Hunza Properties

RM2.69 – Outperform

KKDN PP 7766/3/2008 ☎ 60(3)26927788- www.allianceinvestmentbank.com.my Wednesday, 14 November 2007

RESULTS NOTE

Bloomberg Code	HPB.MK
INVESTMENT DATA	
Recommendation	**Buy**
Price (25 June 07)	RM2.69
Target price	RM4.00
Expected capital gain	48.6%
Expected yield	3.8%
Expected return	**52.4%**
Market capitalisation	RM366.6m
Shares in issue	135.5m
52 week high/low	RM3.88/RM1.64
3m average daily volume	0.65m shares
KLCI	**1,383.43pts**
Major shareholders :	
Khor Teng Tong	53.2%
Yayasan Bumiputra PP	7.4%
12-month consensus	
Buys	4
Holds	0
Sells	0
FY08 Estimate (EPS sen)	0.31
FY09 Estimate (EPS sen)	0.41

Coming In Nicely

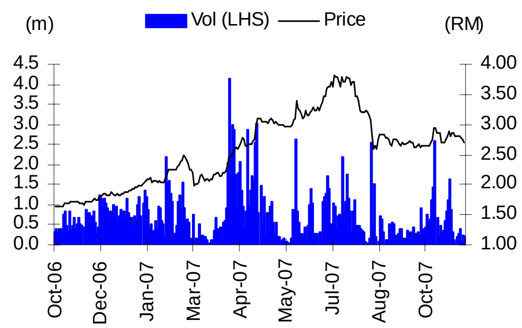
- **Hunza Property's 1Q FY06/08 topline was inline with consensus but stronger than our forecast. PAT was inline with our forecast but marginally lower than consensus. The topline and net profit came in at RM67.7m and RM12.5m respectively versus our forecast of RM57.6m and RM12.5m and consensus forecast of RM65.8m and RM13.3m.**

- **Sale remains strong but absence of new projects drawing concern over growth**
  Despite clear earnings visibility over the next 3 years, one key concern is that the absence of new development especially in Klang Valley is drawing concern over growth upside. Management guided that they are actively on the lookout for new projects in Klang Valley to replenish the Seputeh project which is coming to an end. Catalyst for share price now depends on its ability to surprise on new projects.

- **Paragon and infinity have 40% take up rate on soft launch**
  The soft launch of its service condominiums in Penang has received good response with take up rate of 40%. The two projects have GDV of RM620m which provides visibility to its earnings over the next 3 years. It is also cementing terms with the land owner for its Alila 2 project which will provide additional GDV of RM200m.

- **Outperform rating retained and forecast maintained**
  We maintain our full year topline and net profit forecast of RM231m and RM50m for FY06/08 although there is upside risk to the topline. We are maintaining our target price of RM4.00 which is 30% discount to its RNAV of RM5.70. The discount is warranted given its smaller size and lack of pipeline projects other than the existing one.

DAILY CHART



Source: Bloomberg

INVESTMENT STATISTICS

FY Jan (RM m)	2006	2007	2008F	2009F
Turnover	116.6	190.0	230.7	326.4
EBITDA	35.2	61.7	75.6	98.2
Pretax Profit	34.8	60.7	73.5	96.0
Core Net Profit	19.8	39.4	50.1	59.5
EPS (sen)	17.0	25.3	32.2	38.2
EPS Growth (%)	13.3	48.8	27.3	18.6
P/E (x)	15.8	10.6	8.4	7.0
P/NTA (x)	2.06	1.83	1.58	1.35
Gross DPS (sen)	5.00	12.50	13.20	15.65
Dividend Yield (%)	1.86	4.65	4.91	5.82
ROE (%)	10.31	18.26	19.97	20.30
Net Gearing (x)	0.82	0.74	0.66	0.57
EV/EBITDA (x)	18.31	12.72	8.61	6.64

