



# MALAYSIA EQUITY

## Investment Research

### Daily News

## PROPERTY

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## FY08 Results Review

Private Circulation Only

# Hunza Properties

BUY	Maintain
Price	RM1.84
Target	RM2.49

## Slightly Above Expectation

### Stock Profile/Statistics

Bloomberg Ticker	HPB MK Equity
KLCI	1073.21
Issued Share Capital (m)	147.33
Market Capitalisation (RMm)	206.26
52 week H   L Price (RM)	3.06   1.21
Average Volume (3m) '000	18.72
YTD Returns (%)	-1.24
Net gearing (x)	0.61
Altman Z-Score	2.42
ROCE/WACC	0.77
Beta (x)	1.01
Book Value/share (RM)	1.89

### Major Shareholders (%)

Dato' Dr. Khor Teng Tong	57.0
Yayasan Bumiputera	7.9
Koperasi Permodalan Felda	7.8

### Share Performance (%)

Month	Absolute	Relative
1m	-6.04	-3.39
3m	-23.35	-9.66
6m	-42.89	-27.22
12m	-44.17	-38.21

### 6-month Share Price Performance



Hunzpty's FY08 turnover and net profit grew at a strong 31.3% and 23.4% y-o-y respectively while net earnings came in 7.2% above our expectation. Going forward, despite its strong unbilled sales of RM267.4m, the weakening high-end condos market on the Penang Island will continue to weigh down earnings growth momentum in the immediate term, as partially reflected in its 2<sup>nd</sup> consecutive uninspiring q-o-q performance since 3Q08. Our 12-month target price of RM2.49 by end-08 is an 11.1% premium to its CY08 NTA of RM2.24 but an approximate 43.9% discount to FD-RNAV of RM4.42.

**Projects update.** Hunzpty is sitting on strong unbilled sales of RM267.4m (1.1x of FY08 turnover). These projects include: (i) the Alila development in Tanjung Bungah, which has a take-up rate of 91% (vs 89% in 3Q08); (ii) the RM153m semi-Ds and RM47m bungalows in Mutiara Seputeh, KL achieved a take-up rate of 97% (vs 86% in 3Q08) and 15.0% (unchanged from 3Q08) respectively; (iii) RM380m Phase 1 of Gurney Paragon (Penang) comprising service condos had a take-up rate of 50% (vs 3Q08 48%); and (iv) Infiniti Seafront (Penang) comprising 119 units of luxurious condos worth a GDV of RM240m, achieved an estimated take-up rate of 54% (vs 3Q08 52%).

**Weakening demand in Penang.** The take-up rates for most of its projects improved moderately q-o-q in 4Q08 for the second consecutive uninspiring quarter, a sign of the weakening demand for high-end condos on the Island. This, in fact, was not peculiar to Hunzpty. Figure 2 shows that demand for condos on Penang Island had been tapering off since 4QCY07 amid the increasingly negative global economic outlook as more and more potential buyers prefer to wait and see and stay on the sidelines. Although there were some encouraging buying activities in 2QCY08, we do not think this is sustainable and see more uninspiring take-up rates for the remainder of the year. Going forward, although Hunzpty will continue to register commendable earnings growth on the back of strong unbilled sales, we suspect that this momentum will lose steam as we head into 2009.

**TP RM2.49 may fall short.** The prospects of more delays in the implementation of mega infrastructure projects and the recent scrapping of the Penang Monorail and Penang Outer Ring Road projects may result in underperformance of the island's real estate sector vis-à-vis other states; hence the investment community may be tempted to give an even more generous risk premium to its valuation. Coupled with the illiquidity nature of the stock, this may further imply that our TP of RM2.49 may not necessarily be achieved by end-08.

FYE June (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	116.6	186.7	245.1	254.8	373.2
Net Profit	19.8	39.2	48.4	58.1	73.2
% chg Net Profit	20.9	98.4	23.4	20.1	25.9
Consensus Net Profit	-	-	52.9	73.5	-
FDEPS (sen)	12.5	24.9	30.7	36.8	46.4
DPS (sen)	7.5	12.5	9.2	9.2	9.2
Div Yield (%)	5.4	8.9	6.6	6.6	6.6
PER (x)	11.2	5.6	4.6	3.8	3.0
P/BV (x)	0.8	0.7	0.7	0.6	0.5
ROE (%)	10.6	17.5	17.2	17.6	19.0
ROA (%)	5.0	8.3	9.2	10.3	11.7

