PP/10551/10/2008(010687)
May 27, 2008

MALAYSIA EQUITY
Investment Research
Daily News

9MFY08 Results Review

Private Circulation Only

PROPERTY

Mervin Chow Yan Hoong
+60 (3) 9207 7668
mervin.chow@osk.com.my

Hunza Properties

BUY	**Maintain**
Price	**RM1.84**
Target	**RM2.44**

Spot-On But Expect Slower Momentum Ahead

Hunzapty's 9MFY08 YTD turnover and net profit grew by 59.5% (+21.0% YoY; -22.8% QoQ) and 50.3% (+26.1% YoY; -41.7% QoQ) respectively. Net profit came in line on annualised basis to our original forecasts. Nonetheless, signs of weakening high-end condos market on the Penang Island are emerging, as reflected by the rapid decline in QoQ results and modest YoY growth. Going forward, strong unbilled sales should continue to sustain the company's growth but we expect the momentum to continue to ease as we head closer into year 2009. Earnings projections have thus been fine-tuned accordingly. 12-month target price estimated at RM2.44 by end-08, an 11.5% premium to CY08 NTA of RM2.19 but an approximate 44.7% discount to FD-RNAV of RM4.42.

Stock Profile/Statistics

Bloomberg Ticker	HPB MK Equity
KLCI	1273.37
Issued Share Capital (m)	147.33
Market Capitalisation (RMm)	271.08
52 week H | L Price (RM)	3.88| 1.75
Average Volume (3m) '000	36.90
YTD Returns (%)	-0.82
Net gearing (x)	0.61
Altman Z-Score	2.42
ROCE/WACC	0.71
Beta (x)	1.03
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	-2.65	-1.52
3m	-24.90	-18.81
6m	-30.69	-25.85
12m	-35.93	-35.50

6-month Share Price Performance

Projects updates. Hunzapty is sitting on strong unbilled sales of RM276.4m (1.5x of FY07 turnover). Some projects updates include: **(i)** the Alila development in Tanjung Bungah has a take-up rate of 89.0% (unchanged from 2Q08); **(ii)** the RM153m semi-Ds and RM47m bungalows in Mutiara Seputeh, KL have achieved a take-up rate of 86.0% (vs 83% in 2Q08) and 15.0% (unchanged from 2Q08) respectively; **(iii)** RM380m Phase 1 of Gurney Paragon (Penang) comprising service condos has a take-up rate of 48.0% (vs 2Q08 46.0%); and **(iv)** Infiniti Seafront (Penang) comprising of 119 units luxurious condos worth a GDV of RM240m has achieved an estimated take-up rate of 52% (vs 2Q08 43%).

Penang – weakening demand. Take-up rates for most of its projects were largely unchanged QoQ, a sign of a weakening demand for high-end condos on the Island. This, in fact, was not peculiar to Hunzapty alone – figure 2 shows that demand for condos on Penang Island has been tapering off since early 4QCY07 amid the growing negative impact from global economic outlook as more and more potential buyers prefer to adopt a wait and see attitude. Going forward, Hunzapty will continue to register commendable earnings growth on the back of strong unbilled sales but we suspect this momentum will continue to lose its steam as we head into year 2009.

TP RM2.44 may not be achieved. Prospect of further delay in the implementation of mega infrastructure projects on the Penang Island may have adverse impact on the Island's real estate vis-à-vis other states such as the Klang Valley hence the investment community may be tempted to provide an even more generous risk premium to its valuation, implying that our TP of RM2.44 may not necessarily be achieved by end-08.

FYE June (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	112.3	116.6	190.0	236.9	251.5
Net Profit	16.4	19.8	39.4	45.2	54.8
% chg Net Profit	2.7	20.9	99.2	14.8	21.2
Consensus Net Profit	-	-	-	52.9	73.5
FDEPS (sen)	10.4	12.5	25.0	28.7	34.7
DPS (sen)	7.5	7.5	12.5	12.5	12.5
Div Yield (%)	4.1	4.1	6.8	6.8	6.8
PER (x)	17.7	14.7	7.4	6.4	5.3
P/BV (x)	1.2	1.1	1.0	0.9	0.8
ROE (%)	9.9	10.6	17.6	17.0	18.5
ROA (%)	4.7	5.0	8.4	8.6	9.9

