CIMB Research Report

COMPANY VISIT

18 June 2007

MALAYSIA

Hunza Properties

Our preferred deep-value developer

OUTPERFORM	Maintained
RM3.12	@15/06/07
	Target: RM4.50
	Properties

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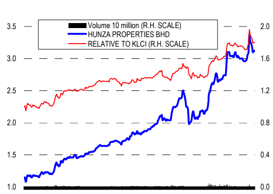
- **Sealed tie-up with DTZ.** Hunza recently signed a contract with DTZ appointing the latter as the retail consultant for its upcoming shopping mall. The entry of DTZ should minimise execution risks by ensuring professional management of the crucial success factors for any shopping mall, i.e. positioning and retail selection. This is a positive and important development as the group's longer-term earnings outlook largely hinges on the success of the Gurney Drive project.
- **Pick-up in property sales.** Over the past two months, the group managed to rake in RM25.2m worth of property sales, close to the RM27.7m sales notched during 3QFY6/07. The pick-up in sales is positive and adds weight to our view that the decline in 3QFY6/07 sales was just a quarterly blip. We expect property sales to remain resilient in June with the inclusion of sales from its new Gurney Paragon and Infiniti projects.
- **Earnings revision.** We are upping our FY07 earnings forecast by 6% to reflect i) the quick pace of construction works over the past two months and ii) steady property sales. Our FY08-09 numbers are also nudged 1-3% higher to reflect our adjusted construction schedule assumption.
- **Maintain OUTPERFORM with a higher target price.** Hunza remains our preferred choice for investors seeking a deep-value developer offering Penang exposure. We retain our OUTPERFORM call but have increased our end-CY07 target price from RM4.00 to RM4.50, based on an unchanged 40% discount to our revised 20x target sector P/E. Re-rating catalysts include i) higher-than-expected sales and margins and ii) entry of reputable partners for its Gurney Drive project.

Financial summary

FYE Jun	2005	2006	2007F	2008F	2009F
Revenue (RM m)	112.3	116.6	167.4	240.4	337.8
EBITDA (RM m)	32.3	35.0	52.3	72.2	101.7
EBITDA margins (%)	28.8	30.0	31.2	30.0	30.1
Pretax profit (RM m)	31.8	34.8	51.8	71.8	100.7
Net profit (RM m)	16.3	19.8	33.7	48.3	68.2
EPS (sen)	14.1	17.1	28.0	35.7	50.4
EPS growth (%)	+7%	+21%	+64%	+28%	+41%
P/E (x)	22.1	18.3	11.2	8.7	6.2
FD EPS (sen)	11.2	13.4	21.8	31.1	43.8
FD P/E (x)	27.8	23.2	14.3	10.0	7.1
Gross DPS (sen)	7.5	7.5	12.5	13.5	14.5
Dividend yield (%)	2.4	2.4	4.0	4.3	4.6
P/NTA (x)	2.0	1.9	1.7	1.5	1.3
Net gearing (%)	64.0	72.3	71.8	77.0	76.2
P/CF (x)	13.5	11.2	7.9	5.5	3.9
EV/EBITDA (x)	11.1	11.0	8.1	6.5	5.0
% change in EPS estimates			6.2	2.6	1.5
CIMB/Consensus (x)			1.00	1.01	1.04

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	RM422.1m
12-mth price range	RM1.07/RM3.46
3-mth avg daily volume	RM2.5m
# of shares (m)	135.3
Est. free float (%)	19
2004/2009 warrants (m)	22.3
Conv. price (RM)	1.50

Share price perf. (%)	1M	3M	12M
Relative	2.2	30.1	78.3
Absolute	3.3	50.0	173.7

Major shareholders	% held
Dato' Khor Teng Tong & Family	53.2
Koperasi Permodalan Felda	9.3
Yayasan Bumiputra Pulau Pinang	6.4

Source: Company, CIMB/CIMB-GK Research, Bloomberg

Update on projects

Gurney Drive

Phase 1 kick-started. Construction of the show unit and trial piling works for Phase 1 started recently. Hunza Properties is targeting to complete the show unit by the end of July in conjunction with the project's official launch date. To recap, Phase 1, which was recently named Gurney Paragon, will comprise 272 units of super condos in two separate towers with indicative pricing of RM420-450 psf.

