26 February 2008

BUY
RM2.45
Target Price: RM4.37

Hunza Properties

Always planning ahead

Stock data

Market cap:	360.8
Issued shares:	147.3
52-week range:	RM1.92-RM3.88
3-mth avg daily volume:	248,859
Bloomberg code:	HPB MK
Syariah	Yes
YTD price chg:	-9.59%
YTD KLCI chg:	-4.82%
Est. free float:	32.05%
Major shareholders:	
Dato' Dr Khor Teng Tong:	*52.95%*
Lembaga Tabung Haji:	*7.60%*
Yayasan Bumiputera Pulau Pinang Bhd:	*7.40%*

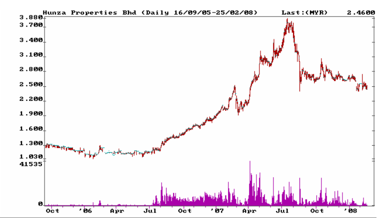
Consensus

FYE 30 Jun	2007E	2008E
Net profit (RMm):	33.9	52.2
EPS (sen):	25.8	33.8

Forecast revision

FYE 30 Jun	2007E	2008E
Revision (%):	0%	0%
Net profit (RMm):	62	78

Share price chart



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- **Plans in motion to replenish revenue drivers beyond 2010 when** Gurney Paragon and Infinity condominiums, both Hunza Properties' (Hunza) main earning drivers will be completed by then. The pipeline projects include Alila **II**, more Bandar Putra Bertam (BPB) developments and a potential Klang Valley (KV) project. Further details on the KV project will be revealed soon.
- **Refining and replicating its success formula.** Hunza is undertaking another project management arrangement, similar to Infinity, to develop Alila **II**; a 10ac site next to its nearly completed Alila, Tanjung Bungah. The estimated GDV for Alila **II** stands at RM206m, which may be a conservative estimate with a potential 12% to 31% upside due to Penang's capital values' growth catalysts. Developments of Alila **II** will be similar to Alila and is targeted for launch in FY10.
- **Timing new BPB launches to match surrounding developments**. The neighbouring medical institute (USM) and Naza Ria's sites have started works, while the MARA Junior Science College have commenced operations. With these amenities in place, BPB will become more saleable which enable Hunza to command higher pricings. Therefore, more BPB projects will be launched from FY09 onwards.
- **Partnerships are still an option for Gurney Paragon shopping mall**. Hunza has always intended to keep the mall as an investment property. However, value-adding partnerships are welcomed as retail management is a green-field venture for Hunza. Management has also guided an initial return of 10% to 12% p.a. on the mall's market price tag of RM800m.
- **Timing is not right for rights issue** given the less than favourable market circumstances. Therefore, using debt financing where liquidity is high could be an alternative and cheaper solution.
- **Maintain target price of RM4.37**. FY08E and FY09E PER valuations are very attractive at 5x and 4x versus the sector average of 15x and 10x, respectively. **Maintain BUY**.

Earnings Estimates

FYE: 30 Jun (RMm)	2006A	2007A	2008E	2009E	2010E
Revenue	117	190	286	338	384
Pretax profit	35	61	92	119	137
Net profit	20	39	62	78	87
Net profit growth (%)	21%	99%	58%	25%	12%
EPS (sen)	14.6	29.1	46.1	57.4	64.6
EPS growth (%)	21%	99%	58%	25%	12%
Diluted EPS (sen)	17.3	25.0	39.6	49.3	55.4
NDPS (sen)	7.5	9.1	7.5	7.5	7.5
NTA/ share (RM)	1.41	1.88	2.09	2.58	3.15
PER (x)	16.8	8.5	5.3	4.3	3.8
Diluted PER (x)	14.2	9.9	6.2	5.0	4.4
P/NTA (x)	1.7	1.3	1.2	1.0	0.8
EV/EBITDA (x)	14.2	7.9	5.3	4.1	3.6
ROE %	10.6%	17.6%	23.1%	24.4%	22.4%
Dividend Yield (%)	3.0%	3.7%	3.0%	3.0%	3.0%

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Outlook

Refining and replicating its success formula. Hunza is undertaking another project management arrangement, similar to Infinity, to develop a 10ac site next to its nearly completed Alila, Tanjung Bungah. Hence, Hunza will be entitled to 90% of Alila II development profits and will incur no land holding cost. Developments of Alila II will be similar to Alila and is targeted for launch in FY10.

