21 April 2008

BUY
RM1.88
Target Price: RM3.59

Hunza Properties

Painful in the short term

Stock data

Market cap:	277.0
Issued shares:	147.3
52-week range:	RM1.85-RM3.88
3-mth avg daily volume:	239,841 shrs
Bloomberg code:	HPB MK
Syariah	Yes
YTD price chg:	-30.6%
YTD KLCI chg:	-11.3%
Est. free float:	32.8%
Major shareholders:	
Dato' Dr Khor Teng Tong:	*52.95%*
Lembaga Tabung Haji:	*6.84%*
Yayasan Bumiputera Pulau Pinang Bhd:	*7.40%*

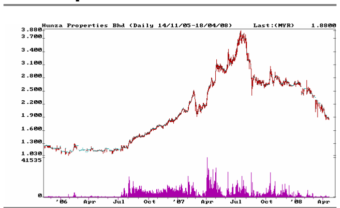
Consensus

FYE 30 Jun	2008E	2009E
Net profit (RMm):	52.2	66.4
EPS (sen):	31.3	43.0

Forecast revision

FYE 30 Jun	2008E	2009E
Revision (%):	-24%	-21%
Net profit (RMm):	48	62

Share price chart



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- **Slow-down in overall property sales**. Besides vague global economic outlook, foreigners have been more deterred from buying Malaysian properties given the uncertainties churned by recent political outcomes. Therefore, Hunza Properties (Hunza) 2H08 earnings starts to feel the pinch as its on-going high-end projects have high-compositions of foreign buyers with an average of some 50% (Fig1).
- **Slow-down most noticeable in Penang.** Typically, the long Chinese New Year celebrations attributes to a QoQ decline in 3Q bottomlines (Fig2). Adding the effects of the "election fever" period could easily shave-off 3 to 4 weeks of Hunza's 3Q08 property sales (especially in Penang, given its new state government). If uncertainties are not ironed out, such dampeners could continue in 4Q08 earnings onwards. Alila, Infiniti and Mutiara Seputeh have already recorded 3%, 50% and 68% QoQ decline, respectively for 3Q08 (Fig3).
- **Short-term pain apparent…** Penang's new state government is going through a "teething" process and may need a minimum of 6 months to familiarize and make necessary changes in state operations. Until then, we expect bottle-necks in terms of new and unapproved property projects in Penang, such as Hunza's Alila 2.
- **…but positive outlook in the medium to long term** as the new Penang state government is pushing for more transparency and competitiveness, which is in line with the state's goal to attract more FDI's in Penang. If successful, developers' like Hunza, will enjoy spill-over effects from more FDI and more efficient processes.
- **Downgrading FY08E and FY09E net profit by 24% and 21% to RM48m and RM62m,** respectively. Based on mentioned reasons, we have slowed-down take-up rates for each project, and hence, profit recognition. Furthermore, we expect a narrowing of Hunza's target market breadth as it increased prices of Infiniti and GPC by 15% to RM480psf and 45% to RM580psf, respectively. Nevertheless, this implies higher value extraction and more buffers against high raw material prices. **FY08E dividend yield remains attractive at 5.7%.**
- **Downward revision in target price of RM3.59** from our previous RM4.37, based on our sum of parts RNAV on a fully diluted basis. We have significantly slowed down take-up rates and applied a higher WACC of 11.4% (7.3% previously) when valuing on-going projects. **Maintain BUY**.

Earnings Estimates

FYE: 30 Jun (RMm)	2006	2007	2008E	2009E	2010E
Revenue	117	190	220	276	343
Pretax profit	35	61	67	89	114
Net profit	20	39	48	62	77
Net profit growth (%)	21%	99%	21%	30%	26%
Recur. Net Profit	20	36	46	62	77
EPS (sen)	14.5	28.8	34.8	45.1	56.7
EPS growth (%)	21%	99%	21%	30%	26%
Diluted EPS (sen)	17.3	27.3	33.0	42.8	53.7
GDPS (sen)	7.5	9.1	10.8	14.0	17.6
NTA/ share (RM)	1.36	1.86	1.88	2.18	2.56
PER (x)	13.0	6.5	5.4	4.2	3.3
Diluted PER (x)	10.9	6.9	5.7	4.4	3.5
P/NTA (x)	1.4	1.0	1.0	0.9	0.7
EV/EBITDA (x)	11.8	6.6	5.9	4.5	3.6
ROE %	10.6%	17.4%	18.0%	21.5%	23.2%
Dividend Yield (%)	4.0%	4.8%	5.7%	7.4%	9.4%