Encouraging response. Interest in Gurney Paragon has been encouraging so far. 16 units have been booked and S&P agreements have been signed for 22 units (some RM30m sales). In terms of units, this translates into a 14% take-up rate. Furthermore, the vendor of the land, Christian Brothers, has indicated that it will exercise its option to purchase units of up to RM9.8m at a 12.5% discount. Hunza has yet to market Gurney Paragon aggressively and most of the units sold so far are taken up by Penangites. We expect interest to spike up when the show unit is completed in July and marketing activities go into full swing.

No more early bird discount. In view of the good response, we understand that Hunza intends to stop giving early bird discounts. In addition to maximising the GDV of this project, this move is a sign of its confidence in the potential demand for the project.

Selling en bloc? The group has even received queries from potential buyers looking to purchase some of the super condos en bloc. Although this is an encouraging development, such sales typically entail discounts which compromise the potential sale value. Judging from the cancellation of early bird discounts and Hunza's confidence in the project, we believe the company will be less inclined to take up the bulk purchase offer.

Sealed tie-up with DTZ. We have highlighted before that Hunza intends to engage the services of a retail consultant owing to its lack of experience in managing a shopping mall. It is therefore not a surprise that the group recently signed a contract with renowned international property advisory group, DTZ, which will apply its expertise in positioning Hunza's upcoming mall and selecting tenants.

Background on DTZ. DTZ is a global real estate adviser which works with clients to create leading-edge property, investment and business solutions worldwide. On the local front, DTZ's track record includes retail development and/or marketing of Suria KLCC, Sunway Pyramid 2 as well as Danga Bay mall, among others. Retail development usually addresses matters such as tenant mix, merchandising mix, positioning and design, among others. Suria KLCC has even been awarded the prestigious FIABCI Award of Distinction in Retail Development.

A positive development. The entry of DTZ should minimise execution risks by ensuring professional management of the crucial success factors for any shopping mall, i.e. positioning and retail selection. This is a positive and important development as the group's longer-term earnings outlook largely hinges on the success of this project.

Possibly even an equity partner? Hunza does not rule out the possibility of equity participation by a reputable partner to enhance the mall's profile. On this front, we believe the group is still in discussions with several potential partners.

Penang's tourist haven. Gurney Drive has always been renowned as Penang's tourist hit spot. We believe Hunza's upcoming mall along this belt will increase the tourist appeal of Gurney Drive. The newly-opened 304-room G Hotel recently graced the Gurney Drive boulevard. In some ways, Gurney Drive is a smaller version of the Golden Triangle in Kuala Lumpur where hotels, retail malls and dining attractions are within close proximity, which is a plus point for tourists.

Infiniti

Beach-fronting condos. Piling works for this RM225m GDV project also kicked off during May. To recap, Infiniti will offer 119 units of super condos, sized between 3,000 sq ft and 4,000 sq ft, along Tanjung Bungah beachfront. Pricing ranges between RM390 psf and RM420 psf, which is comparable with the RM400 psf average within the vicinity.

Encouraging preliminary response. SPA signed and registered interests now stand at 10 units (RM18m sales) and 7 units, respectively. Similar to Gurney Paragon, Hunza has yet to start its marketing campaign for this project. We expect interest, especially from foreigners, to improve with more aggressive marketing efforts.

Beach-front or bustling hub? Gurney Paragon offers buyers an opportunity to be where the action is while Infiniti gives buyers the chance to own a beach-fronting home that is tucked away in the residential enclave of Tanjung Bungah. We view the complementary nature of the two projects as a positive as it allows Hunza to reach out to a wider customer base.

Alila

Steady sales. During the two months ended May 07, Alila booked RM8.1m additional sales, taking its total sales to date to RM146m or a take-up rate of 71%. Although the take-up rate appears to be only satisfactory since the project was officially launched in Sep 05, we understand that the bulk of unsold units are bumi lots.

