



## PROPERTY

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

## 1QFY09 Results Review

Private Circulation Only

# Hunza Properties

Trading Buy	Downgrade
Price	RM1.30
Target	RM2.29

## Not The Best Of Times

Reflecting the extremely slow sales, especially on Penang Island, Hunzpty started off FY09 with turnover and net profit tumbling 62.8% and 53.4% respectively. Net earnings came in 61.4% below our expectation, implying that the property slowdown on the Island is a lot worse than what we had expected. Despite its strong unbilled sales of RM267.4m, the island's weakening high-end condos market will continue to weigh down its earnings growth momentum in the immediate term. The target price is cut to RM2.29 with an estimated FD-RNAV/share of RM4.40. Downgrade to Trading Buy.

**Demand in Penang weakens.** The take-up rates for most of the company's projects posted a very moderate q-o-q improvement in 1QFY09 – the third consecutive uninspiring quarter - a definite sign of weakening demand for high-end condos on the Island. This, in fact, is not peculiar to Hunzpty alone. Figure 1 shows that demand for condos on Penang Island had been tapering off since 4QCY07 amid mounting concerns over the impact of the global financial crisis as potential buyers prefer to adopt a wait and see attitude. Nonetheless, management guided that prices are still holding up (for now) and there have been no signs of default in deferred payment schemes as yet.

**Trimming earnings projection.** Going forward, although Hunzpty is backed by unbilled sales of RM267.4m, this only represents approximately 1.1x of FY08 turnover. As such, if there is no significant improvement in sales of its properties, the developer will run the risk of reporting a significant y-o-y decline in earnings. And as such, we are slashing our FY09 net earnings projection by 32.3%. Naturally, we are also trimming our target price to RM2.29 and downgrading the stock to Trading Buy.

**TP of RM2.29 may not be achieved.** The prospect of a delay in the implementation of mega infrastructure projects and the recent scrapping of the Penang Monorail and Penang Outer Ring Road may result in under-performance of the island's real estate sector vis-à-vis other states. Hence the investment community may be tempted to provide an even more generous risk premium over its valuation. And as already reflected in its latest quarterly results, these set of negative elements have started to eat into Hunzpty's earnings performance. Coupled with the liquidity issue on the stock, this may further imply that our TP of RM2.29 may not necessarily be achieved in the immediate term.

### Stock Profile/Statistics

Bloomberg Ticker	HPB MK Equity
KLCI	856.37
Issued Share Capital (m)	147.33
Market Capitalisation (RMm)	191.53
52 week H   L Price (RM)	2.80   1.00
Average Volume (3m) '000	41.18
YTD Returns (%)	-1.34
Net gearing (x)	0.21
Altman Z-Score	2.23
ROCE/WACC	1.11
Beta (x)	0.90
Book Value/share (RM)	2.10

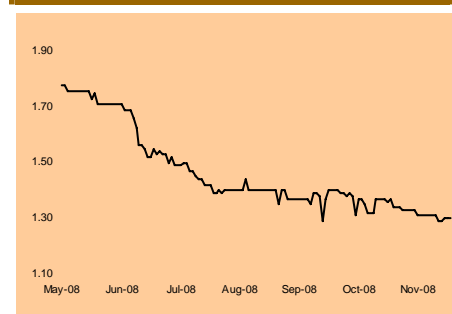
### Major Shareholders (%)

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

### Share Performance (%)

Month	Absolute	Relative
1m	-5.11	-4.81
3m	-7.14	15.77
6m	-27.66	6.28
12m	-49.86	-22.10

### 6-month Share Price Performance

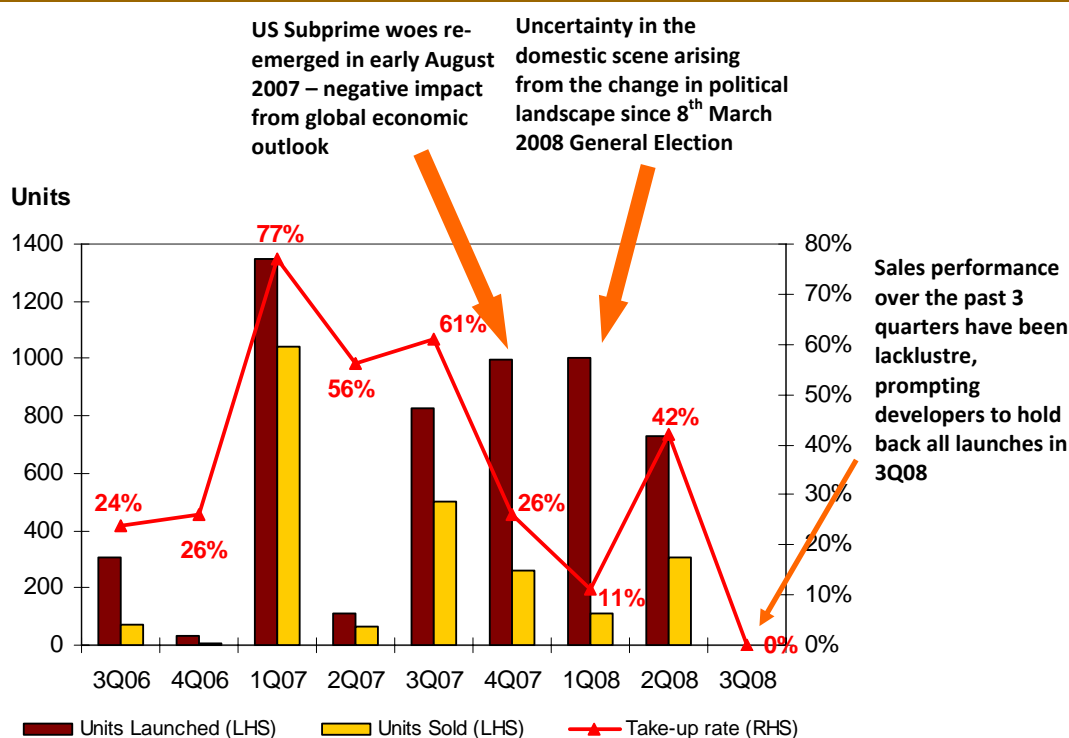


Hunza Properties is principally involved in property development with main exposure on the Penang Island and Klang Valley.

