



KDN PP 14119/03/2009 (020788)

Company Update: 23 June 2008

**Hunza Properties Berhad
(5018)**

Recommendation
Trading Buy
Current Price: RM 1.75
Target Price: RM 2.32

Board Main
Sector Properties
Website www.hunzagroup.com
52-Wk. Range 1.70 – 3.88

Share Issued (m) 147.3
Par Value (RM) 1.00
Market Cap (RM m) 263.7mil

NTA per Share (RM) 1.90
Debt per Share (RM) 1.34
ROE (%) 15.31

Major Shareholders (%)
Khor Teng Tong Holdings
Sdn. Bhd. 30.57
Dato' Khor Teng Tong 8.03
Yayasan Bumiputra
Pulau Pinang Bhd 7.61
Lembaga Tabung Haji 7.11

Analyst: Tan Chin Wooi
cwtan@aaasec.com.my

Share Price Performance



Limited downside risk

- **Thesis:** With the current market turmoil over first the subprime issue then the political tsunami that occurred in Malaysia, investors are now slapped with a hike in petrol prices and electricity tariffs. With the expectations of high inflationary pressures, investors are now panicking and fleeing the market and adopting a wait and see stance.
- **Outlook:** We believe that there has been an over-reaction to the current price hikes in Malaysia and that the Hunzpty has been oversold. Seeing as to how much its share price has come down, we believe there is limited downside risks to this counter.
- **Catalyst:** Hunzpty's projects are all targeted towards the upper class segment of the property market. The current price hikes are not expected to greatly affect demand in this segment compared to demand for the lower end of the property market and with the recent government initiative to allow monthly withdrawals from EPF Account 2 to purchase properties, we believe demand for Hunzpty's projects will still remain strong. In addition to that, with a stable and decent dividend yield of 7%, it provides limited downside risks for investors.
- **Valuation:** Hunzpty is just currently trading at 5.63x based on FYE2007 results and 5.01x based on projected FYE2008 results. By applying a reasonable 6.5times PE Ratio to projected FYE2008 earnings, we derive a fair value of RM2.32. Based on its current price of RM1.75, there is a 32.6% potential upside.

Financial and Valuation Metrics

Year	2005	2006	2007	2008E	2009F
Revenue (RMm)	112,258,895	116,635,367	186,734,332	255,813,000	268,603,650
Pretax Profit (RMm)	31,824,709	34,806,495	57,500,912	71,298,000	74,862,900
Net Profit (RMm)	16,363,124	19,779,283	39,243,745	51,854,000	54,446,700
EPS(sen)	15.36	17.36	31.78	35.70	37.49
ROE (%)	9.89	10.64	18.86	n/a	n/a
P/E (x)	11.39	10.08	5.50	4.90	4.67
DPS (sen)	7.50	7.50	12.50	12.50	12.50
Gross Div Yield (%)	4.19	4.19	7.14	7.14	7.14

Source: Company Data, A.A. Anthony Securities estimates

Website: <http://www.aaasec.com.my>

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Investment Highlights

Results slightly below expectations: Hunzpty's 3QFY08 results were slightly below our expectations. Hunzpty registered 3QFY08 revenue of RM191m and net profit of RM38m, accounting for 69% and 66% of FYE2008E forecasts of RM275m and RM58m respectively. This is due to the lower than expected demand for property after the 12th General Election.

Weakening demand for property due to political uncertainty: There appears to be a weakening demand for property post the 12th General Election as most investors are adopting a wait and see attitude in light of the current political uncertainty.

Weakening demand for property due to inflationary pressures: In addition to political uncertainty, the recent increment of 41% and 63% in petrol and diesel prices is expected to send prices of goods skyrocketing. Electricity tariffs will also be raised by 18% for residential homes and 26% for companies effective 1st July 2008. As a result of these price increase, Bank Negara Malaysia (BNM) expects Malaysia's inflation rate to rise to a 10 year high. Governor Tan Sri Dr Zeti Akhtar Aziz said that Malaysia's inflation rate would average around 4.2% this year. This would represent the highest inflation rate since 1998 when it peaked at 5.3%.

Rising building materials costs: With rising building material costs due to the liberalization of the steel and cement industry, we expect the profit margins of developers to be squeezed.

