

Recommendation: **STRONG BUY**

Stock Code: 5018

Bloomberg: HPB MK

Price: MYR2.60

12-Month Target Price: MYR3.62

Date: August 22, 2007

Board: Main

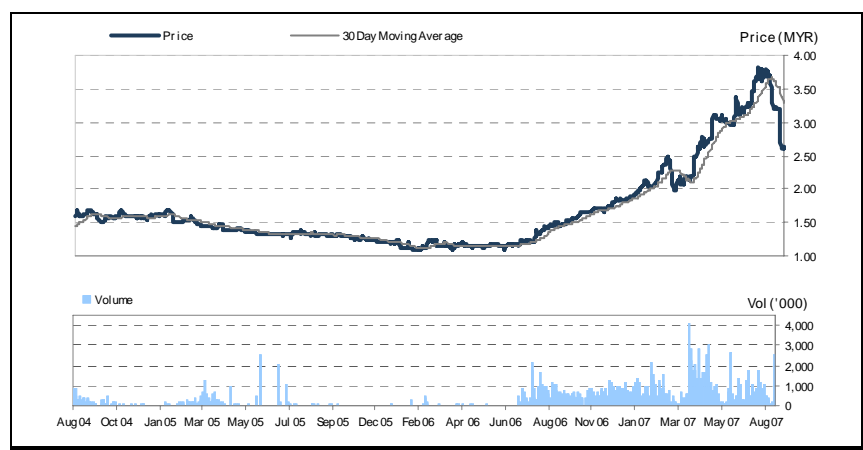
Sector: Property

GICS: Financials/Real Estate Management & Development

Market Value - Total: MYR351.9 mln

Summary: Based in Penang, Hunza Properties' (Hunza) primary business is property development, with current projects in Penang, Kedah and Kuala Lumpur.

Analyst: Geraldine Seah



Results Review & Earnings Outlook

- Hunza's full-year FY07 (Jun.) results exceeded our expectations. Full-year revenue of MYR190.0 mln (+62.9% YoY) was above our forecast by 16%, mainly due to higher-than-expected billings for projects Alila and Seputeh.
- Full-year net profit nearly doubled to MYR39.4 mln, due to healthy sales of Alila and Seputeh, as well as a 43% YoY decline in minority interests due to higher revenue contribution from wholly-owned projects like Alila and Seputeh.
- If we strip out the one-off revaluation gain from investment properties of MYR2.9 mln, net profit would have been MYR36 mln, 7% above our forecast.
- Hunza proposed a final dividend of 7.5 sen per share (gross), bringing total gross dividend for the year to 12.5 sen per share. This translates into a 4.8% gross dividend yield at current levels. Going forward, we expect management to maintain its dividend payout at similar levels.
- An update from management shows that sales for Alila and Seputeh remain healthy, with the take-up rate improving to 78% (from 68% as at 3Q) and 63% (from 52% as at 3Q) respectively.
- We have adjusted our FY08 revenue and net profit forecasts upwards by 8%-11% to MYR252.7 mln (+33.0% YoY) and MYR54.6 mln (+38.7% YoY) respectively, on higher take-up rate assumptions. We introduce our FY09 revenue and net profit estimates at MYR290.3 mln (+14.9% YoY) and MYR74.6 mln (+36.5% YoY) respectively.

Key Stock Statistics

	2007	2008E
FY Jun.		
Reported EPS (sen)*	33.0	35.2
PER (x)	7.9	7.4
Dividend/Share (sen)*	12.3	12.5
NTA/Share (MYR)*	1.86	1.88
Book Value/Share (MYR)*	1.86	1.88
No. of Outstanding Shares (mln)	135.3	
52-week Share Price Range (MYR)	1.45 - 3.82	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	54.9	
Yayasan Bumiputra Pulau Pinang	8.8	

