

Hunza Properties

Ready to hit a home run

OUTPERFORM	Maintained
RM2.80	@05/11/07
	Target: RM4.50
	Properties

HPB MK / HUZP.KL

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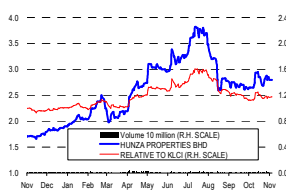
- **Sustained property sales.** Property sales achieved in 1QFY6/08 totalled RM86.4m, a modest 5% increase qoq but a whopping 70% higher yoy. Consistent with 4QFY07, the yoy push came from maiden contributions from its newest project, the Gurney Paragon.
- **Slow 1Q is just a blip.** Hunza Properties is scheduled to release its 1QFY6/08 results on 13 Nov. We understand that annualised numbers are likely to miss our expectations as Gurney Paragon and Infinity have yet to reach the construction milestone for booking of profits. However, we retain our FY08 forecast as we expect the shortfall to be covered in the remaining quarters.
- **Finetuning FY09-10 earnings.** FY09-10 numbers are tweaked upwards by 1.5% as we impute a lower effective tax rate of 25% instead of 26%.
- **Reiterate OUTPERFORM with a higher target price.** Post earnings upgrade along with the rollover of our valuation horizon to end-08, our rights-adjusted target price is upped from RM4.15 to RM4.50, based on an unchanged 40% discount to the sector's 20x target P/E. Hunza Properties remains our preferred choice for a deep-value developer with Penang exposure. Re-rating catalysts include i) higher-than-expected sales and margins, ii) entry of reputable partners for Gurney Paragon and iii) landbank acquisitions. Maintain OUTPERFORM.

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	190.0	254.6	303.7	298.2
EBITDA (RM m)	35.0	58.4	78.6	106.5	130.4
EBITDA margins (%)	30.0	30.7	30.9	35.1	43.7
Pretax profit (RM m)	34.8	60.7	78.2	107.0	130.9
Net profit (RM m)	19.8	39.4	52.9	73.5	86.9
EPS (sen)	17.1	29.1	39.1	54.3	64.2
EPS growth (%)	+21%	+70%	+34%	+39%	+18%
P/E (x)	16.4	9.6	7.2	5.2	4.4
Core EPS (sen)	17.1	27.0	39.1	54.3	64.2
Core EPS growth (%)	+21%	+58%	+45%	+39%	+18%
Core P/E (x)	16.4	10.4	7.2	5.2	4.4
FD EPS (sen)	17.1	29.1	34.0	47.1	55.6
FD P/E (x)	16.4	9.6	8.2	5.9	5.0
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	2.7	4.5	4.8	5.2	5.5
P/NTA (x)	1.7	1.5	1.3	1.1	0.9
ROE (%)	10.6	17.6	19.7	23.0	22.6
Net gearing (%)	72.3	61.0	64.8	53.1	36.5
P/CF (x)	11.2	6.7	5.0	3.6	3.1
EV/EBITDA (x)	11.0	6.9	5.6	4.1	3.1
% change in EPS estimates			-	1.5	1.5
CIMB/Consensus (x)			1.03	1.08	n/a

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

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	RM381.8m	Share price perf. (%)	1M	3M	12M
12-mth price range	RM1.64/RM3.88	Relative	4.7	(19.4)	17.5
3-mth avg daily volume	RM1.4m	Absolute	5.7	(13.6)	63.7
# of shares (m)	135.3	Major shareholders			% held
Est. free float (%)	19	Dato' Khor Teng Tong & Family			53.7
2004/2009 warrants (m)	21.4	Yayasan Bumiputra Pulau Pinang			8.1
Conv. price (RM)	1.50	Lembaga Tabung Haji			3.1

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

Please read carefully the important disclosures at the end of this publication.

Outlook

Property sales

Sustained property sales... During 1QFY6/08, the group sold properties worth RM86.4m collectively (Figure 1). Although this was a modest 5% increase on the preceding quarter's RM82.4m, it is up a scorching 70% yoy. Consistent with 4QFY07, the yoy surge in property sales was mainly due to maiden contributions from its newest Gurney Paragon project.

