

Recommendation: **HOLD**

Stock Code: 5018

Bloomberg: HPB MK

Price: MYR1.31

12-Month Target Price: MYR1.50

Date: December 1, 2008

**Board:** Main**Sector:** Property**GICS:** Financials/Real Estate Development**Market Value - Total:** MYR190.9 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 1QFY09 results are below expectations as revenue, pretax and net profit fell 62.8% YoY, 57.1% YoY and 53.4% YoY respectively on lower progress billings of its property projects. Projects recognition slowed in 1QFY09 due to inclement weather conditions and restrictive working hours at the Gurney Paragon project. The lower 1QFY09 recognition was also partly exaggerated by the high revenue recorded in the previous corresponding period.
- Operating margins, however, improved to 31.2% in 1QFY09 (25.9% in 1QFY08) as its high-end developments in Penang and Klang Valley procured higher margins.
- We expect Hunza's results to improve in subsequent quarters as construction work on the Gurney Paragon is hastened with the uplifting of restrictive working hours. However, revenue recognition will still be slower than earlier estimated and we have reduced our FY09 turnover forecast to MYR213.3 mln (-21%) and net profit to MYR38.9 mln (-34%) on the slower pace of profit recognition.
- In view of the slower economic activities, we have also trimmed our FY09 sales forecast for the Gurney Paragon and Infinity projects. We now forecast a 10% (from 20%-25%) take-up rate of its unsold units, bringing total sales to 70% for both the above projects. The slower sales would result in a lower turnover and net profit forecast in FY10 to MYR228.6 mln (from MYR298.7 mln) and MYR57.1 mln (from MYR64.2 mln) respectively.

## Recommendation & Investment Risks

- We are downgrading Hunza to a Hold (from Buy) with a 12-month target price of MYR1.50 (from MYR2.30). The Hold recommendation is to reflect the slower earnings recognition in FY09 and weaker demand for its properties.
- Our revised target price is derived from ascribing a 5.0x (previously 5.5x) PER multiple on our FY09 EPS forecast of 26.7 sen and adding a projected net DPS of 13.4 sen. The lower PER multiple is ascribed in view of the increasingly uncertain outlook for the property sector and weaker investor sentiment toward property stocks. Although the target PER is lower than the previous benchmark, it remains within the 5x-8x PER valuation for small- and mid-cap property companies within our coverage.
- Hunza's three projects will account for the bulk of the current unbilled sales of about MYR250 mln. The Gurney Paragon and Infinity projects are presently its biggest projects and have attained sales of nearly 60%. Collectively, these two projects will contribute to 80% of the group's earnings over the next two years. Meanwhile, its 1:4 rights issue of 39.4 mln new shares remains on hold with the Securities Commission extending the timeframe for implementation to April next year.
- Risks to our recommendation and target price include slower-than-expected construction progress on its projects and lower take-up rates for the Gurney Paragon and Infinity condominium units.

### Key Stock Statistics

FY Jun.	2008	2009E
Reported EPS (sen)	33.2	26.7
PER (x)	3.9	4.9
Dividend/Share (sen)	11.2	11.2
NTA/Share (MYR)	2.10	2.27
Book Value/Share (MYR)	2.10	2.27
No. of Outstanding Shares (mln)	145.7	
52-week Share Price Range (MYR)	1.29 - 2.75	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	54.9	
Yayasan Bumiputra Pulau Pinang	8.8	

\* Stock deemed Shariah compliant by the Securities Commission

### Per Share Data

FY Jun.	2006	2007	2008	2009E
Book Value (MYR)	1.67	1.86	2.10	2.27
Cash Flow (sen)	18.1	34.1	36.3	27.2
Reported Earnings (sen)	17.4	33.5	33.2	26.7
Dividend (sen)	7.4	12.3	11.2	11.2
Payout Ratio (%)	31.6	31.0	27.7	34.5
PER (x)	7.5	3.9	3.9	4.9
P/Cash Flow (x)	7.2	3.8	3.6	4.8
P/Book Value (x)	0.8	0.7	0.6	0.6
Dividend Yield (%)	5.6	9.4	8.5	8.5
ROE (%)	10.6	17.5	17.2	12.2
Net Gearing (%)	80.2	66.8	38.3	35.4

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## Hunza Properties

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FY Jun. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	25.2	67.7	-62.8
Reported Operating Profit	7.9	17.5	-55.2
Depreciation & Amortization	NA	-0.2	NA
Net Interest Income / (Expense)	0.0	0.0	NM
Reported Pre-tax Profit	7.5	17.5	-57.1
Reported Net Profit	5.6	12.1	-53.4
Reported Operating Margin (%)	31.2	25.9	-
Reported Pre-tax Margin (%)	29.9	25.9	-
Reported Net Margin (%)	22.3	17.8	-

Source: Company data

**Profit & Loss**

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	186.7	245.1	213.3	228.6
Reported Operating Profit	57.6	69.7	37.5	52.2
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	53.2	78.1
Effective Tax Rate (%)	26.5	28.2	26.0	26.0
Reported Net Profit	39.2	48.4	38.9	57.1
Reported Operating Margin (%)	30.8	28.4	17.6	22.8
Reported Pre-tax Margin (%)	30.8	27.9	25.0	34.2
Reported Net Margin (%)	21.0	19.8	18.2	25.0

Source: Company data, S&amp;P Equity Research

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**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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**Required Disclosures**

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	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

