

M&A Securities



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

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| | | | |
|--------------------------------|-------------|-------------------------------|------------|
| Hunza Properties Berhad | | Price: | RM1.40 |
| | | Market Capitalisation: | RM206.24mn |
| | | Board: | Main |
| | | Sector: | Properties |
| Stock Code | 5018 | Recommendation: | BUY |

Key Stock Statistics

| | 2008 | 2009e |
|-----------------------------|-------------|--------|
| EPS (sen) | 33.54 | 30.01 |
| P/E (est) | 4.2 | 4.7 |
| Dividend/Share | 13.5 | 12.5 |
| NTA/Share (sen) | 228.41 | 203.19 |
| Book Value/Share (sen) | 223.88 | 236.82 |
| Issued Capital (mil shares) | 144.40 | 147.32 |
| 52-weeks Share Price Range | 1.28 – 2.95 | |

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

Per Share Data

| | 2006 | 2007 | 2008 | 2009e |
|--------------------|----------|--------|--------|--------|
| Book Value (RM) | 184.01 | 206.82 | 223.88 | 259.25 |
| Cash Flow (sen) | (1.80) | 47.48 | 117.85 | 18.21 |
| Earnings (sen) | 17.08 | 33.49 | 33.54 | 30.01 |
| Dividend (sen) | 7.50 | 12.50 | 13.50 | 12.50 |
| Payout Ratio (%) | 43.90 | 37.32 | 40.25 | 41.66 |
| PER (x) | 13.99 | 7.14 | 4.17 | 4.67 |
| P/Cash Flow (x) | (133.04) | 5.03 | 1.19 | 7.69 |
| P/Book Value (x) | 1.30 | 1.16 | 0.63 | 0.54 |
| Dividend Yield (%) | 3.14 | 5.23 | 9.64 | 8.93 |
| ROE (%) | 9.61 | 15.92 | 15.89 | 11.82 |
| Net Gearing (%) | 47.99 | 41.86 | 24.68 | 37.48 |

P&L Analysis (RMmn)

| | 2006 | 2007 | 2008 | 2009e |
|--------------------|--------|--------|--------|--------|
| Year-end: 30 June | | | | |
| Revenue | 116.64 | 186.73 | 245.14 | 230.43 |
| Operating Profit | 34.49 | 57.57 | 69.70 | 63.39 |
| Depreciation | (0.83) | (1.17) | (0.73) | (1.17) |
| Interest Expenses | (0.02) | (0.10) | (1.35) | (1.62) |
| Pre-tax Profit | 34.81 | 57.50 | 68.34 | 61.77 |
| Effective Tax Rate | 28.32 | 26.49 | 28.20 | 26.00 |
| Net Profit | 19.78 | 39.24 | 48.43 | 44.21 |
| Operating Margin | 29.57 | 30.83 | 28.43 | 27.51 |
| Pre-tax Margin | 29.84 | 30.79 | 27.88 | 26.81 |
| Net Margin | 16.96 | 21.02 | 19.76 | 19.19 |

1. Results Review

Hunza Property Berhad (HPB) posted 23.4% increase in net profit for FY08. Revenue rose 31.3% to RM245.1mn from RM186.7mn previously while profit before tax rose 18.9% to RM68.3mn. 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.

