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CIMB Research Report

2QFY08 RESULTS

21 February 2008

MALAYSIA

Hunza Properties Bhd

A groundbreaking performance

OUTPERFORM	Maintained
RM2.51	Target: RM4.50
	Mkt.Cap: RM370m/US$115m
	Property development & investment

HPB MK / HUZP.KL

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- **Above expectations.** On an annualised basis, Hunza Properties' 1HFY08 core net profit came in 7% above our forecast and 11% ahead of consensus estimates, buoyed primarily by stronger-than-expected property sales and lower-than-expected minority interests. The absence of dividends for 2Q, however, was not a surprise, being in line with previous years.
- **Transformation in progress.** 1H08 pretax profit rose 66% yoy on the back of a 82% topline growth, reflecting maiden contributions from Gurney Paragon and Infinity, coupled with accelerated profit recognition from the almost-completed Alila and Mutiara Seputeh semi-Ds. But EBITDA margins dipped 3% pts from 1H07's 32% to 29%, probably because i) Gurney Paragon and Infinity are still at the preliminary stage of construction works and ii) increased competition compressed margins for the trading division.
- **Record property sales.** The group sold properties worth RM121.3m collectively during 2Q08, up 247% yoy and 40% qoq. YTD property sales are up a whopping 142% yoy, anchored by maiden contributions from its Gurney Paragon development project. Unbilled sales have reached RM253.6m, also a record for the group.
- **Upping FY08 numbers.** Taking our cue from this strong set of results and typically stronger 2H earnings, we up our FY08 earnings estimate by 7.4% as we accelerate the profit recognition timeline for the Alila and Mutiara Seputeh projects and lower our minority interest assumptions. However, our FY09-10 earnings numbers and FY08-10 DPS projections are unchanged.
- **Reiterate OUTPERFORM.** Despite the earnings revision, our end-CY08 rights-adjusted target price remains at RM4.50, still pegged to a 40% discount to our 20x target 2009 P/E for the sector. Hunza Properties remains our preferred choice for a deep-value developer with a Penang exposure. Even though it is set to deliver one of the highest ROEs and EPS growth in the sector, along with decent dividend yields, valuations remain cheap at just 4.5x CY09 EPS vs. the sector's 9.0x average (ex-MK Land). We maintain our OUTPERFORM call, with the key re-rating catalysts being i) higher-than-expected sales and margins, ii) entry of reputable partners for its shopping mall, iii) landbank acquisitions and iv) higher dividends.

Results comparison

FYE Jun (RM m)	2QFY08	2QFY07	yoy % chg	qoq % chg	2QFY08 Cum	2QFY07 Cum	yoy % chg	Prev. FY08F	Comments
Revenue	70.1	39.3	*78.4*	*3.5*	137.8	75.6	*82.2*	254.7	Above; 54% of our full-year forecast
Operating costs	(49.0)	(25.8)	*89.7*	*(2.2)*	(98.0)	(51.1)	*91.7*	(177.5)	Slightly higher than expected
EBITDA	21.1	13.5	*56.7*	*12.9*	39.8	24.5	*62.3*	77.1	Lower-than-expected margins due to initial
EBITDA margin (%)	*30.1*	*34.3*			*28.9*	*32.4*		*30.3*	construction progress for Paragon & Infinity
Depn & amort.	(0.2)	(0.2)	*(10.9)*	*(0.6)*	(0.4)	(0.4)	*(14.1)*	(0.9)	Slightly below our expectations
EBIT	20.9	13.3	*57.7*	*13.0*	39.4	24.1	*63.7*	76.2	Within expectations
Interest expense	(0.0)	(0.0)	*700.0*	*(33.3)*	(0.0)	(0.0)	*(90.9)*	(0.3)	Below our projections
Interest & invt inc	0.2	0.1	*216.4*	*436.1*	0.2	0.1	*116.0*	2.2	Lower deposits as at end-Dec 07
Exceptionals	1.4	-	*nm*	*nm*	0.4	-	*nm*	-	Write-back of 1Q's bond provisions in 2Q
Pretax profit	**22.5**	**13.3**	*68.9*	*28.4*	**40.0**	**24.2**	*65.6*	**78.2**	Accounting for 51% of our full-year estimate
Tax	(5.8)	(3.9)	*49.5*	*13.9*	(10.8)	(7.0)	*55.0*	(20.3)	Higher due to non-deductible expenses
Tax rate (%)	*25.7*	*29.0*			*27.1*	*29.0*		*26.0*	
Minority interests	(0.2)	(1.1)	*(85.8)*	*nm*	(0.5)	(1.5)	*(64.4)*	(5.0)	Lower earnings recognition from Bertam
Net profit	**16.6**	**8.4**	*97.2*	*37.4*	**28.6**	**15.6**	*83.1*	**52.9**	54% of our full-year estimate
Core net profit	**15.2**	**8.4**	*80.5*	*25.8*	**28.2**	**15.6**	*80.6*	**52.9**	Annualised figure 7% above our FY estimate
EPS (sen)	12.1	7.4	*64.3*	*36.1*	21.2	13.8	*53.8*	39.1	Above expectations