KEY HIGHLIGHTS

Quarter Results Table

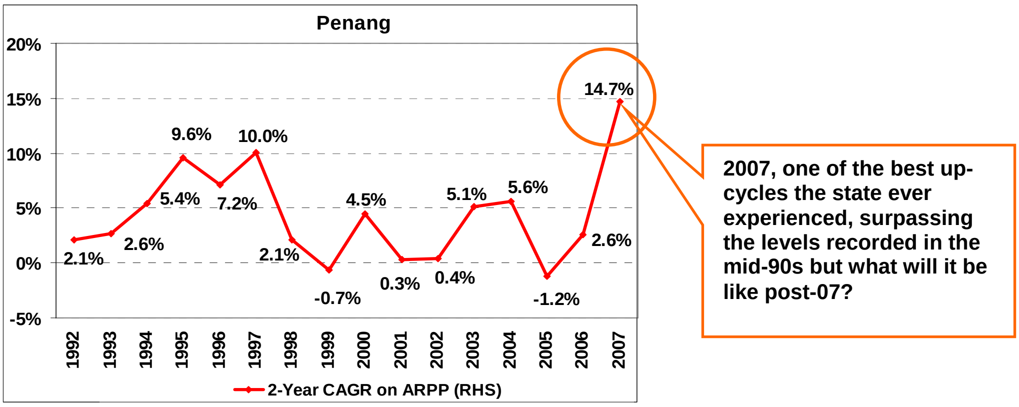
FYE June (RMm)	3QFY08	2QFY08	% chg	YTD FY08	YTD FY07	% chg
Turnover	54.1	70.1	-22.8%	191.9	120.3	59.5%
EBITDA	14.8	22.5	-34.4%	54.9	36.7	49.6%
Depreciation	(0.2)	(0.2)	-0.6%	(0.5)	(0.6)	-8.2%
Net interest expense	(1.1)	0.2	-703.7%	(0.9)	0.2	-632.9%
Associates	0.0	0.0	-	0.0	0.0	-
PBT	13.4	22.5	-40.3%	53.5	35.6	50.1%
Tax	(3.7)	(5.8)	-35.3%	(14.6)	(10.0)	45.6%
MI	(0.0)	(0.2)	-70.7%	(0.6)	(2.3)	-74.5%
Net Profit	9.7	16.6	-41.7%	38.3	23.3	64.4%
EPS (sen)	6.6	11.7	-44.2%	28.3	20.1	40.7%
Gross DPS (sen)	3.7	0.0		3.7	5.0	
EBITDA margin	27.3%	32.1%		28.6%	30.5%	
NTA/share (RM)	2.05	2.06		2.05	1.80	

FYE June (RMm)	**FY04**	**FY05**	**FY06**	**FY07**	**FY08f**	**FY09f**	**FY10f**
Turnover	117.30	112.26	116.64	189.98	236.89	251.49	356.55
EBITDA	29.20	34.36	35.71	61.29	70.70	87.02	111.45
PBT	27.02	31.82	34.81	60.74	68.46	85.01	109.57
Net Profit	15.93	16.36	19.78	39.40	45.22	54.80	67.24
EPS (sen)	15.25	10.37	12.53	24.96	28.65	34.72	42.60
DPS (sen)	7.50	7.50	7.50	12.50	12.50	12.50	12.50
Margin							
EBITDA	24.89	30.61	30.62	32.26	29.84	34.60	31.26
PBT	23.04	28.35	29.84	31.97	28.90	33.80	30.73
Net Profit	13.58	14.58	16.96	20.74	19.09	21.79	18.86
ROE	12.54	9.89	10.64	17.58	17.01	18.48	19.49
ROA	5.69	4.72	4.96	8.39	8.55	9.85	10.74
5-year Net Profit CAGR	-	-	-	41.20	32.34	28.03	32.66
Balance Sheet							
Fixed Assets	23.09	28.42	27.82	86.82	27.75	27.85	28.05
Current Assets	133.49	196.39	270.53	296.22	351.94	383.78	462.78
Total Assets	311.98	381.22	415.57	524.09	533.27	578.98	673.33
Current Liabilities	40.27	83.97	81.78	108.61	90.64	103.34	144.27
Net Current Assets	93.23	112.43	188.75	187.61	261.31	280.44	318.51
LT Liabilities	105.94	98.81	120.73	135.49	142.64	128.46	115.70
Shareholders Funds	150.96	179.88	191.88	256.32	275.33	317.61	372.33
Net Gearing (%)	43.32	70.59	80.24	66.64	47.64	34.23	28.00

