

Company Updates

May 29, 2008

Hunza Properties Berhad

Current Price : RM 1.82

Target Price : RM 1.92

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Market Data

Recommendation:	NEUTRAL
Bloomberg code:	HPB MK
Sector:	Property
Average Volume 3M ('000):	34.758
Mkt. Cap (RM' million):	271.08
Issued Capital (million):	147.327
52 week high/low (RM):	3.88 / 1.75
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

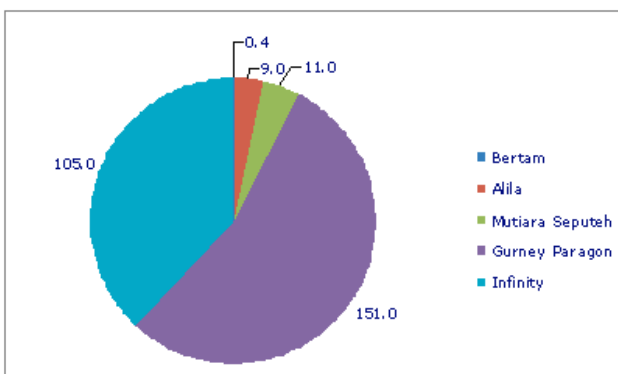
- ◆ **Slightly below expectation for 3QFY6/2008 results.** Hunza registered accumulated revenue growth of 59.5% y-o-y for its 3QFY6/2008. However, the total revenue of RM191.86 million missed our accrued annual projection by 15.9%. We noted that the current quarter revenue dropped by 22.8% against previous quarter. Strong revenue in the preceding quarter was mainly from Alila Horizon and Bandar Putra Bertam Phase 2C as the construction work for these 2 developments has been completed during the quarter. Weaker revenue for this quarter is due to softening demand for property market across the board and stiffer competition. Alila's average take up rate of 66% is lower than our accrued quarterly expectation of 74%. Hence, considering the current macroeconomic factor, we have brought down our annual revenue forecast by about 16% to RM254.61 million from RM303.99 million.

Figure 1: 3QFY6/2008 Results

Co. Name:	Hunza Properties Bhd					RM1.84
Quarter:	3QFY6/2008					
	Current Yr Quarter	Previous Yr Quarter	% change	Current Yr To Date	Previous Yr Period	% change
Revenue ('000)	54,066	44,667	21.0	191,860	120,301	59.5
Pretax Profit ('000)	14,351	11,456	25.3	53,474	35,625	50.1
Net Profit ('000)	9,704	8,436	15.0	38,891	25,610	51.9
EPS (sen)	5.91	6.21	5.1	26.78	19.34	38.5
NA per share (RM)				2.07	1.89	

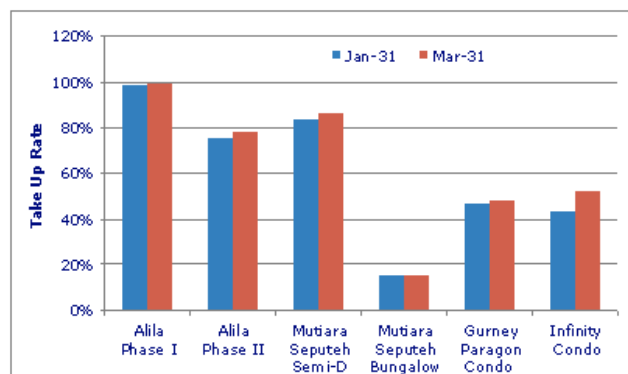
- ◆ **Contribution from 2 high end developments.** The two new flagship projects i.e. Gurney Paragon and Infinity have started recognising profit in 2QFY6/2006. These 2 projects have contributed further to the current quarter’s earnings. However, the RM10 million revenue generated from Infinity in 3QFY6/2008 is only reflected in the Group’s profit and is not consolidated into the Group’s revenue due to their accounting treatment on JV.
- ◆ **Gurney Paragon controversy resolved.** The controversy has been pretty much resolved as Penang Chief Minister clarified on 20 May 2008 that the project’s approval was granted during the previous administration. The shopping mall lay-out plan was approved on 18 December 2006 and the only pending approval is the building plan, which is a mere formality.
- ◆ **Unbilled sales.** Current unbilled sales stand at RM276.4 million with about 55% derived from Gurney Paragon. Hence, we anticipate further contribution from Gurney Paragon and 3 other high end projects (Infinity, Alila and Mutiara Seputeh) to sustain the Group’s earnings for the next the next 2 to 3 years.

