

Hunza Properties

Recommendation: **HOLD**

Stock Code: 5018

Bloomberg: HPB MK

Price: MYR1.43

12-Month Target Price: MYR1.60

Date: August 25, 2009

Board: Main**Sector:** Property**GICS:** Financials/Real Estate Development**Market Value - Total:** MYR210.6 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 FY09 (Jun) results are within expectations, with revenue and net profit falling 62.5% YoY and 43.2% YoY to MYR91.8 mln and MYR27.5 mln respectively. In 4Q09, revenue fell 56.3% YoY to MYR23.3 mln, while net profit shed 7.2% YoY to MYR9.4 mln.
- Weaker revenue was due to slower sales and project recognition of its ongoing projects. However, earnings were cushioned by a stronger operating margin of 43.8% in FY09 (vs. 28.4% in FY08) on higher project management income from the Infinity project, where it serves as the project manager.
- Hunza's prospects continue to hinge on the Gurney Paragon project, where we expect the construction pace to pick up after a month's stop-work order following the collapse of a driveway next to the development. Construction works have since resumed and are likely to accelerate now that progress has entered the superstructure stage. Sales, meanwhile, have exceeded 60% and we expect the take-up rate to improve in tandem with the recovering economic outlook and property market sentiment.
- We fine-tune our FY10 forecasts and lower our net profit estimate to MYR39.6 mln (from MYR42.3 mln) after imputing lower project management income as the Infinity project is substantially completed. We also introduce our FY11 net profit forecast of MYR44.4 mln.

Recommendation & Investment Risks

- We maintain our Hold recommendation on Hunza, but with a higher 12-month target price of MYR1.60 (from MYR1.50).
- We arrive at our target price by ascribing 6x (from 5x) target PER multiple to FY10's (unchanged) net EPS forecast of 26.3 sen. Our target price also includes a net DPS estimate of 5.6 sen, which is similar to the quantum Hunza declared for FY09. We raise Hunza's target PER multiple to reflect Gurney Paragon's accelerated construction pace and improving sales prospects. Meanwhile, the ascribed target PER multiple remains within the 5x-8x multiple of small- and mid-cap property developers within our coverage.
- We maintain our Hold recommendation, for Hunza's sustained earnings over the next two years, which are mainly from Gurney Paragon's unbilled sales of MYR200 mln. In addition, there is a further MYR220 mln-MYR250 mln worth of unsold properties (40%-45% of GDV), with a potential pretax profit of MYR70 mln-MYR80 mln that can be recognized immediately in future sales. The sale of these unsold units will underpin its FY11 earnings.
- 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 affecting its profit recognition, and (iii) unexpected rise in building materials cost affecting its margins.

Key Stock Statistics

FY Jun.	2009	2010E
Reported EPS (sen)	18.9	26.3
PER (x)	7.5	5.4
Dividend/Share (sen)	5.6	5.6
NTA/Share (MYR)	2.23	2.41
Book Value/Share (MYR)	2.23	2.41
No. of Outstanding Shares (mln)	147.3	
52-week Share Price Range (MYR)	1.25 - 1.64	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	37.6	
Lembaga Tabung Haji	8.0	
Yayasan Bumiputra Pulau Pinang	7.2	

Per Share Data

FY Jun.	2007	2008	2009	2010E
Book Value (MYR)	1.86	2.10	2.23	2.41
Cash Flow (sen)	34.1	36.3	19.2	26.8
Reported Earnings (sen)	33.5	33.2	18.9	26.3
Dividend (sen)	12.3	11.2	5.6	5.6
Payout Ratio (%)	31.0	27.7	20.4	14.1
PER (x)	4.3	4.3	7.5	5.4
P/Cash Flow (x)	4.2	3.9	7.5	5.3
P/Book Value (x)	0.8	0.7	0.6	0.6
Dividend Yield (%)	8.6	7.8	3.9	3.9
ROE (%)	17.5	17.2	8.7	11.7
Net Gearing (%)	66.8	38.9	26.1	24.2

* Stock deemed Shariah compliant by the Securities Commission

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FY Jun. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	23.3	53.3	-56.3
Reported Operating Profit	13.2	15.3	-13.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	-0.4	NA
Reported Pre-tax Profit	12.9	14.9	-13.2
Reported Net Profit	9.4	10.1	-7.2
Reported Operating Margin (%)	56.7	28.7	-
Reported Pre-tax Margin (%)	55.4	27.9	-
Reported Net Margin (%)	40.3	19.0	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	245.1	91.8	173.8	201.6
Reported Operating Profit	69.7	40.2	36.6	43.8
Depreciation & Amortization	-0.8	-0.8	-0.8	-0.8
Net Interest Income / (Expense)	-0.6	-1.1	-0.5	-0.5
Reported Pre-tax Profit	68.3	39.1	55.6	62.4
Effective Tax Rate (%)	28.2	27.9	27.0	27.0
Reported Net Profit	48.4	27.5	39.6	44.4
Reported Operating Margin (%)	28.4	43.8	21.0	21.7
Reported Pre-tax Margin (%)	27.9	42.6	32.0	30.9
Reported Net Margin (%)	19.8	29.9	22.8	22.0

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.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	1.60
21-May-09	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

