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1HFY10 Results Review

Hunza Properties

A Shade Below Estimates

NEUTRAL ↔

Target RM1.27
Previous RM1.10
Price RM1.28

PROPERTY

HUNZA PROPERTIES is principally involved in property development with main exposure to Penang Island and the Klang Valley.

Stock Statistics

Bloomberg Ticker	HPB MK
Share Capital (m)	195.9
Market Cap (RMm)	250.7
52 week H L Price (RM)	1.69 0.85
3mth Avg Vol ('000)	250.5
YTD Returns	-7.6
Beta (x)	0.69

Major Shareholders (%)

Khor Teng Tong	26.2
Lembaga Tabung Haji	7.2
Yayasan Bumiputra Pulau Pinang	5.6

Share Performance (%)

Month	Absolute	Relative
1m	-7.3	-6.9
3m	-2.2	-6.6
6m	-2.2	-9.3
12m	10.9	-22.6

6-month Share Price Performance



Given improving property sales and the encouraging pick-up in construction works on Gurney Paragon, Hunza reported a significantly better 1HFY10, although it was still slightly below our and street estimates. However, should construction works on Gurney Paragon gain momentum, it is more than likely that the company will meet our forecasts. Hunza's 1HFY10 y-o-y turnover and net profit shot up by 136% (+4% q-o-q) and 108% (+2.4% q-o-q) respectively. Pegging its CY10 NTA at a higher P/NTA of 0.6x (from 0.52x), we are upgrading our ex-rights TP to RM1.27 from RM1.10. Maintain Neutral. Based on the current price of its 'renounceable rights', which are trading up to 10 Feb, the market appears to have prescribed a 14.5% premium on Hunza's free detachable warrants vis-à-vis the current trading price and our fair value for its mother share. Therefore, we believe that the 'Rights' are currently overvalued.

Slightly below expectation. Given the improving property sales and encouraging pick-up in construction works on Gurney Paragon, Hunza reported significantly better numbers for 1HFY10 on a y-o-y basis although these were slightly below our and street estimates. However, should construction works on Gurney Paragon gain pace, it is more than likely that our forecasts will eventually be met. Hunza's 1HFY10 y-o-y turnover and net profit were up a hefty 136% (+4% q-o-q) and 108% (+2.4% q-o-q) respectively. The Infinity and Gurney Paragon projects recorded substantially stronger sales in 2QFY10 vs that 2Q09 when sales were negatively impacted by the global financial crisis. In addition, progress billing on Gurney Paragon also picked up significantly as works have reached the superstructure stage of the two residential tower blocks of the super-condominium.

Signs of life in Penang new property sales. After 2 quarters of sustainable and encouraging new property sales in 2HCY09 on Penang Island, it appears that the island's property market is on a much firmer footing. Recent buying activities, particularly on the island's high-end condos segment, is said to be sustained by domestic real demand. The situation is unlike that for the Klang Valley's luxury condos, for which an oversupply is imminent and developers still have to offer attractive discounts and easy financing schemes to draw buyers. Gurney Paragon achieved a take-up rate of 58%, up from 55% in 1QFY10, while that for Infinity and the low-rise Alila improved further to 75% and 99% respectively (from 71% and 94% in 1QFY10 respectively). In the Klang Valley, the take-up of the bungalows in Mutiara Seputeh improved further to 25% from 15% in 1QFY10.

TP upped at RM1.27; maintain Neutral. Pegging its CY10 NTA at a higher P/NTA of 0.6x (from 0.52x), we are upgrading our ex-rights TP slightly to RM1.27 (from RM1.10). However, we are leaving our earnings forecast largely unchanged. As we do not see any substantial potential upside from current levels, we remain Neutral on the stock.

