

8 February 2010

Trading BUY RM1.23

Target Price: RM1.96

Stock data

Market cap (RMm):	240.9			
Issued shares (m):	195.9			
52-week range:	RM0.85-RM1.68			
3-mth avg daily volume:	305,999 shrs			
Bloomberg code:	HPB MK			
YTD price chg:	-11.2%			
YTD KLCI chg:	-1.9%			
Est. freefloat:	35.1%			
Major shareholders:				
<i>Daib' Dr Khor Teng</i>	50.5%			
<i>Tong:</i>				
<i>Yayasan Bumiputera</i>	7.2%			
<i>Pulau Pinang Bhd:</i>				
<i>Lembaga Tabung Haji:</i>	7.2%			
KLCI	FBM70	FBM100	Syariah	Hijrah
No	No	No	Yes	No

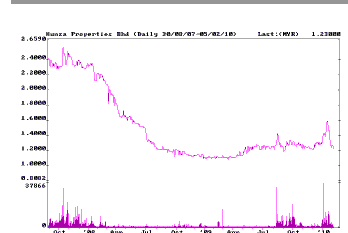
Consensus

FYE 30 Jun	2010E	2011E
Net profit (RMm):	46.4	49.7
EPS (sen):	24.8	26.5

Forecast revision

FYE 30 Jun	2010E	2011E
Prev. net profit (RMm):	51.3	42.5
Revision (%):	-	+11%
Revised net profit (RMm):	51.3	47.0

Share price chart



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Hunza Properties

Financing Gurney Paragon Mall

We attended Hunza Properties (Hunza) 1H10 briefing and took away the following;

- Financing Gurney Paragon Mall (GPM) is looking more positive** with improved take-up rates from on-going projects. Recent rights issuance, raising c.RM47m, will kick-start funding for GPM and instil buyers' confidence for Gurney Paragon Condo (GPC). Our sensitivity analysis reveals sufficient GPM financing at conservative 70% take-up for GPC and assuming c.50% external financing for GPM (see Scenario table). Hunza appears confident in securing c.50% external financing for GPM as it should not exceed group's 0.5x internal gross gearing limit whilst it has a good repayment track record with its financiers. **GPM works should commence next month.**
- RM280m GDV Alila 2 to be officially launched in 3QCY11**, with preview bookings as early as 2HCY10. Alila 2 is a high end condominium project with a 'green' concept. Expects rich margins, like Infiniti's GDP margins of 45% -47%, due to low land cost (<5% of GDV). Pricing is likely between Alila and Infiniti.
- Segambut project facing density issues.** According to Hunza, the land office is reducing unit density from c.70 units per acre to 20-30 units per acre. Hunza and several other developers in the area are appealing for higher density and this would result in delay in launching. Initial GDV guidance was RM300m.
- FY10E net profit unchanged at RM51.3m (+86% YoY) but raise FY11-12E net profit by 11%-17% to RM47.0m (-8% YoY) – RM29.4m (-38% YoY).** This is mainly due to our quicker take-up rate assumptions for Alila, MS, GPC and Infiniti, as well as introducing Bandar Putra Bertam's new RM30m GDV residential launch. This more than compensates loss in FY12 earnings from Segambut project as we remove it from our estimates. Alila 2 has already been accounted for with earnings commencement in FY12 (see below for further details).
- Maintain Trading BUY with RM1.96 fair value**, based on our FD SOP RNAV. Although GPM's financing plans look more positive, we believe cash release timings are still risky. We are also weary of declining net profit trends. Nonetheless, Hunza provides excellent trading opportunities given current trough valuations; 1) FY10-11E PER of 4.6-5.0x vs. historical 6.6x and peer's 9.2x 2) 0.6-0.5x FY10-11E PBV vs. historical 0.7x and peer's 0.9x. Additionally, Hunza will maintain similar dividend yield to FY09 of 4.4% which is slightly richer than sector's average of 2%-3%; we are estimating FY11E DPS of 5.6sen (4.6% yield).

