

BUY
RM1.40

Target Price: RM3.59

Stock data

 Market cap: 206.3
 Issued shares: 147.3
 52-week range: RM1.21-RM3.06
 3-mth avg daily volume: 27,240 shrs

 Bloomberg code: HPB MK
 Syariah: Yes
 YTD price chg: -48.3%
 YTD KLCI chg: -25.8%

 Est. free float: 33.07%
 Major shareholders:
Dato' Dr Khor Teng 52.70%
Tong:
Lembaga Tabung Haji: 6.84%
Yayasan Bumiputera 7.39%
Pulau Pinang Bhd:

Consensus

FYE 30 Jun	2009E	2010E
Net profit (RMm):	57.8	73.2
EPS (sen):	37.3	46.3

Forecast revision

FYE 30 Jun	2009E	2010E
Revision (%):	16%	19%
Net profit (RMm):	52	62

Share price chart

 The Research Team
 research@kenanga.com.my
 Tel: 603-2713 2292

Hunza Properties

Softer earnings ahead

We attended Hunza Properties' (Hunza) post FY08 results briefing yesterday and took away the following key points;

- Reigning in construction cost with own capabilities.** Hunza intends to revive its 100%-owned construction arm, Masuka Bina Sdn Bhd, to improve time and cost management in constructing its projects. The construction arm will be undertaking the entire Gurney Paragon project and is expected to yield 6%-10% savings.
- Gurney Paragon (GP) mall cost increases by 25% to RM500m** from the initially guided RM400m, a year ago, due to rising raw material costs. However, Hunza believes that its initial gross development cost can be achieved if material prices continue to trend downwards and through further savings from utilizing its own construction arm. However, we are forecasting a more conservative mall's cost of RM450m over a period of 18 months, commencing in 2HFY09.
- Rights issue looking less likely.** Hunza may forgo its proposal, although it has extended the right issuance date to Oct 08, given its depressed share price of RM1.40. Therefore, it will obtain further funding, particularly for the construction of GP mall, via borrowings. Based on its internal gearing limit of 50%, Hunza can afford to borrow another RM150m -RM160m.
- Stretched-out sales for GP and Infiniti reduces our FY09E and FY10E recurring net profit by 16% and 19% to RM52m (+10% YoY) and RM62m (+20% YoY), respectively.** However, we are **raising our FY11E recurring net profit by 73% to RM71m (+13% YoY)** taking into account of spill over sales from GP and Infiniti, as well as, new launches namely, the RM250m Alila II and RM300m Segambut project in 2HFY10 to FY11.
- We maintain our BUY call with a target price of RM3.59,** based on our sum of parts RNAV on a fully diluted basis. FY08E and FY09E PERs are compelling at 4x and 3x, respectively, while dividend is extremely attractive for a property stock with FY09E net dividend yield of 6.6% (gross yield of 8.8%).

Earnings Estimates

FYE: 30 Jun (RMm)	2007	2008	2009E	2010E	2011E
Revenue	190	245	165	202	147
Pretax profit	61	68	72	85	96
Net profit	39	48	52	62	71
Net profit growth (%)	99%	23%	8%	19%	13%
Recur. Net Profit	36	47	52	62	71
EPS (sen)	26.8	32.9	35.5	42.5	48.1
EPS growth (%)	99%	23%	8%	19%	13%
Diluted EPS (sen)	29.2	35.0	37.4	44.0	49.4
GDPS (sen)	9.1	12.3	12.3	12.3	12.3
NTA/ share (RM)	1.74	2.08	2.06	2.37	2.72
PER (x)	5.2	4.3	3.9	3.3	2.9
Diluted PER (x)	4.8	4.0	3.7	3.2	2.8
P/NTA (x)	0.8	0.7	0.7	0.6	0.5
EV/EBITDA (x)	4.7	4.1	3.7	3.0	2.6
ROE %	17.6%	17.2%	17.1%	19.1%	18.9%
Dividend Yield (%)	6.5%	8.8%	8.8%	8.8%	8.8%

Key Points

We attended Hunza Properties' (Hunza) post FY08 results briefing today and took away the following key points;

Reigning construction cost with own capabilities. Hunza intends to revive its 100%-owned construction arm, Masuka Bina Sdn Bhd, to allow for greater time and cost management to curb excess volatility in the construction business.