PP7004/03/2009(020927)

Key Points

Slow-down in overall property sales. Besides vague global economic outlook arising from the US subprime blowout, foreigners have been more deterred from buying Malaysian properties given the uncertainties churned by recent political outcomes. Therefore, Hunza Properties (Hunza) 2H08 earnings are feeling starting to feel the pinch as its on-going high-end projects tend to target foreign buyers; all its projects have high-compositions of foreign buyers an average of some 50% of sales (as at 31/01/08) (Fig1).

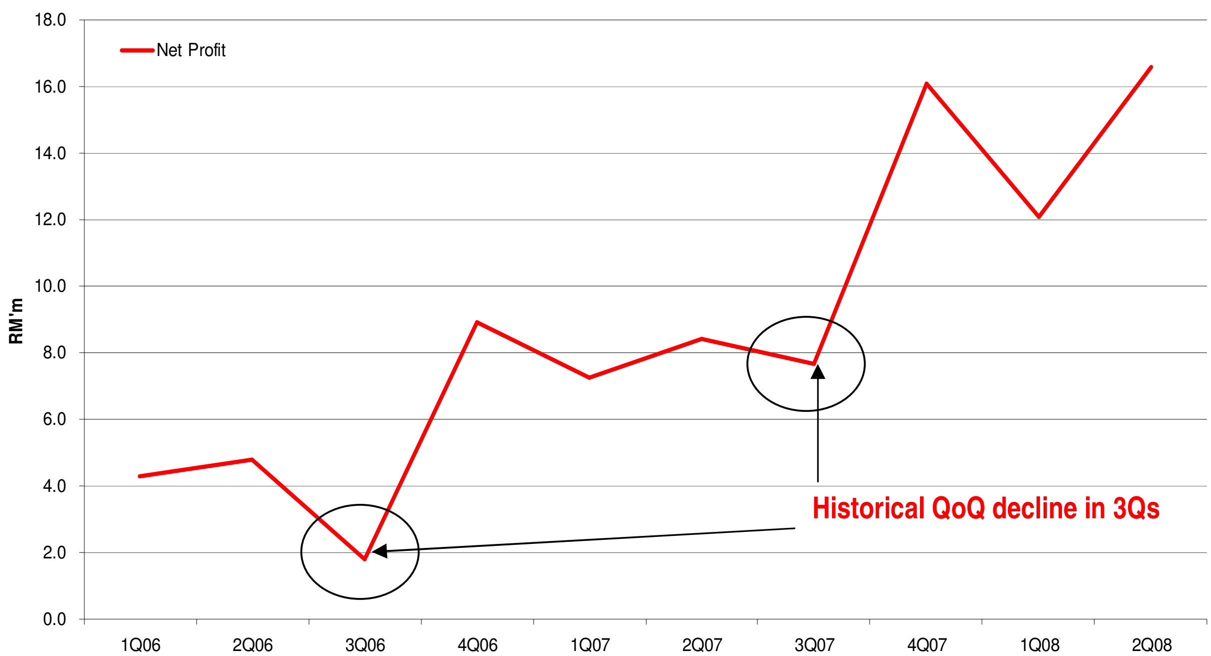
Take up rates and share of foreign buyers

Project	% of foreign buyers (31/1/08)
Alila	20%
Mutiara Seputeh	25%
Gurney Paragon	60%
Infinity	80%

