

Hunza Properties

Recommendation: **HOLD**

Stock Code: 5018

Bloomberg: HPB MK

Price: MYR1.44

12-Month Target Price: MYR1.50

Date: May 21, 2009

Board: Main

Sector: Property

GICS: Financials/Real Estate Development

Market Value - Total: MYR212.1 mln

Summary: Based in Penang, Hunza Properties' (Hunza) primary business is property development, with current projects in Penang, Kedah and Kuala Lumpur. The stock is a component of FBEMAS.

Analyst: Kum Seng, Wan



Results Review & Earnings Outlook

- Hunza's 9MFY09 (Jun.) results are within expectations with its 9MFY09 net profit slipping 51.9% YoY to MYR18.7 mln, which accounts for 76.7% of our previous forecast full-year net profit of MYR24.4 mln. Turnover, however, was lower than expected, falling 64.3% YoY to MYR68.5 mln, which amounts to only 54.1% of our previous full-year forecast.
- The group attributed the weaker results to higher seasonal expenses, slower sales and profit recognition of its ongoing projects. Despite lower earnings, however, Hunza's operating margins improved to 50% (from 26.5%) in 3QFY09 on higher profit recognition of the Infinity project, where it serves as project manager.
- We expect earnings for the 4QFY09 and in FY10 to improve as construction work on the Gurney Paragon project will be hastened. Work on the project is near the superstructure stage and progress billings are expected to accelerate. However, new property sales will remain tepid amid the weak economic outlook.
- We have fine-tuned our forecast and raised our FY09 net earnings estimate to MYR25.8 mln (from MYR24.4 mln) to account for the improved margins, but reduced our turnover forecast to MYR100.8 (from MYR126.7 mln) on slower progress billings. Although we expect profit recognition to improve, we trimmed our FY10 revenue and net profit forecast to MYR154.4 mln (from MYR178.3 mln) and MYR42.3 mln (from MYR46.4 mln), respectively as we expect new property sales to remain weak.

Key Stock Statistics

FY Jun.	2008	2009E
Reported EPS (sen)	33.2	17.5
PER (x)	4.3	8.2
Dividend/Share (sen)	11.2	6.7
NTA/Share (MYR)	2.10	2.18
Book Value/Share (MYR)	2.10	2.18
No. of Outstanding Shares (mln)	147.3	
52-week Share Price Range (MYR)	1.25 - 1.85	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	54.9	
Yayasan Bumiputra Pulau Pinang	8.8	

* Stock deemed Shariah compliant by the Securities Commission

Recommendation & Investment Risks

- We are upgrading Hunza's recommendation to a Hold (from Sell) with a revised 12-month target price of MYR1.50 (from MYR0.89).
- Our target price is derived by ascribing a 5.0x (unchanged) PER multiple to our FY10 (rolled over from FY09) EPS forecast of 28.7 sen. The target price also includes a net DPS estimate of 5.0 sen per share. The ascribed PER multiple remains within the 5x-8x PER valuation of small-and mid-cap property developers in our coverage. We continue to peg Hunza's target price to a lower multiple due to uncertain outlook of the property sector and lukewarm investor interest towards property stocks.
- Despite the insipid property market outlook, we recommend a Hold on Hunza's for its unbilled orderbook of MYR200 mln that will sustain its earnings over the next two years. Profit recognition will be hastened as construction of the Gurney Paragon accelerates over the next few quarters, thereby boosting FY10's earnings growth. Furthermore, there is still around MYR220 mln (about 40%-50% of total GDV) worth of unsold properties with a potential pretax profit of MYR70 mln-MYR80 mln that can be recognized immediately in further sales.
- Risks to our recommendation and target price include: (i) slower-than-expected take up rates for its properties, (ii) further delays in the construction of the Gurney Paragon and Infinity projects affecting its progress recognition, and (iii) unexpected increases in building materials cost affecting its margins.

Per Share Data

FY Jun.	2006	2007	2008	2009E
Book Value (MYR)	1.67	1.86	2.10	2.18
Cash Flow (sen)	18.1	34.1	36.3	18.0
Reported Earnings (sen)	17.4	33.5	33.2	17.5
Dividend (sen)	7.4	12.3	11.2	6.7
Payout Ratio (%)	31.6	31.0	27.7	51.9
PER (x)	8.3	4.3	4.3	8.2
P/Cash Flow (x)	7.9	4.2	4.0	8.0
P/Book Value (x)	0.9	0.8	0.7	0.7
Dividend Yield (%)	5.1	8.5	7.8	4.7
ROE (%)	10.6	17.5	17.2	8.3
Net Gearing (%)	80.2	66.8	40.2	38.6

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Quarterly Performance

FY Jun. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	18.6	54.1	-65.6
Reported Operating Profit	9.3	14.4	-35.2
Depreciation & Amortization	NA	-0.5	NA
Net Interest Income / (Expense)	NA	-0.6	NA
Reported Pre-tax Profit	9.0	13.4	-33.0
Reported Net Profit	6.3	9.7	-34.8
Reported Operating Margin (%)	50.0	26.5	-
Reported Pre-tax Margin (%)	48.4	24.9	-
Reported Net Margin (%)	33.9	17.9	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	186.7	245.1	100.8	154.4
Reported Operating Profit	57.6	69.7	25.3	33.8
Depreciation & Amortization	-0.8	-0.8	-0.8	-0.8
Net Interest Income / (Expense)	0.1	-0.6	-0.8	-0.8
Reported Pre-tax Profit	57.5	68.3	35.8	58.8
Effective Tax Rate (%)	26.5	28.2	27.0	27.0
Reported Net Profit	39.2	48.4	25.8	42.3
Reported Operating Margin (%)	30.8	28.4	25.1	21.9
Reported Pre-tax Margin (%)	30.8	27.9	35.5	38.1
Reported Net Margin (%)	21.0	19.8	25.6	27.4

Source: Company data, S&P Equity Research

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Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	1.50
3-Mar-09	Sell	0.89
1-Dec-08	Hold	1.50
21-Aug-08	Buy	2.30
27-May-08	Buy	2.20
10-Mar-08	Hold	2.45
22-Aug-07	Strong Buy	3.62
8-May-07	Buy	3.55
24-Apr-07	Strong Buy	3.51
7-Feb-07	Strong Buy	2.66
21-Nov-06	Buy	1.98
31-Aug-06	Buy	1.65
25-Aug-06	Buy	1.61
1-Aug-06	Hold	1.30
6-Jun-06	Buy	1.30