Figure 2: Unbilled Sales as at 31 March 2008 (RM'mil)



Source: Company; IPR

Figure 3: Take Up Rate as at Jan & March 2008



Source: Company; IPR

◆ **Margins eroded.** Margins for 3QFY6/2008 have been slightly lower compared to preceding year and quarter. Gross margin was down by 6.5% y-o-y from 36.4%, while PBT and PAT margins shrank by 5.6% and 5.9% to 26.5% and 18.0% q-o-q respectively. The eroding margins are contributed by a few internal and external factors i.e. lower yield product mixed, increase in provision for diminution in value of investment and also the soaring cost of building materials. High gross margin in preceding financial year is mainly contributed by their high yield development i.e. Bandar Putra Bertam's shop offices. The Group has instead lower yield product mixed as they have sold some of their trading products to the contractors at lower margin to enjoy lower cost of the building materials. Meanwhile, the Group's provision for diminution in value of its Collateral Loan Obligation (CLO) Subordinated Bond investment was increased up to RM1.4 million this quarter from a mere RM444,000 in 2QFY6/2008. This provision has lowered the Group's net profit and net margin of RM9.7 million or 18.0% for 3QFY2008 against 2QFY6/2008 of RM16.7 million or 23.9%. Going forward this CY, we expect margins to erode further as a result to soaring commodity prices.

◆ **Updates on position taken as claimant on 2 legal action courses:**

a) **Against The Kwangtung and Tengchow Association Penang (Kwangtung):** Hunza had on 25 July 2003 filed a Civil Suit against Kwangtung claiming a total of RM36.6 million on the wrongful termination and repudiation of JV Agreements by Kwangtung which had the effect of preventing the Company from undertaking the development of a Commercial Block as stipulated in the JV Agreements. The matter is now pending case management which is fixed on 8 July 2008 and thereafter setting down for trial. Company's solicitors opined that Hunza has a proper and valid cause of action against Kwangtung with reasonable chances of succeeding in its claims against Kwangtung.

b) **Arbitration claim against Wee Lian Construction Sdn Bhd (WLC):** HPB had on 19 December 2007 delivered a Statement of Claim against WLC for a claim of RM3.0 million as well as interest and costs to WLC. WLC has entered into a Building Contract as contractor for earthworks and ancillary works for the development Alila project. The contract sum for the earthworks was for the amount of approximately RM12 million. According to HPN's record, WLC had proceeded with work up to the value of approximately RM9.8 million of the contract amounts. On 17 March 2008, HPN's solicitors filed in the Claimant's Points of Reply and Defence To Counterclaim. Both Claimant and Respondent are to deliver to the Arbitrator and to each other a list of documents with a brief description of its contents by 2 June 2008. HPN's solicitors are of the opinion that HPN have a good arguable case against WLC

We believe that litigation action taken onto these two entities will not have a significant material change to their financial condition. The effect from losing the cases is most likely on legal fees since due to their position as claimant.

Recommendation & Valuation

- ◆ **NEUTRAL.** After further revision and consideration of the current economic outlook, we recommend Neutral for FY6/2008 with revised fair value of RM1.92 based on EPS of 32.0 sen and an estimated industry's PER of 6x.

Financial Highlights

Figure 4: Financial Highlights

FY June	2004A	2005A	2006A	2007A	2008F	2009F
Revenue (RM'mil)	117.30	112.26	116.64	186.73	254.61	280.72
EBITDA (RM'mil)	28.81	33.91	36.01	58.77	66.21	77.63
Pretax profit (RM'mil)	28.51	33.45	34.85	58.02	65.34	76.54
Net profit (RM'mil)	13.81	16.36	19.78	42.27	47.60	54.36
EPS (RM)	0.09	0.11	0.13	0.29	0.32	0.37
PER (x)	26.78	22.59	18.69	8.75	7.61	6.80
Dividend (sen)	7.5	7.5	7.5	7.5	7.5	7.5
Price/NTA per share	2.31	1.86	1.74	1.32	1.34	1.04
ROE (%)	8.3	8.2	9.3	15.1	14.5	15.4
ROA(%)	4.4	4.3	4.8	8.0	9.1	8.3
EV/EBITDA	17.63	15.48	14.83	9.42	8.11	7.50
Pretax profit Margin (%)	23.0	28.3	29.8	30.8	26.0	26.9
Net Profit Margin (%)	11.8	14.6	17.0	22.6	18.7	19.4
EBITDA margin (%)	22.6	28.8	30.4	31.2	26.0	27.1
EBIT margin (%)	22.3	28.4	29.4	30.8	25.7	26.8
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	0.53	0.60
Interest Coverage Ratio	27.79	27.85	1,492.70	569.03	653.43	157.45

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