CIMB Research Report

COMPANY UPDATE

12 February 2008

MALAYSIA

Hunza Properties Bhd

Delivering its promises and more

OUTPERFORM	Maintained
RM2.55	@11/02/08
	Target: RM4.50

Property development & investment

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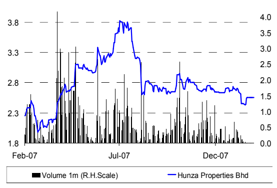
- **Setting new highs.** Hunza Properties sold properties worth RM121.3m collectively during 2QFY6/08, up 247% yoy and 40% qoq. On a YTD basis, property sales were up a whopping 142% yoy, anchored primarily by maiden contributions from its Gurney Paragon development project. As at end-Dec 07, unbilled sales stood at RM316.5m, also a record for the group.
- **2QFY08 results preview.** The group is scheduled to release its 1H08 results on 20 Feb. We understand that annualised numbers are likely to surpass our expectations, aided by steady billings for Alila and Mutiara Seputeh, coupled with maiden billings for Gurney Paragon and project management profits from Infinity.
- **FY08-10 earnings forecasts intact.** Although 1H08 results are likely to surprise on the upside, we conservatively retain our FY08-10 earnings projections for now.
- **Reiterate OUTPERFORM.** Hunza Properties is our preferred choice among the deep-value developers with a Penang exposure. The stock remains an OUTPERFORM. We retain our end-CY08 rights-adjusted target price of RM4.50, which is still pegged to a 40% discount to our 20x target P/E for the sector. Key re-rating catalysts remain i) higher-than-expected sales and margins, ii) entry of reputable partners for its shopping mall, iii) landbank acquisitions and iv) higher dividends.

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	254.7	303.8	298.3
EBITDA (RM m)	35.0	55.2	73.0	99.5	124.1
EBITDA margins (%)	30.0%	29.6%	28.7%	32.8%	41.6%
Pretax profit (RM m)	34.8	57.5	73.9	102.7	126.6
Net profit (RM m)	19.8	39.2	52.9	73.5	86.9
EPS (sen)	17.1	29.0	39.1	54.3	64.2
EPS growth (%)	21.2%	69.6%	26.6%	41.4%	19.1%
P/E (x)	14.9	8.8	6.9	4.9	4.1
Core EPS (sen)	17.1	27.4	39.1	54.3	64.2
Core EPS growth (%)	21.2%	60.4%	33.9%	41.4%	19.1%
Core P/E (x)	14.9	9.3	6.9	4.9	4.1
FD core EPS (sen)	13.4	24.0	34.0	47.1	55.6
FD core P/E (x)	19.0	10.6	8.0	5.7	4.8
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	2.9%	4.9%	5.3%	5.7%	6.1%
P/BV (x)	1.5	1.3	1.2	1.0	0.8
ROE (%)	10.6%	17.5%	17.9%	21.5%	21.5%
Net gearing (%)	72.4%	61.4%	53.4%	44.8%	30.7%
P/FCFE (x)	15.3	13.1	4.7	6.5	13.9
EV/EBITDA (x)	13.4	9.8	7.5	5.6	4.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.18	1.20	1.13

Source: Company, CIMB Research, Bloomberg

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	RM376m/US$116m	**Share price perf. (%)**	**1M**	**3M**	**12M**
12-mth price range	RM3.82/RM1.98	Relative	1.8	(6.8)	0.4
3-mth avg daily volume	0.3m	Absolute	(5.6)	(5.2)	13.8
# of shares (m)	147	**Major shareholders**			**% held**
Est. free float (%)	19.0	Dato' Khor Teng Tong & Family			54.3
Conv. secs (m)	10.5	Yayasan Bumiputra Pulau Pinang			7.5
Conv. price (RM)	1.50	Lembaga Tabung Haji			7.0

Source: Company, CIMB Research, Bloomberg

Property sales

Record property sales. The group sold properties worth RM121.3m collectively during 2Q08, up 247% yoy and 40% qoq (Figure 1). On a YTD basis, property sales were up a whopping 142% yoy, anchored primarily by maiden contributions from its Gurney Paragon development project. Coming in at second and third places were Mutiara Seputeh and Alila which contributed 21% and 11%, respectively to 1HFY08's property sales.