Hunza already enjoys economies of scale from bulk buying materials (e.g. steel and cement) for its contractors. However, it believes that having its own construction arm will allow for better time and cost management, which should result in 6%-10% savings on construction cost (note that Dato' Khor, the major shareholder of Hunza, is a veteran in construction). This set-up allows Hunza to dictate the speed of construction, and more importantly, ensure high quality control. The construction arm will be dedicated to the Gurney Paragon (GP) condominium and mall project only.

We are unclear about the CAPEX requirements for construction machinery. However, management has advised that some 50% of machinery will be acquired and the rest will be rented.

Gurney Paragon (GP) mall cost increases by 25% to RM500m (RM420m without land cost), from its initial guided RM400m (RM320 without land cost) a year ago, due to rising raw material costs. Hunza believes that its initial cost guidance is achievable if (1) it uses its own construction arm (2) recent softening of material prices continue.

Management expects building material prices to return to mid-2007 levels. However, we are less optimistic and have conservatively accounted for RM370m CAPEX for the GP mall, over an expected 18 month construction period, with a commencement date in 2HFY09. Based on the guided RM50m to RM60m p.a. rental income, yields are still attractive at 11% to 13%.

In terms of the mall's project approvals, Hunza is currently submitting its technical plans.

Rights issue status. Recall that Hunza has proposed to raise RM80m – RM100m capital from rights issuance for the mall's construction and other new projects. However, Hunza may forgo the rights issue exercise given the nearing proposals' extended dateline in October 2008 and Hunza's depressed share price of RM1.40.

Therefore, Hunza will obtain **further funding**, particularly for the construction of GP mall, **via borrowings**. Based on its internal gearing limit of 50% and Hunza's 32% gearing as at 30/6/08, Hunza can borrow an additional RM150m to RM160m.

Segambut project likely to be launched after FY10. Hunza is planning a 400-unit mid to high end condominium development with an indicative RM300m GDV. It plans to price the project at 60% of the average Mont Kiara pricing to appeal to a different target market. Hunza believes that such a product will appeal to Malaysia My Second Home (MM2H) participants from Indonesia, Hong Kong and Singapore.

Targeting 50% of FY08's sale of GP and Infiniti. Management is expecting softer sales due to global economic and local political uncertainties. Hence, in FY09, we can expect an additional some RM76m and RM53m sales from GP and Infiniti, respectively.

Longer earnings gestation for GP and Infiniti reduces our FY09E and FY10E recurring net profit by 16% and 19% to RM52m (+10% YoY) and RM62m (+20% YoY), respectively, as we had previously expected more aggressive sales and quicker billings. Currently, both GP and Infiniti have 50% and 54% take-up rates. Key re-rating catalyst to FY09E and FY10E earnings lies with less uncertainties and lowered stamp duties.

Nonetheless, we are **raising our FY11E recurring net profit by 73% to RM71m** (+13% YoY), given the target launches of Alila II, Segambut project and residential units in Bandar Putra Bertam (BPB) in 2HFY10 to FY11, as well as, later sales arising from GP and Infiniti,

We maintain our BUY call with a target price of RM3.59, based on our sum of parts RNAV on a fully diluted basis. Our valuations are conservative as we have valued the Segambut project and pipeline BPB products on land values. We have not included Alila II land values or DCF earnings into our valuations as due to its project management nature (similar to Infiniti). We will include Alila II DCF earnings upon launch of the project. Nevertheless, our unchanged target price still gives a lucrative 156% upside to its last trading price.

FY08E and FY09E PERs are compelling at 4x and 3x, respectively, while dividend is extremely attractive for a property stock with FY09E net dividend yield of 6.6% (gross: 8.8%).

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia

Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Yeonzon Yeow
Head of Research