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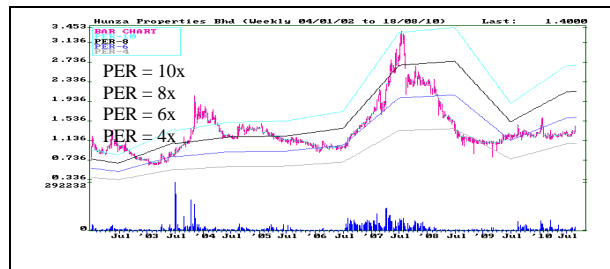
Briefing note

Date: 19 August 2010

| | | |
|---|-------------------------------|-----------|
| Name of PLCs: Hunza Properties <i>Bringing Forward Alila II</i> | Price: | RM1.40 |
| | Market Capitalisation: | RM 272.1m |
| Board: Main Market | | |
| Sector: Property | | |
| Stock Code: 5018 | | |
| Recommendation: Buy | | |
| Index Component/Constituent : - | | |

| <u>Key Stock Statistics</u> | 2010 | 2011F |
|--------------------------------|-------------|-------|
| EPS (est.) | 26.7 | 27.6 |
| P/E (est.) | 5.2 | 5.1 |
| Dividend/Share (sen) | 5.6 | |
| NTA/Share (RM) | 2.4 | |
| Book Value/Share | 2.4 | |
| Issued Capital (mil shares) | 195.9 | |
| 52-weeks Share Price Range | 1.138-1.653 | |
| <u>Major Shareholders:</u> | | |
| Dato' Khor Teng Tong | 53.4 | |
| Lembaga Tabung Haji | 8.3 | |
| Yayasan Bumiputra Pulau Pinang | 7.5 | |

Share Price Chart



| <u>Per Share Data</u> | 2010 | 2011F | 2012F | 2013F |
|-----------------------|------|-------|-------|-------|
| Book Value (RM) | 2.2 | 2.4 | 2.5 | 2.6 |
| Cash Flow (sen) | 27.4 | 28.5 | 22.0 | 19.1 |
| Earnings (sen) | 26.7 | 27.6 | 20.9 | 17.9 |
| Dividend (sen) | 8.1 | 5.6 | 5.6 | 5.6 |
| Payout Ratio | 30.4 | 20.3 | 26.8 | 31.3 |
| PER (x) | 5.2 | 5.1 | 6.7 | 7.8 |
| P/Cash Flow (x) | 5.1 | 4.9 | 6.4 | 7.3 |
| P/Book Value (x) | 0.7 | 0.6 | 0.6 | 0.5 |
| Dividend Yield (%) | 5.8 | 4.0 | 4.0 | 4.0 |
| ROE (%) | 12.4 | 11.6 | 8.3 | 6.8 |
| Net Gearing (%) | 0.1 | 0.0 | 0.1 | 0.1 |

P&L Analysis (RM mil)

| Year-end: | 2010 | 2011F | 2012F | 2013F |
|--------------------|-------|-------|-------|-------|
| Revenue | 248.7 | 247.1 | 195.9 | 165.5 |
| EBITDA | 82.7 | 73.1 | 56.5 | 50.0 |
| Depreciation | (1.5) | (1.8) | (2.2) | (2.5) |
| Interest Expenses | (0.9) | (1.6) | (1.8) | (1.7) |
| Pre-tax Profit | 69.1 | 70.1 | 53.1 | 45.4 |
| Effective Tax Rate | 26.4 | 25.0 | 25.0 | 25.0 |
| Net Profit | 50.9 | 52.6 | 39.9 | 34.1 |
| EBITDA Margin | 33.2 | 29.6 | 28.9 | 30.2 |
| Pre-tax Margin | 27.8 | 28.4 | 27.1 | 27.4 |
| Net-Margin | 20.5 | 21.3 | 20.4 | 20.6 |

◆ **Bringing forward Alila II.** As the approval and agreement process with the state government were smoother than expected, Hunza is looking to bring forward the launch of Alila II to end 2010 (from 3Q2011 previously). The project, which is located at Tanjung Bungah Penang, is worth a GDV of RM300m. It comprises 260 high-end condo units. Given the positive response received for Alila I (fully sold previously), and Infinity (with a take-up rate of 87% as at Jun 2010), we expect demand for Alila II to be similarly strong. Hunza is likely to step up its Alila II's selling price to around RM650psf or higher, considering the rising selling price for Infinity, ranging from RM500psf to RM650psf in the secondary market. Gross margin is hence expected to be higher than Infinity's 40%.

◆ **Low-cost component for Bayan Baru land to start end 2011.** To recap, Hunza entered into a SPA to acquire a piece of 17-ha freehold land in Bayan Baru, Penang for RM82.1m cash (or RM45 psf) end-Dec 09. As part of the effort to relocate squatters, management is hopeful to fast track its approval process with authorities, to kick start its low-cost component to accommodate most of the squatters by end 2011. A total of RM50m has been allocated as relocation cost. The remaining project will comprise medical centre, performance hall, hotel, service apartments etc. If the project can be kicked off earlier than expected, it will give upside to our earnings forecast for FY13, as we have yet to factor in the earnings contribution from this project.

- ◆ **Reducing unsold stocks.** USM (Universiti Sains Malaysia) is currently in talks with Hunza to rent 45 units of its unsold shop offices in Bandar Putra Bertam, Prai, due to insufficient space in the university. If successful, Hunza will not only be able to reduce its unsold inventory, it can also receive rental income, which would amount to RM5m per year for a period of 10 years.
- ◆ **Forecast.** As the launch of Alila II is earlier than expected, and to incorporate the contribution of rental income, we revise up our FY11-13 earnings forecasts by 5.7-32.5%.
- ◆ **Risks.** The risks include: 1) slowdown in take-up rate due to potential negative perception on Gurney Paragon after the stop-work incident; 2) competition from other developers in Penang; and 3) delays in launches and approvals.
- ◆ **Investment case.** No change in our RNAV estimates, and likewise our fair value of RM1.58, based on 50% discount to RNAV. Maintain **Buy**.

Table 1: RNAV Estimate

| Assets | Area (Acres) | Book (RMm) | Mkt Value (RMm) | Surplus (RMm) |
|--|-----------------|---------------|--------------------|------------------|
| For development: | | | | |
| Kedah | 585 | 13.78 | 10.2 | (3.6) |
| Penang Island | 11.4 | 109.18 | 130.2 | 21.0 |
| Penang - Seberang Prai | 701 | 18.84 | 207.6 | 188.8 |
| Klang Valley | 22 | 34.41 | 76.7 | 42.3 |
| Total | 1,319.4 | 176.2 | 424.7 | 248.5 |
| For investment: | | | | |
| Penang - Seberang Perai | 43.87 | 22.5 | 9.6 | (12.9) |
| Grand total | 1,363.3 | 198.71 | 434.3 | 235.5 |
| Shareholder fund as at June 2010 | | | | 411.2 |
| Total RNAV | | | | 646.7 |
| Proceeds from outstanding warrants (new) | | | | 49.7 |
| Proceeds from rights issue | | | | 49.7 |
| Fully diluted share capital | | | | 236.0 |
| FD RNAV per share (RM) | | | | 3.16 |

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Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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