Applying for bumi release. The group has indicated that they are applying for release of all the unsold bumi units. They have fulfilled the mandatory advertising requirement and are now preparing the necessary documentation. They expect to submit the request by the end of this month. The release should take place three months later, i.e. in Sep 07.

Construction progressing well. Alila's construction works are progressing well and have now reached 63% completion for the condos and 48% completion for the landed properties. Hunza remains confident of completing the project by year-end.

Mutiara Seputeh

More sales despite higher prices. Despite a RM100,000 price increase effective mid Apr-07, Mutiara Seputeh booked RM10.7m sales over the past two months. Overall take-up rate now stands at 46%, up from 39% as at end Mar-07. Although this figure appears to be merely satisfactory, we are not overly concerned as the group has yet to launch its 13 units of bungalows, priced from RM3m onwards. In terms of units, take-up rate has increased from 51% to 59%.

Bungalows still waiting for approvals. To date, five of the 13 units offered have been booked by prospective buyers. Although this works out to a take-up rate of only 38%, we expect interest to pick up once the bungalows are launched sometime during this month. To recap, the bungalows were slated for launch in Apr 07 but have been delayed to this month as the launch is still awaiting approval from the authorities.

Good construction progress. Construction-wise, the semi-Ds have achieved 70% completion to date and appear to be ahead of the scheduled completion date. We understand that the group has started the construction of the bungalows and should complete them within the next 12 months.

Outlook

Pick-up in property sales. Over the past two months, Hunza managed to rake in RM25.2m worth of property sales, close to the RM27.7m sales notched during 3QFY6/07 (Figure 1). The pick-up in sales is positive and adds weight to our view that the decline in 3QFY6/07 sales was just a quarterly blip. Mutiara Seputeh delivered 42% of the sales racked up during the two-month period. We expect property sales to head higher in June with the inclusion of sales from its new Gurney Paragon and Infiniti projects.

Figure 1: Property sales (Apr- May 07)

	RM m
Bandar Putra Bertam	4.9
Sungai Petani	1.6
Alila	8.1
Mutiara Seputeh	10.7
Total	**25.2**

Source: Company

Unbilled sales at RM140m. As at end-May 07, the group's unbilled sales stood at RM140m, up from end-Mar 07's RM113m. Consistent with previous months, the bulk of this amount came from its high-end projects, notably Alila and Mutiara Seputeh. As construction of these two projects is progressing well, the group should be booking more significant earnings from here on.

Interim DPS to stay. In conjunction with the announcement of its 3QFY6/07 results, Hunza dished up a pleasant surprise in the form of a 5 sen maiden interim gross DPS. We gather that the practice of declaring interim dividends will be maintained though the quantum could fluctuate, depending on profits as well as the need to maintain a decent dividend yield. Together with an expected final gross DPS of 7.5 sen, the stock offers a dividend yield of 4.2%, above the 3.5% sector average.

Interestingly, the 67% improvement in gross DPS appears to be in tandem with our expected 70% net profit growth rate for FY07.

Valuation and recommendation

Revising earnings forecasts. Although 9MFY6/07 net profit made up 74% of our full-year estimate, we understand that 4Q numbers could be much stronger than expected and full-year net profit could surpass our RM31.7m projection. This is possible given i) the quick pace of construction works over the past two months and ii) steady property sales. In view of this, we are upping our FY07 earnings forecast by 6% to reflect our revised percentage of completion assumption. Our FY08-09 numbers are also adjusted upwards by 1-3% to reflect our adjusted construction schedule assumption.

Standing out among its peers. Although Hunza is forecast to deliver the highest EPS growth (revised 45% 3-year CAGR) and one of the highest CY08 ROEs (20%) in the sector, the stock is trading at an undemanding 8.3x CY08 EPS, a huge discount to the 16x sector P/E (ex-MK Land) (Figure 2). Dividend yields are also respectable at 4.2%.