Sources: Bloomberg, Alliance Research

EARNINGS REVIEW (QoQ)				
FY Jan (RM m)	**FY 06/07 1Q**	**FY 06/08 1Q**	**% Chg y-o-y**	**Comments**
Revenue	36.4	67.7	86	Revenue rose with contribution from Alila and Seputeh projects which received 85% and 70% take up rates. But relatively flat q-o-q
Cost of sales	(23.6)	(46.6)	97	In tandem with the rise in revenue
Gross profit	12.8	21.1	65	GP margin of 31% was slightly lower than 35% in corresponding period due to higher cost
Other operating income	0.4	0.2	-50	-
Other operating expenses	(2.3)	(3.8)	65	Possibly due to higher promotional expense
Profit from operation	10.9	17.5	61	Although 61% higher y-o-y, it was 30% lower q-o-q
Finance costs	(0.1)	(0)	-	-
Pretax profit	10.8	17.5	62	Weaker pre-tax q-o-q was due to a RM2.9m surplus in 4Q resulting from the requirement of FRS140 and higher cost of sales
Taxation	(3.1)	(5.1)	65	
Net profit	7.7	12.4	61	See below
EPS (sen)	6.37	8.9	40	Higher y-o-y but lower q-o-q due to some one off adjustment and cost as above
Operating Margin (%)	29.9	25.8	-4.1pts	Lower margin on higher operating cost
Pretax margin (%)	29.6	25.8	-3.8pts	Lower margin on higher operating cost
Tax rate (%)	28.7	29.1	+0.4pts	Due to certain non-deductible expenses

Recommendation Framework

STOCK RECOMMENDATIONS

OUTPERFORM : The stock's total return is expected to exceed KLCI's total return by 5% or more in the next 12 months.

MARKET PERFORM : The stock's total return is expected to be within +5% or – 5% of KLCI's total return.

UNDER PERFORM : The stock's total return is expected to be below KLCI's total return by 5% or more in the next 12 months.

TRADING BUY : The stock's total return is expected to exceed KLCI's total return by 5% or more within the next 3 months. Fundamentals are not strong enough to call an Outperform rating and investors are willing to assume higher risks.

TRADING SELL : The stock's total return is expected to be below KLCI's total return by 5% or more within the next 3 months.

NOT RATED : Stock is not within our regular coverage

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to outperform the KLCI over the 12 months.

NEUTRAL : The industry as defined by the analyst is expected to perform in line with KLCI over the 12 months.

UNDERWEIGHT : The industry as defined by the analyst is expected to underperform the KLCI over the next 12 months.

total return = capital gain + dividend yield

Common Abbreviation

Adex = Advertising Expenditure	1QFY12/07 = 1st Quarter for FY Dec 07	PE = Price Earnings Ratio
bn = billion	2HFY12/07 = 2nd Half for FY Dec 07	PEG = PE ratio to growth
BV = Book Value	FCF = Free Cashflow	PER = PE ratio
CF = Cashflow	FV = Fair Value	QoQ = Quarter on Quarter
CAGR = Compounded Annual Growth rate	FY = Financial Year	RM = Ringgit
Capex = Capital Expenditure	KLCI = Kuala Lumpur Composite Index	RM bn = RM billion
CY = Calendar Year	m = million	RM m = RM million
Div yld = Dividend Yield	MoM = month on month	ROA = Return on Assets
DCF = Discounted Cashflow	NAV = Net Assets Value	ROE = Return on Equity
DPS = Dividend Per Share	NTA = Net Tangible Assets	ROSF = Return on shareholders funds
EBIT = Earnings Before Interest & Tax	NR = Not Rated	TP = Target Price
EBITDA = EBIT before Depreciation and Amortisation	p.a. = per annum	WACC = Weighted Average Cost of Capital
EPS = Earnings per share	PAT = Profit after tax	YoY = Year on Year
EV = Enterprise Value	PBT = Profit before tax	YTD = Year to date

DISCLAIMER

The report is for information purposes and has been prepared by Alliance Research Sdn. Bhd. (Alliance Research) based on sources believed to be reliable. No liability can be accepted by Alliance Research for its completeness or accuracy. Opinions expressed are subject to change without notice. The company and its directors, representatives and employees may have an interest in the securities mentioned. Issuance of the report by Alliance Research is not an offer to sell or a solicitation to buy the securities of the company covered in the report and Alliance Research shall not be responsible for any consequential loss or damage, whether direct or indirect.

Published and Printed by
ALLIANCE RESEARCH SDN BHD (290395-D)
Level 18, Menara Multi-Purpose
Capital Square
8, Jalan Munshi Abdullah
50100 Kuala Lumpur, Malaysia
Tel: +60(3) 2692 7788
Fax: +60(3) 2717 6622
Email: Allianceresearch@allianceinvestment.com.my