

Hunza Properties

Recommendation: **BUY**

Stock Code: 5018

Bloomberg: HPB MK

Price: MYR1.40

12-Month Target Price: MYR2.30

Date: August 21, 2008

Board: Main

Sector: Property

GICS: Financials/Real Estate Management & Development

Market Value - Total: MYR195.9 mln

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

Analyst: Ching Wah Tam



Results Review & Earnings Outlook

- Hunza's FY08 (Jun.) results were broadly in line with our expectations. FY08 net profit of MYR48.4 mln was about 106% of our full-year forecast. The variance, we believe, was due mainly to higher-than-expected property sales.
- Hunza's FY08 revenue and net profit of MYR245.1 mln (+31% YoY) and MYR48.4 mln (+23% YoY), respectively rose on the back of maiden booking of sales from its two condominium projects in Penang, namely Gurney Paragon and Infinity. Both projects have achieved take-up rates of 50% and 54%, and unrecognized sales of MYR165 mln and MYR98 mln, respectively as at end of June 2008. Note that as at end June 2008, Hunza's total unbilled sales stand at MYR267.4 mln.
- In 4QFY08, Hunza sold MYR34 mln worth of properties, with MYR16 mln from sales of semi-detached houses in Mutiara Seputeh and MYR11.0 mln from Gurney Paragon. At this juncture, both the Mutiara Seputeh and Ailla projects are nearing completion and have minimal outstanding unbilled sales.
- We have tweaked our full-year FY09 net profit forecast to MYR58.9 mln (previously MYR59.5 mln) and introduce our FY10 net profit forecast of MYR64.2 mln.

Key Stock Statistics

FY Jun.	2008	2009E
Reported EPS (sen)	34.5	40.4
PER (x)	4.1	3.5
Dividend/Share (sen)	11.2	11.2
NTA/Share (MYR)	2.10	2.41
Book Value/Share (MYR)	2.10	2.41
No. of Outstanding Shares (mln)	139.9	
52-week Share Price Range (MYR)	1.39 - 2.95	
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 maintain our Buy recommendation and also adjusted our 12-month target price to MYR2.30 from MYR2.20 after lowering our 2009 earnings projections, rolling over our valuation period and updating our valuation parameters.
- Hunza's share price has corrected about 63% from its high of MYR3.82 in mid-July 2007, and, in our opinion, it is overdone. We begin to see value in Hunza at current level.
- Our target price is derived by applying a 5.5x (7x previously) PER multiple on our FY09 EPS of 40.4 sen (previously forecast FY08 EPS of 32.4 sen) and adding projected net DPS. In view of the dampened outlook towards property companies and also the current poor consumer sentiment, we have lowered our target PER benchmark to 5.5x (previously 7x), which is still within our normal 5-8x PER valuation for small and mid-cap property companies within our coverage.
- Risks to our recommendation and target price include slower-than-expected construction progress and take-up rates for its projects, as well as execution risks in its maiden foray into retail management of its Gurney mall.

Per Share Data

FY Jun.	2006	2007	2008	2009E
Book Value (MYR)	1.67	1.86	2.10	2.41
Cash Flow (sen)	18.1	34.1	36.3	40.9
Reported Earnings (sen)	17.4	33.5	34.5	40.4
Dividend (sen)	7.4	12.3	11.2	11.2
Payout Ratio (%)	31.6	31.0	27.7	22.7
PER (x)	8.1	4.2	4.1	3.5
P/Cash Flow (x)	7.7	4.1	3.9	3.4
P/Book Value (x)	0.8	0.8	0.7	0.6
Dividend Yield (%)	5.3	8.8	8.0	8.0
ROE (%)	10.6	17.5	17.2	17.9
Net Gearing (%)	80.2	66.8	38.3	33.4

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Quarterly Performance

FY Jun. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	53.3	66.4	-19.8
Reported Operating Profit	15.3	22.0	-30.3
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.4	-0.1	>100
Reported Pre-tax Profit	14.9	21.9	-32.0
Reported Net Profit	10.1	15.9	-36.4
Reported Operating Margin (%)	28.7	33.1	-
Reported Pre-tax Margin (%)	27.9	32.9	-
Reported Net Margin (%)	19.0	24.0	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	186.7	245.1	269.2	298.7
Reported Operating Profit	57.6	69.7	55.9	62.0
Depreciation & Amortization	-0.8	-0.8	-0.8	-0.8
Net Interest Income / (Expense)	0.1	-0.6	0.2	0.2
Reported Pre-tax Profit	57.5	68.3	80.7	87.9
Effective Tax Rate (%)	26.5	28.2	26.0	26.0
Reported Net Profit	39.2	48.4	58.9	64.2
Reported Operating Margin (%)	30.8	28.4	20.8	20.7
Reported Pre-tax Margin (%)	30.8	27.9	30.0	29.4
Reported Net Margin (%)	21.0	19.8	21.9	21.5

Source: Company data, S&P Equity Research

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

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.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	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
22-Nov-05	Strong Buy	1.50
8-Sep-05	Strong Buy	1.63