Earnings Summary

FYE: 30 Jun (RMm)	2008A	2009A	2010E	2011E	2012E
Revenue	245	92	278	256	117
Pretax profit	68	39	71	64	43
Net profit	48	28	51	47	29
Net profit growth (%)	23%	-43%	86%	-8%	-38%
Recur. Net Profit	47	28	51	47	29
EPS (sen)	25.4	14.5	26.9	24.6	15.4
EPS growth (%)	23%	-43%	86%	-8%	-38%
FD EPS (ex. rights +warrants + treasury + Esos)	20.5	11.9	21.7	19.9	12.6
NTA/ share (RM)	1.60	1.71	2.18	2.35	2.45
PER (x)	4.8	8.5	4.6	5.0	8.0
FD PER (ex. rights +warrants + treasury + Esos)	6.0	10.4	5.7	6.2	9.8
P/NTA (x)	0.8	0.7	0.6	0.5	0.5
EV/EBITDA (x)	4.6	7.7	4.4	4.8	7.0
ROE %	17.2%	8.7%	13.8%	10.9%	6.4%
Dividend Yield (%)	7.5%	4.1%	4.6%	4.6%	4.6%

Key Points

We attended Hunza Properties (Hunza) 1H10 briefing and took away the following points;

“Chicken-and-egg” dilemma. Slow take-ups for Gurney Paragon Condo (GPC) can be attributed to speed of Gurney Paragon Mall (GPM) realization. Meanwhile, a large part of GPM’s financing hinges on full take-up rates for GPC and Infiniti, as well as, remaining unsold units from Alila and Mutiara Seputeh (MS); all which suffered slow-down in sales from recent economic crisis.

The recent rights issuance, raising c.RM47m, should help kick-start financing for GPM and instill buyers’ confidence for GPC. Dato’ Khor’s warrant conversions will also help raise funds (*refer to 22/10/09 report for further details*). It helps buy time for more sales to come in from GPC, Infiniti and others. **Securing financing for GPM will enable the project to kick off with expected completion in 2012.** More so when Hunza has expressed it is likely to keep GPM as 100% owned investment property, eliminating chances of JVs or new equity financing. **GPM works should commence next month.**

Sensitivity Analysis

Sensitivity Analysis	"Blue-Sky" Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	"Worse Case" Scenario 7
INFLOW							
Uncollected billing, unbilled sales, unsold units of Infinity, Gurney Paragon Condo (GPC), Mutiara Seputeh (MS), Alila, Bandar Putra Bertam (BPB), Alila 2 Rights Issue	625	587	511	625	587	511	473
Current available facilities (bridging loan, o/d, B.A., R.C.)	47	47	47	47	47	47	47
	30	30	30	30	30	30	30
Total Inflow	702	664	588	702	664	588	550
OUTFLOW							
Construction/Incidental Costs of Infiniti, GPC, Alila 2	(197)	(197)	(197)	(197)	(197)	(197)	(197)
CLO repayment	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Dividend payment	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Group net operating expenses	(40)	(40)	(40)	(40)	(40)	(40)	(40)
Group Tax (assumed)	(39)	(37)	(32)	(39)	(37)	(32)	(30)
Total Outflow	(338)	(336)	(331)	(338)	(336)	(331)	(329)
Net Cashflow	364	328	257	364	328	257	221
Balance b/f: Cash and cash equivalents	40	40	40	40	40	40	40
Balance c/f: Cash and cash equivalents	404	368	297	404	368	297	261
Future Commitments - Outflow							
Gurney Paragon Mall (GPM) construction and incidental costs	(303)	(303)	(303)	(303)	(303)	(303)	(303)
Outstanding loan for repayment (Segambut land, Bayan Baru land bridging loan, o/d, B.A., H.P.)	(99)	(99)	(99)	(99)	(99)	(99)	(99)
Future - Inflows							
Warrant conversions (assume 83% of 43.6m warrants converted based on historical trends)	40	40	40	40	40	40	40
70% loan financing for Bayan Baru land	57	57	57	57	57	57	57
46% external financing for GPM	138	138	138	0	0	0	0
Expected Net Cash Flow at CYE12	237	201	130	99	63	(8)	(44)

