

21 February 2008

BUY
RM2.51

Target Price: RM4.37

Hunza Properties

1H08 results within expectations
Stock data

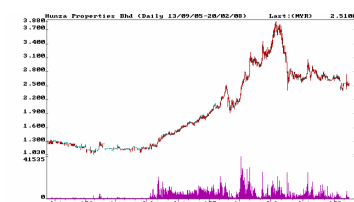
Market cap (RMm):	371.2
Issued shares (m):	147.3
52-week range:	RM1.92-RM3.88
3-mth avg daily volume:	293,041 shrs
Bloomberg code:	HPB MK
Syariah	Yes
YTD price chg:	-7.01%
YTD KLCI chg:	-2.28
Est. free float:	32.05%
Major shareholders:	
Dato' Dr Khor Teng Tong:	52.95%
Lembaga Tabung Haji:	7.60%
Yayasan Bumiputera Pulau Pinang Bhd:	7.40%

Consensus

FYE 30 June	2008E	2009E
Net profit (RMm):	51.9	67.0
EPS (sen):	31.1	43.4

Forecast revision

FYE 30 June	2008E	2009E
Revision (%):	0%	0%
Net profit (RMm):	62.4	77.7

Share price chart

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- **1H08 net profit was within our and street expectations** which accounted for 46% and 55% of forecasted RM62.4m and RM51.9m, respectively. Hunza Properties (Hunza) in-line results were due to overall growth in take-up rates and progress billings from its high-end properties; Mutiara Seputeh (MS), Alila, Gurney Paragon (GP) and Infiniti.
- **Sharp 83% YoY growth in 1H08 net profits to RM28.6m** can be attributed to increased take-up rates of 89% and 74% for Alila and Mutiara Seputeh (MS), respectively. Additional cushions to the bottomline are write-backs on provisions for Hunza's CLO Subordinated Bond of RM1.4m and less minority interest, as a result of fewer project sales from its 70% owned Bandar Putra Bertam township.
- **2Q08 pretax profit of RM40.0m increased QoQ by 28%** as GP and Infiniti started significant earnings contribution this quarter. GP and Infiniti raked in 46% and 43% take-up rates, which is amazing given that Penang is a tough property market. Also, both GP and Infiniti sales to date have high composition of foreign buyers at 60% and 80%, respectively. This is a clear indication of Hunza's good reputation and their ability to deliver international quality products, which bodes well for future price increments.
- **Another project management arrangement?** Hunza has entered into an agreement to provide project management service (much like the Infiniti arrangement) for a mixed development project and is providing RM10m as a security deposit. We suspect this is the project site that neighbours Alila. More will be revealed during their half yearly briefing on 25/02/08.
- **Maintain FY08E forecast of RM62m.** We are confident that Hunza will be able to achieve our estimates as unbilled sales stand strong at c.RM269m while construction progress is on schedule.
- **No change in target price of RM4.37.** FY08E and FY09E PER is very attractive at 5x and 4x, compared to sector average of 15x and 10x, respectively. **Maintain BUY.**

Results Highlights

FYE: 30 Jun (RMm)	2Q07	3Q07	4Q07	1Q08	2Q08	±QoQ	±YoY	1H07	1H08	±Ytd
Revenue	39.3	44.7	69.7	67.7	70.1	3%	78%	75.6	137.8	82%
Operating costs less depn/amort	(25.6)	(32.8)	(47.1)	(49.8)	(49.9)	0%	-95%	(50.8)	(99.7)	-96%
Other Operating Income	0.3	0.3	3.1	0.2	0.8	283%	225%	0.6	1.0	71%
Profit share from proj mgmt	0.0	0.0	0.0	0.0	2.2			0.0	2.2	
EBITDA	14.0	12.1	25.8	18.2	22.5	24%	61%	25.5	40.7	60%
Net int incl/(exp)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	33%	20%	(0.0)	(0.0)	9%
Pretax profit	13.3	11.5	25.1	17.5	22.5	28%	69%	24.2	40.0	66%
Taxation	(3.9)	(3.0)	(8.4)	(5.1)	(5.8)	-14%	-50%	(7.0)	(10.8)	-55%
Minority Interest	(1.1)	(0.8)	(0.6)	(0.4)	(0.2)	62%	86%	(1.5)	(0.5)	64%
Net profit	8.4	7.7	16.1	12.1	16.6	37%	97%	15.6	28.6	83%
EPS (sen)	7.39	6.74	13.73	8.92	12.14	36%	64%	13.76	21.06	53%
Dil EPS (sen)	7.08	5.91	13.03	8.26	11.50	39%	62%	13.43	19.76	47%
NTA/share (RM)	1.74	1.80	1.89	1.96	2.06	5%	19%	1.74	2.06	19%
Net gearing (%)	49%	47%	40%	36%	28%			49%	28%	
EBITDA margin	36%	27%	37%	27%	32%			34%	30%	
Pretax margin	34%	26%	36%	26%	32%			32%	29%	
Effective tax rate	29%	26%	33%	29%	26%			29%	27%	

