27 May 2008

**BUY**
**RM1.84**

Target Price: RM3.59

### Stock data

| | |
|---|---|
| Market cap (RMm): | 271.1 |
| Issued shares (m): | 147.3 |
| 52-week range: | RM1.75-RM3.88 |
| 3-mth avg daily volume: | 140,045 shrs |
| Bloomberg code: | HPB MK |
| Syariah | Yes |
| YTD price chg: | -32.1% |
| YTD KLCI chg: | -11.8% |
| Est. free float: | 32.7% |
| Major shareholders: | |
| *Dato' Dr Khor Teng Tong:* | *53.04%* |
| *Lembaga Tabung Haji:* | *6.84%* |
| *Yayasan Bumi. P. Pinang:* | *7.39%* |

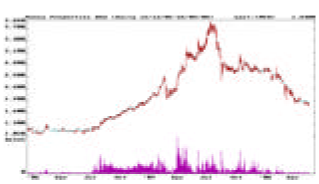
### Consensus

| FYE30 Jun | 2008E | 2009E |
|---|---|---|
| Net profit (RMm): | 48.5 | 62.0 |
| EPS (sen): | 31.8 | 39.3 |

### Forecast revision

| FYE30 Jun | 2008E | 2009E |
|---|---|---|
| Revision (%) | 2% | 1% |
| Net profit (RMm): | 47 | 62 |

### Share price chart



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# Hunza Properties

## 9M08 results in line

- **9M08 net profit of RM38m was within our and street estimates**, accounting for 79% and 76% of respective FY08E forecasts of RM48m and RM50m. Hunza Properties (Hunza)'s in-line results can be attributed to its iconic Penang projects, Gurney Paragon (GP) and Infiniti, which commenced earnings contribution and recorded high take-up rates of 48% and 52% (at 31/3/08), respectively.
- **Sharp 64% YoY rise in 9M08 net profit**, on the back of higher billings from Alila Horizon, Alila townhouses and Mutiara Seputeh semi-detached as they have high-take up rates (99%, 78% and 86%, respectively, at 31/3/08) and are near or fully completed. However, EBITDA margins fell 27 bps to 29.4% due to last year's strong sales and billings from Bandar Putra Bertam's higher margin shop offices.
- **40% QoQ drop in 3Q08 pretax profit to RM13m**, largely due slow down in GP sales due to negative sentiments and sharp increases in finance cost from RM4,000 to RM0.9m. Interest expense relating to the Sungai Petani township must be expensed, and not capitalized, as the project is temporarily on hold. In the immediate term, Hunza will be focusing its attention on higher growth projects in Penang as demand is much softer in Sungai Petani.
- **Gurney Paragon project will NOT be reviewed.** The Penang state government stated the project will continue as GP does create a traffic dispersal problem. Sales are expected to recover while Hunza puts more efforts in advertising.
- **3.7sen GDPS declared**, which accounts for 35% of our 10.6sen FY08 GDPS or a yield of 5.7%. Our estimates are a 31.0% net profit payout versus FY07's 31.5% or a GDPS of 9.1sen. We expect a flat growth in dividend payout due to heavy capital requirements arising from GP, Infiniti and the pipeline projects, Alila II (estimated RM250m GDV) and the Segambut project.
- **Fine-tuning FY08E and FY09E net profit forecast by 2.0% and 0.8%** to RM47m and RM62m, respectively, to account for the higher interest expense from Sungai Petani. Unbilled sales remain strong at RM276m as at 31/3/08.
- **No change in target price of RM3.59.** FY08E and FY09E PER is very attractive at 5.3x and 4.1x, respectively. **Maintain BUY.**

