

M&A Securities



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3 March 2008

Hunza Properties Berhad		Price:	RM2.39
		Market Capitalisation:	RM344.8mn
		Board:	Main
		Sector:	Properties
Stock Code	5018	Recommendation:	BUY

Key Stock Statistics

	2007	2008f
EPS (sen)	31.23	39.01
P/E (est)	7.7	6.1
Dividend/Share	12.5	12.5
NTA/Share (sen)	206.82	245.83
Book Value/Share (sen)	206.82	245.83
Issued Capital (mil shares)	135.35	144.28
52-weeks Share Price Range		

Major Shareholders:	Dato' Khor Teng Tong	53.39
	Lembaga Tabung Haji	7.91
	Yayasan Bumiputra Pulau Pinang	7.46

Per Share Data

	2005	2006	2007	2008f
Book Value (RM)	171.39	184.01	206.82	207.49
Cash Flow (sen)	(42.94)	(1.80)	47.48	18.60
Earnings (sen)	19.55	21.55	31.23	39.01
Dividend (sen)	7.50	7.50	12.50	12.50
Payout Ratio (%)	38.37	34.81	40.03	32.04
PER (x)	12.23	11.09	7.65	6.13
P/Cash Flow (x)	(5.57)	(133.04)	5.03	12.85
P/Book Value (x)	1.39	1.30	1.16	1.15
Dividend Yield (%)	3.14	3.14	5.23	5.23
ROE (%)	12.95	12.13	17.15	18.80
Net Gearing (%)	46.18	47.99	41.86	37.48

P&L Analysis (RMmn)

	2005	2006	2007	2008f
Year-end: 30 June				
Revenue	112.26	116.64	186.73	267.53
Operating Profit	31.88	34.49	57.57	76.03
Depreciation	(0.47)	(0.83)	(1.17)	(1.17)
Interest Expenses	(1.14)	(0.02)	(0.10)	(0.01)
Pre-tax Profit	31.82	34.81	57.50	76.06
Effective Tax Rate	28.89	28.32	26.49	26.00
Net Profit	22.63	24.95	42.27	56.29
Operating Margin	28.40	29.57	30.83	28.42
Pre-tax Margin	28.35	29.84	30.79	28.43
Net Margin	20.16	21.39	22.64	21.04

1. Investment Highlights

- Reputable developer in the Northern Region
- Ample land bank at strategic locations
- Currently developing high-end residential and shopping mall at Gurney Drive
- Trading at undemanding levels

2. Background

- Corporate Profile

Hunza Properties Berhad (HPB) was founded by Dato' Khor Teng Tong and has established itself, particularly in Northern Region of Malaysia, as a reputable developer of high rise residential units of a wide range of low to high cost apartments, high-end condominiums as well as gated communities and townships.

HPB Group has completed projects worth more than RM1bn in turnover, comprising approximately 10,000 units of residential and industrial properties.

The Company assumed its present name upon its conversion into a public limited company in Oct 1998. On March 23, 2000, HPB was successfully listed on the Main Board of the Bursa Malaysia Securities Berhad. Its principal activities include property development and property investment.

- Business

Selected Completed Projects

<u>Project</u>	<u>Years</u>	<u>Units</u>	<u>GDV (mm)</u>	<u>% sold as at 31 Jan 08</u>	<u>Gross Mgn %</u>
Marina Bay (Block B) Sungai Petani (Total 584 acres)	FY00/01	167	84	100	45
Tmn Sri Bayu I	FY00/02	1031	48	100	27
Tmn Bukit Bayu (Shop Offices)	FY03/04	20	4	100	44
Tmn Bukit Bayu (Zone A)	FY02/04	215	53	97	22
Tmn Sri Bayu II, Phase 3A	FY04/05	646	47	88	5
Bandar Putra Bertam, Prai (Zone L1)					
Phase 1	FY02/04	1321	127	99	30
Phase 2A	FY03/05	518	92	100	41
Phase 2B	FY05/06	518	70	99	35
Phase 4A	FY05/06	170	76	42	52

In 1988, HPB first started developing Greenlane Heights, a 4-phase residential scheme which houses ten different projects. The first being Block "A" to the final phase, Block "K series" - "Kingfisher" was completed in 1998. The total gross area of development is approximately 40 acres, valued at approximately RM250mn comprising 2,400 units of low cost, medium cost and luxurious apartments.