QUICK OVERVIEW ON PENANG ISLAND CONDOS MARKET

Review…since the waiver of the RPGT in early 2007, the high-end condos market on the Penang Island was well-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 ever experienced, surpassing the levels recorded in the mid-90s (Figure 1).

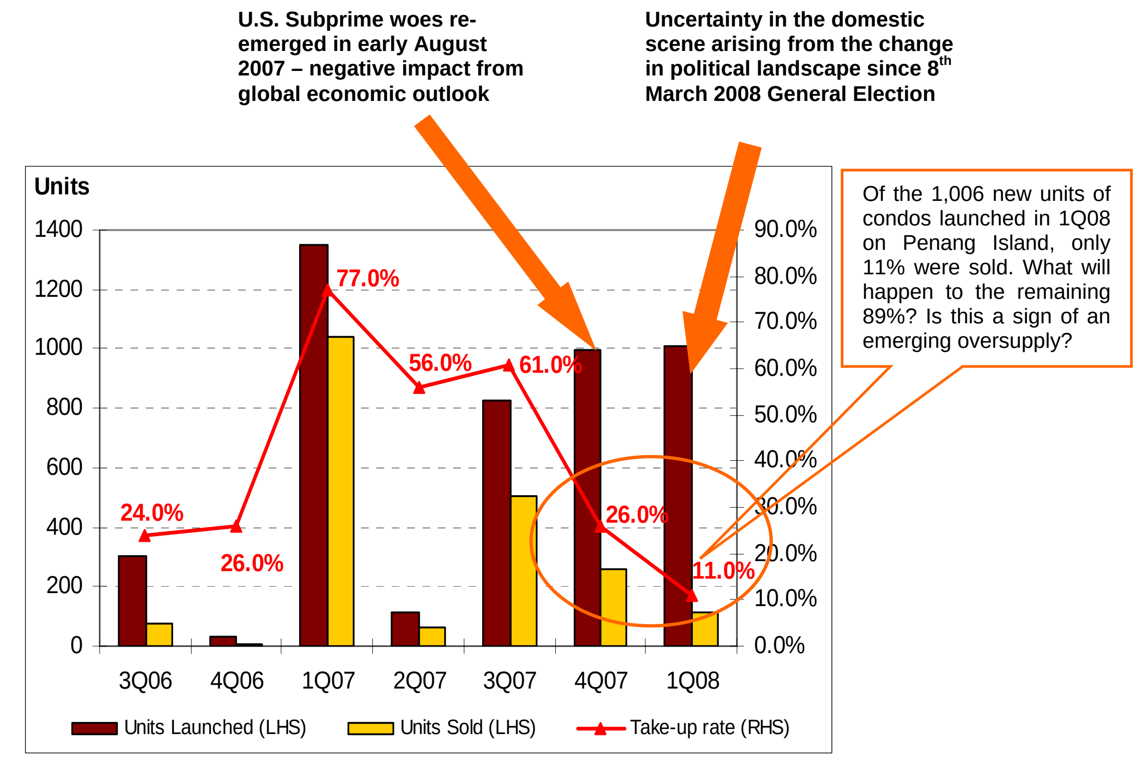
Figure 1: 2-Year CAGR On Penang Average Residential Property Price ("ARPP")



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 and into 1QCY08, absorption (demand) has been rapidly tapering off since late 2007 thus resulting in high declining take-up rates. Although late 2007 should have been an early warning sign to certain developers to hold back on their launches amid signs of weakening demand, most decided to further embark on aggressive launches in 1QCY08 thus further raising the risk of a potential oversupply of condominiums on the Penang Island. Going forward in the near future, we should expect most developers on the Island to hold back on their launches while those who choose not to heed to this clear warning sign will likely to feel a greater brunt from the weakening fundamentals of the Penang residential property market.