The estimated GDV for Alila II is RM206m, which is a conservative estimate by Hunza's standards. Further GDV enhancement, of up to RM270m, is possible as we expect Penang's capital values to grow for several reasons; growing scarcity of prime land in Penang, less landed properties which is greatly prized by Penangites and Penang becoming a favourite location for those subscribing to MM2H.

Aggressive overseas marketing. Hunza is actively marketing its products overseas with encouraging success. As a result, their products have gained considerable traction from foreigners. Hence, we expect Alila II to receive similar foreign buyers' responses as Hunza intends to target markets which are interested in the MM2H program.

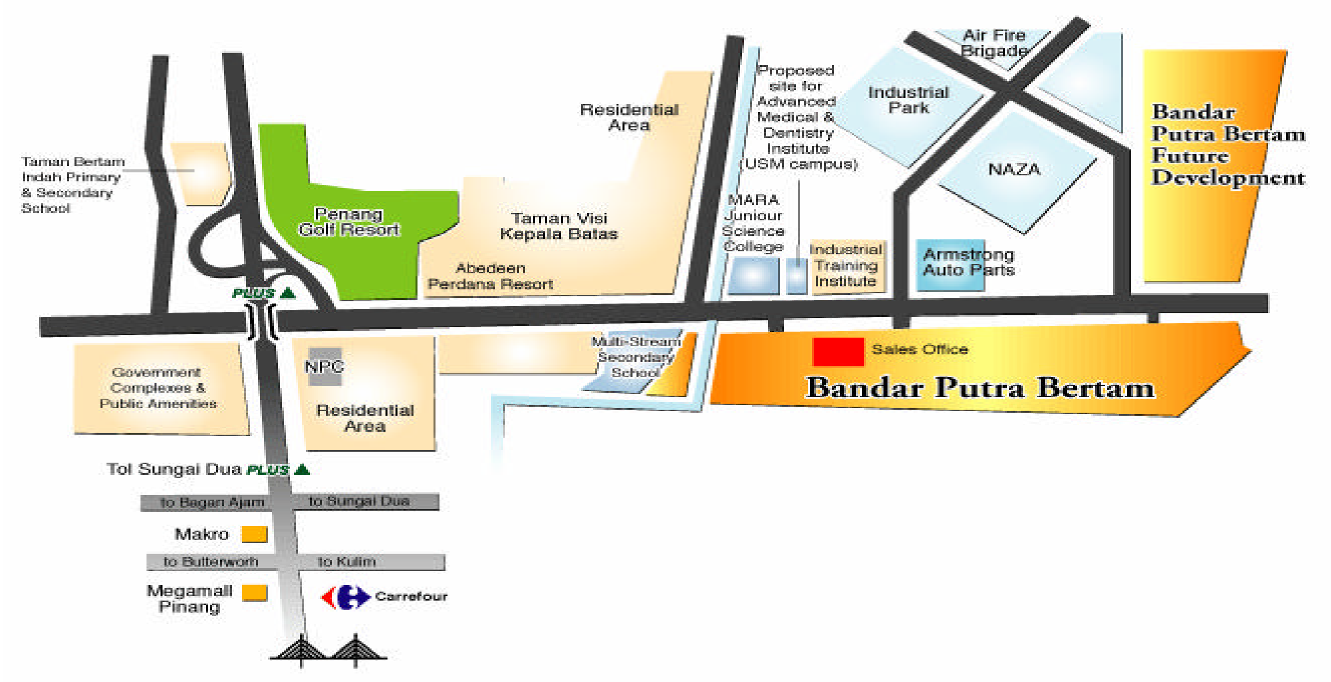
Take up rates and share of foreign buyers

Project	Take-up rate (31/1/08)	% of foreign buyers
Alila	89%	20%
Mutiara Seputeh	74%	25%
Gurney Paragon	46%	60%
Infinity	43%	80%

Source: Company

Timing new BPB launches to match surrounding developments. As mentioned in our result note, Hunza is withholding BPB launches for a more suitable time. The neighboring medical institute (USM) and Naza Ria's sites have started works, while the MARA Junior Science College have commenced operations. With these amenities in place, BPB will become more saleable which enables Hunza to command higher pricings. Therefore, more BPB launches will be made in FY09 onwards.

Map of BPB



Source: Company

Updates on Gurney Paragon shopping mall. The mall has a market price tag of RM800m, based largely on the CapitaLand's acquisition of Gurney Plaza for RM770m for c.700,000sf NLA. Hunza still intends to keep the mall as an avenue of recurring income and is targeting a 10% to 12% ROI for the first few years of the mall's operation. However, Hunza may not keep 100% of the mall if it is able to secure the right property management partners that can enhance the value of the property.

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