HPB developed its first condominiums, Marina Bay in 1994. The project is sited in the most desirable location along the prime Tanjung Tokong beach front near Gurney Drive. Developed on an 11 acre land, this project of approximately RM157mn consists of 449 condominium units, housed in three 20-storey blocks. Each and every unit offers a picturesque view of the sea.

This is followed by HPB's first township development called Taman Seri Bayu (TSB); a 584 acres project in Sungai Petani, Kedah in 2000. TSB is 10 minute drive from the North-South Highway Interchange and the town of Sungai Petani. To date, HPB has successfully launched GDV RM152mn in TSB and achieved 90% to 100% take-ups.

HPB has planned for another GDV RM300mn projects on the remaining undeveloped 330 acres land. However, HPB plans to slow down the launches due to the slower take-ups in existing launches and focus on the up-market Infinity and Gurney Paragon.

Subsequently, HPB launched a 701 acres township project, called Bandar Putra Bertam township in Seberang Prai Utara, Penang. The location of the site is approximately 12km from the immediate town of Kepala Batas and 5km from Tasik Gelugor and is served by an interchange on the North-South Highway, about 4km away from the site.

The proposed project includes an integrated residential development of which the first 350 acres comprising approximately 3,500 units which include 800 units of double storey low cost cluster houses, 1,300 units of single and double storey terrace, 400 units of double storey semi-detached, 500 units of townhouses, 150 units of bungalows and 270 units of shophouses.

The proposed development for the remaining 351 acres of land will be of a similar concept. This proposed development will be implemented in 6 phases and work has commenced in January 2002. The entire project will take 10 years to complete. The features of this project would be affordability and attractive design.

Currently, HPB has land banks of approximately 486 acres located in Bertam, Seberang Prai Utara, 330 acres located in Sungai Petani, Kedah,

Following its success in Penang, HPB ventured into the Klang Valley with the launch of semi detached and bungalows, called Mutiara Seputeh in Taman Seputeh KL. It achieved an encouraging take-up rate of over 83% for its semi-D units; the project is situated within minutes of Mid Valley Megamall.

Besides property development, HPB is in the investment properties and building materials trading business. The trading business accounts for 6% to 10% of revenue.

On-going Projects

Project	Years	Units	GDV (mm)	% sold as at 31 Jan 08
Bandar Putra Bertam, Prai				
Phase 2C	FY06/08	52	17	38
Alila, Tanjung Bungah I, Penang				
Phase I - Highrise	FY05/08	250	102	98
Phase II - Lowrise	FY05/08	162	103	75
Mutiara Seputeh, Seputeh KL				
Semi Detached	FY06/08	80	153	83
Bungalow	FY07/08	13	47	15
Gurney Drive, Penang				
Phase I - Gurney Paragon				
Service condominiums	FY07/10	220	380	46
Retail lots (held by Hunza)	FY07/10			
Infinity, Tanjung Bungah II, Penang				
Condominiums (Project Mgmt)	FY07/10	119	240	43

Alila

The 18.0 acres garden concept development project in Tanjung Bungah, Penang, was launched in September 2005. The project consists of two 19-storey condominiums, triple storey garden villas/townhouses; worth a combined GDV of RM211mn. The project has also attracted foreign investment interest under Malaysia My Second Home campaign.

Its total sales to end-Jan 2008 were RM173.8mn or a take-up rate of 82.4%. The bulk of unsold units are bumi lots, applications are presently being made to release those units.

Mutiara Seputeh

The high-end residential Mutiara Seputeh development has a GDV of RM200mn and is minutes away from the highly successful Mid-Valley Megamall. The project comprised of 93 units being 80 3-storey semi-D units and 13 bungalows. Since its launch in April 2006, the 15 acres project enjoyed a steady take-up rate of 83% for its semi-D units.

The take-up is expected to accelerate as the semi-D units closes completion in March 2008 with higher selling prices achieved. The RM3.5mn bungalow units are expected to be completed by September 2009.

Bandar Putra Bertam

The RM1.4bn 701 acres Bandar Putra Bertam project in Seberang Prai is a 70:30 JV with Yayasan Bumiputra Pulau Pinang. The project is strategically located as it neighbors industrial companies and learning institutes/schools.

The first three launches in Zone L1 have successfully achieved 99% to 100% sale; consisting of affordable properties to cater to the market gap for housing to complement the surrounding commercial and industrial developments. Due to strong responses, HPB pushed on with launching medium to high cost housing (Phase 2C features 2-storey semi-detached units) in September 2006.