### Results Highlights

| FYE: 30 Jun (RMm) | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | ±QoQ | ±YoY | 9M07 | 9M08 | ±Ytd |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 44.7 | 69.7 | 67.7 | 70.1 | 54.1 | -23% | 21% | 120.3 | 191.9 | 59% |
| Operating costs less depn/amort | (32.8) | (47.1) | (49.8) | (49.9) | (42.9) | -14% | 31% | (83.6) | (142.6) | 71% |
| Other Operating Income | 0.3 | 3.1 | 0.2 | 0.8 | 0.3 | -59% | 30% | 0.9 | 1.4 | 59% |
| Profit share from proj mgmt | 0.0 | 0.0 | 0.0 | 2.2 | 3.5 | 62% | >100% | 0.0 | 5.7 | -85% |
| EBITDA | 12.1 | 25.8 | 18.2 | 23.1 | 15.0 | -35% | 24% | 37.5 | 56.3 | 58% |
| Net int inc/(exp) | (0.0) | (0.0) | (0.0) | (0.0) | (0.9) | >100% | >100% | (0.0) | (0.9) | >100% |
| **Pretax profit** | **11.5** | **25.1** | **17.5** | **22.5** | **13.4** | **-40%** | **17%** | **35.6** | **53.5** | **50%** |
| Taxation | (3.0) | (8.4) | (5.1) | (5.8) | (3.7) | -35% | 24% | (10.0) | (14.6) | 46% |
| Minority Interest | (0.8) | (0.6) | (0.4) | (0.2) | (0.0) | -71% | -94% | (2.3) | (0.6) | -74% |
| **Net profit** | **7.7** | **16.1** | **12.1** | **16.6** | **9.7** | **-42%** | **26%** | **23.3** | **38.3** | **64%** |
| EPS (sen) | 6.74 | 13.73 | 8.92 | 12.14 | 6.37 | -48% | -5% | 20.5 | 27.4 | 34% |
| Dil EPS (sen) | 5.91 | 13.03 | 8.26 | 11.50 | 6.21 | -46% | 5% | 19.3 | 26.0 | 34% |
| NTA/share (RM) | 1.80 | 1.89 | 1.96 | 2.06 | 2.05 | -1% | 14% | 1.80 | 2.05 | 14% |
| Net gearing (%) | 46.9% | 40.0% | 36.3% | 28.4% | 27.3% | | | 46.9% | 27.3% | |
| EBITDA margin | 27.1% | 37.0% | 26.8% | 33.0% | 27.7% | | | 29.6% | 29.4% | |
| Pretax margin | 25.6% | 36.0% | 25.9% | 32.1% | 24.9% | | | 29.6% | 27.9% | |
| Effective tax rate | 26.3% | 33.4% | 28.9% | 25.7% | 27.8% | | | 28.1% | 27.3% | |

PP7004/03/2009(020927)

## Results Review

| QoQ (RMm) | 2Q08 | 3Q08 | QoQ Chg | Comments |
|---|---|---|---|---|
| Revenue | 70.1 | 54.1 | -23% | Decline due to softer sales from Gurney Paragon (GP) which fell 91% to RM8m in 3Q08 because of the "election fever" effects and the long Chinese New Year celebrations. In 3Q08, management focused more overseas promotions on Infiniti, rather than GP. |
| Pretax Profit | 22.5 | 13.4 | -40% | Fall due to higher billings as Bandar Putra Bertam (Phase 2C) and Alila Horizon (condominium portion) physical works were completed in 2Q08, as well as, RM1.4m write-backs on provisions of diminution in CLO Subordinated Bond in 2Q08. |
| Net Profit | 16.6 | 9.7 | -42% | Erosion caused by a large leap in finance cost from RM4,000 to RM0.9m relating to Sungai Petani township. |

| Ytd-YoY (RMm) | 9M07 | 9M08 | Ytd-YoY Chg | Comments |
|---|---|---|---|---|
| EBITDA margins | 29.6% | 29.4% | 27 bps | Slight erosion of EBITDA margins due to last year's strong sales of Bandar Putra Bertam's shop offices which reaped some 50% gross margins. |
| Pretax Profit | 35.6 | 53.5 | 50% | Sharp rise due to the commencement of contributions from Infiniti and Gurney Paragon with high take-up rates of 52% and 48%, respectively (as at 31/3/08). |
| Net Profit | 23.3 | 38.3 | 64% | Increase partly attributed to lower minority interest by 74% to RM0.6m due to less sales and billings from the 70% owned Bandar Putra Bertam township. |