Maintain OUTPERFORM with a higher target price. Hunza remains our preferred choice for investors seeking a deep value developer with exposure to Penang. We maintain our OUTPERFORM recommendation with a higher end-CY07 target price of RM4.50 (RM4.00 previously), based on an unchanged 40% discount to our revised 20x sector P/E target (previously 18x). Re-rating catalysts include i) higher-than-expected sales and margins and iii) entry of reputable partners for its Gurney Drive project. Investors with a higher appetite for risks could consider its 2004/2009 warrants (RM1.61, HPBW MK, exercise price RM1.50, expiry 10 March 2009) which are currently in the money.

Figure 2: Sector comparisons

	Bloomberg ticker	Recom.	Price (RM)	Mkt cap (RM m)	Core P/E (x) CY07	Core P/E (x) CY08	3-yr EPS CAGR (%)	P/NTA (x) CY07	ROE (%) CY07	ROE (%) CY08	Div yield (%) CY07
Hunza Prop	HPB MK	O	3.12	422.14	11.8	8.3	44.8	1.6	15.7	19.0	4.2
IOI Prop	IOIP MK	TB	12.90	4,291.42	14.1	12.4	12.5	2.0	14.9	15.6	4.8
I&P	IAP MK	N	2.33	1,940.19	27.2	27.4	18.5	0.8	4.0	3.9	3.4
KLCC Prop	KLCC MK	O	3.86	3,605.63	22.9	20.9	1.1	1.0	6.7	6.8	2.8
Mah Sing	MSGB MK	O	5.15	1,319.95	16.6	13.2	5.5	2.1	12.9	14.7	4.7
MK Land	MKL MK	TB	1.07	1,291.49	69.6	51.4	(33.4)	1.2	0.9	1.6	0.9
SP Setia	SPSB MK	O	8.80	5,755.20	21.4	18.5	14.2	3.2	15.3	16.4	3.8
UM Land	UML MK	O	2.94	683.11	13.3	10.6	30.1	1.3	6.6	7.8	4.1
Simple average					**24.6**	**20.3**	**11.7**	**1.7**	**9.6**	**10.7**	**3.5**
Simple average (ex-MK Land)					**18.2**	**15.9**					

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

Figure 3: Hunza's RNAV computation

Project	Size (acres)	Market value (RM psf)	Stake	Value (RM m)
Bandar Putra Bertam, Seberang Perai	484.0	7.50	70%	110.7
Sungai Petani, Kedah	393.0	3.00	100%	51.4
Alila, Penang	9.0	45.00	100%	17.6
Mutiara Seputeh	12.0	90.00	100%	47.0
Gurney Drive	10.0	250.00	100%	108.9
Fixed assets				145.0
Associated company				0.0
Net current asset less dev. prop.				73.2
Total long term borrowings				(119.8)
Proceeds from warrants conversion				62.7
Total RNAV				**496.7**
Fully diluted no. of shares (m)				157.6
RNAV per share (RM)				**3.15**

Source: Company, CIMB/CIMB-GK Research

Financial tables

PROFIT & LOSS (RM m, FYE Jun)	2005	2006	2007F	2008F	2009F
Revenue	112.3	116.6	167.4	240.4	337.8
Operating expenses	(80.0)	(81.6)	(115.2)	(168.3)	(236.1)
EBITDA	32.3	35.0	52.3	72.2	101.7
Depreciation & amortisation	(0.8)	(0.9)	(0.7)	(0.7)	(0.8)
EBIT	31.5	34.1	51.5	71.5	100.9
Net interest & invt income	0.3	0.7	0.2	0.3	(0.2)
Associates' contribution	-	-	-	-	-
Exceptional items	-	-	-	-	-
Pretax profit	**31.8**	**34.8**	**51.8**	**71.8**	**100.7**
Tax	(9.2)	(9.9)	(14.0)	(18.7)	(26.2)
Minority interests	(6.3)	(5.2)	(4.1)	(4.9)	(6.3)
Net profit	**16.3**	**19.8**	**33.7**	**48.3**	**68.2**
Wt. shares (m)	115.8	115.8	120.5	135.3	135.3
Shares at year-end (m)	115.8	115.8	135.3	135.3	135.3