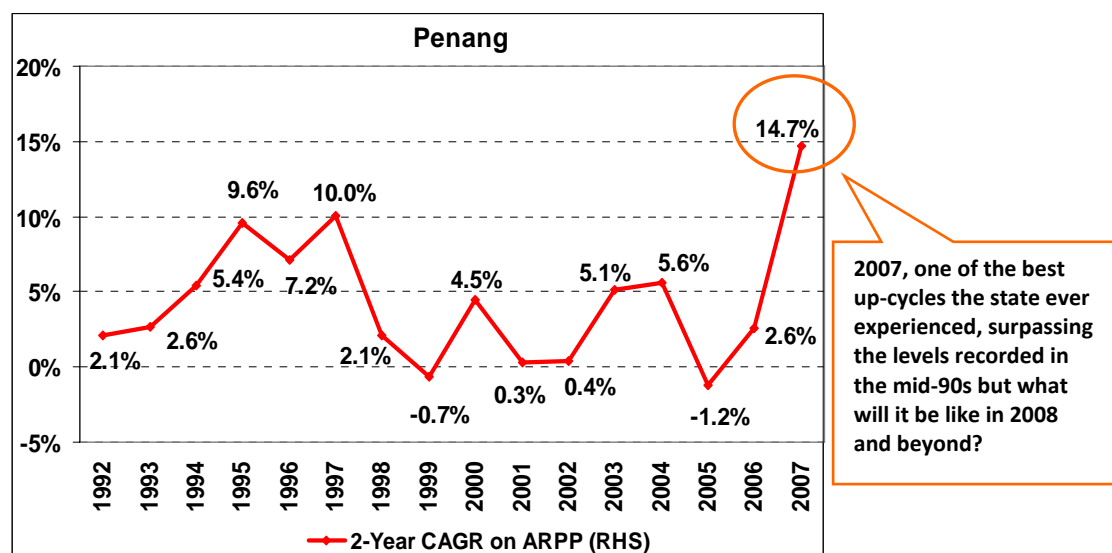
## KEY HIGHLIGHTS

Quarter Results Table						
FYE June (RMm)	4QFY08	3QFY08	% chg	YTD FY08	YTD FY07	% chg
Turnover	53.3	54.1	-1.5%	245.1	186.7	31.3%
EBITDA	8.1	10.9	-26.1%	56.9	58.2	-2.2%
Depreciation	(0.2)	(0.2)	9.6%	(0.7)	(0.7)	-2.2%
Net interest expense	(0.0)	(0.8)	-98.3%	(0.6)	0.0	-2194.1%
Associates	7.0	3.5	99.0%	12.7	0.0	-
PBT	14.9	13.4	10.6%	68.3	57.5	18.9%
Tax	(4.7)	(3.7)	25.6%	(19.3)	(15.2)	26.5%
MI	(0.0)	(0.0)	9.1%	(0.6)	(3.0)	-78.9%
Net Profit	10.1	9.7	4.9%	48.4	39.2	23.4%
EPS (sen)	6.9	6.6	4.9%	32.9	29.0	13.4%
Gross DPS (sen)	5.5	3.7		9.2	12.5	
EBITDA margin	15.1%	20.1%		23.2%	31.2%	
NTA/share (RM)	2.08	2.05		2.08	1.89	

## QUICK OVERVIEW ON PENANG ISLAND CONDOS MARKET

**Review...** Since the waiver of the RPGA in early 2007, the demand for high-end condos market on the Penang Island was buoyed by the strong influx of foreign buyers, especially from the United Kingdom and East Asia. In fact, year 2007 was one of the best up-cycles the Penang state had ever experienced, surpassing the levels recorded in the mid-90s (Figure 1).

