



PROPERTY

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1HFY09 Results Review

Private Circulation Only

Hunza Properties

NEUTRAL
Price RM1.27
Target RM1.34

Downgrade
RM1.27
RM1.34

Certainly Not The Best Of Times

Stock Profile/Statistics

Bloomberg Ticker	HPB MK Equity
KLCI	896.51
Issued Share Capital (m)	147.33
Market Capitalisation (RMm)	187.11
52 week H L Price (RM)	2.50 0.93
Average Volume (3m) '000	53.56
YTD Returns (%)	0.00
Net gearing (x)	0.21
Altman Z-Score	1.92
ROCE/WACC	1.39
Beta (x)	0.81
Book Value/share (RM)	2.10

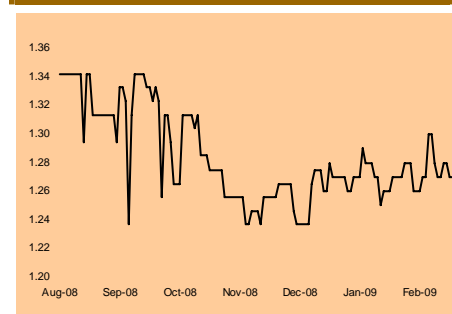
Major Shareholders (%)

Khor Teng Tong	37.9
Lembaga Tabung Haji	8.2
Yayasan Bumiputra	7.4

Share Performance (%)

Month	Absolute	Relative
1m	0.79	-1.88
3m	1.96	-6.68
6m	-5.33	8.32
12m	-44.83	-20.47

6-month Share Price Performance



Reflecting the extremely slow sales, especially on Penang Island and much slower progress billing, Hunzpty's 1HFY09 came in 37% below our expectation and 17.3% below that of consensus. Turnover and net profit contracted 63.8% and 56.8% respectively. Despite its reasonable amount of unbilled sales amounting to RM238.5m, the much slower progress billings and the downcycle in the island will continue to weigh down earnings growth until at least early FY10. In view of the fast changing dynamics of the Penang luxury condos market, we have again revised our earnings projections and our target price is slashed to RM1.34 (from RM2.29) with an estimated FD-RNAV/share of RM4.16.

Below expectation. Both top- and bottom-lines contracted significantly, which was way beyond what we and the market had expected. This was mainly attributed to the much slower than expected sales of properties and the significant delays in the construction works of Gurney Paragon since early FY09.

Uninspiring demand in Penang. The take-up rates for most of its projects posted very moderate q-o-q improvement in 2QFY09 for the fourth consecutive and uninspiring quarter, a definite sign of a weakening demand for luxury condos on the Island. Total sales during the quarter totaled a mere RM10m. In fact, the sentiment among the island's developers was so pallid that there were almost no new launches since 2H08 (see Figure 1). Buyers have been shying away and adopting a wait-and-see attitude amid the growing global financial turmoil and softening of the domestic real economy. Based on our estimates, the luxury condos market in Penang is unlikely to recover anytime soon, at least until late 2010. Nonetheless, management has guided that prices are still holding up (for now) and there have been no signs yet of default in deferred payment schemes.

Earnings projection trimmed. Going forward, although Hunzpty is well-backed by unbilled sales of RM238.5m, this only represents approximately 1.0x of FY08 turnover. In addition, given the much slower than expected billings progress and the extremely disappointing sales figures, we are slashing our FY09 and FY10 net earnings by 32.5% and 23.1% respectively.

Downgrade to Neutral. In addition to our earnings fine-tuning, we have lowered our valuation parameter and value Hunzpty at 0.7x P/NTA in CY09 in view of the expected significant earnings contraction and the lack of fresh catalysts that would compel investors to start accumulating on the stock in the near future. Its net gearing is about 0.27x and cash cover (total cash over short-term borrowings) is only slightly above 1.0x.

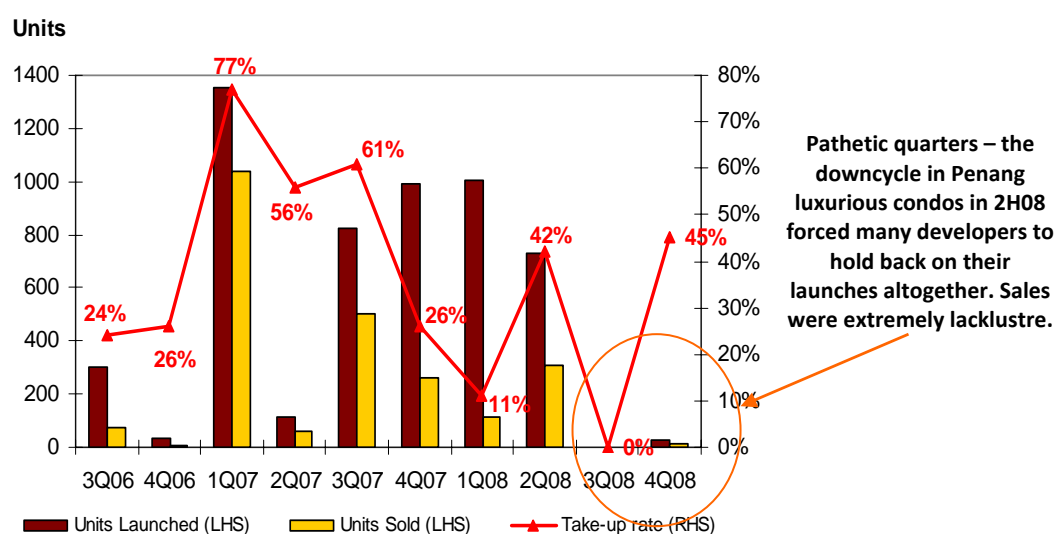
Hunza Properties is principally involved in property development, with main exposure on Penang Island and Klang Valley.