Stable dividends: Hunzpty over the past few years have maintained a decent and stable dividend payout to shareholders. Over the next 2 years, it is expected that they will pay out a minimum of 12.5 cents to shareholders. At the current price of RM 1.75, this represents a decent yield of 7.1%. On 19 June 2008, the company had declare a first interim single tier exempt dividend of RM0.037 per share.

Good take-up rates: Hunzpty has managed to register very healthy take up rates for all its projects. As at 31/3/08, it has managed to secure a 99% and 78% take up rate for its Alila highrise and lowrise project respectively. In Bertam, it has a 59% take up rate. Infinity managed to secure a 52% take up rate while Gurney Paragon was slightly lower at 48%. In Mutiara Seputeh, its semi-detached houses saw an impressive take up rate of 86% but its bungalows only registered a rate of 15%.

Strong unbilled sales: As of 31/3/08, Hunzpty is sitting on RM276.4mil worth of unbilled sales.

Share Buyback: Hunzpty has recently started buying back its own shares which should provide some stability to its share price.

Company Background

Hunza Properties was founded by Dato' Khor Teng Tong on 27 April 1998. On 23 March 2000, it was listed on the Main Board of Bursa Malaysia Securities Berhad. HPB Group was formed under the leadership of Dato' Khor Teng Tong, a well established property developer in the Northern Region who has 30 years of experience in the property development sector. Among the projects developed by Hunza Properties include the Alila projects & Marina Bay condominiums in Penang and the 701 acre township Bandar Putra Bertam. Other notable development projects include multi-storey commercial shophots cum office units, wet market and a joint development of furniture-park with a Federal government agency, PERDA. HPB Group has completed projects worth more than RM1 billion in turnovers, comprising approximately 10,000 units of residential and industrial properties.



Hunza Valley

Set in the rugged Karakoram Mountains of northern Pakistan, bordering China, is the beautiful Hunza Valley, where people live to an average age of 120 years. Many believe Hunza was the inspiration of James Hilton's vision of Shangri-la, wondrously depicted in his 1933 novel, "Lost Horizon".

-- Company Website



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On-Going Projects

ALILA, PENANG

Set within cool hilly wilderness is a Tropical Garden Village like no other on Penang. **ALILA** possesses many distinctive qualities including an ideal fengshui position with a backing of the hill slope while facing the sea. A small enclave of garden villas, villas and condominium, **ALILA** features a rich fusion of Asian rural architecture styles to create a new contemporary tropical living experience. All brought to life by the finest materials and amenities.



MUTIARA SEPUTEH, KUALA LUMPUR

Mutiara Seputeh is situated on a 15 acres undulating land, atop a cool hillock in the prestigious residential area of Bukit Seputeh. Mutiara Seputeh offers a total of 80 units of 3 storey semi-detached and 13 units of 3 storey bungalows. The 2 unique designs of semi-detached houses and 5 for the bungalows, feature distinctive architecture, interiors, spaciousness and natural light to exude comfort, quality and style.



GURNEY PARAGON, PENANG

This freehold land, measuring 10.21 acres, being the latest addition to Hunza Properties Berhad's landbank is strategically located in one of the most prestigious and established addresses along Penang's renowned promenade - the Gurney Drive. It has the frontages of both Gurney Drive and Jalan Kelawai. The proposed integrated development in this famous tourist attraction landmark comprises 2 blocks of high-end condominiums and a shopping mall of more than 1 million sq ft retail space which will be built around the St Joseph's Novitiate, a heritage masterpiece. Located within the "most happening" stretch of prime estate in Penang, one can easily access to myriad of amenities such as business & commercial complexes, shopping havens, fine dinings, restaurants, hawker centres, 5 stars hotels, financial institutions, medical centres, college, schools, markets and popular leisure hangouts etc. - all the while fanned by cool breezes coming in from the calm seas of the straits channel.



INFINITY

INFINITY is a high-end residential development ideally located on an expansive white beachfront of Tanjung Bungah, Penang. Comprising 119 units of condominiums, penthouses and cabanas housed in 2 elegant tower blocks, the homes are architected to maximise view towards the panoramic sea horizon and the city skylight. You are literally a step away from acres of sandy white beach in a sheltered bay.