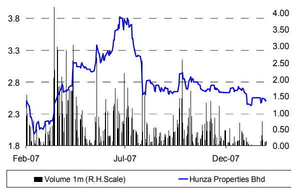
Source: *Company, CIMB Research*

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (RM m)	116.6	186.7	259.7	308.7	296.2
EBITDA (RM m)	35.0	55.2	78.4	104.5	126.9
EBITDA margins (%)	30.0%	29.6%	30.2%	33.8%	42.9%
Pretax profit (RM m)	34.8	57.5	79.7	108.6	130.5
Net profit (RM m)	19.8	39.2	56.8	73.5	86.9
EPS (sen)	17.1	29.0	39.4	51.0	60.2
EPS growth (%)	21.2%	69.6%	35.8%	29.5%	18.1%
P/E (x)	14.7	8.7	6.4	4.9	4.2
Core EPS (sen)	17.1	27.4	39.4	51.0	60.2
Core EPS growth (%)	21.2%	60.4%	43.6%	29.5%	18.1%
Core P/E (x)	14.7	9.2	6.4	4.9	4.2
FD core EPS (sen)	13.4	24.0	36.4	47.1	55.6
FD core P/E (x)	18.7	10.5	6.9	5.3	4.5
Gross DPS (sen)	7.5	12.5	13.5	14.5	15.5
Dividend yield (%)	3.0%	5.0%	5.4%	5.8%	6.2%
P/BV (x)	1.5	1.3	1.2	1.0	0.8
ROE (%)	10.6%	17.5%	19.9%	21.5%	21.3%
Net gearing (%)	72.4%	61.4%	48.4%	39.6%	25.8%
P/FCFE (x)	15.1	36.2	4.3	6.3	11.9
EV/EBITDA (x)	13.3	9.7	7.0	5.3	4.2
% change in EPS estimates			7.4%	-	-
CIMB/Consensus (x)			1.10	1.06	1.10

Source: Company, CIMB Research, Bloomberg

Price chart



Source: Bloomberg

Figure 1: 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	2.51	4.50	115	5.5	4.5	32.3	1.1	20.8	5.6
IOI Properties	IOIP MK	TB	13.00	18.50	1,345	11.7	9.1	22.6	1.8	16.1	6.3
KLCC Property	KLCC MK	O	3.38	4.85	980	13.1	12.6	185.1	0.7	5.4	4.2
Mah Sing	MSGB MK	O	1.88	3.80	359	9.7	6.9	18.4	1.6	18.1	4.3
MK Land	MKL MK	N	0.62	0.83	232	nm	67.9	9.0	0.7	(0.2)	1.6
SP Setia	SPSB MK	O	5.05	7.67	1,589	16.9	14.3	10.2	2.6	15.7	4.8
UM Land	UML MK	O	1.80	3.57	129	6.8	6.1	19.5	0.5	7.7	7.2
Simple average						**10.6**	**17.3**	**42.4**	**1.3**	**11.9**	**4.9**

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

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

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.

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.

SECTOR RECOMMENDATIONS

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 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.

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.

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STOCK RECOMMENDATIONS

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more 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.

SECTOR RECOMMENDATIONS

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 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.

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

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