22 October 2009

**Trading BUY**
**RM1.47**

Target Price: RM1.96

**Stock data**

| | |
|---|---|
| Market cap (RMm): | 221.5 |
| Issued shares (m): | 150.7 |
| 52-week range: | RM0.93-RM1.68 |
| 3-mth avg daily volume: | 157,656 shrs |
| Bloomberg code: | HPB MK |
| YTD price chg: | +15.8% |
| YTD KLCI chg: | +43.7% |
| Est. free float: | 33.92% |
| Major shareholders: | |
| *Dato' Dr Khor Teng Tong:* | *50.84%* |
| *Lembaga Tabung Haji:* | *8.01%* |
| *Yayasan Bumiputera Pulau Pinang Bhd:* | *7.23%* |

| KLCI | FBM30 | FBM70 | Syariah | Hijrah |
|---|---|---|---|---|
| No | No | No | Yes | No |

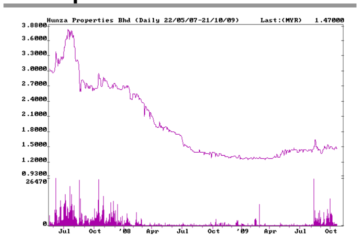
**Consensus**

| FYE 30 Jun | 2010E | 2011E |
|---|---|---|
| Net profit (RMm): | 34.8 | 41.7 |
| EPS (sen): | 24.8 | 27.8 |

**Forecast revision**

| FYE 30 Jun | 2010E | 2011E |
|---|---|---|
| Prev. net profit (RMm): | 32.3 | 26.4 |
| Revision (%): | +7% | +19% |
| Revised net profit (RMm): | 34.7 | 31.4 |

**Share price chart**



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# Hunza Properties

## More equity funding for Gurney Paragon Mall

- **3 for 10 rights issue + 1 free warrants for every 1 rights**. Hunza Properties (Hunza) proposed to issue the rights at RM1.10 and the free detachable warrants will carry RM1.10 strike price (illustrative price). The rights, if fully subscribed, will raise RM49.7m; full warrants conversion will also raise RM49.7m. **Assuming rights and warrants are exercised, Hunza can borrow another RM102.3m** (based on 0.5x internal gearing limit and balance sheet at 30/6/09), implying RM201.8m total new funds. The exercise should be completed late Jan 2010.
- **Rationale for the exercise: fund Gurney Paragon Mall (GPM) construction**. GPM will be kept for recurring income; vital for maintaining a level of earnings visibility and assured cash-flow during down-times. The rights issue is a proper long term funding solution to match the rental income of Gurney Paragon.
- **FY10-11E core EPS will be diluted by 38% each to 14.5-11.9sen** (ex-rights and warrants). **Although diluted, we reiterate the importance of commencing construction of GPM as it allows realization of its RNAV.** It instils greater confidence as buyers would like the mall and condo to be completed at the same time. Fuelling GPC sales, improved Infiniti take-up rates, along with sales from remaining Alila and Mutiara Seputeh will fund the remaining portion of the mall.
- **Opt for the rights**. Ex-rights and warrants, Hunza's adjusted share price will be RM1.24, from last traded price of RM1.47. FD SOP RNAV fair value will be lowered by 19% to RM1.87 (ex-rights, warrants), providing 48%-36% upside. (Refer below for further explanations).
- **Increasing FY10-11E net profit by 7%-19% to RM34.7m-RM31.4m** to 1) account for 100% ownership of Infiniti (90% owned previously as 10% belong to land owner) 2) quicker take-up rates for GPC in view of GPM.
- **New RM1.96 fair value**, to reflect adjustments in our earnings and corporate exercise on our SOP RNAV. Previously, we recommended HOLD although fair value remained at RM2.32 (pre-rights) or RM1.87 (ex-rights and warrants). Although values remained intact during the recent economic downturn, we were concerned about sales of GPC; this concern has been addressed via new funding to kick-start GPM works. However, we are cautious of low subscription rate risks which will hinder GPM and successful sales of GPC, as well as, timing of cash releases from on-going projects. **Upgrade to Trading BUY**.