With some RM985mn in GDV planned for the remaining 486 acres, HPB has the flexibility to launch properties to suit the current demand.

Infinity

The RM240mn worth Infinity, Tanjung Bungah, Penang is a 3-acre project of 119 units of luxury condominium towers fronting the beach. Infinity units sold from RM410psf upwards and are still one of the more expensive high-end properties on Tanjung Bungah. The 2 towers are strategically positioned to provide a sea front view for all units. Buyers can choose between duplex or conventional condominium units; typical units range from a buildup of 3,700sf to 4,800sf.

Infinity is designed by a well-known Singaporean architect, Architect 61. Its portfolio includes Raffles City Development, The Concourse and the Singapore Exchange Centre. In KL, its projects include Mont Kiara, No.1 Hampshire and Stonor Park. Their participation has provided the project to have an international appeal to widen its target market.

As at end-Jan 2008, 43% have been sold since its soft launch in May 2007.

Gurney Paragon

The RM380mn Gurney Paragon is situated on the 10.2 acres land, touted as HPB's iconic development on Gurney Drive in the heart of Penang's tourist belt. The project's strength lies in its strategic location between Gurney Drive and Jln Kelawei. The project will be developed in 2 phases; condominiums, office block and shopping mall. The shopping mall has a net lettable area of 650,000 sf. HPB plans to retain

the retail portion, but will sell the condominiums of GDV RM380mn. The retail portion is expected to provide HPB with future recurring income and future capital gains if it decides to dispose the asset later. A mall of similar size i.e Gurney Plaza which is close to Gurney Paragon was recently sold for RM770mn to Singapore's Capitaland. As such, the management is confident of the future value of its mall.

Gurney Paragon's seafront luxury condominium consists of two towers with 220 units that sit on a retail podium.

Another attraction of Gurney Paragon's is its good location, whilst it can be easily accessible to Penang's main roads and its close proximity to financial institutions, offices, eateries like hawkers and restaurants and shopping complex like Gurney Plaza.

In addition, given that it is part of the iconic architecturally designed shopping mall, together with its prime location, this has enabled HPB to price the units at a benchmark pricing of RM550 psf along Gurney Drive.

Gurney Paragon is expected to be the main shopping attraction in Penang, enabling it to command high rental rate. Its unique design, which combines the preservation of the existing heritage novitiate building and chapel within the mall's courtyard namely St Joseph's Novitiate, should draw international conservation appeal that will increase its prominence. The project registered a take-up rate of 46% as of Jan 2008.

Currently, HPB has taken RM110mn in loans for the Gurney project, of which RM60mn was used to finance the land cost of RM98mn. The remaining part of the loan is a bridging loan of RM50mn for Paragon's construction. We can also expect HPB to take an additional RM100mn to RM125mn loans for the shopping mall's construction.

HPB intends to engage the services of a retail consultant owing to its lack of experience in managing a shopping mall. As such, it engaged a renowned international property advisory group, DTZ, which will apply its expertise in positioning HPB's upcoming mall and selecting tenants. DTZ was involved in projects include KLCC, Sunway Pyramid and Danga Mall in JB.

HPB has also engaged reputable DP Architects as the concept design architect. DP Architects' has undertaken projects include Suntec City, Millenia Development, Bugis Junction and Esplanade – Theatres on the Bay and Singapore Performing Arts Centre. Another consultant Cadiz International is its retail architect, the company was involved in Reef Mall in Dubai, Mal Galaxy in Jakarta and Emerald City Mall in Suzhou, China.

Projects in the Pipeline

<u>Project</u>	<u>Years</u>	<u>Units</u>	<u>GDV (mn)</u>
Gurney Drive, Penang			
Phase 2			
Shopping complex/heritage building/office block	FY08/10		*
Car parks for shopping complex	FY08/10	1900	*
Project Management, Alila II, Penang			
Phase I - Highrise	FY10/12	260	156
Phase II - Lowrise	FY10/12	20	50
Bandar Putra Bertam			
Zone L1 - Remaining (136 acres)	After FY10		266
Zone L2 - (150acres)	FY09/12	2107	320
Remaining (200 acres)	After FY12	2500	399
Sungai Petani - Remaining (330 acres)			300
* Total shopping mall components – RM800mn			

