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Company Update February 26, 2008

Hunza Properties Berhad

Current Price : RM 2.46
Target Price : RM 4.94

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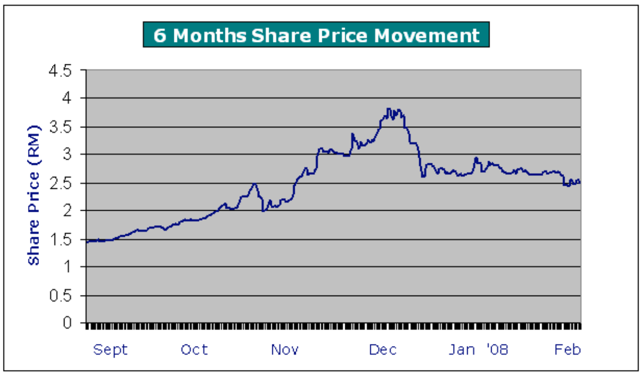
Market Data	
Recommendation:	OUTPERFORM
Bloomberg code:	HPB MK
Sector:	Property
Average Volume ('000):	656.798
Mkt. Cap (RM' million):	362.32
Issued Capital (million):	147.283
52 week high/low (RM):	3.88 / 1.92
Estimated Free Float:	39%
Major Shareholders (%)	
Dato' Khor Teng Tong	53.76%
Yayasan Bumiputra Pulau Pinang Bhd	8.05%
Khor Siang Gin	5.37%

As at 17th October 2007

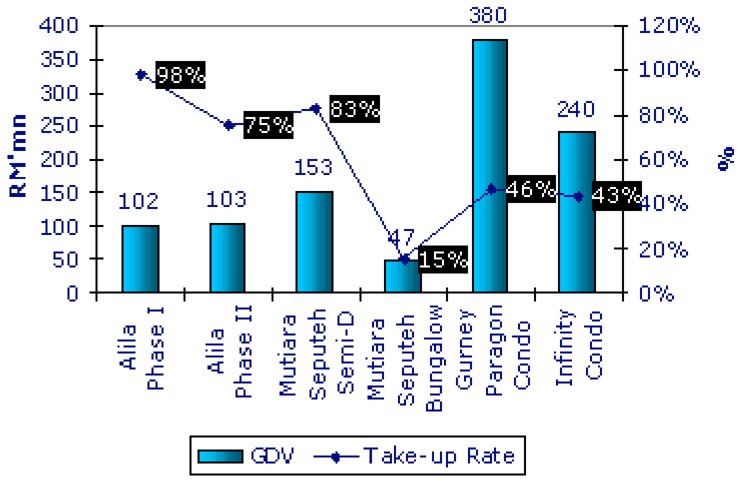


Highlights

- **Four on-going high-end projects are on scheduled.** Hunza's four on-going high end projects with total GDV worth of RM1.0billion i.e. Mutiara Seputeh, Alila, Infinity and Gurney Paragon are all progressing as per scheduled. With Alila's development recently completed and Mutiara Seputeh that will follow suit within this year, Hunza has started to enjoy the fruits from its RM405million projects. As at 31st January 2007, the Group has recognized approximately RM277million of their revenue only from these two projects and sitting on unbilled sales of RM28million and unsold stock worth RM100 million. We remain positive with the Group's ability to materialize the balance of RM100million sales over the next two years from the increased value of the property once completed – tend to enjoy a premium of nearly 20% in value upon completion. As for the Infinity and Gurney Paragon condominium projects with total GDV of RM620million, they are undergoing piling stage and are on scheduled to complete in 2010. We believe this will become another main income driver for Hunza over the next 3 years.

- **Encouraging take up rate from all projects.** Should we exclude the slower take-up from Mutiara Seputeh's 13 units of bungalow projects, all of their four plush developments (Alila Phase I&II, Mutiara Seputeh Semi-D, Gurney Paragon Condominium and Infinity) received encouraging feedback from the market with an average take-up rate of more than 65%. Mutiara Seputeh bungalow project is noted to experience slower response. However, we are optimistic that take up rate will improve when the progress of the project comes close to completion as it will improve customers' confidence.