Source: Company

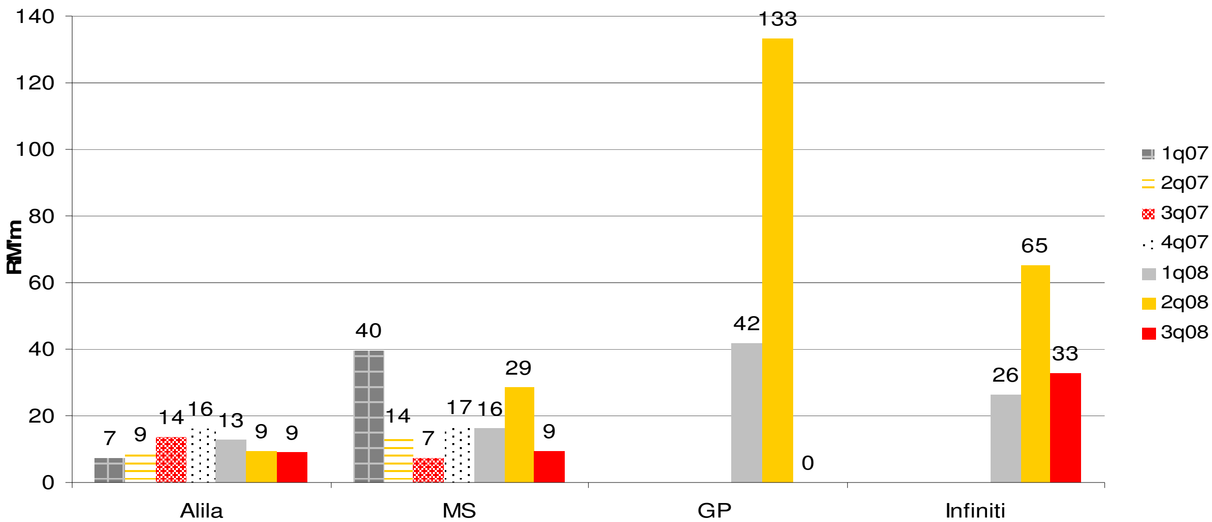
Slow-down most noticeable in Penang. Typically, the long Chinese New Year celebrations attributes to a QoQ decline in 3Q bottomlines (Fig2). Adding the effects of the "election fever" period and post-election results could easily shave-off some 3 to 4 weeks of 3Q08 property sales; especially in Penang, given its new state government. Alila, Infiniti and Mutiara Seputeh have already recorded 3%, 50% and 68% QoQ decline, respectively for 3Q08 (Fig3).

Fig2: Quarterly Net Profit Trends



Source: Kenanga Research, Bursa, Company

Fig3: Quarter Sales for Alila, Mutiara Seputeh (MS), GPC and Infiniti



Source: Kenanga Research, Bursa, Company

Undesirable spotlight dampens sales for Gurney Paragon condominiums (GPC). In addition to the above factors, we suspect that the Penang's new Chief Minister's recent statement that "Gurney Paragon could be reviewed under justifiable grounds" could be an attributing factor that affected potential GPC buyers' sentiments. Furthermore, management stated that it was more focused on promoting Infiniti on its overseas marketing trips (these trips tend to secure most of foreign buyers sales). Hence, GPC recorded no sales being made in 3Q08, versus 2Q08 sales of RM133m.

Short-term pain apparent… Penang's new state government is going through a "teething" process. We estimate that the Penang state government may need a minimum of 6 months to familiarize and make necessary changes in state operations. However, they are not alone as developers, like SP Setia, know that they need similar amount of time to decipher the workings of new state administrations.

(Note that projects which have obtained full approvals under the previous state administrations should not face any disruptions, implying that Hunza's on-going projects like GPC and Infiniti should continue as planned)

Until the state government gets a grip on its operations**, we expect "bottle-necks" in approval processes for new projects** (or not fully approved property projects) in Penang. This could affect Hunza in the following ways;

- **Hunza's pipeline project, Alila 2.** Approvals for this project could need more time. We have yet to factor in the Alila 2 project, so any delays in approvals will not affect our forecasts.

- **Gurney Paragon mall (GPM) is still at risk of being delayed**, as it has not obtained full approvals. If the project is severely delayed, it will have an adverse effect on GPC take-up rates.

    - However, Hunza believes that the GPM will pull through given GPM's "tourist attraction" status, in addition to Hunza's efforts to build stronger ties with the new state government (the new State Local Government, Traffic Management and Environment Committee chairman Chow Kon Yeow was a guest of honour in Alila's "key hand-over" on 18/04/08).

