



**PROPERTY**

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**4QFY07 Results Review**

Private Circulation Only

**Hunza Properties**

**BUY** Upgrade  
**Price** RM2.60  
**Target** RM4.00

**Ended The FY With A Bang!**

**Stock Profile/Statistics**

Bloomberg Ticker	HPB MK Equity
KLCI	1,191.55
Issued Share Capital (m)	135.47
Market Capitalisation (RMm)	352.22
52 week H   L Price (RM)	3.88   1.41
Average Volume (3m) '000	651.08
YTD Returns (%)	0.84
Net gearing (x)	0.74
Altman Z-Score	1.70
ROCE/WACC	0.85
Beta (x)	1.31
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	(31.58)	(20.20)
3m	(14.79)	(3.25)
6m	10.98	15.71
12m	90.17	43.74

**6-month Share Price Performance**



Hunza Properties (Hunzpty) ended its FYE07 inline with our expectation, registering a YoY growth of 62.9% and 99.2% in turnover and net profit respectively. The recent heavy sell-down on the stock despite its intact fundamentals represents an excellent opportunity for investors to accumulate at current level. With more certainty to the recent positive developments on its Gurney Paragon, we are upgrading our target price to RM4.00 (+54.0% upside) from RM3.24 previously. The stock is currently trading at an attractive FY08 PER of 8.0x, a very compelling proposition to investors who want to tap on the Penang Island property boom. In its recent attempt to raise more cash, Hunzpty has proposed a 1-for-4 rights issue together with a free warrant for every rights issue subscribed.

**Some projects updates.** Hunzpty is currently sitting on strong unbilled sales of RM180.9m (0.6x FY08 turnover) as of 30<sup>th</sup> June 07. Some projects updates include: **(i)** the Alila development in Tanjung Bungah has achieved a strong take-up rate of 73.2% (vs 68.0% in 3Q07) with unbilled sales of RM75m; **(ii)** the RM153m semi-Ds in Mutiara Seputeh in KL has achieved a take-up rate of 62.7% (vs 52.0% in 3Q07) with unbilled sales of RM36m; **(iii)** Phase 1 of Gurney Drive (Penang) comprising 220 units of service condos (GDV RM380m) has achieved an estimated take-up rate of 11.1% since March 07. Prospects will continue to be heavily underpinned by demand from local and foreign buyers especially that from the East Asia; and **(iv)** Infiniti Seafront (Penang) comprising 119 units of luxurious condos worth a GDV of RM240m has achieved an estimated take-up rate of 10.8% since its launching in May 07.

**Raising cash for the much-needed working capital.** To finance its huge upcoming development projects especially that of its ambitious Gurney Paragon, Hunzpty has proposed to do a 1-for-4 rights issue, which is anticipated to raise between RM80m-100m in cash. As part of its package to entice investors to take up the rights issue, the company is offering a free 5-year warrant for every rights issue subscribed. Exercise price is yet to be determined. We are not taking any of these proposed exercises into our estimates yet.

**Target price raised to RM4.00 (Fig. 1),** after a 10.0% discount to our new RNAV estimate of RM4.45. Our upwards revision on the RNAV is to recognise the successful kicking-off of the service condos in Gurney Paragon and the potential market value that can be gauged from the shopping mall by year 2009 onwards. Our previous valuation on its project in Gurney Drive based on pure land surplus substantially understates the project's prospects.

FYE June (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	112.3	116.6	190.0	316.5	418.3
Net Profit	16.4	19.8	39.4	51.3	67.3
% chg YoY	2.7	20.9	99.2	30.2	31.2
Consensus Net Profit	-	-	-	49.2	-
FDEPS (sen)	10.4	12.5	25.0	32.5	42.6
DPS (sen)	7.5	7.5	12.5	12.5	12.5
Div Yield (%)	2.9	2.9	4.8	4.8	4.8
PER (x)	25.1	20.7	10.4	8.0	6.1
P/BV (x)	1.7	1.6	1.4	1.3	1.0
ROE (%)	9.9	10.6	17.6	19.1	21.8
ROA (%)	4.7	5.0	8.4	9.0	9.9

**KEY HIGHLIGHTS**

<b>Quarter Results Table FYE June (RMm)</b>	<b>4QFY07</b>	<b>3QFY06</b>	<b>% chg</b>	<b>YTD FY07</b>	<b>YTD FY06</b>	<b>% chg</b>
Turnover	69.7	44.7	56.0%	190.0	116.6	62.9%
EBITDA	25.3	11.6	118.6%	61.3	35.7	71.6%
Depreciation	(0.2)	(0.2)	8.4%	(0.8)	(0.9)	-13.3%
Net interest expense	0.0	0.1	-31.3%	0.2	(0.0)	-1057.3%
Associates	0.0	0.0	-	0.0	0.0	-
PBT	25.1	11.5	119.3%	60.7	34.8	74.5%
Tax	(8.4)	(3.0)	178.2%	(18.4)	(9.9)	86.7%
MI	(0.6)	(0.8)	-17.7%	(2.9)	(5.2)	-43.1%
Net Profit	16.1	7.7	110.0%	39.4	19.8	99.2%
EPS (sen)	11.9	5.7		29.1	14.6	
Gross DPS (sen)	7.5	5.0		12.5	7.5	
EBITDA margin	36.2%	25.9%		32.3%	30.6%	
NTA/share (RM)	1.89	1.80		1.89	1.66	

