPS (sen)	26.8	32.9	17.6	21.4	24.2
EPS growth (%)	99%	23%	-47%	21%	13%
Diluted EPS (sen)	29.2	35.0	19.6	23.1	25.7
GDPS (sen)	9.1	12.3	7.5	7.5	7.5
NTA/ share (RM)	1.74	2.08	1.93	2.07	2.24
PER (x)	4.9	4.0	7.4	6.1	5.4
Diluted PER (x)	4.4	3.7	6.6	5.6	5.1
P/NTA (x)	0.7	0.6	0.7	0.6	0.6
EV/EBITDA (x)	4.4	3.9	7.3	6.0	5.2
ROE %	17.6%	17.2%	8.8%	10.6%	11.2%
Dividend Yield (%)	7.0%	9.5%	5.8%	5.8%	5.8%

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