## Earnings Estimates

| FYE: 30 Jun (RMm) | 2008A | 2009A | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| Revenue | 245 | 92 | 244 | 212 | 157 |
| Pretax profit | 68 | 39 | 49 | 43 | 35 |
| Net profit | 48 | 28 | 35 | 31 | 25 |
| Net profit growth (%) | 23% | -43% | 26% | -10% | -22% |
| Recur. Net Profit | 47 | 28 | 35 | 31 | 25 |
| EPS (sen) | 33.2 | 18.9 | 23.8 | 21.5 | 16.8 |
| EPS growth (%) | 23% | -43% | 26% | -10% | -22% |
| FD EPS (ex. rights +warrants + treasury + Esos) | 20.5 | 11.9 | 14.8 | 13.4 | 10.6 |
| NTA/ share (RM) | 2.10 | 2.24 | 2.42 | 2.58 | 2.69 |
| PER (x) | 4.4 | 7.8 | 6.2 | 6.8 | 8.7 |
| FD PER (ex. rights +warrants + treasury + Esos) | 7.2 | 12.4 | 9.9 | 10.9 | 13.9 |
| P/NTA (x) | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 |
| EV/EBITDA (x) | 4.7 | 7.8 | 6.3 | 7.0 | 8.5 |
| ROE % | 17.2% | 8.7% | 10.2% | 8.6% | 6.4% |
| Dividend Yield (%) | 6.3% | 3.4% | 3.8% | 3.8% | 3.8% |
| Div. yield (ex rights, warrants, treasury, Esos) | 6.3% | 3.4% | 3.3% | 3.3% | 3.3% |

# Key Points

**3 for 10 rights issue plus 1 free detachable warrants for every 1 rights.** Hunza Properties (Hunza) proposed to issue the rights at RM1.10 and the free detachable warrants will carry RM1.10 strike price (illustrative price). The rights, if fully subscribed, will raise RM49.7m; warrants conversion will also raise a similar amount. Assuming both rights and warrants are exercised, **Hunza can borrow another RM102.3m** (based on 0.5x internal gearing limit and balance sheet at 30/6/09), implying RM201.8m total new funds raised. The exercise should be completed late Jan 2010. It is also Hunza's second attempt to issue rights.

**Rationale for the exercise is to fund Gurney Paragon Mall (GPM) construction.** GPM will be kept for recurring income to compliment its less stable property development earnings. Raising funds from rights would match the long term funding requirements of the long term investment of GPM If GPC and Infiniti sell quickly in the near future, Hunza can utilize the new funds to launch its pipeline projects; Alila 2 and Segambut.

**FY10-11E core EPS will be diluted by 38% each to 14.5-11.9sen** (ex-rights and warrants; refer to table). Theoretically, FY10-11E GDPS is also diluted by 34% each to 3.7sen each (2.5% yield) from 5.6sen each (3.8% yield), based on annualized figures, as share base will be enlarged by 60% to 241.2m shares. But we are confident of Hunza minimizing dividend dilutions impact; hence, we are looking at FY10-11E GDPS of 4.8sen each (3.3% yield) post the exercise.

Although diluted, **we reiterate the importance of commencing construction of GPM as it allows realization of its RNAV**. It instills greater confidence as buyers would like the mall and condo to be completed at the same time. Fueling GPC sales, improved Infiniti take-up rates, along with sales from remaining Alila and Mutiara Seputeh will fund the remaining portion of the mall.