Figure 1: Property sales summary

	2QFY08 RM m	2QFY07 RM m	1QFY08 RM m	yoy increase %	qoq increase %	1HFY08 RM m	1HFY07 RM m	yoy increase %
Bandar Putra Bertam	2.1	10.8	3.9	-81%	-46%	6.0	13.0	-54%
Sungai Petani	1.5	1.8	1.9	-17%	-21%	3.4	3.3	2%
Alila	9.4	8.5	12.7	11%	-26%	22.1	15.8	40%
Mutiara Seputeh	17.1	13.9	26.2	23%	-35%	43.3	53.6	-19%
Gurney Paragon	91.2	-	41.8	n/m	118%	133.0	-	n/m
Total	**121.3**	**35.0**	**86.5**	247%	40%	**207.8**	**85.8**	142%
Infinity	38.6	-	26.4	n/m	46%	65.0	-	n/m
Total (including Infinity)	**159.9**	**35.0**	**112.9**	357%	42%	**272.8**	**85.8**	218%

Source: Company, CIMB Research

RM316.5m unrecognised billings. As at end-Dec 07, Hunza Properties' unbilled sales stood at RM316.5m (Figure 2), 32% higher than end-Sep 07's RM240.5m. Of this amount, 55% is attributable to its latest Gurney Paragon development. Including the RM91.4m unbilled sales of Infinity, which is undertaken on a project management basis, unrecognised billings have reached RM407.9m. Attaching a conservative 20% net profit margin, we estimate that locked-in profits amount to RM81.6m, to be recognised progressively over the next three years.

Figure 2: Unbilled sales as at end-Dec 07

	RM m
Bandar Putra Bertam	4.1
Sungai Petani	1.5
Alila	68.2
Mutiara Seputeh	67.9
Gurney Paragon	174.8
Total	**316.5**
Infinity	91.4
Total (including Infinity)	**407.9**

Source: Company, CIMB Research

Update on development projects

Gurney Paragon

46% take-up rate for Gurney Paragon. During 1H08, Gurney Paragon contributed a staggering 64% of overall property sales. The take-up rate to date is 46% versus 22% as at end-Sep 07 and 11% as at end-Jun 07. We note that take-up rates for Penang properties are typically lower during the initial construction period with momentum picking up as physical construction gains traction. Given the strategic location of the project along Penang's tourist belt and its competitive pricing relative to the region, we believe that the project will be fully sold out in due course.

Construction progressing well. During 2Q08, construction works for Gurney Paragon surpassed the 10% internal milestone. Hence, the group was able to book maiden profits during the quarter. Although contributions will be minimal during the initial stages of construction, this is a positive as it signals that construction works are progressing well.

Shopping mall – a transformation platform. Gurney Paragon is set to enhance the group's property development portfolio with its retail component boasting some 655,000 sq ft of net lettable area. We understand that the shopping mall design is at the final stages of finalisation. We expect construction works to commence sometime in mid-CY08.

No concern over recent objection. It was reported in The Sun on 15 Jan 08 that 74 residents from nearby apartments are objecting to the development, with their chief concern being additional traffic congestion along both Gurney Drive and Kelawei Road. Our quick check with management revealed that Hunza Properties has gone through all the necessary technical hurdles, including the commissioning of a traffic study by government-registered consultant, Perunding Trafik Bakti. Hence, the objection should not be an issue.

Alila

89% take-up rate. With physical construction on track for completion by end-Mar 08, take-up rates have reached 89% to date. Most of the 46 unsold units are the garden villas which are three-storey link houses.

Mutiara Seputeh

69% sold. For the group's maiden Klang Valley development project, the overall take-up rate stood at 69% as at end-Dec 07. Hunza Properties has sold 65 of 80 semi-Ds offered. For the 13 bungalows, only four have been taken up so far. However, the group recently revised the design for the bungalow units and hence, only started selling the revised units in Sep 07. With a limited offering, we expect sales to gain momentum before completion, slated for Sep 09.

Landbanking strategy

Landbank hunting. Although Hunza Properties has been scouting around for another pocket-sized piece of land in the Klang Valley over the past 12 months, we believe it has not been successful mainly due to pricing issues as the company stuck to its principle of not overpaying for land.

