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**RHB Research  
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**2Q2010 Results**

Date: 3 February 2010

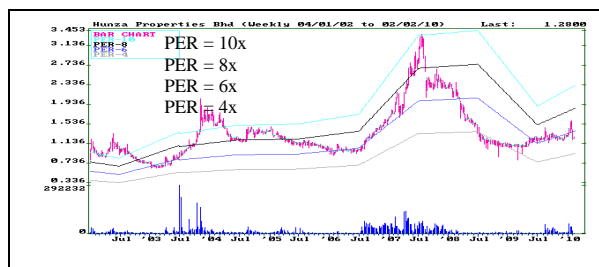
<b>Name of PLCs: Hunza Properties</b>	<b>Price:</b>	RM1.28
<i>Beats Expectations</i>	<b>Market Capitalisation:</b>	RM 250.7m
<b>Board: Main Market</b>		
<b>Sector: Property</b>		
<b>Stock Code: 5018</b>		
<b>Recommendation: HOLD</b>		
<b>Index Component/Constituent : -</b>		

<u>Key Stock Statistics</u>	2009	2010F
EPS (est.)	19.0	25.7
P/E (est.)	6.7	5.0
Dividend/Share (sen)		7.5
NTA/Share (RM)		2.2
Book Value/Share		2.2
Issued Capital (mil shares)		195.9
52-weeks Share Price Range	0.847-1.685	
<b>Major Shareholders:</b>		
Dato' Khor Teng Tong		53.4
Lembaga Tabung Haji		8.3
Yayasan Bumiputra Pulau Pinang		7.5

<u>Per Share Data</u>	2009	2010F	2011F	2012F
Book Value (RM)	2.2	2.2	2.4	2.5
Cash Flow (sen)	10.4	26.8	28.9	17.0
Earnings (sen)	19.0	25.7	27.6	15.6
Dividend (sen)	5.6	7.5	7.5	7.5
Payout Ratio	29.5	29.1	27.1	48.0
PER (x)	6.7	5.0	4.6	8.2
P/Cash Flow (x)	12.3	4.8	4.4	7.5
P/Book Value (x)	0.6	0.6	0.5	0.5
Dividend Yield (%)	4.4	5.8	5.8	5.8
ROE (%)	8.5	11.8	11.6	6.2
Net Gearing (%)	0.3	0.1	0.0	0.0

<u>P&amp;L Analysis (RM mil)</u>	2009	2010F	2011F	2012F
<b>Year-end:</b>				
Revenue	91.8	250.5	269.5	156.5
EBITDA	28.0	71.0	77.0	44.4
Depreciation	(1.2)	(1.5)	(1.8)	(2.2)
Interest Expenses	(1.1)	(1.4)	(1.6)	(1.8)
Pre-tax Profit	39.1	66.2	71.2	40.5
Effective Tax Rate	27.8	25.0	25.0	25.0
Net Profit	27.6	49.0	52.7	29.7
EBITDA Margin	30.5	28.3	28.6	28.3
Pre-tax Margin	42.6	26.4	26.4	25.9
Net-Margin	30.0	19.6	19.6	19.0

**PE Band Chart**



**1. 2010 Result Highlights:**

<b>FYE June (RMm)</b>	<b>2009 2Q</b>	<b>2010 2Q</b>	<b>% YoY Chg</b>
Turnover	24.6	59.4	141.4
Operating profit	10.2	17.7	73.6
Finance costs	(0.5)	(0.2)	(62.6)
Pretax profit	9.7	17.5	80.5
Taxation	(2.6)	(4.5)	73.0
Net profit	6.8	13.0	92.4
EPS (sen)	4.7	8.9	91.2
Operating margin (%)	41.3	29.7	
Pretax margin (%)	39.3	29.4	
Net margin (%)	27.5	21.9	
Effective tax rate	27.0	25.9	

<b>FYE June (RMm)</b>	<b>2010 1Q</b>	<b>2010 2Q</b>	<b>% QoQ Chg</b>
Turnover	57.1	59.4	4.0
Operating profit	17.6	17.7	0.1
Finance costs	(0.2)	(0.2)	(25.1)
Pretax profit	17.4	17.5	0.5
Taxation	(4.6)	(4.5)	(0.9)
Net profit	12.7	13.0	2.4
EPS (sen)	8.8	8.9	1.4
Operating margin (%)	30.9	29.7	
Pretax margin (%)	30.5	29.4	
Net margin (%)	22.2	21.9	
Effective tax rate	26.3	25.9	

- ◆ **Above expectations.** Hunza Properties' 6MFY06/10 net profit jumped by 107.7% to RM25.7m due to stronger progress billings from Gurney Paragon and better take-up for its built-then-sell bungalow project i.e. Mutiara Seputeh. This was above expectation, and accounted for 56.8% and 55.4% of RHBRI and consensus estimates respectively. The variance was mainly due to stronger-than-expected operating margin. The company's Penang projects i.e. Gurney Paragon and Infinity's take-up rates have picked up marginally at 58% (from 55% in Sept 09) and 75% (from 71% in Sept 09), respectively. As for Mutiara Seputeh built-then-sell bungalow project, its take-up rate has improved from 15% in Sept 09 to 25%. As at Dec 09, the company had unbilled sales of RM194m, or 0.8x of our FY10 revenue projection.
- ◆ **Proposed to buy land in Bayan Baru, Penang.** Hunza Properties had entered into a SPA for the acquisition of 17 hectares freehold land in Bayan Baru, Penang for a total cash consideration of RM82.1m (or RM45 psf) in end-Dec 09. We understand that the land will be developed into an integrated development. Since the land is currently occupied by squatters, the company will need to undertake appropriate strategies in dealing with the squatters. Details (i.e. GDV and launch date) are unknown at this moment. The proposed acquisition is expected to be completed by FY06/12, at the latest. We have yet to factor this potential project into our earnings forecasts pending further details from the management.
- ◆ **Forecast.** We have lowered our FY10-12 EPS forecasts by 17% p.a. to factor in: a) larger share capital after recent rights issue; and b) better operating margin assumption from 25% to 27%. We have also lowered our FD RNAV/share from RM3.08 to RM2.85 after factoring in the rights issue and free warrants as well as change in land price assumptions for its Penang land (after considering Mah Sing land transaction in Penang Island and asking prices around Seberang Perai).
- ◆ **Risks.** The risks include: 1) potential negative perception on Gurney Paragon from potential buyers after the stop-work incident; 2) competition from peers; and 3) delays in launches and approvals.
- ◆ **Investment case.** Following the downgrade in RNAV/share estimate, we have lowered our indicative fair value from RM1.54 to RM1.43 (based on unchanged 50% discount to RNAV/share). The discount is justified due to the company's small market capitalisation and low liquidity. Maintain **Hold** rating on the stock

Table 3: 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
<b>Total</b>	<b>1,319.4</b>	<b>176.2</b>	<b>424.7</b>	<b>248.5</b>
For investment:				
Penang - Seberang Perai	43.87	22.5	9.6	(12.9)
<b>Grand total</b>	<b>1,363.3</b>	<b>198.71</b>	<b>434.3</b>	<b>235.5</b>
Shareholder fund as at Sept 09				338.7
<b>Total RNAV</b>				<b>574.3</b>
Proceeds from outstanding warrants (new)				49.7
Proceeds from rights issue				49.7
Fully diluted share capital				236.0
<b>FD RNAV per share (RM)</b>				<b>2.85</b>

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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.

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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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