BALANCE SHEET (RM m, 30 Jun)	2005	2006	2007F	2008F	2009F
Fixed assets	28.4	27.8	8.1	10.4	12.6
Intangible assets	-	-	-	-	-
Other long-term assets	156.4	117.2	198.6	214.2	229.6
Total non-current assets	**184.8**	**145.0**	**206.7**	**224.6**	**242.2**
Cash and equivalents	6.7	4.9	12.4	8.3	12.3
Stocks	13.5	21.4	24.6	35.3	49.6
Trade debtors	31.1	56.9	65.4	93.9	131.9
Other current assets	145.0	187.3	205.0	248.8	304.6
Total current assets	**196.4**	**270.5**	**307.4**	**386.3**	**498.5**
Trade creditors	25.6	22.2	25.5	36.6	51.4
Short-term borrowings	36.7	39.8	61.6	82.0	109.3
Other current liabilities	21.6	19.8	14.5	20.2	27.8
Total current liabilities	**84.0**	**81.8**	**101.6**	**138.7**	**188.5**
Long-term borrowings	97.0	119.0	143.0	163.0	183.0
Other long-term liabilities	1.8	1.7	1.7	1.7	1.8
Total long-term liabilities	**98.8**	**120.7**	**144.7**	**164.7**	**184.8**
Shareholders' funds	**179.9**	**191.9**	**242.5**	**277.2**	**330.9**
Minority interests	18.6	21.2	25.3	30.2	36.5
NTA/share (RM)	1.55	1.66	1.79	2.05	2.45

CASH FLOW (RM m, FYE Jun)	2005	2006	2007F	2008F	2009F
Pretax profit	31.8	34.8	51.8	71.8	100.7
Depreciation & non-cash adjustments	0.8	0.9	0.7	0.7	0.8
Working capital changes	22.7	(37.1)	(8.3)	(28.1)	(37.5)
Cash tax paid	(9.8)	(11.2)	(14.0)	(18.7)	(26.2)
Others	(99.2)	9.9	(10.9)	(41.8)	(53.8)
Cash flow from operations	**(53.7)**	**(2.8)**	**19.3**	**(16.1)**	**(15.9)**
Capex	(5.0)	(3.7)	(5.0)	(5.0)	(5.0)
Net investments & sale of FA	(5.5)	0.1	(37.7)	(15.5)	(15.5)
Others	1.0	0.5	-	-	-
Cash flow from investing	**(9.5)**	**(3.1)**	**(42.7)**	**(20.5)**	**(20.5)**
Debt raised/(repaid)	7.1	24.2	40.7	46.0	55.0
Equity raised/(repaid)	14.3	(1.4)	-	-	-
Dividends paid	(5.7)	(6.1)	(12.3)	(13.5)	(14.5)
Cash interest & others	(6.9)	(13.6)	(3.0)	6.0	8.0
Cash flow from financing	**8.8**	**3.0**	**25.3**	**38.5**	**48.5**
Change in cash	**(54.4)**	**(2.8)**	**1.9**	**1.9**	**12.1**
Change in net cash/(debt)	**(61.5)**	**(27.0)**	**(38.8)**	**(44.1)**	**(42.9)**
Ending net cash/(debt)	**(126.9)**	**(153.9)**	**(192.7)**	**(236.8)**	**(279.7)**

KEY RATIOS (FYE Jun)	2005	2006	2007F	2008F	2009F
Revenue growth (%)	(4.3)	3.8	43.6	43.6	40.5
EBITDA growth (%)	19.1	8.4	49.2	38.1	41.0
Pretax margins (%)	28.3	29.9	30.9	29.9	29.8
Net profit margins (%)	14.5	17.0	20.1	20.1	20.2
Interest cover (x)	33.1	2,950.1	442.2	207.4	114.6
Effective tax rates (%)	28.9	28.3	27.0	26.0	26.0
Net dividend payout (%)	38.3	31.6	32.2	27.2	20.7
Debtors turnover (days)	115.0	137.8	133.3	120.9	121.9
Stock turnover (days)	55.0	54.7	50.2	45.5	45.9
Creditors turnover (days)	71.4	74.8	52.0	47.1	47.5

Source: CIMB/CIMB-GK Research

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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.

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