... anchored by Gurney Paragon. Since its soft launch back in Mar 07, Gurney Paragon has managed to rake in RM83.6m sales, translating into a respectable take-up rate of 22%. Just three months after its launch, average selling prices were upped by c. 10%. Interest in the project has picked up following the completion of the show unit in Jul. It recorded RM26.6m sales in Aug-Sep even though this coincided with the Chinese ghost festival when sales are normally slow.

Infinity also garnering good interest. Hunza Properties' other high-end condo project, which is undertaken on a project management basis, is also doing well. As at end-Sep 07, Infinity has raked in RM52.8m sales, equivalent to a take-up rate of 22%, similar to Gurney Paragon's. This is not particularly surprising given the complementary nature of the two projects – Gurney Paragon offers buyers an opportunity to be where the action is and Infinity gives buyers the chance to own a beach-fronting home in the residential enclave of Tanjung Bungah. This complementary nature allows Hunza Properties to tap a wider customer base. Including Infinity's sales, the group's 1QFY08's property sales total RM112.8m, up 4% qoq and 122% yoy.

Figure 1: Property sales summary

	1QFY08	1QFY07	yoy increase	4QFY07	qoq increase
	RM m	RM m	%	RM m	%
Bandar Putra Bertam	3.9	2.2	77%	5.1	-23%
Sungai Petani	1.9	1.5	22%	2.9	-35%
Alila	12.7	7.3	74%	16.0	-21%
Mutiara Seputeh	26.2	39.7	-34%	16.6	57%
Gurney Paragon	41.8	0.0	n/m	41.8	0%
Total	86.4	50.8	70%	82.4	5%
Infinity - Project management	26.4	0.0		26.4	
Total (including Infinity)	112.8	50.8	122%	108.8	4%

Source: Company, CIMB/CIMB-GK Research

Unbilled sales at RM240.5m. As at end-Sep 07, the group's unbilled sales stood at RM240.5m (Figure 2). Of this amount, 35% is from the Gurney Paragon project, which has yet to reach the 10% construction milestone to commence billings. Coming in at second place is Alila, with RM79.9m unrecognised billings. As the group is aiming to complete the Alila project by year-end, we expect more significant bookings over the next few months.

Figure 2: Unbilled sales as at end-Sep 07

	RM m
Bandar Putra Bertam	5.8
Sungai Petani	2.6
Alila	79.9
Mutiara Seputeh	68.7
Gurney Paragon	83.6
Total	240.5
Infinity - Project management	52.8
Total (including Infinity)	293.3

Source: Company, CIMB/CIMB-GK Research

Venture into Penang retail properties

Upcoming mall is a hidden gem. Hunza Properties' upcoming shopping mall with some 600,000 sq ft of net lettable space (revised from 730,400 sq ft owing to changes in design layout) is a hidden gem given i) the limited availability of quality shopping malls on Penang island and ii) its strategic location along Penang's famous tourist belt i.e. Gurney Drive.

Complementing Gurney Plaza. Although there is 5.4m sq ft of retail space in

Penang, the company's upcoming mall will be one of only two upscale malls along the bustling Gurney Drive. This gives it an edge over the other newer malls such as Sunway Carnival in Seberang Jaya and Pan Palace Plaza in Sungai Dua that have sprouted earlier this year. We expect the group's mall to complement the neighbouring Gurney Plaza as it will have a different tenant mix, thereby allowing shoppers to enjoy the convenience of shopping at two adjoining malls. Furthermore, there could be a monorail station just a stone's throw away from the proposed development, which should attract even more shoppers to the area.

Roping in experts to ensure success. With the aim of introducing a new shopping experience in Penang with lifestyle-oriented concepts and high-end brands, Hunza Properties has engaged Cardiz International and DTZ to undertake retail architecture and retail consulting works, respectively. The group's proactive approach to ensure that its maiden retail project is a success is a positive and important development as its longer-term earnings outlook largely hinges on the success of this project.