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Results Review

QoQ (RMm)	2Q08	1Q08	QoQ Chg	Comments
Revenue	70.1	67.7	3%	Slight increase is due to continued billings from Alila and Mutiara Seputeh which should be completed in March 08 and September 09, respectively.
Pretax Profit	22.5	17.5	28%	Boosted by profit recognition from their share of project management profit from Infiniti which recorded a 46% (as at 31/01/08) take-up rate and started contribution in 2Q08. *
Net Profit	16.6	12.1	37%	As per above plus write-backs on provisions in their Collateral Loan Obligation (CLO) Subordinated Bond of RM1.4m and lower MI as Hunza is developing less of its 70% owned Bandar Putra Bertam (BPB). **

Ytd-YoY (RMm)	1H08	1H07	Ytd-YoY Chg	Comments
Revenue	137.8	75.6	82%	The huge leap was attributed to higher take-up rates from Alila and Mutiara Seputeh which recorded 89% and 74% (as at 31/01/08), respectively, which are both at advance stages of completion. In addition, Gurney Paragon commenced earnings contribution with 46% take-up rate (as at 31/01/08) since its launch in mid-2007.
Pretax Profit	40.0	24.2	66%	As per above. (Also see note *)
Net Profit	28.6	15.6	83%	As per above. (Also see note **)

Outlook

More long-term receivables as Hunza has agreed to provide interest free financial assistance of up to RM35m (unsecured) to Diamaward (M) Sdn Bhd, which is the land owner of Infiniti. Any advancement given to Diamaward must be repaid to Hunza before Diamaward can claim their share of profits. Recall that Hunza is the project manager for Infiniti and is also entitled to 90% of development profits. As at 31/12/07, Hunza has advanced RM17.4m to Diamaward.

Another project management arrangement. Hunza has entered into an agreement to provide project management service (much like the Infiniti arrangement) for a mixed development project. As part of the arrangement, Hunza has agreed to provide a security deposit of RM10m, which is an increase from the previous RM4.8m, because the site has increased in size. We suspect that this project could be the neighboring site of Alila. More will be revealed during their half yearly briefing on 25/02/08.

Less MI coming from Bandar Putra Bertam (BPB) township. As previously guided by management, Hunza still intends to concentrate most of its resources towards its high-end projects. We reiterate that this is a good strategy as their high-end project fetches fatter margins compared to BPB. In fact, revenue will not be affected from slowed launches in BPB and is expected to increase with a 3-yr EPS CAGR of 58% as income will be fueled by higher value projects like Gurney Paragon and Infiniti. Furthermore, Hunza can afford to slow launches in BPB because its land holding cost is very low.

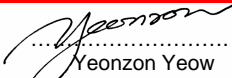
Earnings Estimates

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	14.4	18.0	20.2
NTA/ share (RM)	1.41	1.88	2.02	2.41	2.85
PER (x)	17.2	8.6	5.4	4.4	3.9
Diluted PER (x)	14.5	10.1	6.3	5.1	4.5
P/NTA (x)	1.8	1.3	1.2	1.0	0.9
EV/EBITDA (x)	14.8	8.3	5.5	4.3	3.7
ROE %	10.6%	17.6%	23.5%	25.7%	24.4%
Dividend Yield (%)	3.0%	3.6%	5.7%	7.2%	8.0%

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