## Impact of Rights and Warrants on old and new estimates

| | NEW ESTIMATES | | OLD ESTIMATES | |
|---|---|---|---|---|
| | FY10E | FY11E | FY10E | FY11E |
| A. Pre. corp. exercise (excluding ESOS and Treasury) | | | | |
| No. of shares | 145.6 | 145.6 | 145.6 | 145.6 |
| Core EPS (sen) | 23.8 | 21.5 | 23.2 | 19.0 |
| PER (x) | 6.2 | 6.8 | 6.3 | 7.7 |
| B. After rights (including ESOS and Treasury) | | | | |
| Enlarge no. of shares from rights ('m) | 195.9 | 195.9 | 195.9 | 195.9 |
| Core EPS (sen) | 18.1 | 16.4 | 17.8 | 14.7 |
| PER (x) | 8.1 | 9.0 | 8.3 | 10.0 |
| C. After rights + warrants (including ESOS and Treasury | | | | |
| Enlarge no. of shares from rights + warrants ('m) | 241.1 | 241.1 | 241.1 | 241.1 |
| Core EPS (sen) | 14.7 | 13.3 | 14.5 | 11.9 |
| PER (x) | 10.0 | 11.0 | 10.2 | 12.3 |
| **VARIANCES** | | | | |
| B vs. A | | | | |
| Enlarge no. of shares from rights ('m) | 35% | 35% | 35% | 35% |
| Core EPS (sen) | -24% | -24% | -23% | -23% |
| PER (x) | 32% | 31% | 31% | 31% |
| C vs. B | | | | |
| Enlarge no. of shares from rights ('m) | 23% | 23% | 23% | 23% |
| Core EPS (sen) | -19% | -19% | -19% | -19% |
| PER (x) | 23% | 23% | 23% | 23% |
| C vs. A | | | | |
| Enlarge no. of shares from rights ('m) | 66% | 66% | 66% | 66% |
| Core EPS (sen) | -38% | -38% | -38% | -38% |
| PER (x) | 62% | 62% | 61% | 61% |

Source: Kenanga Research

**Opt for the rights.** Ex-rights and warrants, Hunza's adjusted share price will be RM1.24, from last traded price of RM1.47. FD SOP RNAV fair value will be lowered by 19% to RM1.87 (ex-rights and warrants), providing 48%-36% upside. Additionally, Dato' Khor, the 51% stake holder, will fully subscribe to the rights. Hence, existing shareholders should opt for the rights to ensure non-dilutions in holdings.

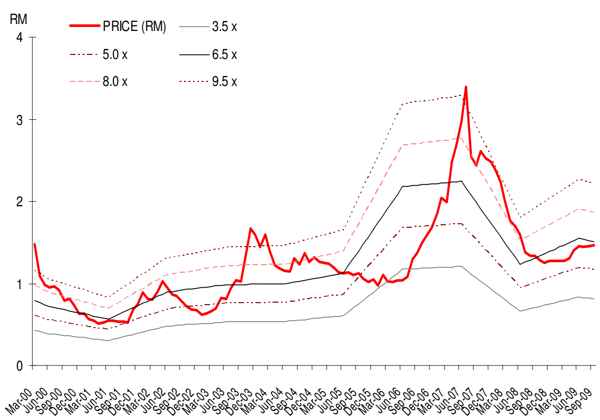
**Will all warrants be exercised?** Hunza's previous warrants were mostly exercised. Previously, Dato' Khor converted his warrants and when the pricing was right, he placed-out the new shares. With money raised from the new shares, he bought warrants from the open market.

**Increasing FY10-11E net profit by 7%-19% to RM34.7m-RM31.4m** to 1) account for 100% ownership of Infiniti (90% owned previously as 10% belong to land owner) 2) quicker take-up rates for GPC in view of GPM. Note that our earlier dilutive illustrations doesn't account for the adjustments yet.