A diversified property player by 2010. If successful, this project will transform Hunza Properties into a property development cum property investment group by FY10 given that the group intends to keep the shopping mall for recurring income purposes. According to Knight Frank's Real Estate Highlights, gross monthly rentals of ground floor retail space in prime centres generally range between RM15 and RM27 psf, depending on location and size. Based on an indicative average rental rate of RM10 psf and a 40% pretax margin, the group is poised to enjoy recurring income of RM31m annually post FY10.

Favourable outlook for Penang property market

Spillover effects from PGCC? In mid-Sep, the prime minister launched the RM25bn Penang Global City Centre (PGCC) development, marking the first and largest mega property project under the RM177bn Northern Corridor Economic Region (NCER). Although Equine Capital (EQC MK, Not Rated) will be the biggest winner, other Penang developers like Hunza Properties should also enjoy spillover effects as PGCC's development is expected to enlarge the pool of potential house buyers by attracting talent and creating job opportunities. According to press reports, PGCC is expected to help generate some 40,000 jobs.

More upside to condo prices? More importantly, this mammoth project will put Penang on the map for business activities. Although prices for landed properties in Penang are on par with those in the Klang Valley, there is a big disparity in their condo prices, with Penang's trailing far behind. Should PGCC replicate the success of KLCC – where foreign buyers have driven up the prices to unprecedented levels – Hunza Properties would be a major beneficiary as its two high-end condo projects, Gurney Paragon and Infinity, are located in prime locations on the island. According to Knight Frank's Real Estate Highlights, high-end condos in Penang, particularly in the areas of Pulau Tikus and Tanjung Bungah, are now commanding RM350-RM500 psf. Hunza's Gurney Paragon is fetching RM430-530 psf while Infinity is priced at ASPs of RM420-450 psf. These prices are about 10% higher than their launch prices earlier in the year.

Entry of Klang Valley developers a blessing in disguise. The entry of reputable Klang Valley-based developers such as SP Setia (SPSB MK, Outperform), Mah Sing Group (MSGB MK, Buy) and E&O Property (ENOP MK, Not Rated) has been a blessing in disguise for the Penang property market as the heightened competition has lifted the image and value of Penang properties. We expect property prices to trend higher as new lifestyle concepts and better designed homes are launched. Gurney Paragon, for instance, is expected to be a landmark as it will be the tallest residential building in Penang.

1QFY08 results preview

1Q blip. Hunza Properties is scheduled to release its 1QFY08 results on 13 Nov. We understand that annualised numbers are likely to come in short of our expectations as its two newest projects, Gurney Paragon and Infinity, have yet to reach the construction milestone for profit booking. As more significant bookings in subsequent quarters should make up for the shortfall in 1Q, we retain our FY08 earnings projection. To recap, we are projecting Hunza Properties to deliver RM52.9m net profit in FY08, fuelled primarily by the tail-end construction works for its Alila and Mutiara Seputeh development projects and encouraging property sales for Gurney Paragon and Infinity.

Interim DPS in subsequent quarters? To recap, the group declared a maiden 5 sen gross DPS when it announced 9MFY07 results in May 07. Together with the final 7.5 sen gross DPS declared in Aug, dividend yield is a fairly attractive 4.5%, higher than the sector average. The group has yet to fix the timing of its interim DPS and we think

that it is unlikely to be declared during the upcoming 1Q results announcement.

Valuation and recommendation

Cash call. The Securities Commission (SC) recently approved the 1-for-4 rights issue together with one free detachable 5-year warrant that the group proposed in August. Last week, Hunza Properties submitted the necessary documentation to Bank Negara. We understand that management are currently in the midst of preparing the documentation for submission to Bursa Malaysia. Pricing will be determined once these two approvals are secured along with shareholders' consent, probably by the end of this year. Management expect the entire exercise to be completed by early CY08. Based on an indicative price of RM2.40, the exercise could raise RM94.6m which will be channelled to future developments, particularly its upcoming shopping mall, and working capital.