Source: Kenanga Research, Company

Financing Gurney Paragon Mall (GPM) is looking more positive. Our sensitivity analysis reveals sufficient GPM financing at conservative 70% take-up for GPC at CYE12 and assuming c.50% external financing for GPM (refer to Scenario 3); currently, GPC's take-up rate is 58% at 31/12/09. We have also assumed 1) full take-up rates for Infiniti, Alila and MS as these projects are completed and should be fully sold by CYE12 2) 65% take-up rate for Alila 2 with 40% completion rate at end CYE12 and 35% GDP margin (assumed launch in 1HFY11) (refer to table below for scenario assumptions).

Take-up rate as at 31/12/09

Take-up	31/12/09
Alila 1 - High-rise	99%
Alila 1 - Low-rise	99%
Mutiara Seputeh - Semi-detached	100%
Mutiara Seputeh - Bungalows	25%
Gurney Paragon Condo	58%
Infiniti	75%

Source: Company

Assumptions for Sensitivity Analysis

Assumptions for sensitivity analysis	Infiniti	Gurney Paragon Condo (GPC)	MS	Alila	Alila 2	Gurney Paragon Mall (GPM)
<u>"Blue-Sky" - Scenario 1 - Assumptions</u>						
Take-up rate at end CY12	100%	100%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Yes
<u>Scenario 2 - Assumptions</u>						
Take-up rate at end CY12	100%	90%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Yes
<u>Scenario 3 - Assumptions</u>						
Take-up rate at end CY12	100%	70%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Yes
<u>Scenario 4 - Assumptions</u>						
Take-up rate at end CY12	100%	100%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Nb
<u>Scenario 5 - Assumptions</u>						
Take-up rate at end CY12	100%	90%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Nb
<u>Scenario 6 - Assumptions</u>						
Take-up rate at end CY12	100%	70%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Nb
<u>"Worse case" - Scenario 7 - Assumptions</u>						
Take-up rate at end CY12	100%	60%	100%	100%	65%	
Completion progress at end CY12	100%	100%	100%	100%	40%	
External financing for GPM amounting to nearly c.50% of construction/incidental costs.						Nb
<u>General Assumptions</u>						
PBT margin 25%						
Corp. Tax rate 25%						
Alila 2 is based on 35% GDP margin, 5% land cost, 60% construction cost, launch in 1HFY11.						
Note: Alila, Mutiara Seputeh (MS) and Infiniti are already completed.						

Source: Kenanga Research

Cash flow risks mainly lies with ability to secure external financing if <70% take-up of GPC is only achieved. Hunza appears confident in securing c.50% external financing for GPM as 1) it will not exceed group's 0.5x internal gross gearing limit 2) it has a good repayment track record with its financiers. Other cash flow risks are speed of warrants conversions, sales of remaining unsold units from Infiniti, Alila and MS and sharp increases in building material costs. Achieving 70% take-up rate for GPC is doable as long as GPM commences work.

Alila 2 to be officially launched in 3QCY11, with preview bookings as early as 2HCY10. Hunza is guiding RM280m GDV (initial guidance RM250m) for high end condominium units (likely >250 units) with a 'green' concept. It remains unclear if Hunza is seeking GBI certifications to enjoy 100% tax exemption on amount spent to obtain GBI status. Pricing is likely between Alila and Infiniti. Expects rich margins, like Infiniti's GDP margins of 45%-47%, due to low land cost (<5% of GDV). Note Alila 2 is a 90% profit share at a project management level, like Infiniti.