3. Valuation

<u>Comparative valuation</u>	<u>Hunza</u>	<u>SP Setia</u>	<u>IOI Prop</u>	<u>Mah Sing</u>
Share Price (RM)	2.39	4.90	12.80	1.85
Mkt Cap (RMmn)	344.82	1015.04	4269.03	1125.38
Ave Daily Vol(mn)	0.59	3.67	0.13	1.45
P/E FY05	8.06	10.06	10.54	4.41
P/E FY06	10.94	14.01	9.55	7.66
P/E FY07	8.09	19.30	10.72	12.96
P/NTA (X)	1.40	3.01	1.90	2.52
Dividend Yield (%)	5.23	3.06	5.08	3.24

4. Earnings Outlook

As at end-Jan 08, the group's unbilled sales stood at RM268.5mn compared with end-Sep 07's RM246mn. Consistent with previous months, the bulk of this amount came from its high-end projects, notably Gurney Paragon, Infinity and Mutiara Seputeh. As construction of these two projects is progressing well, the group should be booking more significant earnings from here on.

We are bullish over the prospects of HPB given that it is currently building on the best location in Penang Island. Its projects targets specifically on the high-end segment and is largely unaffected by economic fluctuations or interest rates.

5. Recent Developments

HPB has on 17th August, 2007 announced its proposed renounceable rights issue of up to 39.44mn new ordinary shares of RM1.00 each in HPB on the basis of 1 Rights Share for every 4 existing ordinary shares of RM1.00 each held in HPB together with up to 39.44mn free detachable 5-year warrants (Warrants B) on the basis of 1 free Warrant B for every 1 Rights Share subscribed. The SC, Bursa Malaysia and BNM have approved the Proposed Rights Issue with Warrants.

HPB has recently acquired 2 parcels of land in the Mukim of Batu, Wilayah Persekutuan (Segambut) for a total consideration of RM21.29mn. The Land is set within an established area comprising several townships with a Kuala Lumpur address. The Land offers a high potential development in light of its strategic location with roads and other infrastructure in place. There are today the NKVE, the LPD and the Penchala Link as well as the Middle Ring Road. The upcoming vibrancy of the area is also due to linkage in the area to Mont' Kiara, Sri Damansara, Bandar Utama, Kota Damansara, Kepong, Sri Hartamas and the city centre. Thus, coupled with the right marketing strategy and well crafted future development plan, the Acquisition is expected to enhance the long term growth of HPB.

6. Investment Risk

HPB is subjected to inherent risks existing in both the property and construction industries. These include supply of materials, equipment and labour, changes in general economic business and credit conditions; and changes in government legislations and priorities.

The success of development projects is very much dependent on the quantity and quality of its land bank in order to sustain its future profitability. Presently, HPB is developing quality sites in Gurney Drive and township development in Seberang Prai which will keep them busy for at least another 3 years.

7. Balance Sheet

Balance Sheet (RMmn)	2005	2006	2007	2008f
Year-end: 30 June				
Total Assets	381.22	415.57	525.11	548.27
Fixed Assets	28.42	27.82	86.82	76.77
Current Assets	196.39	270.53	275.74	327.33
Other LT Assets	156.40	117.22	162.55	144.17
Current Liabilities	83.97	81.78	109.55	113.50
LT Liabilities	98.81	120.73	135.63	135.41
Share Capital	115.79	115.79	135.35	144.28
Shareholders Funds	198.45	213.06	279.93	299.36

8. Recommendation

HPB represents the best choice for investors seeking exposure to Penang and is presently developing in the most strategic location is Penang which provides the best margins. The development of Gurney Paragon will further provide HPB the experience to handle the development of malls. We fairly value HPB at RM3.90 pegged against a prospective sector PER of 10X. We recommend HPB a **BUY**.

RNAV Table

RNAV	Size/Acres	Stake	Value RMmn
Bandar Putra Bertam - Residential	435.6	70	119.54
Bandar Putra Bertam - Commercial	48.4	70	59.03
Sungai Petani	393	100	51.36
Alila	5	100	38.12
Alilia II	9.6	100	73.18
Mutiara Seputeh	12	100	47.04
Gurney Paragon	10.2	100	155.51
Infinity	3	90	29.40
			573.18
Long term investments			7.50
Long term receivables			19.47
Net current assets			205.90
Long term liabilities			-135.00
Proceeds from warrants and rights issue			223.00
			894.06
Fully diluted number of shares			236.60
Revised NAV per share			3.78

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