Industry Analysis

Property sales have been slowed down since after the 12th General Election. Most property investors are adopting a wait and see attitude before going in due to the current political uncertainty.

The focus has now however shifted from politics to inflationary fears. In light of the recent price hikes in petrol and electrical tariffs, inflation is expected to rise to an all time high. Petrol and diesel prices have been raised by 41% and 63% respectively effective 5 June 2008. Electricity tariffs have been raised by 18% for residential premises and 26% for companies effective 1 July 2008.

As a result of these price increases, Bank Negara Malaysia (BNM) expects Malaysia's inflation rate to rise to a 10 year high. Governor Tan Sri Dr Zeti Akhtar Aziz said that Malaysia's inflation rate would average around 4.2% this year. This would represent the highest inflation rate since 1998 when it peaked at 5.3%.

Although inflationary pressures are now higher, we believe that recent government initiatives such as the relaxation of EPF Account 2 where people can now withdraw from to pay their monthly mortgages and removal of the RPGT may still keep property sales stable.

We believe it is the lower end of the property sector that will be most affected by the recent actions of our government.

Valuation

Peer Comparison

	Market Capitalization RM (mil)	Net Profit Margin (%)	Return on Equity (%)	Dividend Yield (%)	NTA (RM)	P/E Ratio (x)
Hunza Properties	263.7	22.64	15.31	7.10	1.90	5.50
UM Land	314.2	15.11	5.60	10.00	3.45	6.24
KSL Holdings	373.2	42.60	20.17	8.00	1.65	3.01
IGB	2,324.9	21.92	5.18	2.50	1.77	16.22
Mah Sing	908	14.35	12.87	8.00	1.01	9.85

Source: Company Data, A.A. Anthony Securities estimates

Despite being one of the smallest property counters in terms of market capitalization, Hunzpty managed to offer the moderate return on equity at 15.31% in comparison with its peers.

Its dividend yield of 7% is reasonable among the market rates.

In terms of its efficiency, it managed to get a net profit margin of 22.64%. With the exception of KSL's extraordinary margins, it is much higher than the rest of its peers.

Hunzpty is just currently trading at 5.50x based on FYE2007 results and 4.90x based on projected FYE2008 results. By applying a reasonable 6.5times PE Ratio to projected FYE2008 earnings, we derive a fair value of RM2.32. Based on its current price of RM1.75, there is a 32.6% potential upside.

Catalysts

- High end projects in prime locations – The higher inflation expected arising from the recent price hikes in petrol and electricity is in large part expected to mostly affect the lower end segment of the property market. Demand for high end properties in prime locations which are limited are still expected to remain strong.
- With the recent government initiative to allow Malaysians to reach into their EPF accounts and withdraw money to buy properties, this is expected to keep demand for property still strong.
- Strong and stable dividend yield – Hunzpty offers one of the highest dividend yields compared to the rest of the property counters. It has maintained a stable dividend payout over the years and currently offers a yield of almost 7% which should provide investors with a limited downside to their investments.

Investment Risks

- Inflation – The recent price hikes in petrol, diesel and electricity tariffs are expected to keep investors wary of purchasing new properties at the moment in fear that the government may raise interest rates in the near term to curb inflation.
- Higher building material costs – With the recent liberalization of the cement and steel industry, costs have gone up for property developers. This will lead to margin squeezes across the board of property developers leading to lower profitability.
- Slowdown in global economic growth – A slowdown in the overall global economy will negatively affect new property sales.