Another Klang Valley piece soon? Nevertheless, we understand that, this time around, the group has found a "value" pocket-sized plot and is close to landing it sometime over the next few weeks. This is positive as it reaffirms the group's commitment to maintain its presence in the Klang Valley given that its maiden Klang Valley project i.e. Mutiara Seputeh is slated for completion by Sep 09.

Also on Penang Island? On its home ground, Hunza Properties is not resting on its laurels but instead, is actively looking for small parcels of land on Penang island for quick turnaround developments. Although the group's present pocket-sized landbank is sufficient to sustain development efforts until FY12, we understand that it is in negotiations for a few pieces in strategic locations for development post FY12 (Figure 3).

Figure 3: Hunza Properties landbank summary

	Undeveloped landbank (acres)	Development period
Bandar Putra Bertam	484	FY02 - FY015
Sungai Petani	330	FY00 - FY15
Alila	5	FY06 - FY08
Mutiara Seputeh	12	FY06 - FY10
Gurney Paragon	3	FY07 - FY10
Infinity	3	FY07 - FY10
Alila II	9.6	FY10 - FY12

Source: Company, CIMB Research,

Another new project – Alila II

Alila II unveiled... Hunza Properties will embark on another residential development project come FY10. Similar to Infinity, this RM206m GDV project will be undertaken on a project management basis with the landowner on a 80:20 basis. This 9.6-acre piece of land is just next to the group's almost-completed Alila project and will involve some 280 units comprising a mix of high-rise and landed properties.

… bringing balance GDV to RM2.3bn. Including Alila II, the group's balance GDV for its pocket-sized developments is in excess of RM1.0bn. This excludes the current market value of its 650,000 sq ft net lettable area shopping mall, which is estimated to carry a RM600m-700m price tag. If we were to include the RM1.3bn cumulative GDV from its Bandar Putra Bertam and Sungai Petani township developments, the group's balance GDV would add up to RM2.3bn.

2QFY08 results preview

2QFY08 results preview. Hunza Properties is scheduled to release its 1H08 results on 20 Feb. We gather that, on an annualised basis, the numbers are likely to surpass our expectations, aided by steady billings from its almost completed projects, i.e. Alila and Mutiara Seputeh. Furthermore, maiden billings by Gurney Paragon as well as project management profits from Infinity could have helped push the numbers above our projections.

Interims to remain during 3Q. We expect Hunza Properties to maintain the practice of declaring interim dividends with a minimum payment of at least 5 sen gross. To recap, it declared a maiden interim gross DPS of 5 sen during 3Q07. We believe the group is likely to stick to last year's timing of interims, i.e. during 3Q. Hence, we are not expecting any dividends during the upcoming 2Q results announcement.

Cash call exercise

Potentially raising RM80m-100m. Hunza Properties is targeting to raise RM80m-100m from its proposed 1-for-4 rights issue. The bulk of the proceeds will help the group to retain its upcoming shopping mall for recurring income purposes. We have yet to factor this into our earnings model as we await the finalisation of the pricing of the rights, likely to take place by 1QCY08.

Figure 4: Milestones for Hunza Properties' proposed cash call exercise

Date	Event
20-Aug-07	Proposed 1-for-4 rights issue with free detachable warrant
4-Oct-07	Received approval from Securities Commission
7-Nov-07	Received approval from Bank Negara Malaysia
12-Dec-07	Shareholders approved exercise at EGM
9-Jan-08	Received in-principle approval from Bursa Malaysia

Source: Company, CIMB Research

Valuation and recommendation

No change to earnings forecasts… Although 1H08 results are likely to surprise on the upside, we conservatively retain our FY08-10 earnings projections for now. To recap, we are forecasting a 3-year EPS CAGR of 31%, underpinned by i) some RM1bn worth of niche property development projects and ii) the group's focus on the mid-high end segment which generally offers higher margins. Post FY10, it stands to enjoy some RM30m recurring income annually from its upcoming shopping mall.

… but upping RNAV to incorporate Alila II. However, we are upping our RNAV/share estimate from RM3.43 to RM3.68 as we incorporate the surplus land value from its newest Alila II project (Figure 5). Although Hunza Properties does not own the land, its 80% share of profits in the development project reflects control over the project.