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



Source: JLW, OSK Research

Penang real estate has been the most sensitive to the recent change in political landscape. Since the recently concluded 12th General Election, there have been some inclination for certain unimplemented mega infrastructure projects on the Island such as the Penang Monorail and the Outer Ring Road to be reviewed and potentially scrapped. Any potential delays in the implementation of these projects will, to a certain extent, adversely affect the prospects of real estates on the Island in the near-to-mid term. Hence, it is little wonder to find that Penang appears to have been the most sensitive to the recent change in political landscape vis-à-vis other real estate markets in other states such as the Klang Valley.

APPENDIX: HOW DID WE DERIVE THE TARGET PRICE?

Target prices are derived by estimating the appropriate discount or premium rate to be applied to its prospective NTA based on the stock's price *correlated movements* with the Malaysian Property Cycle (readers who are unfamiliar with this valuation methodology are advised to refer to our sector report entitled "The M'sian Property Peak-Trough Cycle Theory" dated 24th March 2008 before proceeding further). Although we believe that RNAV should be a reflection of the company's *intrinsic value*, in-depth studies in the sector report reveals that stock prices may not necessarily trade at their respective RNAVs (although we still provide the estimate here in Fig. 6 for reference purpose) but are ultimately driven by the anticipated growth momentum in the Malaysian Property Cycle.

Recall…in our sector report dated 24th March 2008, we highlighted that the appropriate premium/discount rate to be applied to a property development company's prospective NTA to derive its target price is also a function of its anticipated ROE (Figure 3). This is especially true for "high-growth stocks" (characterised by their impressive earnings growth rates and high ROEs vis-à-vis most of their other peers).

...but since then, there have been some fine-tunings to the model (Fig. 3). If some readers may also recall, we have recently fine-tuned the earnings estimates to YNH Property (report dated 21st May 2008) and Sunrise (dated 22nd May 2008). Since these stocks are the main proxies to derive the appropriate premium/discount rate to Hunzapty's prospective NTA, any changes to their estimates will inevitably alter our expectation on Hunzapty's target price by end-2008 (Figure 3).

Figure 3: Regression Analysis On The High-Growth Stocks…

BEFORE

The High-Growth Stocks			
Variables	Coefficients	t-Stat	Adj. R-Square
Intercept	35.6708	2.3647	0.8477
ROE (%)	-2.2835	-3.4833	

Date	% Discount/ (Premium) To NTA	FY1 ROE (%)
Mah Sing	-6.72	17.9
Sunrise	-28.18	27.1
YNH Property	-13.60	23.1

Fine-tuning to our estimates especially on Sunrise and YNH Property hence the change in the model parameters

NOW

The High-Growth Stocks			
Variables	Coefficients	t-Stat	Adj. R-Square
Intercept	21.6125	1.9805	0.8188
ROE (%)	-1.8708	-3.1679	

Date	% Discount/ (Premium) To NTA	CY1 ROE (%)
Mah Sing	-6.72	15.8
Sunrise	-17.74	21.4
YNH Property	-13.60	17.8

Notes: The prerequisite to the above exercise is to be able to estimate the premium/discount rates to FY1 NTA of Mah Sing, Sunrise and YNH Property. We did that by studying their respective stock price correlated movements against the Malaysian Property Cycle. Please refer to our sector report dated 24th March 2008("M'sian Property 'Peak-Trough Cycle' Theory") for further information.

Source: OSK Research

The new formulae…based on the changes to our regression model as highlighted above, the formulae in figure 4 can thus be used to estimate the appropriate premium/discount rate to be applied to Hunzapty's prospective CY08 NTA to derive its target price by end-2008.