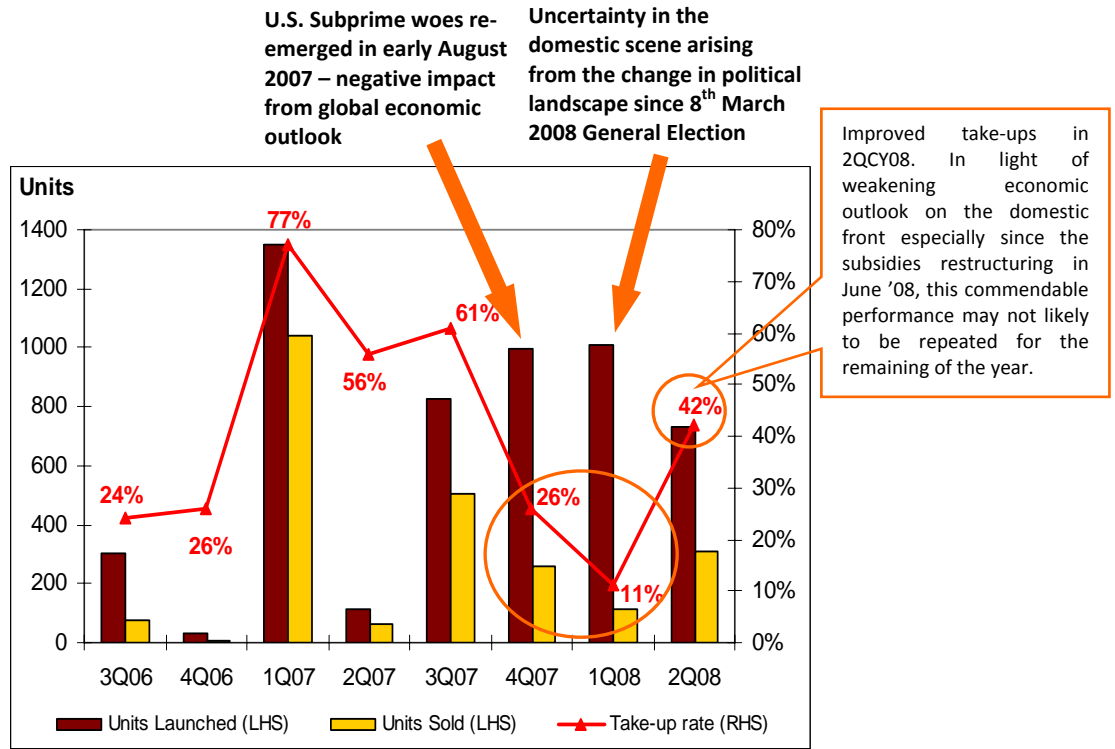
**Figure 1: 2-Year CAGR On Penang Average Residential Property Price ("ARPP")**



Source: Malaysian Property Market Reports, OSK Research

**Signs of softening since 4QCY07.** Figure 2 shows that despite the much higher number of condo units launched since 3QCY07, the absorption (demand) had been rapidly tapering off since late 2007, thus resulting in fast declining take-up rates. Although there are signs of improved buying activities in 2QCY08, we believe such an encouraging trend is not sustainable for the remainder of the year amid the weakening domestic economy, especially since the subsidies restructuring in June '08. Although the events in late 2007 should have provided an early warning to developers to hold back on their launches amid signs of weakening demand, most decided to embark on aggressive launches in 1QCY08, which raise the risk of a potential oversupply of condominiums on Penang Island. Going forward, we should expect most developers on the Island to hold back on their launches.

**Figure 2: Launches, Absorption And Take-Up Rates Of New Condos On Penang Island**



Source: JLW, OSK Research

**Penang real estate carries higher risk to underperform vis-à-vis some other states.** In addition to the emerging risk of an oversupply, the recent scrapping of certain highly anticipated mega infrastructure projects such as the Penang Monorail and the Outer Ring Road will, to a certain extent, adversely affect the performance of the real estate sector on the Island, at least in the immediate term.

**Figure 3: RNAV-Based Fair Value Of Hunzpty, RM4.42. Target Price at RM2.49**

	GDV (RM'm)	NPV (RM'm)
<b>Bandar Putra Bertam, Prai (Total 701 acres)</b>		
<u>Completed Projects</u>		
Zone L1, Phase 4A	76.00	4.73
<u>On-Going Projects</u>		
Zone L1, Phase 2C	17.00	1.21
<b>Sungai Petani (Total 584 acres)</b>		
<u>Completed Projects</u>		
Tmn Seri Bayu II, Phase 3A	47.00	1.57
<b>Tanjung Bungah, Penang (18 acres)</b>		
<u>On-Going Projects</u>		
Alila, Phase 1 - Highrise	104.00	2.36
Alila, Phase 2 - Lowrise	101.00	6.15
<u>Upcoming Projects</u>		
Tanjung Bungah, Project Management (Nilai Arif)	260.00	35.10
Tanjung Bungah II, Project Management (Diamaward)	240.00	42.82
<b>Mutiara Seputeh, Seputeh, Kuala Lumpur (15 acres)</b>		
<u>On-Going Projects</u>		
Semi-D	153.00	9.64
Bungalows	47.00	6.57
<b>Gurney Drive, Penang (10 acres)</b>		
<u>Upcoming Projects</u>		
Phase 1: 2 Blocks of 43 storeys service condos	380.00	57.50
	<b>Total NPV, RM'm</b>	<b>167.64</b>