Offering both growth and yields. Despite potentially delivering one of the highest EPS growth and ROEs in the sector as well as attractive dividend yields, valuations remain very undemanding at just 4.5x CY09 EPS vs. the sector's 9.3x average (ex-MK Land).

Accumulate on share price weakness. Hunza Properties' share price has fallen 33% from its all-time high back in Jul 07. We view this as an excellent opportunity for investors to accumulate the stock as prospects for this developer remain bright in light of its i) mid-high end segment focus in high-growth areas, i.e. Penang and the Klang Valley and ii) eventual transformation into an integrated property player once the Gurney Paragon development completes in FY10.

Reiterate OUTPERFORM. Hunza Properties is our preferred choice among the deep-value developers with a Penang exposure. It is also one of our top three small-cap picks. We continue to expect the stock to OUTPERFORM, based on an unchanged end-CY08 target price of RM4.50, which is still pegged to a 40% discount to our 20x target P/E for the sector. Re-rating catalysts remain i) higher-than-expected sales and margins, ii) entry of reputable partners for its shopping mall development, iii) landbank acquisitions and iv) higher dividends. Investors seeking a more leveraged play can consider its 2004/2009 warrants (RM1.00, HPBW MK, exercise price RM1.50, expiry 10 March 2009), which are currently in the money.

Figure 5: Hunza Properties' RNAV computation

Project	Size/units	Market value (RMpsf)	Stake	Value (RMm)
Bandar Putra Bertam - Residential	435.6	10.00	70%	132.8
Bandar Putra Bertam - Commercial	48.4	40.00	70%	59.0
Sungai Petani, Kedah	393.0	3.00	100%	51.4
Alila, Penang	5.0	175.00	100%	38.1
Mutiara Seputeh	12.0	90.00	100%	47.0
Gurney Drive	3.5	400.00	100%	61.0
Infinity	3.0	200.00	90%	23.5
Alila II, Penang	9.6	175.00	80%	58.5
Surplus value from shopping mall & retail lots				186.1
Surplus value from Phase 3's office lots				14.0
Fixed assets				75.0
Associated company				0.0
Net current asset less dev. prop.				36.8
Total long term borrowings				(135.7)
Proceeds from warrants conversion & rights issue				222.5
Total revised RNAV				**870.1**
Fully diluted no. of shares post cash call exercise (m)				236.6
Revised RNAV per share (RM)				**3.68**

Source: Company, CIMB Research

Figure 6: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2008	Core P/E (x) CY2009	3-yr EPS CAGR (%)	P/BV (x) CY2008	ROE (%) CY2008	Div yield (%) CY2008
Hunza Prop	HPB MK	O	2.55	4.50	116	5.7	4.5	30.6	1.1	19.9	5.5
IOI Properties	IOIP MK	N	12.90	16.40	1,332	12.1	10.4	14.8	1.8	15.2	5.6
KLCC Property	KLCC MK	O	3.40	4.85	983	13.2	12.7	185.1	0.7	5.4	4.2
Mah Sing	MSGB MK	O	1.96	3.80	371	10.0	7.2	18.4	1.7	18.1	4.1
MK Land	MKL MK	N	0.63	0.83	235	nm	69.0	9.0	0.7	(0.2)	1.6
SP Setia	SPSB MK	O	5.20	7.67	1,624	17.4	14.8	10.2	2.6	15.7	4.7
UM Land	UML MK	O	1.83	3.57	131	6.9	6.2	19.5	0.5	7.7	7.1
Simple average						**10.9**	**17.8**	**36.7**	**1.3**	**11.7**	**4.7**

O = Outperform, N = Neutral, U = Underperform, NR = Not Rated, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

Financial tables

PROFIT & LOSS

(RM m, FYE Jun)	2006	2007	2008F	2009F	2010F
Revenue	117	187	255	304	298
Operating expenses	(82)	(132)	(182)	(204)	(174)
EBITDA	35	55	79	107	130
Depreciation & amortisation	(1)	(1)	(1)	(1)	(1)
EBIT	34	54	78	106	129
Net interest & invt income	1	0	2	4	3
Associates' contribution	0	0	0	0	0
Exceptional items	0	3	0	0	0
Others	0	0	0	0	0
Pretax profit	**35**	**58**	**78**	**107**	**131**
Tax	(10)	(15)	(20)	(27)	(33)
Minority interests	(5)	(3)	(5)	(7)	(11)
Net profit	**20**	**39**	**53**	**73**	**87**
Adj. wt. shares (m)	116	135	135	135	135
Unadj. year-end shares (m)	116	135	135	135	135