Figure 4: New Formulae To Estimate Target Prices Of "Other" Mid-To-High Growth Stocks

% Discount/(Premium) To NTA = 21.61 + [-1.87 x CY1 ROE(%)]

Source: OSK Research

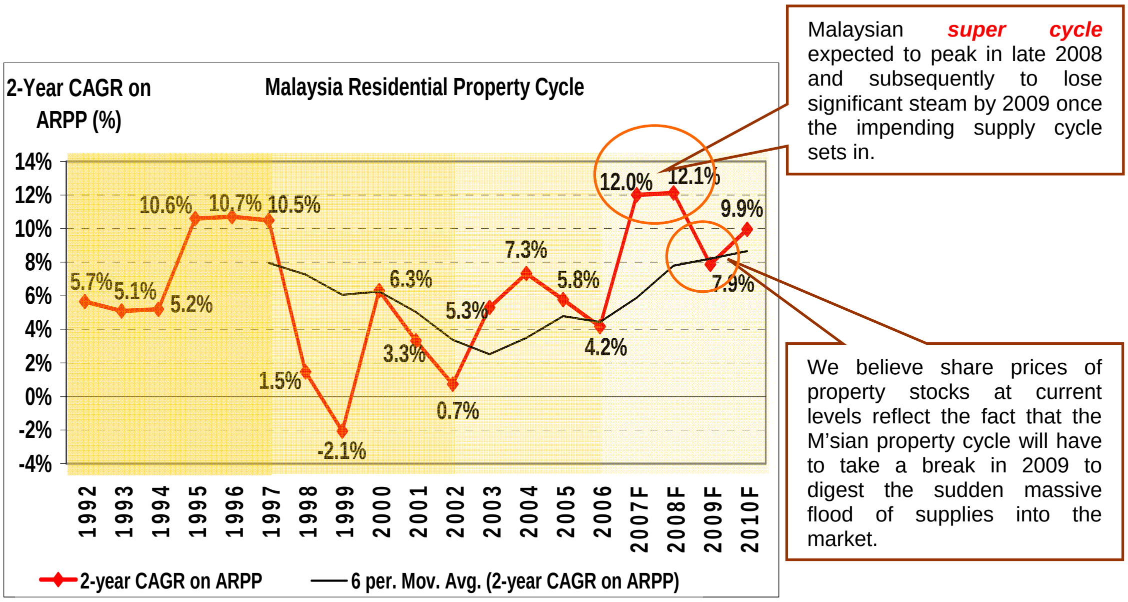
Deriving the 12-month target price. Based on the formulae in figure 4, since we expect Hunzapty to achieve an ROE of 17.7% in CY08, we thus expect the stock to trade at approximately 11.5% premium to its prospective CY08 NTA of RM2.91, hence giving us a target price of RM2.44 by end-2008.

…but will Hunzapty really hit our target price by end-08? The more adverse shift in the prospects of Penang real estate market vis-à-vis other states such as the Klang Valley as highlighted above cites the necessity for some investors to provide some degree of additional risk premium to the stock. This may imply that our TP of RM2.44 may not necessarily be achieved by end-08.

Is TP RM2.44 the *"intrinsic value"* of Hunzapty? No. Although we believe that the estimated *RNAV/share of RM5.34* should be the approximate fair value of the company, we are also aware that the actual traded price will not necessarily reflect that value. As we discovered elsewhere (M'sian Property "Peak-Trough Cycle Theory" report dated 24th March 2008), Malaysian property stock prices are ultimately driven by the anticipated growth momentum in the Malaysian Property Cycle (provided that such companies have significant exposure the Malaysian property market) – hence, using RNAV to estimate 12-month target price is almost irrelevant and using mere PER without addressing the *growth* factor tells only half the story and will likely to fail in precisely estimating the target price of the stock.

What's This Malaysian Property Cycle, Anyway?

Figure 5: OSK's Malaysian Property Cycle Model



*Notes: ARPP denotes **A**verage **R**esidential **P**roperty **P**rice which is used as a proxy to the Malaysian Property Cycle.*
Source: OSK Research

What does OSK's Malaysian Property Cycle model tell us (Fig. 5)? The model tells us that we are currently in a ***super cycle*** that will only last for a brief two years (2007-2008) – the upcycle is expected to peak by late 2008 and subsequently to lose significant amount of steam by year 2009 to digest the sudden massive flood of completed physical properties into the market (and also to a certain extent, due to the high-base effect from year 2007). We strongly believe that share prices of property stocks including Hunzapty's at current level reflects the fact that market is already pricing in an expectation of weaker momentum in the property cycle by year 2009.