# Outlook

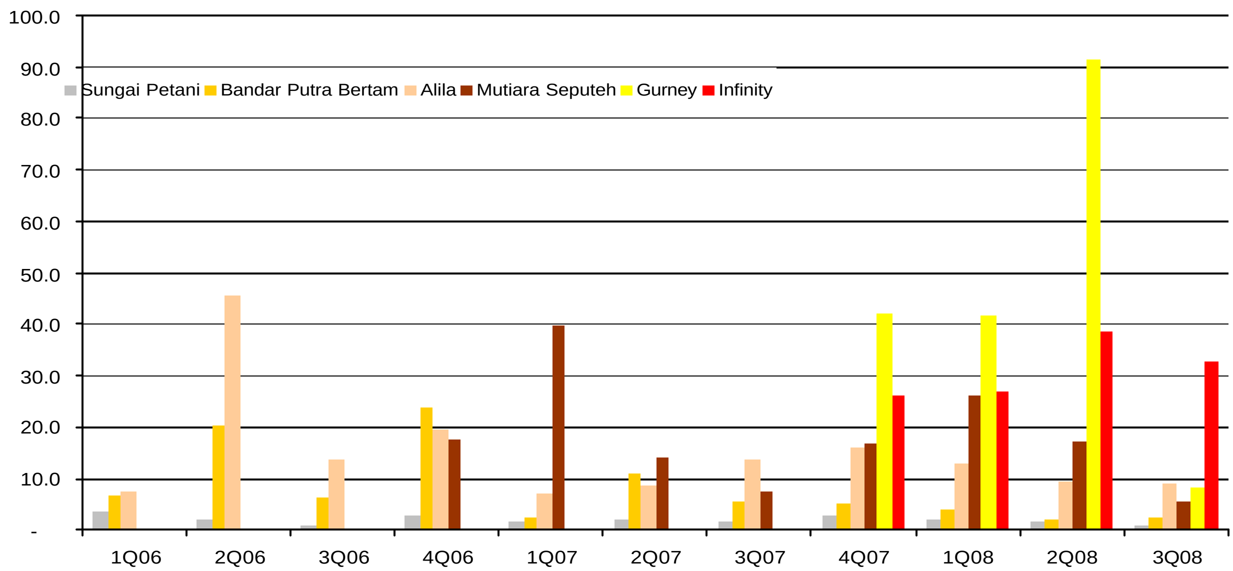
**Gurney Paragon (GP) project will NOT be reviewed.** It was reported in the Starbiz and NST that both Penang's Chief Minister, Lim Guan Eng, and the Penang Island Municipal Council, confirmed that "there is nothing to review" with regards to GP because Hunza has addressed the area's potential traffic dispersal problems. Although we expect sales to recover, we caution investors of the less than favorable effects from uncertainties arising from local politics and global economies. Therefore, we have maintained our sales assumptions for GP.

**Fine-tuning FY08E and FY09E net profit forecast by 2.0% and 0.8%** to RM47m and RM62m, respectively, to account for the higher interest expense from Sungai Petani. Upon re-activation of the project, we expect less related interest expense.

We are confident that Hunza will meet our expectations based on their ability to pass on rising raw material cost (estimated to be some 8% increase YoY) to consumers due to strong branding and good track record. Unbilled sales remain strong at RM276m as at 31/3/08.

**No change in target price of RM3.59.** FY08E and FY09E PER is very attractive at 5.3 x and 4.1x, respectively. **Maintain BUY.**

## S&P Sales




*Source: Company, Kenanga Research*

## Earnings Estimates

| FYE: 30 Jun (RMm) | 2006 | 2007 | 2008E* | 2009E* | 2010E* |
|---|---|---|---|---|---|
| Revenue | 117 | 190 | 209 | 228 | 269 |
| Pretax profit | 35 | 61 | 64 | 82 | 103 |
| Net profit | 20 | 39 | 47 | 62 | 77 |
| Net profit growth (%) | 21% | 99% | 18% | 32% | 25% |
| Recur. Net Profit | 20 | 36 | 46 | 62 | 77 |
| EPS (sen) | 14.5 | 28.8 | 34.1 | 45.2 | 56.7 |
| EPS growth (%) | 21% | 99% | 18% | 32% | 25% |
| Diluted EPS (sen) | 17.3 | 27.3 | 32.3 | 42.8 | 53.7 |
| GDPS (sen) | 7.5 | 9.1 | 10.6 | 14.0 | 17.6 |
| NTA/ share (RM) | 1.36 | 1.86 | 1.87 | 2.18 | 2.55 |
| PER (x) | 12.7 | 6.4 | 5.4 | 4.1 | 3.2 |
| Diluted PER (x) | 10.6 | 6.7 | 5.7 | 4.3 | 3.4 |
| P/NTA (x) | 1.4 | 1.0 | 1.0 | 0.8 | 0.7 |
| EV/EBITDA (x) | 11.6 | 6.5 | 6.1 | 4.8 | 3.9 |
| ROE % | 10.6% | 17.4% | 17.7% | 21.6% | 23.2% |
| Dividend Yield (%) | 4.1% | 4.9% | 5.7% | 7.6% | 9.5% |

** Forecast revenue figures have been reduced as we are recognizing Infiniti based on "share of profit from project management" rather than our previous gross level recognition.*



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