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

1Q2010 Results

Date: 26 November 2009

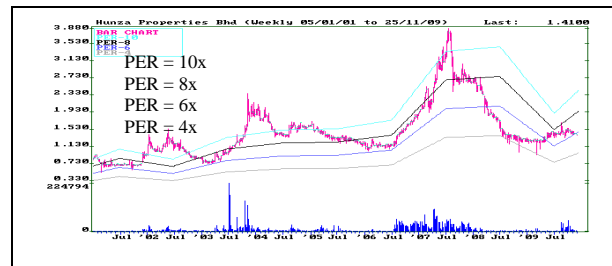
Name of PLCs: Hunza Properties	Price:	RM 1.41
<i>Stronger Sales And Progress Billings From Its Penang Projects</i>	Market Capitalisation:	RM 212.4m
Board: Main Market		
Sector: Property		
Stock Code: 5018		
Recommendation: HOLD		
Index Component/Constituent : -		

<u>Key Stock Statistics</u>	2009	2010F
EPS (est.)	19.0	31.0
P/E (est.)	7.4	4.5
Dividend/Share (sen)	7.5	
NTA/Share (RM)	2.5	
Book Value/Share	2.2	
Issued Capital (mil shares)	150.7	
52-weeks Share Price Range	0.93-1.68	
Major Shareholders:		
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	2.5	2.8	2.9
Cash Flow (sen)	10.4	32.5	35.1	20.7
Earnings (sen)	19.0	31.0	33.4	18.8
Dividend (sen)	5.6	7.5	7.5	7.5
Payout Ratio	29.5	24.1	22.4	39.8
PER (x)	7.4	4.5	4.2	7.5
P/Cash Flow (x)	13.5	4.3	4.0	6.8
P/Book Value (x)	0.6	0.6	0.5	0.5
Dividend Yield (%)	4.0	4.0	4.0	4.0
ROE (%)	8.5	12.5	12.1	6.5
Net Gearing (%)	0.3	0.2	0.2	0.2

<u>P&L Analysis (RM mil)</u>	2009	2010F	2011F	2012F
Year-end:				
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	61.2	65.8	37.4
Effective Tax Rate	27.8	25.0	25.0	25.0
Net Profit	27.6	45.2	48.7	27.3
EBITDA Margin	30.5	28.3	28.6	28.3
Pre-tax Margin	42.6	24.4	24.4	23.9
Net-Margin	30.0	18.1	18.1	17.5

PE Band Chart



1. 1Q10 Result Highlights:

FYE June (RMm)	2009 1Q	2010 1Q	% YoY Chg
Turnover	25.2	57.1	>+100
Operating profit	7.9	17.6	>+100
Finance costs	(0.3)	(0.2)	(26.7)
Pretax profit	7.5	17.4	>+100
Taxation	(2.1)	(4.6)	>+100
Net profit	5.6	12.7	>+100
EPS (sen)	3.9	8.8	>+100

Operating margin (%)	31.2	30.9
Pretax margin (%)	29.9	30.5
Net margin (%)	22.3	22.2
Effective tax rate	28.5	26.3

FYE June (RMm)	2009 4Q	2010 1Q	% QoQ Chg
Turnover	23.3	57.1	>+100
Operating profit	13.2	17.6	34.0
Finance costs	(0.2)	(0.2)	4.7
Pretax profit	12.9	17.4	34.5
Taxation	(3.4)	(4.6)	34.0
Net profit	9.4	12.7	34.8
EPS (sen)	6.5	8.8	36.4

Operating margin (%)	56.6	30.9
Pretax margin (%)	55.6	30.5
Net margin (%)	40.5	22.2
Effective tax rate	26.4	26.3

- ◆ **Above expectations.** Hunza Properties recorded 1QFY06/10 net profit of RM12.7m, up more than 100% yoy, due to stronger sales and progress billings from Infinity and Gurney Paragon. This is 7.3% and 7.9% above RHBRI and consensus estimates, respectively. We attributed the variance to stronger-than-expected progress billing in Gurney Paragon. The company's Penang projects i.e. Gurney Paragon and Infinity's take-up rates have picked up gradually since April 2Q09, at 55% in Sept 09 (from 53% in June 09) and 71% (61% in June 09), respectively. As for Mutiara Seputeh built-then-sell bungalow project, it has hit 15% take-up so far after the re-launch of 11 completed units in early-Sept 09. As at Sept 09, the company has unbilled sales of RM220m (vs. RM200m in 4QFY06/09), or 1.0x of our FY10 revenue projection. YTD, the company has achieved RM39m sales, or 22% of its FY10 sales target of RM180m.
- ◆ **Proposes rights issue with free warrants.** The company had proposed a 3-for-10 rights issue last month. This is together with free 5-year warrants on the basis of one free warrant for every one rights share subscribed. Assuming rights price of RM1.06 (25% discount to current share price of RM1.41), theoretical ex-rights price is RM1.33. The proceeds from the rights and conversion of warrants (assuming conversion price of RM1.06) of about RM92.7m will be utilised to fund its property development project, investment properties and working capital requirements. Thus far, the company has received approvals from Bursa Malaysia for the proposal and it is expected to be completed by 1Q10. We are not bullish on the proposal due to huge dilution impact on earnings. We also opine that the company should ride on the current low interest rate environment, instead of raising fund in equity market which has higher cost than debt (also see our report dated 22 Oct 09).

Forecast. We are upgrading our FY10-12 earnings forecasts by 3.2-15% to factor in: a) the change in progress billing assumption for Gurney Paragon; and b) Alila II, Penang (with an estimated GDV of RM250m) which will be launched by end-10.

- ◆ **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.** Our indicative fair value is fine-tuned to RM1.54 (from RM1.56 after the change in land value assumption for its Penang Island landbank), or 50% discount to its estimated RNAV/share of RM3.08. The discount is justified due to the company's small market capitalisation and low liquidity. We are maintaining our **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	109.2	0.1
Penang - Seberang Prai	701	18.84	152.7	133.8
Klang Valley	22	34.41	76.7	42.3
Total	1,319.4	176.2	348.8	172.6
For investment:				
Penang - Seberang Perai	43.87	22.5	9.6	(12.9)
Grand total	1,363.3	198.71	358.3	159.6
Shareholder fund as at June 09				306.0
Total RNAV				465.7
Proceeds from outstanding warrants				15.6
Number of shares plus warrants (m)				156.1
Basic RNAV per share (RM)				3.08

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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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