

## Hunza Properties

Recommendation: **SELL**

Stock Code: 5018

Bloomberg: HPB MK

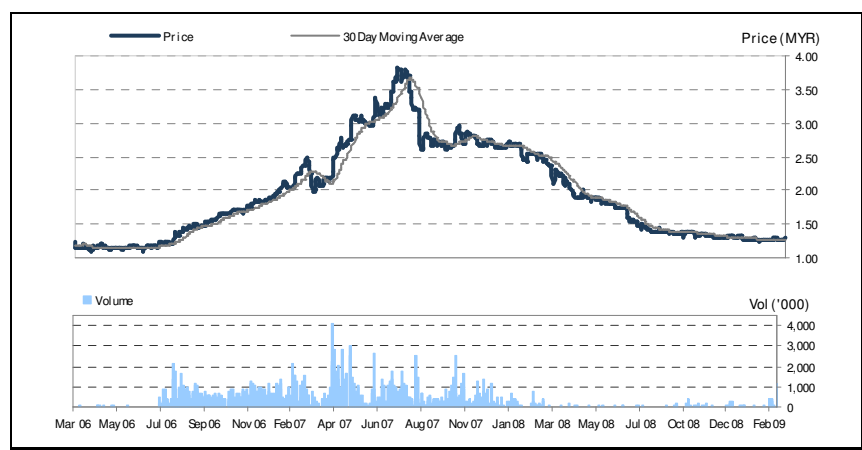
Price: MYR1.30

12-Month Target Price: MYR0.89

Date: March 3, 2009

**Board:** Main**Sector:** Property**GICS:** Financials/Real Estate Development**Market Value - Total:** MYR189.4 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 &amp; Earnings Outlook

- Hunza Properties' 1HFY09 (Jun) results were below expectations, with net profit slipping 57.5% YoY to MYR12.4 mln, on the back of a 63.7% YoY decline in turnover to MYR49.9 mln. The reported net profit amounts to only 31% of our previous full-year net profit forecast of MYR38.9 mln. In 2QFY09, turnover dropped 64.7% YoY, while net profit fell 57.2% YoY respectively.
- The group attributed the poorer results to fewer property sales and lower billings from the Gurney Paragon project due to the restrictive working hours, which delayed the project's progress in 1HFY09.
- We expect results for 2HFY09 to improve as construction work of the Gurney Paragon is hastened with the upliftment of restrictive working hours and progress billings to pick up as a result. Nevertheless, progress billings will still be lower for the full year after the lower-than expected 1HFY09 billings. Property sales, meanwhile, will continue to slow on the weak economic outlook, particularly its Mutiara Seputeh bungalow units.
- We continue to trim our earnings forecast for FY09 as sales will be slower amid the uncertain economic outlook and lower progress billings. We revise our forecast FY09 and FY10 net profit forecasts to MYR24.4 mln and MYR46.4 mln from MYR38.9 mln and MYR57.1 mln respectively. The lower FY10 net profit reflects the sustained weak property sales over the next two years.

## Recommendation &amp; Investment Risks

- We are downgrading Hunza to a Sell (from Hold), lowering its 12-month target price to MYR0.89 (from MYR1.50) to reflect the slower earnings recognition and weaker property sales in FY09.
- Our target price is derived from ascribing a 5.0x (unchanged) PER multiple to our lower FY09 EPS forecast of 16.7 sen (from 26.7 sen) and imputing a reduced net DPS estimate of 5.0 sen (from 13.4 sen). The ascribed PER multiple remains within the 5x-8x PER valuation for small- and mid-cap property companies within our coverage. We maintained the lower PER multiple due to the increasingly uncertain outlook for the property sector and weaker investor sentiment toward property stocks.
- Hunza's three projects in Penang and Kuala Lumpur, which account for the bulk of its MYR200 mln in unbilled sales, will continue to underpin its FY09 and FY10 earnings. There is still around MYR230 mln (about 40%-50% of total GDV) worth of unsold properties with a potential pretax profit of MYR70 mln-MYR80 mln to be recognized in future sales. The sales of these inventories will boost its future earnings.
- Risks to our recommendation and target price include: (i) higher-than-expected take-up rate for its properties; (ii) faster-than-expected construction progress at its Gurney Paragon and Infinity condominium projects and (iii) unexpected decline in building materials cost, improving its margins.

## Key Stock Statistics

FY Jun.	2008	2009E
Reported EPS (sen)	33.2	16.7
PER (x)	3.9	7.8
Dividend/Share (sen)	11.2	6.7
NTA/Share (MYR)	2.10	2.17
Book Value/Share (MYR)	2.10	2.17
No. of Outstanding Shares (mln)	145.7	
52-week Share Price Range (MYR)	1.25 - 2.38	
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	2.17
Cash Flow (sen)	18.1	34.1	36.3	17.2
Reported Earnings (sen)	17.4	33.5	33.2	16.7
Dividend (sen)	7.4	12.3	11.2	6.7
Payout Ratio (%)	31.6	31.0	27.7	54.9
PER (x)	7.5	3.9	3.9	7.8
P/Cash Flow (x)	7.2	3.8	3.6	7.5
P/Book Value (x)	0.8	0.7	0.6	0.6
Dividend Yield (%)	5.7	9.4	8.6	5.2
ROE (%)	10.6	17.5	17.2	7.8
Net Gearing (%)	80.2	66.8	38.3	37.0

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FY Jun. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	24.7	70.1	-64.7
Reported Operating Profit	9.9	22.5	-56.0
Depreciation & Amortization	NA	-0.4	NA
Net Interest Income / (Expense)	0.7	0.0	NM
Reported Pre-tax Profit	9.7	22.5	-56.9
Reported Net Profit	7.1	16.6	-57.2
Reported Operating Margin (%)	40.1	32.1	-
Reported Pre-tax Margin (%)	39.3	32.1	-
Reported Net Margin (%)	28.7	23.7	-

Source: Company data

**Profit & Loss**

FY Jun. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	186.7	245.1	126.7	178.3
Reported Operating Profit	57.6	69.7	11.8	37.6
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	33.4	63.5
Effective Tax Rate (%)	26.5	28.2	26.0	26.0
Reported Net Profit	39.2	48.4	24.4	46.4
Reported Operating Margin (%)	30.8	28.4	9.3	21.1
Reported Pre-tax Margin (%)	30.8	27.9	26.4	35.6
Reported Net Margin (%)	21.0	19.8	19.2	26.0

Source: Company data, S&amp;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.

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	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