*Per share data adjusted for rights issue

Recommendation & Investment Risks

- We upgrade our recommendation from Buy to Strong Buy, mainly due to the improved upside to our new target price of MYR3.62 (MYR3.55 previously). While Hunza's share price has retreated from a 52 week-high from a month ago on the back of the global sell-down, fundamentals remain intact and the earnings outlook remains positive.
- We have upgraded our PER multiple on Hunza to 10x from 8x, given expected strong earnings growth over the next 2 years (projected CAGR of 56% from FY07-FY09). The PER multiple applied is in line with our valuation of its peers.
- We have cut our FY08 EPS estimate to 35.2 sen (from 43.2 sen), mainly due to the dilution from the proposed rights issue. Post rights issue, EPS dilution for FY08-FY09 is estimated at around 12%-22%. All in, our target price is revised to MYR3.62 (including the projected net DPS).
- Hunza has announced that it will be issuing: (i) a 1-for-4 rights issue of up to 39.4 mln shares; and (ii) up to 39.4 mln free detachable warrants for every rights share subscribed, which will raise proceeds of MYR80 mln-MYR100 mln to fund its Gurney retail mall. The tentative completion date for the rights cum warrants issue is likely to be around end-2007 to early 2008. By our estimates, Hunza's net gearing will be lowered to about 52% (currently 67%) post rights issue.
- Risks to our recommendation and target price include slower-than-expected construction progress and take-up rates for its projects, as well as execution risks in its maiden foray into retail management of its Gurney mall.

Per Share Data

	2005	2006	2007	2008E
FY Jun.				
Book Value (MYR)*	1.55	1.67	1.86	1.88
Cash Flow (sen)*	16.7	18.1	34.3	35.7
Reported Earnings (sen)*	15.1	17.0	33.0	35.2
Dividend (sen)*	7.4	7.4	12.3	12.5
Payout Ratio (%)	38.2	31.6	30.9	29.6
PER (x)	17.3	15.3	7.9	7.4
P/Cash Flow (x)	15.6	14.3	7.6	7.3
P/Book Value (x)	1.7	1.6	1.4	1.4
Dividend Yield (%)	2.8	2.8	4.7	4.8
ROE (%)	9.9	10.6	17.6	18.7
Net Gearing (%)	70.6	80.2	66.6	52.0

*Per share data adjusted for rights issue

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Hunza Properties

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Quarterly Performance

FY Jun. / MYR mln	4Q07	4Q06	% Change
Reported Revenue	69.7	44.9	55.1
Reported Operating Profit	25.1	15.0	67.6
Depreciation & Amortization	-0.2	-0.5	-66.4
Net Interest Income / (Expense)	0.0	0.9	NM
Reported Pre-tax Profit	25.1	15.6	60.9
Reported Net Profit	16.1	8.9	80.4
Reported Operating Margin (%)	36.1	33.3	-
Reported Pre-tax Margin (%)	36.0	34.7	-
Reported Net Margin (%)	23.1	19.8	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	116.6	190.0	252.7	290.3
Reported Operating Profit	34.3	60.8	72.4	83.6
Depreciation & Amortization	-0.9	-0.8	-0.8	-0.8
Net Interest Income / (Expense)	0.7	0.2	0.2	0.2
Reported Pre-tax Profit	34.8	60.7	79.4	108.3
Effective Tax Rate (%)	28.3	30.3	26.0	26.0
Reported Net Profit	19.8	39.4	54.6	74.6
Reported Operating Margin (%)	29.4	32.0	28.6	28.8
Reported Pre-tax Margin (%)	29.8	32.0	31.4	37.3
Reported Net Margin (%)	17.0	20.7	21.6	25.7

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	3.62
8-May-07	Buy	3.55
24-Apr-07	Strong Buy	3.51
7-Feb-07	Strong Buy	2.66
21-Nov-06	Buy	1.98
31-Aug-06	Buy	1.65
25-Aug-06	Buy	1.61
1-Aug-06	Hold	1.30
6-Jun-06	Buy	1.30
22-Nov-05	Strong Buy	1.50
8-Sep-05	Strong Buy	1.63