Tweaking earnings projection upwards... We retain our FY08 earnings projection but tweak FY09-10 numbers up 1.5% as we impute a lower effective tax rate of 25% instead of 26%, in line with the reduction in statutory tax as per the 2008 Budget. We are forecasting a robust 3-year net profit CAGR of 30% for Hunza Properties, underpinned primarily by contributions from Gurney Paragon and Infinity which have a combined gross development value (GDV) RM620m, along with an upcoming RM210m GDV project, to be revealed in FY09.

... and upping target price. Post earnings upgrade along with the rollover of our valuation horizon from end-07 to end-08, our rights-adjusted target price is upped to RM4.50 from RM4.15 previously, based on an unchanged 40% discount to the sector's 20x target P/E. Our RNAV/share estimate is nudged downwards from RM3.46 to RM3.43 as we make adjustments to our valuations of assets.

Valuations remain undemanding. Although Hunza Properties is forecast to deliver the highest EPS growth and one of the highest CY08 ROEs in the sector, the stock is trading at an undemanding 6.9x CY08 EPS, a whopping 43% discount to the 12x sector P/E ex-MK Land. Dividend yields are also above-average at 5.0%. Furthermore, despite its quick turnaround strategy, the company is still trading at an 18% discount to our RM3.43 RNAV/share estimate.

Accumulate on share price weakness. Hunza Properties' share price has tumbled 28% from the all-time high it reached in Jul 07. The recent sell-down of the stock could be due to the market-wide battering arising from global concerns. We view this as an excellent opportunity for investors to accumulate the stock as prospects remains bright in light of its i) shift to the more resilient mid-high end segment and ii) eventual transformation into a property development cum property investment group once the Gurney Paragon integrated development is completed in FY10.

Reiterate 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, ii) entry of reputable partners for its Gurney Paragon project and iii) landbank acquisitions. Investors with a higher appetite for risks can consider its 2004/2009 warrants (RM1.23, HPBW MK, exercise price RM1.50, expiry 10 March 2009) which are currently in the money.

Figure 3: Hunza Properties' RNAV computation

Project	Size/units (acres)	Market value (RMpsf)	Stake	Value (RMm)
Bandar Putra Bertam - Residential	435.6	10.00	70%	132.8
Bandar Putra Bertam - Commercial	48.4	40.00	70%	59.0
Sungai Petani, Kedah	393.0	3.00	100%	51.4
Alila, Penang	5.0	175.00	100%	38.1
Mutiara Seputeh	12.0	90.00	100%	47.0
Gurney Paragon service condos	3.5	400.00	100%	61.0
Infinity	3.0	200.00	90%	23.5
Surplus value from shopping mall & retail lots				186.1
Surplus value from Phase 3's office lots				14.0
Fixed assets				52.7
Net current asset less dev. prop.				58.2
Total long term borrowings				(135.5)
Proceeds from warrants conversion & rights issue				222.5
Total revised RNAV				810.9
Fully diluted no. of shares post cash call exercise (m)				236.6
Revised RNAV per share (RM)				3.43