KEY RATIOS

(FYE Jun)	2006	2007	2008F	2009F	2010F
Revenue growth (%)	3.8	60.2	36.4	19.3	(1.8)
EBITDA growth (%)	8.4	57.7	32.2	36.4	24.7
Pretax margins (%)	29.9	30.8	29.0	33.8	42.4
Net profit margins (%)	17.0	21.0	19.5	23.1	28.0
Interest cover (x)	1,492.1	535.7	269.2	157.4	111.5
Effective tax rates (%)	28.3	26.5	26.0	25.0	25.0
Net dividend payout (%)	31.6	31.0	27.2	20.7	18.5
Debtors turnover (days)	137.8	106.4	88.0	93.4	102.5
Stock turnover (days)	54.7	52.2	54.1	57.4	63.0
Creditors turnover (days)	74.8	49.0	47.3	50.2	55.1

BALANCE SHEET

(RM m, end Jun)	2006	2007	2008F	2009F	2010F
Fixed assets	28	87	89	91	93
Intangible assets	0	0	0	0	0
Other long-term assets	117	163	150	160	170
Total non-current assets	**145**	**249**	**239**	**251**	**263**
Cash and equivalents	5	25	54	82	80
Stocks	21	32	44	52	51
Trade debtors	57	52	71	85	83
Other current assets	187	166	210	251	289
Total current assets	**271**	**276**	**379**	**469**	**503**
Trade creditors	22	28	38	45	45
Short-term borrowings	40	62	74	81	89
Other current liabilities	20	20	24	28	28
Total current liabilities	**82**	**110**	**136**	**155**	**162**
Long-term borrowings	119	136	155	175	135
Other long-term liabilities	2	1	0	0	0
Total long-term liabilities	**121**	**136**	**155**	**175**	**135**
Shareholders' funds	**192**	**256**	**298**	**354**	**422**
Minority interests	21	24	29	35	47
NTA/share (RM)	1.66	1.89	2.21	2.62	3.12

KEY DRIVERS

(FYE Jun)	2007	2008F	2009F	2010F
Sales (RMm)	196	220	240	260
Unrecognised billings (RMm)	151	200	220	220
Undeveloped landbank (acres)	890	880	870	860
Unsold stock value (RM m)	60	70	60	50

CASH FLOW

(RM m, FYE Jun)	2006	2007	2008F	2009F	2010F
Pretax profit	35	58	74	103	127
Depreciation & non–cash adj.	1	1	1	1	1
Working capital changes	(37)	0	(8)	(15)	2
Cash tax paid	(11)	(13)	(19)	(26)	(32)
Others	11	2	(38)	(45)	18
Cash flow from operations	**(2)**	**47**	**10**	**18**	**115**
Capex	(4)	(52)	(5)	(5)	(5)
Net investments & sale of FA	0	(29)	30	9	(52)
Others	1	5	0	0	0
Cash flow from investing	**(3)**	**(75)**	**25**	**4**	**(57)**
Debt raised/(repaid)	24	55	38	32	(32)
Equity raised/(repaid)	(1)	35	0	0	0
Dividends paid	(6)	(12)	(14)	(15)	(16)
Cash interest & others	(15)	(11)	(26)	(8)	(12)
Cash flow from financing	**2**	**66**	**(1)**	**10**	**(60)**
Change in cash	**(3)**	**38**	**34**	**31**	**(1)**
Change in net cash/(debt)	**(27)**	**(17)**	**(4)**	**0**	**31**
Ending net cash/(debt)	**(154)**	**(171)**	**(175)**	**(175)**	**(144)**

12M - FORWARD FD CORE P/E (X)

Source: Company, CIMB Research, Bloomberg

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STOCK RECOMMENDATIONS	SECTOR RECOMMENDATIONS
OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.
TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.	
TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.	

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange.*

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange.*