

Hunza Properties

Recommendation: **BUY**

Stock Code: **5018**

Bloomberg: **HPB MK**

Price: **MYR1.84**

12-Month Target Price: **MYR2.20**

Date: **May 27, 2008**

Board: Main

Sector: Property

GICS: Financials/Real Estate Management & Development

Market Value - Total: MYR257.5 mln

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

Analyst: Ching Wah Tam



Results Review & Earnings Outlook

- Hunza's 3QFY08 (June) results were below our expectations. 3QFY08 net profit of MYR9.7mln made up about 18% of our full-year forecasts. The variance was due mainly to lower-than-expected property sales during the quarter.
- For the quarter, revenue rose 21% YoY to MYR54.1 mln and net profit increased 26% YoY to MYR9.7 mln. The better YoY performance was due mainly to contributions from Hunza's two high-end condominium projects, Gurney Paragon and Infinity in Penang, and also a higher take-up rate of 96% in 3QFY08 for its Alila project vs. 48% in 3QFY07.
- However, net profit was down 42% QoQ from MYR16.6 mln in 2QFY08, due mainly to a slowdown in property sales. Nevertheless, Hunza has total unbilled sales of MYR276.4 mln as of end-March 2008.
- Due to the lower-than-expected 3QFY08 results, we have reduced our full year FY08 and FY09 net profit forecasts to MYR45.7 mln and MYR59.5 mln, respectively, from our previous forecasts of MYR54.6 mln and MYR74.6 mln.

Recommendation & Investment Risks

- We upgrade our recommendation to Buy from Hold, despite lowering our 12-month target price to MYR2.20 from MYR2.45 following the reduction in our net profit forecasts, on valuation grounds. The 52% decline in Hunza's share price from its high of MYR3.82 in mid-July 2007 is overdone, in our opinion. We now see value in Hunza shares at the current level as it has locked in unbilled sales of MYR276.4 mln. In addition, selling prices of its two high-end condominium projects in Penang have risen by 30%-40% since their launches in 2007.
- Our target price is derived by applying a 7x multiple (unchanged, in line with peers) on our revised FY08 EPS of 32.4 sen (previously 35.2 sen) and adding projected net DPS.
- 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.

Key Stock Statistics

	2007	2008E
FY Jun.		
Reported EPS (sen)	33.6	32.4
PER (x)	5.5	5.7
Dividend/Share (sen)	12.3	12.5
NTA/Share (MYR)	1.86	1.83
Book Value/Share (MYR)	1.86	1.83
No. of Outstanding Shares (mln)	139.9	
52-week Share Price Range (MYR)	1.80 - 3.82	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	54.9	
Yayasan Bumiputra Pulau Pinang	8.8	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

	2005	2006	2007	2008E
FY Jun.				
Book Value (MYR)	1.55	1.67	1.86	1.83
Cash Flow (sen)	16.7	18.1	34.3	30.0
Reported Earnings (sen)	15.4	17.4	33.6	32.4
Dividend (sen)	7.4	7.4	12.3	12.5
Payout Ratio (%)	38.2	31.6	30.9	35.4
PER (x)	12.0	10.6	5.5	5.7
P/Cash Flow (x)	11.0	10.1	5.4	6.1
P/Book Value (x)	1.2	1.1	1.0	1.0
Dividend Yield (%)	4.0	4.0	6.7	6.8
ROE (%)	9.9	10.6	17.6	15.9
Net Gearing (%)	70.6	80.2	66.6	53.4

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 4

Hunza Properties

Recommendation: **BUY**Stock Code: **5018**Bloomberg: **HPB MK**Price: **MYR1.84**12-Month Target Price: **MYR2.20**Date: **May 27, 2008****Quarterly Performance**

FY Jun. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	54.1	44.7	21.0
Reported Operating Profit	14.4	11.5	25.3
Depreciation & Amortization	-0.5	-0.4	39.8
Net Interest Income / (Expense)	-0.6	0.2	NM
Reported Pre-tax Profit	13.4	11.5	17.4
Reported Net Profit	9.7	7.7	26.1
Reported Operating Margin (%)	26.5	25.6	-
Reported Pre-tax Margin (%)	24.9	25.6	-
Reported Net Margin (%)	17.9	17.2	-

Source: Company data

Profit & Loss

FY Jun. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	116.6	190.0	232.7	240.3
Reported Operating Profit	34.3	60.8	59.4	61.6
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	66.4	86.3
Effective Tax Rate (%)	28.3	30.3	26.0	26.0
Reported Net Profit	19.8	39.4	45.7	59.5
Reported Operating Margin (%)	29.4	32.0	25.5	25.7
Reported Pre-tax Margin (%)	29.8	32.0	28.5	35.9
Reported Net Margin (%)	17.0	20.7	19.6	24.7

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

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.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

CMDF-Bursa Research Scheme ("CBRS")

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

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	Buy	2.20
10-Mar-08	Hold	2.45
22-Aug-07	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

