

# M&A Securities



KDN: PP/14767/09/2008(010867)

3 June 2008

<b>Hunza Properties Berhad</b>		<b>Price:</b>	RM1.79
		<b>Market Capitalisation:</b>	RM263.70mn
		<b>Board:</b>	Main
		<b>Sector:</b>	Properties
<b>Stock Code</b>	<b>5018</b>	<b>Recommendation:</b>	BUY

## Key Stock Statistics

	2007	2008f
EPS (sen)	31.23	38.21
P/E (est)	7.7	4.7
Dividend/Share	12.5	12.5
NTA/Share (sen)	206.82	203.21
Book Value/Share (sen)	206.82	245.02
Issued Capital (mil shares)	135.35	147.32
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	18.21
Earnings (sen)	19.55	21.55	31.23	38.21
Dividend (sen)	7.50	7.50	12.50	12.50
Payout Ratio (%)	38.37	34.81	40.03	32.72
PER (x)	12.23	11.09	7.65	4.69
P/Cash Flow (x)	(5.57)	(133.04)	5.03	9.83
P/Book Value (x)	1.39	1.30	1.16	0.86
Dividend Yield (%)	3.14	3.14	5.23	6.98
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. Results Review

Hunza Property Berhad (HPB) posted 15% increase in net profit for its 3Q ended March 31 2008. Revenue rose 21% to RM54.1mn from RM44.7mn previously while profit before tax rose 17% to RM13.4mn for current quarter. The increase in earnings is mainly attributed to the two high-end condominium projects in Penang (Phase 1 Service Condominiums of Gurney Paragon and the Infinity projects) which have started contributing to the earnings and as well as the improved take up rate for Alila project of 96% as compared to 48% in previous year.

	3Q07	3Q08	Chg	FY07	FY08	Chg
	RMmn	RMmn	%	RMmn	RMmn	%
Revenue	44.7	54.1	21.0	120.3	191.9	59.5
Cost of Sales	-29.7	-38.8	30.8	-76.5	-134.4	75.8
Gross Profit	15.0	15.2	1.7	43.8	57.4	31.1
Other Income	0.3	3.9	1388.5	0.9	7.1	717.6
Administrative Expenses	-3.8	-4.8	25.5	-9.0	-10.1	11.8
Operating Profit	11.5	14.4	25.3	35.6	54.4	52.6
Finance Costs	0.0	-0.9	18140.0	0.0	-0.9	5662.5
Profit/Loss before Tax	11.5	13.4	17.4	35.6	53.5	50.1
Income Tax	-3.0	-3.7	23.9	-10.0	-14.6	45.6
Net Profit/(Loss)	8.4	9.7	15.0	25.6	38.9	51.9
<b>MARGINS</b>						
Operating Margin (%)	25.6	26.5		29.6	28.4	25.6
Pre-tax Margin (%)	25.6	24.9		29.6	27.9	25.6
Net Margin (%)	18.9	17.9		21.3	20.3	18.9

For the nine months ended March, the group posted a net profit of RM38.9mn compared with RM25.6mn in the previous corresponding period. Cumulative revenue for the three quarters came in at RM191.9mn against RM120.3mn previously while pre-tax profit stood at RM53.5mn compared with RM35.6mn.

## 2. Earnings Outlook

Despite the increase in earning HPB property development activities which enjoy a higher profit margin has slowed down due to negative impact from global economic outlook and uncertainty in local environment, while their trading arm has reviewed its profit margins downwards in order for it to be competitive.

Going forward, we remain confident of HPB in achieving our forecast revenue of RM267.5mn as it has unbilled sales of RM276.4mn as of end-March 2008. Furthermore the take up rate of two high-end condominium projects in Penang have risen to about 50% since their launches in 2007. As construction of these two projects is progressing well, the group should be booking more significant earnings from here on.

Furthermore HPB maiden foray into retail management of its Gurney mall (net lettable area of 650,000 sf) will provide HPB with future recurring income and future capital gains if it decides to dispose the asset later.

## 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. Recommendation

We are maintaining our **BUY** recommendation as it 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. We fairly value HPB at RM3.90 pegged against a prospective sector PER of 10X.

### RNAV Table

<u>RNAV</u>	<u>Size/Acres</u>	<u>Stake</u>	<u>Value RMmn</u>
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
<b>Revised NAV per share</b>			<b>3.78</b>

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