

20 August 2007

**BUY**  
**RM2.60**

Target Price: RM4.37

**Stock data**

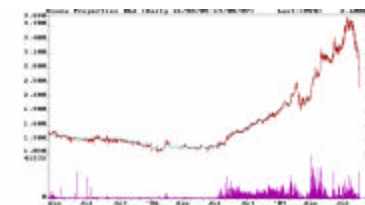
Market cap (RMm):	352.2
Issued shares (m):	135.5
52-week range:	RM1.41-RM3.88
3-mth avg daily volume:	785,900
Bloomberg code:	HPB MK
Syariah	Yes
YTD price chg:	36.8%
YTD KLCI chg:	8.7%
Est. free float:	40.6%
Major shareholders:	
Dato' Dr Khor Teng	52.61%
Tong:	
Yayasan Bumiputera	6.75%
Pulau Pinang Bhd	

**Consensus**

FYE 30 Jun	2008E	2009E
Net profit (RMm):	48.3	67.7
EPS (sen):	34.0	46.0

**Forecast revision**

FYE 30 Jun	2008E	2009E
Revision (%):	13%	4%
Net profit (RMm):	62	78

**Share price chart**

 The Research Team  
 research@kenanga.com.my  
 Tel: 603-2713 2292

# Hunza Properties

## Stronger than expected

- **FY07 pre-tax profit of RM61m in line with our estimates.** However, FY07 net profit of RM39m was 11% and 15% higher than our forecast and market expectations. Results were better than our estimates as we assumed last year's guidance for minority interest (MI). FY07 MI was 43% YoY lower due to more recognition from wholly owned projects like Alila and Mutiara Seputeh (MS).
- **Very strong 4Q results**, as pretax profit grew 119% QoQ to RM25m. Growth is attributed to accelerated take-up rates of over 86% and 66% in Alila's high-rises and townhouses (as of 30<sup>th</sup> June 07); a typical trend in Penang as projects is near completion.
- **Fantastic 104% YoY increase in FY07 net profit** to RM39.4m, a result of increased sales arising from government initiatives (e.g. removal of RPGT) and relaxation of FIC regulations which boost local and foreign demand for properties.
- **More liquidity ahead** from proposal to issue up to 39.4m right shares at RM2.40 each on a 1 for 4 basis, plus free detachable warrants, which could raise up to RM95m. Funds will be used to fund Gurney Paragon shopping mall, as it will be kept for recurring income. Upon approval, we expect liquidity to increase by c.50% to 237m shares based on full subscription and dilution.
- **Upward revision of FY08E net profit forecast by 13%**, due to c.RM114m unbilled sales and accelerating sales and recognition from Alila and MS, which results in less MI. Furthermore, commencement of Infiniti and Gurney Paragon condominium, and its promising results, will increase earnings.
- **Downward revision to target price to RM4.37**, based on conservative sum of parts RNAV on a fully diluted basis, while assuming full subscription of rights issue without the detachable warrants (warrant details not yet revealed). FY08E and FY09E PER remains attractive at 6x and 5x (8x and 6x on fully diluted basis), respectively. **Maintain BUY.**

**Results Highlights**

	4Q06	1Q07	2Q07	3Q07	4Q07	QoQ Chg	4Q-YoY Chg	FY06	FY07	FY-YoY Chg
<b>FYE: 30 Jun (RMm)</b>										
Revenue	44.9	36.4	39.3	44.7	69.7	56%	55%	116.6	190.0	63%
Operating costs w/o dep/am	(30.1)	(25.2)	(25.6)	(32.8)	(47.1)	43%	57%	(83.5)	(130.7)	57%
Other Operating Income	0.3	0.4	0.3	0.3	3.1	1103%	848%	2.1	4.0	92%
EBITDA	15.2	11.5	14.0	12.1	25.8	113%	69%	35.2	63.3	80%
Net int incl/(exp)	0.6	(0.0)	(0.0)	(0.0)	(0.0)	0%	-101%	(0.0)	(0.0)	0%
<b>Pretax profit</b>	<b>15.6</b>	<b>10.8</b>	<b>13.3</b>	<b>11.5</b>	<b>25.1</b>	<b>119%</b>	<b>61%</b>	<b>34.3</b>	<b>60.7</b>	<b>77%</b>
Taxation	(4.6)	(3.1)	(3.9)	(3.0)	(8.4)	178%	82%	(9.9)	(18.4)	87%
Minority Interest	(2.1)	(0.5)	(1.1)	(0.8)	(0.6)	-18%	-69%	(5.2)	(2.9)	-43%
<b>Net profit</b>	<b>8.9</b>	<b>7.2</b>	<b>8.4</b>	<b>7.7</b>	<b>16.1</b>	<b>110%</b>	<b>80%</b>	<b>19.3</b>	<b>39.4</b>	<b>104%</b>
EPS (sen)	7.8	6.4	7.4	6.7	13.7	104%	76%	17.4	33.6	94%
Diluted EPS (sen)	7.8	6.4	7.1	5.9	13.0	120%	67%	17.3	31.9	84%
NTA/share (RM)	1.7	1.7	1.7	1.8	1.9	5%	14%	1.7	1.9	14%
EBITDA margin	34%	32%	36%	27%	37.0%			34%	37%	
Pretax margin	35%	30%	34%	26%	36.0%			35%	36%	
Effective tax rate	30%	29%	29%	26%	33.4%			30%	33%	