Appendix I: Financial Statements

Financial Summary

Details (RM)	2005	2006	2007	2008E	2009F
Revenue	112,258,895	116,635,367	186,734,332	255,813,000	268,603,650
Gross Profit	39,559,997	40,292,750	63,035,903	76,553,000	80,380,650
Operating Profit	31,882,183	34,332,797	57,602,565	72,528,000	76,154,400
Profit Before Taxation	31,824,709	34,806,495	57,500,912	71,298,000	74,862,900
Tax	(9,192,810)	(9,857,351)	(15,231,883)	(19,444,000)	(20,416,200)
Net Profit	16,363,124	19,779,283	39,243,745	51,854,000	54,446,700
EPS (sen)	15.36	17.36	31.78	35.70	37.49
EPS Growth (%)	4.92	13.02	83.06	12.33	5.01
Gross DPS (sen)	7.50	7.50	12.50	12.50	12.50
Gross Dividend Yield (%)	4.29	4.29	7.14	7.14	7.14
Reserves	65,787,401	79,143,688	121,084,169	n/a	n/a
Shareholders Fund	179,877,569	191,876,063	256,266,592	n/a	n/a
Short-term Borrowings	36,803,195	39,957,835	61,634,166	n/a	n/a
Long-term Borrowings	97,392,552	119,349,360	135,219,258	n/a	n/a
Cash & Bank Balances	6,741,208	4,881,291	25,367,738	n/a	n/a
NTAB (sen)	1.52	1.69	1.90	n/a	n/a

Ratio Analysis

Ratio	2005	2006	2007	2008E	2009F
Gross Margin (%)	35.24	34.55	33.76	29.93	29.93
Operating Margin (%)	28.40	29.44	30.85	28.35	28.35
Net Margin (%)	14.58	16.96	22.64	20.27	20.27
ROE (%)	9.89	10.64	15.31	n/a	n/a
Total Assets Turnover	29.45	28.07	35.56	n/a	n/a
Current Ratio	2.34	3.31	4.79	n/a	n/a
Gearing Ratio	0.75	0.83	0.77	n/a	n/a
Debt Ratio	0.48	0.49	0.47	n/a	n/a
Total Debt To Equity Ratio	1.02	1.06	0.96	n/a	n/a

Source: Company data, A.A. Anthony Securities estimates

Appendix II: Management profile

Major Shareholders as at 25 January 2008

	Direct %	In Direct %
Khor Teng Tong Holdings Sdn. Bhd.	30.57	13.81
Dato' Khor Teng Tong	8.03	44.38
Yayasan Bumiputra Pulau Pinang Bhd	7.61	-
Lembaga Tabung Haji	7.11	-
Taman Nibong Tebal Sendirian Berhad	5.66	-
Hunza Usaha Sdn Bhd	5.40	-
Mandin Garden Sendirian Berhad	1.73	11.06
Khor Siang Gin	0.13	5.66

Source: Company Data

Key management team members

Dato' Khor Teng Tong (Chairman)

Aged 64, Malaysian, was appointed as Executive Chairman of HPB on 30 August 2002. Dato' Khor has over 47 years of vast experience. He completed his primary school education at Yew Chai Primary School, Perak before starting his business career in 1958 as a sole proprietor in fish trading for at least 12 years under the name Syarikat Soon Seng Fisheries. In the early 1970s, he established Soon Seng Frozen Foods Sdn Bhd (now known as Golden Frontier Berhad, a company listed on Bursa Malaysia) to start the business in processing and exporting of frozen cooked and peeled shrimps. He maintain his substantial shareholding in Golden Frontier Berhad until prior to its listing in 1989. In the mid 1970s, Dato' Khor was involved in diversified business projects of the first cocoa processing plant in Malaysia, oil palm plantation, supermarket chains and then in property development. When Malaysia was faced with recession in the mid 1980s, Dato Khor decided to dispose of his unprofitable businesses.

He then set-up Hunza Group of Companies ("Hunza Group") which comprises 2 major holding companies, i.e. Hunza Consolidation Berhad ("HCB") and HPB. He was appointed as the Executive Chairman of HCB which has been listed on the Second Board of Bursa Malaysia since 1997. HCB's primary business activities upon its listing were manufacturing of corrugated paperboard & cartons and exporting of frozen seafood. On 17 December 2004, he was re-designated from Executive Chairman to Non-Executive Director in HCB upon the disposal of all his shareholdings in HCB at that juncture. With the disposal, Dato' Khor has since then concentrated on HPB.

Dato' Khor is presently the President of FIABCI Malaysia – Penang branch for year 2007/09. He was also the President of Penang Chinese Chamber for year 2007/2008.

Ooi Lay See (Managing Director)

Aged 47, Malaysian, was appointed as Managing Director of HPB on 27 January 2000. She has been in the property development business for more than 20 years.