Figure 6: RNAV-Based Fair Value Of Hunzapty, RM4.42. Target Price at RM2.44

	GDV (RM'm)	GDV Balance (RM'm)	NPV (RM'm)
Bandar Putra Bertam, Prai (Total 701 acres)			
Completed Projects			
Zone L1, Phase 4A	76.00	41.00	4.73
On-Going Projects			
Zone L1, Phase 2C	17.00	11.00	1.21
Sungai Petani (Total 584 acres)			
Completed Projects			
Tmn Seri Bayu II, Phase 3A	47.00	13.00	1.57
Tanjung Bungah, Penang (18 acres)			
On-Going Projects			
Alila, Phase 1 - Highrise	104.00	15.00	2.36
Alila, Phase 2 - Lowrise	101.00	40.00	6.15
Upcoming Projects			
Tanjung Bungah, Project Management (Nilai Arif)	260.00	260.00	35.10
Tanjung Bungah II, Project Management (Diamaward)	240.00	214.00	42.82
Mutiara Seputeh, Seputeh, Kuala Lumpur (15 acres)			
On-Going Projects			
Semi-D	153.00	57.00	9.32
Bungalows	47.00	47.00	7.04
Gurney Drive, Penang (10 acres)			
Upcoming Projects			
Phase 1: 2 Blocks of 43 storeys service condos	380.00	338.00	57.50
		Total NPV, RM'm	**167.79**

Future Investment Properties	Estimated NBV (RM/psf)*	Market Value (RM/psf)**	NLA (sq ft)	Net Surplus After Tax (RM'm) @ 9.1% WACC for 2 years)	Discount	Net Surplus 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
				Total Net Surplus Of Future Investment Properties After Discount		**138.09**

	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

Total Land Surplus, RM'm	**90.64**
ADD: Net Profit from Unbilled Sales (@9.1% WACC)	33.71
LESS: 26.0% Tax On Land Surplus, RM'm	(23.57)
ADD: NTA @30th June 07, RM'm	256.36
RNAV, RM'm	**663.02**
Basic No. of Shares (m)	135.35
Basic RNAV per share, RM	**4.90**
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	**697.08**
ESOS (m)	0.05
Outstanding Warrants (m)	22.43
Enlarged No. of Shares (m)	157.84
Fully-Diluted RNAV per share, RM	**4.42**
LESS: 44.70% Discount To RNAV, RM'm	(311.59)
Discounted RNAV After Conversion Of All Warrants, RM'm	**385.48**
Target Price, RM	**2.44**
Historical FY07 Fully-Diluted PER @ Target Price (x)	9.79
Forecasted FY08 Fully-Diluted PER @ Target Price (x)	8.52
Forecasted FY09 Fully-Diluted PER @ Target Price (x)	7.03
Historical FY07 Fully-Diluted P/NTA @ Target Price (x)	1.29
Forecasted FY08 Fully-Diluted P/NTA @ Target Price (x)	1.20
Forecasted FY09 Fully-Diluted P/NTA @ Target Price (x)	1.04
Current Price (RM)	**1.84**
Potential Capital Gain (%)	**32.73%**
Dividend Yield (%)	6.79%
Total Return (%)	**39.53%**
Call	**BUY**

44.7% discount to RNAV is obtained after estimating for an approximate 11.5% *premium* rate to its CY08 NTA (i.e. RM2.19) based on its correlated movements against the Malaysian Property Cycle.

For more details, please refer our sector report issued on 24th March 2008, titled ***"The Malaysian Property Peak-Trough Cycle Theory"*** .

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

All research is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change at short notice, and no part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report. The company, its directors, officers, employees and/or connected persons may periodically hold an interest and/or underwriting commitments in the securities mentioned.

Published and printed by :-

OSK RESEARCH SDN. BHD. (206591-V)
(A wholly-owned subsidiary of OSK Holdings Berhad)

Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : + (60) 3 9207 7688 Fax : +(60) 3 2175 3202	**Hong Kong Office** OSK Asia Securities Ltd. 1201-1203, 12/F, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2537 1332	**Singapore Office** DMG & Partners Securities Pte. Ltd. #22-01 Ocean Towers 20 Raffles Place Singapore 048620 Tel : +(65) 6438 8810 Fax : +(65) 6535 4809	**Shanghai Office** OSK Asia Securities Ltd. Room 6506, Plaza 66 No. 1266 Nanjing Road (West) Shanghai 200040 China