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## Results Review

QoQ (RMm)	4Q FY07	3Q FY07	Chg	Comments
Revenue	69.7	44.7	56%	Stronger contribution from Alila, which is typical in Penang for projects that are over 50% complete.
Pretax Profit	25.1	11.5	119%	Higher operating income as Hunza's investment properties were revalued and gained RM2.9m.

YoY (RMm)	FY07	FY06	Chg	Comments
Revenue	190.0	116.6	63%	Increased due to higher take-up rates from Alila and Mutiara Seputeh, due to recent government initiatives to boost demand for properties.
Pretax Profit	60.7	34.3	77%	Attributed by the 126% and 45% increase in trading and investment holding income, respectively
Net Profit	39.4	19.3	104%	Strong growths due to recognitions of more wholly own projects rather than from Bandar Putra Bertam, which are 70% owned.

## Outlook

**Increased liquidity ahead.** Hunza has proposed a rights issue on a 4 for 1 basis, of which each is entitled to a free detachable warrant. Upon approval, up to 39.4m right shares will be subscribed at RM2.40/share, an 8% discount from Hunza's last trading price, with corresponding number of warrants. Assuming full subscription of rights shares plus warrants on a fully diluted basis, we expect liquidity to increase by 50% to 237m shares.

**Up to RM95m cash can be raised** upon approval, mainly to fund the heavy capital requirement of the Gurney Paragon shopping mall, as it will be kept for recurring income. Furthermore, it will also give Hunza the opportunity to embark on more land acquisitions, especially in the Klang Valley.

**50% YoY growth in FY08E revenue** is anticipated based on large unbilled sales of c.RM114m (as of FYE07) mainly from Alila and Mutiara Seputeh. Furthermore, these projects will achieve accelerated take-up rates and recognition as they will be completed between 2Q08 to 3Q08.

**Expecting 58% YoY increase in FY08E net profit**, based on more recognition of earnings from Infinity and Gurney Paragon condominiums, which have received promising responses on a soft-launch basis. We expect stronger sales given the prime location of Hunza's projects, Hunza's ability to quench niche market's demand for premium lifestyle homes, while riding on the feel good factor in the Malaysian property market.

**Upward revision of 13% in our FY08E net profit forecast.** Our basis for the adjustment is a reduction in MI as there are less earnings coming from the 70% owned Bandar Putra Bertam townships and more from wholly owned projects like Alila and Mutiara Seputeh.

**Downward target price revision to RM4.37**, based on our conservative sum of parts RNAV on a fully diluted basis and a 68% premium to its trading price. We have also assumed maximum subscription of 39.4m rights issue at RM2.40/share, but did not account for the free detachable warrants as conversion details have yet to be revealed. FY08E and FY09E PER remains compelling at 6x and 5x (8x and 6x on fully diluted basis), respectively, supported by a 49% 3-year EPS CAGR. **Maintain BUY.**

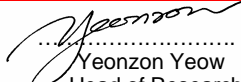
## Earnings Estimates

FYE: 30 Jun (RMm)	2005	2006	2007	2008E	2009E
Revenue	112	117	190	286	338
Pretax profit	32	35	61	92	119
Net profit	16	20	39	62	78
Net profit growth (%)	19%	21%	99%	58%	25%
EPS (sen)	15.4	17.4	33.6	46.1	57.4
EPS growth (%)	2%	13%	94%	37%	25%
Diluted EPS (sen)	15.4	17.3	25.0	39.6	49.3
NDPS (sen)	5.35	5.30	9.10	12.48	15.54
NTA/ share (RM)	1.55	1.66	1.89	2.04	2.46
PER (x)	16.9	15.0	7.7	5.6	4.5
Diluted PER (x)	16.9	15.0	10.4	6.6	5.3
P/NTA (x)	1.7	1.6	1.4	1.3	1.1
EV/EBITDA (x)	17.0	15.8	8.8	5.9	4.6
ROE %	9.9%	10.6%	17.6%	23.4%	25.5%
Dividend Yield (%)	2.1%	2.0%	3.5%	4.8%	6.0%

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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)** (formerly known as K&N Kenanga Bhd)  
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenangaresearch.com](http://www.kenangaresearch.com)

  
Yeonzon Yeow  
Head of Research