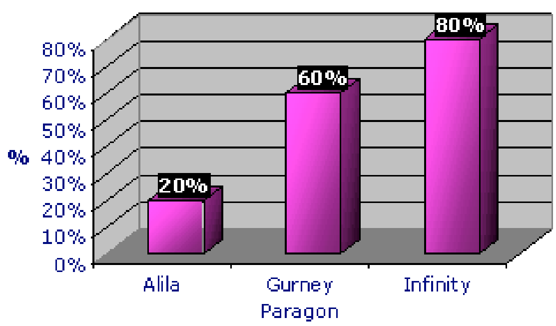
Chart 1: GDV and Take Up Rate as at 31st January 2008



Source: Company

- **Successful strategy of diversified geographical development location.** We believe Hunza is currently reaping the benefits from diversified location of their projects. We attribute this to their ability to provide ambiance to their property, enabling them to cater for different customers' portfolio and preferences especially their foreign target market. Alila and Infinity fetches interest from Western foreigners for its laid back location, while Gurney Paragon Condominium fetches more interest from Eastern foreigners who are more interested in upbeat city life atmosphere. This strategy has enabled them to reach for wider market coverage and directly enhance its take up rate.

Chart 2: Foreign Take Up Rate



Source: Company

- **Bertam to cater for mid-end market.** Adopting diversified strategy to leverage on their risk exposure, Hunza launched 52 units of double storey Semi-D development in Zone L1, Bandar Putra Bertam to cater for local mid-end market. The 700 acres proposed township development of Bandar Putra Bertam based on a 70:30 JV with Yayasan Bumiputra Pulau Pinang is strategically located within administrative, education and automotive hub in Seberang Prai Utara. The project's total GDV amounts to RM1.4 billion is divided into 2 parcels i.e. Zone L1 and L2 and they are developed in phases. At the moment, they have completed RM417million GDV development or 200 acres of land in Zone L1 (including the 52 units of Semi-D) that was launched in phases since 2002 with fortuitous take up rate averaging 74% as of 31st January 2008. The balance 500 acres of land in Zone L1 and L2 sits on a GDV worth RM1.0 billion shall provide the Group with continuous stream of income for the next 10 years. The Group expects to develop 150 acres piece of land in Zone L2 with GDV RM320million in 2009, which will generate income to the Group until 2011.

- **Flagship Gurney Paragon Mall to be kept as cash cow.** Their flagship remains the Gurney Paragon project, that comprises of two 42-storey towers that will be the tallest building in Northern region will include a shopping mall with near 1 million sf of net lettable retail space that surrounds a heritage structure and a festival square. It is one of the 4 upscale shopping malls in Penang located next to the prestigious Gurney Plaza shopping center. We view the development positively as it will act as a complement for the shoppers. Being their maiden shopping mall project, they engaged Philippine based Cardiz International, a highly experienced mall architecture and Britain based DTZ for the mall's layout, shopping trends, tenancy and brand mix to ensure success. Not surprisingly, the project has received recognition from Penang State Government to be a part of tourism attraction for its contemporary design. Enthrallingly, the Group is not looking for en bloc sales of its mall but has decided to keep its Gurney Paragon Mall project and currently in search of highly experienced JV partner in mall management. Should this strategy be materialized successfully, we positively view this project as their cash cow, which is to bring steady stream of income to the Group from the rental yield of average 10% p.a. upon its completion in 2010.

SHOPPING MALL	LOCATION	CATEGORY	AVERAGE PRICE (psf)	AVERAGE RENTAL (psf)	AVERAGE RENTAL YIELD p.a.
Gurney Paragon	Gurney Drive	Upmarket	RM1,000	RM8*	10%
Gurney Plaza	Gurney Drive	Upmarket	RM1,000	RM11	13%
Queensbay Mall	Bayan Lepas	Upmarket	RM1,000	RM11	13%
Island Plaza	Tanjung Tokong	Upmarket	n.a.	RM6	n.a.
Prangin Mall	Georgetown	Mid-range	RM830	RM12	17%
1-Stop Centre	Pulau Tikus	Mid-range	RM430	RM4	11%
Bukit Jambul	Bayan Lepas	Mid-range	RM640	RM6	11%

