

Corporate Highlights

News Update

Hunza Properties

Proposes Rights Issue With Free Warrants



**RHB Research
Institute Sdn Bhd**
A member of the
RHB Banking Group
Company No: 233327 -M

22 October 2009

Share Price : RM1.47
Fair Value : RM1.56
Recom : **Market Perform
(Maintained)**

Table 1 : Investment Statistics (HUNZPTY; Code: 5018)

Bloomberg: HPB MK

FYE	Turnover (RMm)	Net			PER (x)	C.EPS* (sen)	P/CF (x)	P/NTA (x)	Net		
		profit (RMm)	EPS (sen)	Growth (%)					ROE (%)	Gearing (%)	GDY (%)
June											
2009	91.8	27.6	19.0	(44.9)	7.7	-	14.1	0.7	8.5	0.3	3.8
2010f	219.0	39.3	27.0	41.9	5.4	24.0	5.2	0.6	11.0	0.2	3.8
2011f	255.5	46.0	31.6	17.1	4.7	28.0	4.4	0.5	11.6	0.2	3.8
2012f	152.0	26.5	18.2	(42.4)	8.1	23.0	7.3	0.5	6.4	0.2	3.8

Main Market Listing / Trustee Stock/Syariah Approved Stock By The SC

* Consensus Based On IBES Estimates

◆ **Proposes rights issue with free warrants.** The company has proposed 3:10 rights issue yesterday. This is together with free 5-year warrants on the basis of one free warrant (which can be exercised at any time during the period of five years commencing from the date of issue) for every one rights share subscribed. Assuming rights price of RM1.10 (25% discount to current share price of RM1.47), theoretical ex-rights price is RM1.38. The proceeds from the rights and conversion of warrants (assuming conversion price of RM1.10) of about RM99.4m will be utilised to fund its property development projects, investment properties and working capital requirements. The proposal is expected to be completed by 1Q10.

◆ **Huge dilution in FY10-12 EPS post-rights issue and warrants.** Should the proposed rights issue be completed by 1Q10, our EPS forecasts are expected to be diluted by 9.2-25% after incorporating larger number of shares (from 150.7m to 195.9m) as well as cost saving arising from lower debt (FY10-12 net gearings are expected to reduce from previous forecasts of 0.18-0.23x to 0.06-0.08x). EPS will be diluted further by another 5.6-18% should all 45.2m warrants are converted (assuming conversion price of RM1.10; number of shares increase further to 241.1m) and FD RNAV/share would drop from RM3.12 to RM2.38. However, the company will then turn into net cash position, with net cash/share of 3.3-9.1 sen.

◆ **Negative on the proposed rights issue and free warrants** given: a) huge dilution impact on earnings (especially when there is a lack of new property launches in the near term and significant rental income from Gurney Paragon could only come in from 2013 onwards). We believe a big chunk of the proceeds will go to fund the construction of its Gurney Paragon (30% completed) since its Infinity project is already 75% completed; b) the company's net gearing of 0.26x in 4Q09 is not excessive. Hence, it should ride on the current low interest rate environment, instead of raising fund in equity market which has higher cost than debt and dilution to per share numbers.

◆ **Forecast.** Maintain earnings forecasts for now.

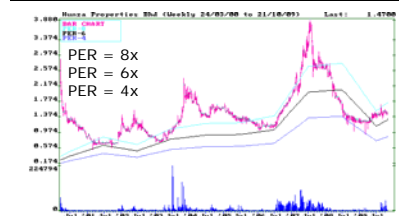
◆ **Risks.** The risks include: 1) potential negative perception on Gurney Paragon to potential buyers after the stop-work incident; 2) serious overhang in Penang-mainland and Kedah; 3) delays in launches and approvals.

◆ **Investment case.** Our FD fair value is maintained at RM1.56, or 50% discount to its estimated RNAV/share of RM3.12. We are maintaining our **Market Perform** rating on the stock.

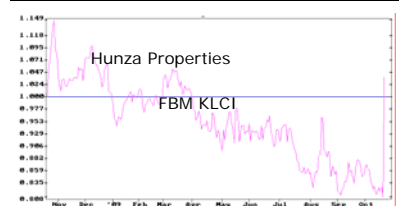
Issued Capital (m shares)	150.7
Market Cap(RMm)	221.5
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.93-1.68
Major Shareholders:	(%)
Dato' Khor Teng Tong	54.5
Lembaga Tabung Haji	8.3
Yayasan Bumiputra Pulau Pinang	7.5

FYE June	FY09	FY10	FY11
EPS chg (%)	-	-	-
Var to Cons (%)	3.8	1.9	(13.4)

PE Band Chart



Relative Performance To FBM KLCI



Coverage Under CMDF – Bursa Research Scheme

Low Yee Huap, CFA
(603) 92802237
low.yee.huap@rhb.com.my

Table 2: RNAV Estimate

Assets	Area (Acres)	Book (RMm)	Mkt Value (RMm)	Surplus (RMm)
For development:				
Kedah	585	15.14	10.2	(4.9)
Penang Island	29.4	128.45	153.7	25.2
Penang - Seberang Prai	701	18.84	152.7	133.8
Klang Valley	22	52.34	76.7	24.3
Total	1337.4	214.77	393.2	178.4
For investment:				
Penang - Seberang Perai	43.87	22.5	9.6	(12.9)
Grand total	1381.27	237.27	402.8	165.5
Shareholder fund as at June 08				306.0
Total RNAV				471.5
Proceeds from outstanding warrants				15.6
Number of shares plus warrants (m)				156.1
Basic RNAV per share (RM)				3.12

Table 3: Earnings Forecasts

FYE June (RMm)	FY09a	FY10F	FY11F	FY12F
Revenue	91.8	219.0	255.5	152.0
Operating profit	40.3	54.8	63.9	38.0
Interest expenses	(1.1)	(1.4)	(1.6)	(1.8)
PBT	39.1	53.3	62.3	36.2
Tax	(10.9)	(13.3)	(15.6)	(9.1)
Net profit	27.6	39.3	46.0	26.5
EPS (sen)	19.0	27.0	31.6	18.2
DPS (sen)	5.6	5.6	5.6	5.6

Source: Company data, RHBRI estimates

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

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.

RHBRI is a participant of the CMDP-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.

This report may not be reproduced or redistributed, in whole or in part, without the written permission of RHBRI and RHBRI accepts no liability whatsoever for the actions of third parties in this respect.