INTER-PACIFIC RESEARCH SDN. BHD.
(449005-X)
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West Wing, Level 13,
Berjaya Times Square,
No 1, Jalan Imbi,
55100 Kuala Lumpur
Tel: (03) 21171888
Fax: (03) 21427678

PROPERTY

30 Sept 2009

Company Update

Hunza Properties Bhd

NEUTRAL

Current Price RM 1.47
Target Price RM 1.56

Market Data

Bloomberg Ticker	HPB MK
Shares Issued ('mil)	150.67
Market Capitalisation (RM'mil)	221.48
52 Week Hi/Lo Price (RM)	1.68/0.93
Average Volume – 3M ('000)	223.267
Est Free Float (%)	13.1
YTD Returns (%)	9.58
Beta (x)	0.63
Net Asset/Share (RM)	2.24
Dividend Yield (%)	3.74

Major Shareholders (%)

Teng Tong Khor	50.51
Lembaga Tabung Haji	8.01
Yayasan Bumiputra	7.23

Valuation:

Price (RM)	1.47
Valuation Method	PER
Price / Earnings Ratio (x)	6.5
Target Price (RM)	1.56
Consensus (RM)	1.63
Expected Share Price Return (%)	6.1
Expected Dividend Yield (%)	3.8
Expected Total Return (%)	9.9

1-Year Share Price Performance

Analyst: Sean Liong Cheng Fatt
Email: liongcf@interpac.com.my

- **Gurney Paragon East and West Towers are on track for completion by 2011.** To recap, The Penang Municipal Council (MPPP) issued a stop-work order to Gurney Paragon Condominium project in July 2009 following the sinking of a 10m stretch of Kelawi Road. But the stop-order was called off after 2 months. Nevertheless, according to the management, construction of the two 43 stories buildings remains on track, expected to be completed by 2011.

- **Hunza is targeting to kick off construction of Gurney Paragon Mall by early 2010.** The initial plan to construct the retail mall was in September 2008. But it was delayed following soaring raw material prices and a softer property market outlook arising from the global economic and financial market crisis after the collapse of Lehman Brothers. Hunza now plans to kick start the construction of the retail mall that will have a gross built-up area of about one million sq ft with 700,000 sq ft of lettable area by early 2010. Pending approval on the mall design, Hunza is expected to start work on pilling by early 2010. Construction cost of Paragon is estimated to be RM400mn, to be funded via internally generated funds and external borrowings as well as rights issue. The project is expected to be completed by 2012. Gurney Paragon Mall will be owned and managed by Hunza Properties upon completion.

- **Infinity completion by end of 2009.** Infinity, the luxury condominium project located at Tanjong Bungah Beach front is on track for completion by end of 2009. It comprises of 119 units condominium with two 35 and 36 stories building. Sized between 3,693 and 4,866 sq ft with pricing of RM1.9mn onwards, its total GDV is RM245mn.

FY June	2007A	2008A	2009A	2010F	2011F
Revenue (RM' mn)	187.2	245.3	91.8	171.7	195.2
EBITDA (RM' mn)	58.4	70.4	41.4	47.2	54.3
Pretax Profit (RM' mn)	57.5	68.3	39.1	44.9	52.0
Net Profit (RM' mn)	39.2	48.4	27.6	33.0	38.3
Net Profit Margin (%)	21.0	19.7	30.0	19.2	19.6
EPS (sen)	33.5	34.6	19.0	22.7	26.4
EPS Growth (%)	97.2	3.2	-45.0	19.5	16.3
PER (x)	4.39	4.25	7.73	6.47	5.56
DPS (sen)	9.13	9.20	5.60	5.60	5.60
Dividend Yield (%)	6.2	6.3	3.8	3.8	3.8
Price/Book (x)	0.7	0.7	0.7	0.6	0.6
ROE (%)	15.9	15.9	8.1	9.1	10.1
ROA (%)	8.3	9.1	5.4	6.5	7.4
EBITDA Margin (%)	31.2	28.7	45.1	27.5	27.8
Net Gearing Ratio (%)	61.3	21.7	24.6	16.2	14.5

- **Mutiara Seputeh will be re-launched.** Following the slump in 4Q2008, Hunza was forced to hold back sales of Mutiara Seputeh Bungalow lots. Sales of the remaining 11 units of Bungalow are expected to be re-launched following the completion of its construction. The selling price of the bungalow will be between RM4mn to RM5mn. The project has a total GDV of RM50mn. We expect demand to be favourable given its prime location i.e. at Bukit Seputeh which is close to Mid Valley City and easy access to Federal Highway and KESAS.

- **Anticipating better performance for FY2010.** Unbilled sales as at end June 2009 stands at RM200mn, with the contribution from Infinity and Gurney Paragon Condominium about 26% and 74% respectively. Infinity is expected to be completed by end-2009, while Gurney Paragon Condominium is expected to be completed by end 2010. As at end-June, 62% of Infinity project was sold. The unbilled sales from the project are about RM51.4mn and will be recognized by end-2009. As for Gurney Paragon, they have sold 50%, with their unbilled sales at RM148.6mn. It will contribute to their FY2010 and FY2011 earnings. We expect sales for Gurney Paragon Condominium to improve significantly as Hunza plans to kick off the RM400mn Gurney Paragon Retail Mall. The Retail Mall will serve as a pulling factor for prospective buyers. Further contribution to the top line are the unsold completed properties from their Taman Seri Bayu II (Sungai Petani), Bandar Putra Bertam (Prai) and Alila (Penang) projects worth RM60mn which could be recognize immediately after sales.

- **NEUTRAL.** Hunza currently has land bank of 755 acres with 20 acres located in prime location in Penang Island and the balance in Bertam and Sungai Petani. Projects in their pipeline include Alila II, Segam, Bandar Putra Bertam and Sungai Petani Township projects -- with total GDV of RM1.8bn. We reckon these projects will sustain Hunza's growth for the next 5 to 6 years. Supported by unbilled sales of RM200mn, coupled with sizable land bank with the potential GDV of RM1.8bn, we recommend NEUTRAL with target price of RM1.56 derived from a forward PER of 6X and projected FY11 EPS of RM0.26.

Ratings System

Ratings:	Description:
OUTPERFORM	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above –15% to 15% in the next 12 months
UNDERPERFORM	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition
PER	Price Earnings Ratio
PEG	PER to Growth
EPS	Earnings per Share
FYE	Financial Year End
FY	Financial Year
CY	Calendar Year
m-o-m	Month-on-Month
q-o-q	Quarter-on-Quarter
y-o-y	Year-on-Year
YTD	Year-to-Date
p.a.	Per Annum
DCF	Discounted Cash Flow
FCF	Free Cash Flow
NAV	Net Asset Value

Abbreviation	Definition
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
DPS	Dividend per Share
ROA	Return on Asset
ROE	Return on Equity
PBT	Profit Before Tax
PAT	Profit After Tax
EV	Enterprise Value
EBIT	Earnings Before Interest And Tax
EBITDA	EBIT Depreciation & Amortisation
WACC	Weighted Average Cost of Capital
NTA	Net Tangible Asset
BV	Book Value