After completing her Higher School Certificate ("HSC") in 1980, she joined her family sawmill business. Her initial involvement in the housing industry was in 1984 when she joined Mandin Garden Sendirian Berhad (an investment holding company which is a corporate shareholder of HPB Group), as a Personal Assistant to the Managing Director.

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In 1985, she was promoted to Property Manager and was instrumental in helping the company overcome difficulties during the recession in the mid 1980s. In 1988, Ms Ooi was promoted to be an Executive Director of Hunza Holdings Sdn Bhd, an investment holding company in charge of planning and management. In 1993, she headed the Group's property development division and in recognition of her proven ability in the property development business, Ms Ooi was appointed Managing Director of the HPB Group in 1998. She was a Committee Member of the Real Estate and Housing Developers' Association Malaysia ("REDHA"), Penang division for the year 1999/2000, the Treasurer for the years 2000/2004 and a Committee Member for 2004/2006.

In 2001, she completed an Executive Programme known as the General Management Programme organized by Wharton (The Wharton School, University of Pennsylvania) – Singapore Management University.

Khor San Leng (Executive Director)

Aged 34, a Malaysian, was appointed as a Non-Executive Director of HPB on 29 October 2002. On 26 August 2005, she was re-designated as an Executive Director of HPB.

She graduated from University of South Alabama in the United States of America with a Bachelor Degree in Finance in 2002. She served in the Corporate Planning Department of Hunza Consolidated Berhad from 1996 to 2005. Currently, she also sits on the boards of other private companies.

Rating Key

Trading Buy	Potential upside expected to hit more than 30% over a 12 – month period
Buy	Potential upside expected to range between 10% - 30% over a 12 – month period
Neutral	Potential expected to stay between 10% and -10% over a 12 – month period
Sell	Potential downside expected to range between 10% - 30% over a 12 – month period
Trading Sell	Potential downside expected to dip more than 30% over a 12 – month period

** The target prices of shares mentioned in the accompanying text are based on the assumed investment horizon of 12-months. If company notes are published on these shares in the future, the target prices mentioned in the new notes will have priority.*

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*Principal Office - Penang
1st Floor, Bangunan Heng Guan,
171, Jalan Burmah, 10050 Pulau Pinang.
Tel: 604-229 9318 Fax: 604-226 8788*

*Johor Bahru Branch
Levels 6, 7, & 8, Menara Sarawak Enterprise,
5, Jln Bukit Meldrum, 80300 Johor Bahru, Johor Darul Takzim, Malaysia.
Tel: 604-229 9318 Fax: 604-226 8788*

*Sri Hartamas Branch
N-1-3 Plaza Damas, 60 Jalan Sri Hartamas 1,
50480 Sri Hartamas.
Tel: 603-6201 1155 Fax: 603-6201 1001*

*Bukit Mertajam Branch
2 Jalan Perniagaan 2, Pusat Perniagaan Alma,
14000 Bukit Mertajam.
Tel: 604-554 1388 Fax: 604-5541 1389*

*Johor Jaya Branch
70 Jalan Rosmerah 2/17, Taman Johor Jaya,
81100 Johor Baru.
Tel: 607-351 3218 Fax: 607-351 3843*

*Kulai Branch
42-8 Main Road, Kulai Besar,
81000 Kulai.
Tel: 607-663 6658 Fax: 607 663 6653*

*Alor Setar Branch
Lots 4, 5 & 5A, 1st Floor, EMUM 55, No. 55, Jalan Gangsa,
Kawasan Perusahaan Mergong 2, Seberang Jalan Putra,
05150 Alor Setar, Kedah.
Tel: 604-732 2111 Fax: 604-732 2777*

*Nusa Bestari Branch
171, Ground Floor, Jalan Bestari 1/5,
Taman NUSA Bestari, 81300 Skudai,
Johor.
Tel: 607-512 1633 Fax: 607-512 1933*

*Teluk Intan Branch
29G, Jalan Intan 2, Bandar Baru,
36000 Teluk Intan,
Perak Darul Ridzuan.
Tel: 605621 6010 Fax: 605-621 6011*

Website: <http://www.aaasec.com.my>

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