FYE June (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	186.7	245.3	91.8	133.0	150.0
Net Profit	39.2	48.4	27.6	37.4	56.7
% chg y-o-y	98.4	23.4	-43.0	35.5	51.8
Consensus	-	-	-	42.4	45.7
EPS (sen)	24.9	30.7	17.5	19.1	28.9
DPS (sen)	12.5	12.4	7.5	9.3	14.7
Dividend yield	9.8	9.7	5.8	7.3	11.5
PER (x)	5.1	4.2	7.3	6.7	4.4
BV/share (RM)	1.89	2.08	2.21	2.04	2.22
P/BV (x)	0.7	0.6	0.6	0.6	0.6
ROE	17.5	17.2	8.7	10.3	13.6
ROA	8.3	9.2	5.3	6.9	9.6

Results Table (RMm)

FYE June	2Q10	1Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	59.4	57.1	4.0%	116.5	49.3	136.4%	Significant improvement in topline due to: (i) Diamaward (M) SB, which was 100% acquired recently, contributed a total of RM69.8m in 1HFY10; (ii) stronger sales from Infinity and Gurney Paragon; and (iii) substantial improvement in progress billing for Gurney Paragon.
EBIT	17.7	17.6	0.1%	35.3	18.3	93.2%	
Net interest expense	-0.2	-0.2	-25.1%	-0.4	-1.1	-59.3%	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	17.5	17.4	0.5%	34.9	17.2	102.6%	
Tax	-4.5	-4.6	-0.9%	-9.1	-4.8	91.1%	Effective tax rate relatively stable. Increase in tax expenses due to the much higher PBT.
MI	0.1	-0.1	-149.2%	-0.1	-0.1	-11.3%	
Net profit	13.0	12.7	2.4%	25.7	12.4	107.7%	Stronger sales from Infinity and Gurney Paragon, coupled with substantial improvement in progress billing for Gurney Paragon.
EPS (sen)	8.6	8.4		17.1	8.4		
DPS (sen)	0.0	0.0		0.0	0.0		
EBIT margin	29.7%	30.9%		30.3%	37.1%		
NTA/share (RM)	2.28	2.10		2.28	2.09		

Recap on the rights issue. Hunza is making a 3-for-10 rights issue (ex-date: 25 Jan 10), which may result in a potential earnings dilution of some 23% for FY10 and FY11. However, as a sweetener to the deal, there will also be free detachable warrants on the basis of 1 free warrant for every 1 rights share. Coupled with the fact that this proposal did not come as a surprise (as it was in fact proposed sometime ago) and the genuine need for Hunza to raise funds for ongoing development projects such as the colossal Gurney Paragon in Penang, we have a neutral view on the exercise.

Are the 'Rights' overvalued? Yes, somewhat. Given that the 'renounceable rights' are currently trading at 54.5 sen with a subscription price of RM1.10, the 'premium' above the current price of RM1.28 for the mother share is about 36.5 sen. This 'premium', we believe, is ascribed to the value of the free warrant that comes with every rights share. Given the exercise price of RM1.10 and the market-prescribed value of 36.5 sen per warrant, the warrant would actually be out-of-the-money given that the mother share is merely trading at RM1.28, and our fair value of RM1.27. See Figure 1. In fact, based on our calculation using the Black-Scholes Model, the implied value of the warrant should be around 31.2 sen, again implying that the 'Rights' are currently overvalued.

Figure 1: Market prescribes a 14.5% premium on Hunza's warrants vis-à-vis the current trading price of its Mother Share

ITEMS	RM
Current Market Price of Rights	0.545
ADD: Subscription Price for the Rights	1.10 +
LESS: Current Market Price of Mother Share	1.28 -
"Premium on the Rights" (i.e. value prescribed to the free warrant)	0.365 =
ADD: Exercise Price of Free Warrant	1.10 +
Total Warrant Cost	1.465 =
LESS: Current Market Price of Mother Share	1.28 -
Premium on the Warrant (Out-of-the-money)	0.185 =
% Premium on the Warrant relative to the Current Market Price of Mother Share	14.5%
% Premium on the Warrant relative to OSK's Fair Value of RM1.27	14.6%

Source: OSK Research, Company data

Big plans in Penang? Business Times reported today that Hunza is planning a multi-billion Ringgit integrated development township for its newly proposed acquisition of a 6.8ha land in Bayan Baru. As launching details are still sketchy, we are not incorporating this into our forecasts for now. The proposed land acquisition is expected to be completed by 2012.

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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