**VALUATION AND RECOMMENDATION**

**Accumulate at current share price weakness.** Despite the recent heavy sell-down on the stock, in tandem with the overall events occurring across the board, the fundamentals of Hunzpty continue to remain rather intact. Despite the company's strong earnings growth, Hunzpty is still trading at a single-digit fully-diluted PER of 8.0x in FY08, making it as one of the cheapest property counter that can be found listed on Bursa Malaysia today. **At our target price of RM4.00 (after applying a 10.0% discount to our fully-diluted RNAV estimate of RM4.45), we are expecting Hunzpty to trade at 12.3x in FY08.**

**Target price upped to RM4.00 (Fig. 1) from RM3.24 previously.** Our previous valuation on Hunzpty's project in Gurney Drive development was based on pure net land surplus. Since we are now seeing some concrete positive developments on the company's Gurney Paragon, using a pure net land surplus may potentially understate the project's prospects. We are upgrading our RNAV estimate on the following accounts:

- (i) **Recognising the successful kicking-off of the 43-storey service condos in Gurney Paragon**, by adding the estimated DCF from this development project into our RNAV-based valuation.
- (ii) **Recognising some recent positive developments to the Gurney Paragon shopping mall.** The recent sale of the Gurney Plaza, which happened to be in close proximity to Hunzpty's Gurney Paragon, was sold at an estimated price of RM929psf hence setting up a new pricing benchmark for well-established shopping malls in the enclave. The management has recently engaged a prominent British property consultant and a local research house to advice on its Gurney Paragon development. Due to the cost uncertainties and other factors, we are applying a 20.0% discount to the estimated valuation surplus from the investment properties, since they will only come into play by year 2009 onwards (Figure 1).

**Property, fallen from grace for now?** In addition to sentiment being hampered, most investors have seen most of their wealth wiped off from the recent weakness in the stock market. This, unfortunately, will potentially deter investors' decision to store their wealth (of what remains of it from the recent heavily-battered stock market) into physical property assets at least in the short-to-mid term. Although the domestic system is still flushed with ample liquidity and the economic fundamentals continue to remain intact hence most likely to be self-sufficient in generating wealth-creation effects, investors will most likely adopt the wait-and-see strategy for now before committing into such big ticket items. Below expectation earnings performance by property developers may be expected at least in this quarter especially in the higher-end market segment. Hence, although we were rather optimistic on higher-end properties, we are adopting a more cautious stance now and continue to advocate a "selectively bullish strategy" on property play. We remain selectively bullish in the Klang Valley (with focus in the prime addresses like KLCC area, Mont' Kiara, Bangsar, Damansara etc); bullish on the Penang Island but neutral on the Penang Mainland; and neutral in residential property play in the Iskandar Development Region (Johor). **Continue to fish for those property stocks that have been oversold lately. Supported by solid fundamentals, Hunza Properties for one is an interesting company for Penang Island property play. The stock currently trades at forward fully-diluted PER of only 8.0x in FY08, a definite good bargain. In light of our more prudent view on the property sector, we are applying a slight 10.0% discount to our RNAV estimate of RM4.45 on Hunzpty, hence arriving at a target price of RM4.00.**

Figure 1: Hunza Properties' RNAV-based Fair Value Of RM4.45. Target Price at RM4.00

	GDV (RM'm)	GDV Balance (RM'm)	Unbilled Sales @30th June 07 (RM'm)	DCF (RM'm)
<b>Bandar Putra Bertam, Prai (Total 701 acres)</b>				
<b>Completed Projects</b>				
Zone L1, Phase 4A	76.00	41.00	0.00	4.73
<b>On-Going Projects</b>				
Zone L1, Phase 2C	17.00	11.00	1.90	1.21
<b>Sungai Petani (Total 584 acres)</b>				
<b>Completed Projects</b>				
Tmn Seri Bayu II, Phase 3A	47.00	13.00	0.00	1.57
<b>Tanjung Bungah, Penang (18 acres)</b>				
<b>On-Going Projects</b>				
Alila, Phase 1 - Highrise	104.00	15.00	36.00	2.44
Alila, Phase 2 - Lowrise	101.00	40.00	39.00	6.35
<b>Upcoming Projects</b>				
Tanjung Bungah, Project Management (Nilai Arif)	260.00	260.00	0.00	35.10
Tanjung Bungah II, Project Management (Diamaward)	240.00	214.00	26.00	42.82
<b>Mutiara Seputeh, Seputeh, Kuala Lumpur (15 acres)</b>				
<b>On-Going Projects</b>				
Semi-D	153.00	57.00	36.00	9.32
Bungalows	47.00	47.00	0.00	7.04
<b>Gurney Drive, Penang (10 acres)</b>				
<b>Upcoming Projects</b>				
Phase 1: 2 Blocks of 43 storeys service condos	380.00	338.00	42.00	61.10
<b>Total DCF</b>				<b>171.68</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>