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

Financial tables

PROFIT & LOSS (RM m, FYE Jun)	2006	2007	2008F	2009F	2010F
Revenue	116.6	190.0	254.6	303.7	298.2
Operating expenses	(81.6)	(131.6)	(176.0)	(197.1)	(167.8)
EBITDA	35.0	58.4	78.6	106.5	130.4
Depreciation & amortisation	(0.9)	(0.8)	(0.9)	(0.9)	(1.0)
EBIT	34.1	57.6	77.7	105.6	129.5
Net interest & invt income	0.7	0.2	0.5	1.4	1.4
Associates' contribution	-	-	-	-	-
Exceptional items	-	2.9	-	-	-
Pretax profit	34.8	60.7	78.2	107.0	130.9
Tax	(9.9)	(18.4)	(20.3)	(26.8)	(32.7)
Minority interests	(5.2)	(2.9)	(5.0)	(6.8)	(11.3)
Net profit	19.8	39.4	52.9	73.5	86.9
Wt. shares (m)	115.8	135.4	135.3	135.3	135.3
Shares at year-end (m)	115.8	135.4	135.3	135.3	135.3
BALANCE SHEET (RM m, 30 Jun)	2006	2007	2008F	2009F	2010F
Fixed assets	27.8	86.8	88.9	91.0	93.0
Intangible assets	-	-	-	-	-
Other long-term assets	117.2	164.7	174.9	184.2	194.3
Total non-current assets	145.0	251.5	263.8	275.2	287.3
Cash and equivalents	4.9	25.7	21.8	51.6	53.6
Stocks	21.4	31.9	42.7	51.0	50.1
Trade debtors	56.9	51.5	69.1	82.4	80.9
Other current assets	187.3	163.5	207.0	247.9	285.8
Total current assets	270.5	272.6	340.7	432.9	470.4
Trade creditors	22.2	28.0	37.5	44.8	44.0
Short-term borrowings	39.8	61.5	73.8	81.2	89.3
Other current liabilities	19.8	19.1	18.4	21.7	21.3
Total current liabilities	81.8	108.6	129.8	147.7	154.6
Long-term borrowings	119.0	135.0	155.0	175.0	135.0
Other long-term liabilities	1.7	0.5	0.5	0.5	0.5
Total long-term liabilities	120.7	135.5	155.5	175.5	135.5
Shareholders' funds	191.9	256.4	290.6	349.6	421.0
Minority interests	21.2	23.6	28.6	35.4	46.7
NTA/share (RM)	1.66	1.89	2.15	2.58	3.11
CASH FLOW (RM m, FYE Jun)	2006	2007	2008F	2009F	2010F
Pretax profit	34.8	60.7	78.2	107.0	130.9
Depreciation & non-cash adjustments	0.9	0.8	0.9	0.9	1.0
Working capital changes	(37.1)	0.7	(5.4)	(14.3)	1.6
Cash tax paid	(11.2)	(13.1)	(20.3)	(26.8)	(32.7)
Others	9.9	23.0	(55.5)	(45.2)	17.8
Cash flow from operations	(2.8)	72.2	(2.1)	21.7	118.5
Capex	(3.7)	(0.3)	(5.0)	(5.0)	(5.0)
Net investments & sale of FA	0.1	(81.9)	7.7	8.6	(52.1)
Others	0.5	(23.2)	-	-	-
Cash flow from investing	(3.1)	(105.4)	2.7	3.6	(57.1)
Debt raised/(repaid)	24.2	54.7	36.6	30.6	(32.2)
Equity raised/(repaid)	(1.4)	34.5	-	-	-
Dividends paid	(6.1)	(7.2)	(18.5)	(14.5)	(15.5)
Cash interest & others	(13.6)	(10.6)	5.4	(8.0)	(12.0)
Cash flow from financing	3.0	71.4	23.5	8.1	(59.8)
Change in cash	(2.8)	38.2	24.1	33.4	1.7
Change in net cash/(debt)	(27.0)	(16.5)	(12.5)	2.8	33.9
Ending net cash/(debt)	(153.9)	(170.5)	(207.2)	(204.4)	(170.5)
KEY RATIOS (FYE Jun)	2006	2007	2008F	2009F	2010F
Revenue growth (%)	3.8	62.9	42.5	19.3	(1.8)
EBITDA growth (%)	8.4	66.7	37.4	35.5	22.4
Pretax margins (%)	29.9	32.0	30.7	35.2	43.9
Net profit margins (%)	17.0	20.7	20.8	24.2	29.1
Interest cover (x)	1,523.0	2,893.4	293.7	172.3	119.7
Effective tax rates (%)	28.3	30.3	26.0	25.0	25.0
Net dividend payout (%)	31.6	30.9	24.9	19.2	17.4
Debtors turnover (days)	137.8	104.2	99.5	91.0	99.9
Stock turnover (days)	54.7	51.2	49.5	56.3	61.8
Creditors turnover (days)	74.8	48.2	46.4	49.5	54.3

Source: CIMB/CIMB-GK Research

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