Future Investment Properties	Estimated NBV (RM/psf)*	Market Value (RM/psf)**	NLA (sq ft)	Net Surplus After Tax (RM'm) @ 9.1%		Net Surplus
				WACC for 2 years	Discount	After Discount
Gurney Drive, Penang						
The Gurney Paragon (Shopping Mall)	650	1,000.00	730,400	158.93	20.0%	127.15
The Gurney Paragon (Retail Lots - underneath its Service Condos)	600	1,000.00	55,000	13.68	20.0%	10.94
						<b>Total Net Surplus Of Future Investment Properties After Discount</b>
						<b>138.09</b>

	Outstanding Landbank (acres)	Outstanding Landbank (sq ft' m)	Net Book Value (RM/sq ft)	Market Value (RM/sq ft)	Share (%)	Land Surplus (RM'm)
Bertam, Penang	484.00	21.08	1.87	8.00	70.0%	90.47
Sg. Petani, Kedah	393.00	17.12	0.55	0.56	100.0%	0.17
						<b>Total Land Surplus, RM'm</b>
						<b>90.64</b>
						<b>ADD: Net Profit from Unbilled Sales (@9.1% WACC)</b>
						<b>33.71</b>
						<b>LESS: 26.0% Tax On Land Surplus, RM'm</b>
						<b>(23.57)</b>
						<b>ADD: NTA @30th June 07, RM'm</b>
						<b>256.36</b>
						<b>RNAV, RM'm</b>
						<b>662.87</b>
						<b>Basic No. of Shares (m)</b>
						<b>135.35</b>
						<b>Basic RNAV per share, RM</b>
						<b>4.90</b>
						<b>ADD: Proceeds from Outstanding ESOS, RM'm</b>
						<b>0.41</b>
						<b>ADD: Proceeds from outstanding Warrants (@RM1.50), RM'm</b>
						<b>33.65</b>
						<b>RNAV After Conversion Of All Warrants, RM'm</b>
						<b>696.93</b>
						<b>ESOS (m)</b>
						<b>0.05</b>
						<b>Outstanding Warrants (m)</b>
						<b>22.43</b>
						<b>Enlarged No. of Shares (m)</b>
						<b>157.84</b>
						<b>Fully-Diluted RNAV per share, RM</b>
						<b>4.42</b>
						<b>LESS: 43.63% Discount To RNAV, RM'm</b>
						<b>(304.07)</b>
						<b>Discounted RNAV After Conversion Of All Warrants, RM'm</b>
						<b>392.86</b>
						<b>Target Price, RM</b>
						<b>2.49</b>
						<b>Historical FY07 Fully-Diluted PER @ Target Price (x)</b>
						<b>10.01</b>
						<b>Forecasted FY08 Fully-Diluted PER @ Target Price (x)</b>
						<b>8.11</b>
						<b>Forecasted FY09 Fully-Diluted PER @ Target Price (x)</b>
						<b>6.76</b>
						<b>Historical FY07 Fully-Diluted P/NTA @ Target Price (x)</b>
						<b>1.31</b>
						<b>Forecasted FY08 Fully-Diluted P/NTA @ Target Price (x)</b>
						<b>1.20</b>
						<b>Forecasted FY09 Fully-Diluted P/NTA @ Target Price (x)</b>
						<b>1.04</b>
						<b>Current Price (RM)</b>
						<b>1.40</b>
						<b>Potential Capital Gain (%)</b>
						<b>77.79%</b>
						<b>Dividend Yield (%)</b>
						<b>6.57%</b>
						<b>Total Return (%)</b>
						<b>84.36%</b>
						<b>Call</b>
						<b>BUY</b>

43.6% discount to RNAV is obtained after estimating for an approximate 11.1% premium rate to its CY08 NTA (i.e. RM2.24) based on its correlated movements against the estimated Malaysian Property Cycle.

Source: OSK Research

**OSK Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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Published and printed by :-

**OSK RESEARCH SDN. BHD. (206591-V)**  
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