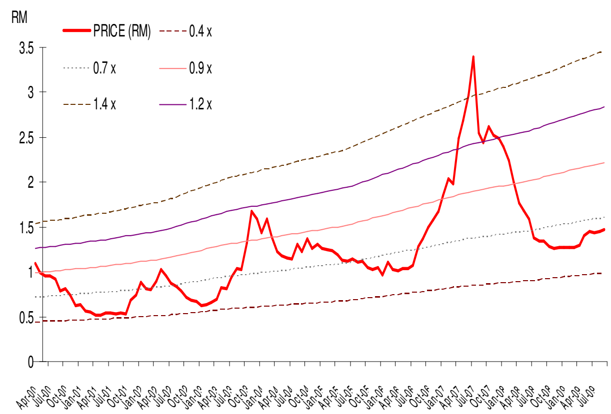
**New RM1.96 fair value**, to reflect adjustments in our earnings and corporate exercise on an FD basis. Valuations are based on SOP RNAV. Previously, we recommended HOLD although fair value remained at RM2.32 (pre-rights) or RM1.87 (ex-rights and warrants).

Although values remained intact during the recent economic downturn, we were concerned about sales of GPC; this apprehension has been addressed via new funding to kick-start GPM works. However, we are cautious of low subscription rate risks which will hinder GPM and successful sales of GPC, as well as, timing of cash releases from on-going projects. **Upgrade to Trading BUY.**

## Forward PER




## Forward PBV




Source: Kenanga Research

## SOP RNAV

| Investment Properties | Tenure | Land size (ac) | Build-up (sft) | | | Book Value (RM'm) | BV psf (RM) |
|---|---|---|---|---|---|---|---|
| Mukim 9, Seberang Prai Selatan, Penang | Freehold | 7.0 | 304,920 | | | **2.5** | 8 |
| Mukim 12, Seberang Prai Tengah, Penang | Freehold | 39.0 | 1,698,840 | | | **20.0** | 12 |
| Property for operations | | | | | | **3.2** | |
| **Development Land** | **Share- holding** | **Land size (ac)** | **BV (RM'm))*** | **BV psf (RM)** | | **Market Value (RM'm)*** | **Mkt Value psf (RM)** |
| Bertam, Penang | 70% | 486.0 | 9 | 0.62 | | **59.3** | 4.0 |
| Gurney Drive, SS1, Penang | 100% | 8.4 | 82 | 224.75 | | **82.2** | 224.7 |
| 0 | 0% | 0.0 | 0 | 0.00 | | **0.0** | 0.0 |
| Sungai Petani, Kedah | 100% | 364.0 | 9 | 0.55 | | **31.7** | 2.0 |
| **On-going Projects** | **Share- holding** | **Land size (ac)** | **WACC** | **Pretax Margin** | **Remaining Pretax Profit (RM'm)*** | **DCF Value (RM'm)** | |
| Bertam, Penang | 70% | na | 5% | 24% | 0.0 | **0.0** | |
| Sungai Petani, Kedah | 100% | na | 5% | 10% | 0.0 | **0.0** | |
| Alila, Tanjung Bungah, Penang | 100% | 3.0 | 5% | 30% | 4.5 | **1.9** | |
| Infiniti, Tanjung Bungah, Penang | 100% | 3.0 | 5% | 33% | 67.8 | **61.2** | |
| Gurney Paragon, Penang | 100% | 1.6 | 5% | 27% | 97.0 | **82.8** | |
| Mutiara Seputeh, KL - Semi-D | 100% | 11.0 | 5% | 24% | 5.8 | **3.5** | |
| | | | | | | | |
| **Total Revised Asset Value** | | | | | | **370** | |
| Cash from Rights Issue | | | | | | 50 | |
| Other LT assets (as at 30/6/09) | | | | | | 43 | |
| Net Current Assets w/o prop dev cost (as at 30/6/09) | | | | | | 45 | |
| Long Term Liabilities (as at 30/6/09) | | | | | | (86) | |
| **Total Revised Net Asset Value (RNAV)** | | | | | | **421** | |
| **RNAV per share (including Rights + Esos)** | | | | | | **MYR 2.15** | |
| No of shares (m) | | | | | | 196 | |
| Impact of dilution from Warrants | | | | | | 51 | |
| RNAV (including Warrants) | | | | | | 472 | |
| **RNAV post Rights, Warrants, Esos** | | | | | | **MYR 1.96** | |
| Enlarged no. of shares (m) | | | | | | 241 | |

**After shareholding accounted for*



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