FYE June (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	116.6	186.7	245.1	185.7	266.1
Net Profit	19.8	39.2	48.4	39.4	45.0
% chg Net Profit	20.9	98.4	23.4	(18.7)	14.2
Consensus Net Profit	-	-	-	73.5	-
FDEPS (sen)	12.5	24.9	30.7	24.9	28.5
DPS (sen)	7.5	12.5	12.4	12.4	12.4
Div Yield (%)	5.8	9.6	9.6	9.6	9.6
PER (x)	10.4	5.2	4.2	5.2	4.6
P/BV (x)	0.8	0.7	0.6	0.6	0.5
ROE (%)	10.6	17.5	17.2	12.3	12.9
ROA (%)	5.0	8.3	9.2	7.2	7.7

**KEY HIGHLIGHTS**

Quarter Results Table FYE June (RMm)	1QFY09	4QFY08	% chg	YTD FY09	YTD FY08	% chg
Turnover	25.2	53.3	-52.7%	25.2	67.7	-62.8%
EBITDA	4.3	8.1	-46.7%	4.3	17.7	-75.8%
Depreciation	(0.2)	(0.2)	-6.7%	(0.2)	(0.2)	1.1%
Net interest expense	(0.3)	(0.0)	2307.1%	(0.3)	(0.0)	5516.7%
Associates	3.8	7.0	-46.5%	3.8	0.0	-
PBT	7.5	14.9	-49.4%	7.5	17.5	-57.1%
Tax	(2.1)	(4.7)	-54.3%	(2.1)	(5.1)	-57.7%
MI	0.2	(0.0)	-583.3%	0.2	(0.4)	-158.7%
Net Profit	5.6	10.1	-44.6%	5.6	12.1	-53.4%
EPS (sen)	3.8	7.5		3.8	8.8	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
EBITDA margin	17.0%	15.1%		17.0%	26.2%	
NTA/share (RM)	2.11	2.08		2.11	1.96	

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

Source: JMW, OSK Research

**Figure 3: RNAV-Based Fair Value Of Hunzpty, RM4.40. Target Price at RM2.29**

	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	4.31
<u>On-Going Projects</u>		
Zone L1, Phase 2C	17.00	1.15
<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	2.33
Alila, Phase 2 - Lowrise	101.00	6.01
<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	6.40
<b>Gurney Drive, Penang (10 acres)</b>		
<u>Upcoming Projects</u>		
Phase 1: 2 Blocks of 43 storeys service condos	380.00	55.38
<b>Total NPV, RM'm</b>		<b>164.71</b>

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
<b>Gurney Drive, Penang</b>						
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>659.94</b>
<b>Basic No. of Shares (m)</b>						<b>135.35</b>
<b>Basic RNAV per share, RM</b>						<b>4.88</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>694.00</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>4.40</b>
<b>LESS: 48.03% Discount To RNAV, RM'm</b>						<b>(333.33)</b>
<b>Discounted RNAV After Conversion Of All Warrants, RM'm</b>						<b>360.67</b>
<b>Target Price, RM</b>						<b>2.29</b>
<b>Historical FY07 Fully-Diluted PER @ Target Price (x)</b>						<b>9.19</b>
<b>Forecasted FY08 Fully-Diluted PER @ Target Price (x)</b>						<b>7.45</b>
<b>Forecasted FY09 Fully-Diluted PER @ Target Price (x)</b>						<b>9.16</b>
<b>Historical FY07 Fully-Diluted P/NTA @ Target Price (x)</b>						<b>1.21</b>
<b>Forecasted FY08 Fully-Diluted P/NTA @ Target Price (x)</b>						<b>1.10</b>
<b>Forecasted FY09 Fully-Diluted P/NTA @ Target Price (x)</b>						<b>1.01</b>
<b>Current Price (RM)</b>						<b>1.30</b>
<b>Potential Capital Gain (%)</b>						<b>75.77%</b>
<b>Dividend Yield (%)</b>						<b>9.56%</b>
<b>Total Return (%)</b>						<b>85.34%</b>
<b>Call</b>						<b>BUY</b>

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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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
<b>Malaysia Research Office</b> OSK Research Sdn. Bhd. 6 <sup>th</sup> Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	<b>Hong Kong Office</b> 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	<b>Singapore Office</b> DMG & Partners Securities Pte. Ltd. #22-01 Ocean Towers 20 Raffles Place Singapore 048620 Tel : +(65) 6438 8810 Fax : +(65) 6535 4809	<b>Jakarta Office</b> PT OSK Nusadana Securities Plaza Lippo, 14 <sup>th</sup> Floor, Jl. Jend. Sudirman Kav. 25. Jakarta 12920 Indonesia Tel : + (6221) 520 4599 Fax : + (6221) 520 4505	<b>Shanghai Office</b> OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No. 1266 West Nanjing Road 200040, Shanghai China Tel : +(8621) 6288 9611 Fax : + (8621) 6288 9633