| | 4QFY07 | 4QFY08 | Chg | FY07 | FY08 | Chg |
|-------------------------|--------|--------|--------|--------|--------|--------|
| | RMmn | RMmn | % | RMmn | RMmn | % |
| Revenue | 66.4 | 53.3 | -19.8 | 186.7 | 245.1 | 31.3 |
| Cost of Sales | -47.2 | -40.7 | -13.8 | -123.7 | -175.2 | 41.6 |
| Gross Profit | 19.2 | 12.6 | -34.6 | 63.0 | 70.0 | 11.0 |
| Share of Profit | | 7.0 | | | 12.7 | |
| Other Income | 4.3 | 0.5 | -88.9 | 5.1 | 1.8 | -64.1 |
| Administrative Expenses | -1.5 | -4.8 | 209.7 | -10.6 | -14.9 | 40.6 |
| EBIT | 22.0 | 15.3 | -30.3 | 57.6 | 69.7 | 21.0 |
| Finance Costs | 0.1 | -0.4 | -601.2 | -0.1 | -1.4 | 1226.5 |
| Profit/Loss before Tax | 22.0 | 14.9 | -32.6 | 57.5 | 68.3 | 18.9 |
| Income Tax | -5.2 | -4.7 | -10.1 | -15.2 | -19.3 | 26.5 |
| Minority Interest | -0.7 | 0.0 | -106.7 | -3.0 | -0.6 | -78.9 |
| Net Profit/(Loss) | 16.1 | 10.2 | -36.8 | 39.2 | 48.4 | 23.4 |
| MARGINS | | | | | | |
| Gross Margin (%) | 28.9 | 23.6 | | 33.8 | 28.5 | |
| Pre-tax Margin (%) | 33.2 | 27.9 | | 30.8 | 27.9 | |
| Net Margin (%) | 24.3 | 19.1 | | 21.0 | 19.8 | |

For the quarter ended June, the group posted a net profit of RM10.2mn compared with RM16.1mn in the previous corresponding period. The Group achieved revenue of RM53mn and profit before tax of RM15mn for current quarter which is 20% and 32% lower as compared to the preceding year's

corresponding quarter. The decrease is mainly attributable to:

- i) The revenue for Infinity project (which commenced in current financial year) is not consolidated in the Group revenue.
- ii) Upon completion of Alila project, certain cost overruns/underaccruals of approximately RM3.5mn (representing less than 2% of GDV) have now been taken into account.
- iii) Income of RM2.9mn was recognised in the income statement in the quarter ended 30 June 2007. This resulted from the requirement of FRS140 Investment Properties to measure investment properties at fair value on yearly basis. For financial year ended 30 June 2008, based upon valuation exercise, there was no increase/decrease in values.
- iv) The strong sales of Bandar Putra Bertam's shop offices at higher margin (developed by Bandar Kepala Batas Sdn Bhd, a 70% owned subsidiary of the Group) for quarter ended 30 June 2007. This also explained for the higher share of minority interest in that quarter.

2. Earnings Outlook

Going forward, HPB is poised to register a total revenue of RM230.4mn for FY09 as it has unbilled sales of RM261.1mn as of end-June 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 Paragon | | | |
| Phase 2 shopping complex/heritage building/office block | FY08/10 | | * |
| car parks for shopping complex | FY08/10 | 2000 | * |
| Project Management, Alila II, Penang | | | |
| Phase I – Highrise | FY10/12 | 260 | 250 |
| Phase II – Lowrise | FY10/12 | 20 | |
| Segambut – Highrise | After FY 10 | 400 | 300 |
| Bandar Putra Bertam | | | |
| Zone L1 - Semi-detached | FY10/12 | 100 | 30 |
| Remaining | After FY10 | - | 236 |
| Zone L2 - (150acres) | After FY12 | 2107 | 320 |
| Remaining (200 acres) | After FY12 | 2500 | 399 |
| Sungai Petani - Remaining (330 acres) | | | 300 |
| | | | 1835 |

* 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 have also lowered our target to RM3.00 pegged against a prospective sector PER of 10X.

| | <u>Size /Acres</u> | <u>Stake</u> | <u>Value</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 |
| Segambut | 6.28 | 100 | 24.62 |
| 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 |
| | | | 559.69 |
| Long term investments | | | 2.38 |
| Long term receivables | | | 35.80 |
| Net current assets | | | 43.56 |
| Long term liabilities | | | -81.00 |
| Proceeds from warrants and rights issue | | | 223.00 |
| | | | 783.43 |
| Fully diluted number of shares | | | 236.60 |
| Revised NAV per share | | | 3.31 |

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