FYE June (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	116.6	186.7	245.1	108.6	134.9
Net Profit	19.8	39.2	48.4	26.6	34.6
% chg Net Profit	20.9	98.4	23.4	(45.1)	30.1
Consensus Net Profit	-	-	-	29.9	44.1
FDEPS (sen)	12.5	24.9	30.7	16.8	21.9
DPS (sen)	7.5	12.5	12.4	12.4	12.4
Div Yield (%)	5.9	9.8	9.8	9.8	9.8
PER (x)	10.1	5.1	4.1	7.5	5.8
P/BV (x)	0.8	0.7	0.6	0.6	0.6
ROE (%)	10.6	17.5	17.2	8.5	10.5
ROA (%)	5.0	8.3	9.2	5.1	6.6

KEY HIGHLIGHTS

Quarter Results Table FYE June (RMm)	2QFY09	1QFY09	% chg	YTD FY09	YTD FY08	% chg
Turnover	24.7	25.2	-2.1%	49.9	137.8	-63.8%
EBITDA	4.3	4.3	-0.5%	8.6	38.2	-77.6%
Depreciation	(0.2)	(0.2)	25.3%	(0.4)	(0.4)	14.2%
Net interest expense	(0.3)	(0.3)	-20.2%	(0.6)	(0.0)	5960.0%
Associates	5.9	3.8	57.2%	9.7	2.2	344.2%
PBT	9.7	7.5	28.6%	17.2	40.0	-57.0%
Tax	(2.6)	(2.1)	22.1%	(4.8)	(10.8)	-56.1%
MI	(0.3)	0.2	-230.6%	(0.1)	(0.5)	-87.0%
Net Profit	6.8	5.6	20.3%	12.4	28.6	-56.8%
EPS (sen)	4.6	3.8		8.4	21.2	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
EBITDA margin	17.3%	17.0%		17.1%	27.7%	
NTA/share (RM)	2.09	2.11		2.09	1.89	

Figure 1: Launches, Absorption And Take-Up Rates Of New Condos On Penang Island



Source: JLW, OSK Research

Figure 2: RNAV-Based Fair Value Of Hunzpty, RM4.16. Target Price at RM1.34

	GDV (RM'm)	NPV (RM'm)
Bandar Putra Bertam, Prai (Total 701 acres)		
<u>Completed Projects</u>		
Zone L1, Phase 4A	76.00	4.31
<u>On-Going Projects</u>		
Zone L1, Phase 2C	17.00	1.15
Sungai Petani (Total 584 acres)		
<u>Completed Projects</u>		
Tmn Seri Bayu II, Phase 3A	47.00	1.57
Tanjung Bungah, Penang (18 acres)		
<u>On-Going Projects</u>		
Alila, Phase 1 - Highrise	104.00	19.34
Alila, Phase 2 - Lowrise	101.00	19.05
<u>Upcoming Projects</u>		
Tanjung Bungah, Project Management (Nilai Arif)	260.00	36.99
Tanjung Bungah II, Project Management (Diamaward)	240.00	56.03
Mutiara Seputeh, Seputeh, Kuala Lumpur (15 acres)		
<u>On-Going Projects</u>		
Semi-D	153.00	10.80
Bungalows	47.00	7.28
Gurney Drive, Penang (10 acres)		
<u>Upcoming Projects</u>		
Phase 1: 2 Blocks of 43 storeys service condos	380.00	72.69
Total NPV, RM'm		229.20

Future Investment Properties	Estimated NBV (RM/psf)*	Market Value (RM/psf)**	NLA (sq ft)	Net Surplus After Tax (RM'm) @ 11% WACC for 4 years	Discount	Net Surplus After Discount
Gurney Drive, Penang						
The Gurney Paragon (Shopping Mall)	650	1,000.00	730,400	112.27	20.0%	89.81
The Gurney Paragon (Retail Lots - underneath its Service Condos)	600	1,000.00	55,000	15.58	20.0%	12.47
Total Net Surplus Of Future Investment Properties After Discount						102.28

	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	5.00	70.0%	46.19
Sg. Petani, Kedah	393.00	17.12	0.55	0.56	100.0%	0.17
Total Land Surplus, RM'm						46.36

LESS: 25.0% Tax On Land Surplus, RM'm (11.59)

ADD: NTA @30th June 07, RM'm 256.36

RNAV, RM'm 622.61

Basic No. of Shares (m) 135.35

Basic RNAV per share, RM 4.60

ADD: Proceeds from Outstanding ESOS, RM'm 0.41

ADD: Proceeds from outstanding Warrants (@RM1.50), RM'm 33.65

RNAV After Conversion Of All Warrants, RM'm 656.67

ESOS (m) 0.05

Outstanding Warrants (m) 22.43

Enlarged No. of Shares (m) 157.84

Fully-Diluted RNAV per share, RM 4.16

LESS: 48.03% Discount To RNAV, RM'm (444.83)

Discounted RNAV After Conversion Of All Warrants, RM'm 211.84**Target Price, RM 1.34**

Historical FY07 Fully-Diluted PER @ Target Price (x)	5.40
Forecasted FY08 Fully-Diluted PER @ Target Price (x)	4.37
Forecasted FY09 Fully-Diluted PER @ Target Price (x)	7.97
Historical FY07 Fully-Diluted P/NTA @ Target Price (x)	0.71
Forecasted FY08 Fully-Diluted P/NTA @ Target Price (x)	0.65
Forecasted FY09 Fully-Diluted P/NTA @ Target Price (x)	0.62
Current Price (RM)	1.27
Potential Capital Gain (%)	5.68%
Dividend Yield (%)	9.79%
Total Return (%)	15.47%

Call **NEUTRAL**

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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