**Conservative rental estimation based on the average rental yield among its peers.*

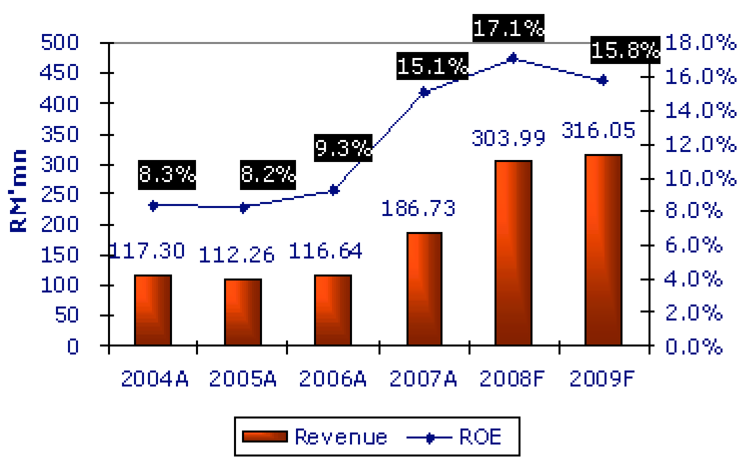
Source: Inter-Pacific Research Sdn Bhd

- **Alila II is born from the success of Alila.** Going forward over the next 5 years, Alila II will be the Group's near future development and to be launched in 2010. The 10 acres land plot next to its successful Alila project in Tanjung Bungah, Penang will be developed into luxurious mix-properties project, which is to include another iconic condominium. The expected GDV for this project is between RM230million to RM280million. Having secured more than 45% of its previous posh development to foreigners, Hunza is targeting to attract European, Hong Kong, South Korean and also buyers from our neighbouring countries like Indonesia and Singapore, especially MM2H participants. Malaysia's high end residential property value is still far more attractive relative to those in the region and high spending power coupled with relaxed government policy are two main catalysts in drawing foreign interest into our property market.

- **Scouring for more land in prime location.** We can expect to see more development by Hunza in Klang Valley since the company wishes to maintain their presence in the locality. As such, they are currently scouring for more prime land in Klang Valley besides Penang for more future development. The Group is eyeing for opportunity in Ampang, Mont Kiara and Sri Hartamas vicinity since this area offers strong demand for high end lifestyle products that results in better margin.

- **Mixed factors affecting FY6/2009 financial performance.** Taking into consideration of its Bandar Putra Bertam development of RM320million to be launched in 2009, we have revised upwards our FY6/2009 earnings projection by 13% to RM316.05million. However, we expect that the hike in construction material cost would crease the company's bottomline by about 0.3% y-o-y FY6/2009.

Chart 3: Revenue and ROE



Source: Company, Inter-Pacific Research Sdn Bhd

Recommendation & Valuation

- **OUTPERFORM.** Their prospect remains favourable considering the envisioned continuity from existing township projects namely Zone L2, Bandar Putra Bertam, Gurney Paragon, Infinity and Alila II with expected GDV up to RM1.2billion to maintain its growth for the next 5 years. We continue to reiterate our OUTPERFORM recommendation with our fair value remaining at RM4.94, based on EPS of 38.0 sen and an estimated industry PER of 13x.

Financial Highlights

Table 1: Financial Highlights

FY June	2004A	2005A	2006A	2007A	2008F	2009F
Revenue (RM'mil)	117.30	112.26	116.64	186.73	303.99	316.05
EBITDA (RM'mil)	28.81	33.91	36.01	58.77	78.01	78.38
Pretax profit (RM'mil)	28.51	33.45	34.85	58.02	77.14	77.28
Net profit (RM'mil)	13.81	16.36	19.78	42.27	56.09	55.92
EPS (RM)	0.09	0.11	0.13	0.29	0.38	0.38
PER (x)	26.78	22.59	18.32	8.57	6.46	6.48
Dividend (sen)	7.5	7.5	7.5	7.5	7.5	7.5
Price/NTA per share	2.31	1.86	1.70	1.29	1.34	1.02
EV/EBITDA	17.63	15.48	14.63	9.29	6.88	7.20
ROE (%)	8.3	8.2	9.3	15.1	17.1	15.8
ROA(%)	4.4	4.3	4.8	8.0	10.7	8.5
Pretax profit Margin (%)	23.0	28.3	29.8	30.8	25.6	24.6
Net Profit Margin (%)	11.8	14.6	17.0	22.6	18.5	17.7
EBITDA margin (%)	22.6	28.8	30.4	31.2	25.7	24.8
EBIT margin (%)	22.3	28.4	29.4	30.8	25.4	24.5
Debt ratio	0.47	0.48	0.49	0.47	0.49	0.46
Debt-to-Equity ratio	0.88	0.92	0.95	0.88	0.78	0.86
Net Gearing ratio	0.65	0.68	0.75	0.70	0.56	0.60
Interest Coverage Ratio	27.79	27.85	1,492.70	569.03	771.36	162.01