Segambut project facing density issues. According to Hunza, the land office is reducing unit density from c.70 units per acre to 20-30 units per acre. Note prime areas, like KLCC and Mont Kiara, tend to be stricter and employ additional constraints where developments must meet plot ratio and units per acre requirements. Hunza and several other developers in the area are appealing for higher density and this could be a long-drawn process. Initial GDV guidance was RM300m.

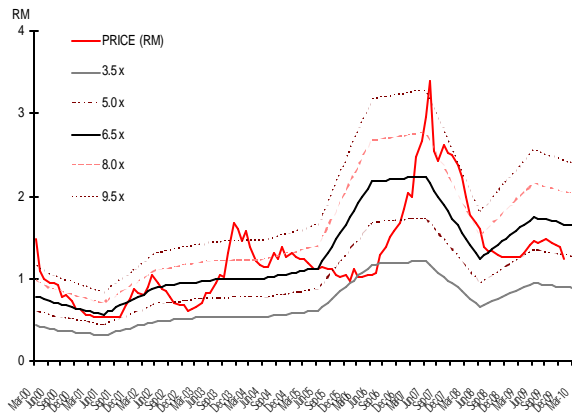
FY10E net profit unchanged at RM51.3m (+86% YoY) but raise FY11-12E net profit by 11%-17% to RM47.0m (-8% YoY) – RM29.4m (-38% YoY). Previous estimates included Alila 2 and Segambut project with contributions commencing in FY12, assuming soft launch in FY11.

However, **we are taking out Segambut land earnings as we expect delays in launching.** Nonetheless, the absence in Segambut land earnings were more than compensated by our quicker take-up rate assumptions for Alila, MS, and Infiniti. In Penang, it is common to see quicker take-up rates when the project is completed or near completion, which also allows developers to price-up further; Infiniti is expected to obtain VP by March 2010 while both Alila and MS are completed. We have also 1) expedited GPC sales premised on GPM works commencing in 4QFY10 2) included RM30m GDV residential (terrace, semi-detached) launch for Bandar Putra Bertam township which will be launched in FY11.

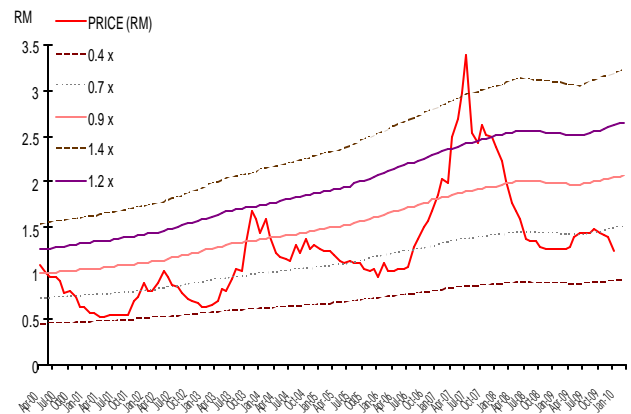
Maintain Trading BUY with RM1.96 fair value, based on our FD SOP RNAV (ex-proposed rights and warrants; Bayan Baru land only factored in upon finalization of SPA; it adds 16sen to our RNAV, assuming RM65psf land price). Although GPM's financing plans look more positive, the timing of securing financing is critical for continuation of works and we are assuming 50% external financing for GPM. Current unbilled sales of RM194m provides <1 years earnings visibility. We still prefer an equity partnership for GPM to reduce balance sheet risks.

We continue to be wary of declining net profit trends; particularly with Segambut project uncertainties, implying Alila 2 as the only new project launched in FY11. Nonetheless, **Hunza provides excellent trading opportunities given current trough valuations**; 1) FY10-11E PER of 4.6-5.0x vs. historical 6.6x and peer's 9.2x 2) 0.6-0.5x FY10-11E PBV vs. historical 0.7x and peer's 0.9x. Additionally, Hunza will maintain similar dividend yield to FY09 of 4.4% which is slightly richer than sector's average of 2%-3%; we are estimating FY11E DPS of 5.6sen (4.6% yield).

Forward PER



Forward PBV



Source: Kenanga Research

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