Discount rates of 20.0% on Net Surplus is applied to reflect the uncertainty of the costs and other factors since these properties will not come into play until year 2009 and onwards

	Outstanding Landbank (acres)	Outstanding Landbank (sq ft 'm)	Net Book Value (RM/sq ft)	Market Value (RM/sq ft)	Share (%)	Land Surplus (RM'm)
<b>Bertam, Penang</b>	484.00	21.08	1.87	8.20	70.0%	93.42
<b>Sg. Petani, Kedah</b>	393.00	17.12	0.55	0.56	100.0%	0.17
<b>Total Land Surplus</b>						<b>93.59</b>
<b>ADD: Net Profit from Unbilled Sales (@9.1% WACC)</b>						33.71
<b>LESS: 27.0% Tax On Land Surplus</b>						(25.27)
<b>ADD: NTA @30th June 07</b>						256.36
<b>RNAV</b>						<b>668.16</b>
<b>Basic No. of Shares</b>						135.35
<b>Basic RNAV per share, RM</b>						<b>4.94</b>
<b>ADD: Proceeds from Outstanding ESOS</b>						0.41
<b>ADD: Proceeds from outstanding Warrants (@RM1.50)</b>						33.65
<b>RNAV After Conversion Of All Warrants</b>						<b>702.22</b>
<b>ESOS</b>						0.05
<b>Outstanding Warrants</b>						22.43
<b>Enlarged No. of Shares</b>						157.84
<b>Fully-Diluted RNAV per share, RM</b>						<b>4.45</b>
<b>LESS: 10.0% Discount To RNAV</b>						(70.22)
<b>Discounted RNAV After Conversion Of All Warrants</b>						<b>631.99</b>
<b>Target Price, RM</b>						<b>4.00</b>
Historical FY07 Fully-Diluted PER @ Target Price (x)						16.04
Forecasted FY08 Fully-Diluted PER @ Target Price (x)						12.32
Forecasted FY09 Fully-Diluted PER @ Target Price (x)						9.39
Historical FY07 Fully-Diluted P/NTA @ Target Price (x)						2.11
Forecasted FY09 Fully-Diluted P/NTA @ Target Price (x)						1.93
Forecasted FY08 Fully-Diluted P/NTA @ Target Price (x)						1.61
Current Price (RM)						2.60
Capital Gain (%)						54.00%
Dividend Yield (%)						4.81%
Total Return (%)						58.81%
<b>Call</b>						<b>BUY</b>

\*Estimated NBV on Gurney Paragon are based on company's guidance.

\*\*Market Value assumption of RM1,000psf on Gurney Paragon is based on the most recently transacted market price of approximately RM929psf in Gurney Plaza, assuming a conservative 2-year (2007-2009) CAGR of 3.8% in capital appreciation.

Source: OSK Research

<b>FYE 30 June (RMm)</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08f</b>	<b>FY09f</b>
<b>P&amp;L Statement</b>							
Turnover	112.53	117.30	112.26	116.64	189.98	316.53	418.28
EBITDA	23.98	29.20	34.36	35.71	61.29	80.19	107.41
PBT	22.60	27.02	31.82	34.81	60.74	77.76	105.04
Net Profit	11.14	15.93	16.36	19.78	39.40	51.30	67.30
FDEPS (sen)	18.42	15.25	10.37	12.53	24.96	32.50	42.64
GDPS (sen)	7.50	7.50	7.50	7.50	12.50	12.50	12.50
<b>Margin (%)</b>							
EBITDA	21.31	24.89	30.61	30.62	32.26	25.33	25.68
PBT	20.08	23.04	28.35	29.84	31.97	24.57	25.11
Net Profit	9.90	13.58	14.58	16.96	20.74	16.21	16.09
ROE	11.19	12.54	9.89	10.64	17.58	19.08	21.79
ROA	4.78	5.69	4.72	4.96	8.39	8.96	9.86
5-Year Net Profit CAGR (%)	-	-	-	-	41.20	35.71	33.40
<b>Balance Sheet</b>							
Fixed Assets	22.50	23.09	28.42	27.82	86.82	27.75	27.85
Current Assets	110.44	133.49	196.39	270.53	296.22	440.22	548.91
Total Assets	247.66	311.98	381.22	415.57	524.09	621.55	744.11
Current Liabilities	67.44	40.27	83.97	81.78	108.61	161.98	219.43
Net Current Assets	43.00	93.23	112.43	188.75	187.61	278.24	329.47
LT Liabilities	57.30	105.94	98.81	120.73	135.49	142.64	128.46
Shareholders Funds	103.07	150.96	179.88	191.88	256.32	281.41	336.19
Net Gearing (%)	59.58	43.32	70.59	80.24	66.64	61.75	46.27

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