- According to management, GPM "ground-breaking" ceremony is scheduled for May 2008, which will be a confidence booster for potential GPC buyers. In fact, GPM earthworks have already begun as the project has a "tourist attraction" status, which allows works to proceed before full approvals are obtained.

…but positive outlook in the medium to long term as the new Penang state government is pushing for more transparency and competitiveness, which is in line with the state's goal to attract more FDI's in Penang. If successful, developers' like Hunza, will enjoy spill-over effects from more FDI and greater efficiency in approval processes.

Downgrading FY08E net profit by 24% to RM48m, due to negative foreign buyer's sentiment on Malaysian properties; especially applicable to Penang which consequently affects Hunza's main target market. Furthermore, we **expect a narrowing of Hunza's target market breadth as it increased the prices of Infiniti and GPC** by 15% to RM480psf and 45% to RM580psf, respectively. Hence, we do not expect locals to pick-up the slack in Infiniti and GPC soft take-up rates as Penangites prefer landed properties and may be unwilling to pay such prices. Nevertheless, higher prices imply increased value extraction and more buffers against rising raw material prices.

We are also **reducing FY09E and FY10E net profit by 21% and 11% to RM62m and RM77m,** respectively, based on the above reasons. We are assuming a conservative stance until we see strong evidence of foreign and local confidence in local political scenes, like Penang.

Downward revision in target price of RM3.59 from our previous RM4.37, based on our sum of parts RNAV on a fully diluted basis. We have significantly slowed down take-up rates and applied a higher WACC of 11.4% (7.3% previously) when valuing on-going projects. However, we are maintaining our land valuations as we believe that prices are still in-tact.

Our new valuations still gives a meaty 91% premium to its last traded price of RM1.88 and a 27% upside to its 52-week high of RM2.82. Additionally, we are expecting an attractive FY08E dividend yield of 5.7% versus FY07's 4.8%. FY08E and FY09E PER remains cheap at 5x and 4x compared to sector averages of 13x and 8x, respectively. **Maintain BUY**.

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			**3.0**	10		
Mukim 12, Seberang Prai Tengah, Penang	Freehold	39.0	1,698,840			**20.0**	12		
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	10	0.68		**169.7**	11		
Gurney Drive, SS1, Penang	100%	8.4	82	224.75		**164.8**	450		
Alila, Tanjung Bungah (Bungalow plots)	100%	0.6	1	20.90		**6.2**	250		
Sungai Petani, Kedah	100%	364.0	9	0.55		**46.0**	3		
On-going Projects	**Share-holding**	**Land size (ac)**	**WACC**	**Pretax Margin**	**Remaining Pretax Profit (RM'm)***	**DCF Value (RM'm)**	**Yr 1 (RM'm)**	**Yr 2 (RM'm)**	**Yr 3 (RM'm)**
Bertam, Penang	70%	na	11.5%	20%	0.6	**0.5**	0.2	0.4	0.0
Sungai Petani, Kedah	100%	na	11.5%	8%	0.2	**0.1**	0.2	0.0	0.0
Alila, Tanjung Bungah, Penang	100%	3.0	11.5%	25%	14.2	**12.1**	7.8	6.3	0.0
Infiniti, Tanjung Bungah, Penang	90%	3.0	11.5%	28%	51.7	**38.2**	16.1	29.6	6.0
Gurney Paragon, Penang	100%	1.6	11.5%	28%	94.0	**52.8**	27.2	35.3	22.1
Mutiara Seputeh, KL - Semi-D	100%	11.0	11.5%	22%	20.6	**16.0**	10.8	7.7	2.0
Total Revised Asset Value						**551**			
Other LT assets (as at 31/12/07)						31			
Net Current Assets w/o prop dev cost (as at31/12/07)						92			
Long Term Liabilities (as at31/12/07)						(132)			
Total Revised Net Asset Value (RNAV)						**542**			
RNAV per share						**MYR 3.84**			
No of shares (m) (as at 31 Mar 07)						141			
Dillution impact on RNAV						25			
Diluted RNAV per share (RM)						**MYR 3.59**			
Diluted No of Shares (m)						158			

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