

Recommendation: **HOLD**

Stock Code: 5018

Bloomberg: HPB MK

Price: MYR2.35

12-Month Target Price: MYR2.45

Date: March 10, 2008

Board: Main

Sector: Property

GICS: Financials/Real Estate Management &amp; Development

Market Value - Total: MYR328.8 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



## Recent Developments

- Malaysia's ruling party, Barisan Nasional (BN), unexpectedly failed to retain its two-thirds parliamentary majority and lost in five states, Kedah, Penang, Perak, Kelantan and Kedah, in the general election held over the weekend. BN won only 63% of the 222 seats on offer, down from 91% it won at the last election in 2004. This is the worst-ever performance for the ruling party since the country's independence. Most had expected that BN would win at least two-thirds of the parliamentary seats and not lose more than two states. Not surprisingly, it has sent a shock-wave through the stock market.
- The poor performance comes at an inopportune time as the stock market has been dampened by concerns over the adverse impact of a U.S. recession. In our opinion, the cyclical property sector will be affected by the election results as investors will be worried over the opposition parties' performance in governing the five states, and also over the implementation of the various development plans in those states. Most of the listed property companies are based in Selangor and Penang, which have been taken over by opposition parties.
- In our view, until we get a clearer picture of how well the opposition parties will be working with the ruling party on the development plans of the two crucial states, Penang and Selangor, we are downgrading our recommendation on the property sector to Marketweight from Overweight, and also our ranking for property stocks under our coverage.

### Key Stock Statistics

FY Jun.	2007	2008E
Reported EPS (sen)	33.6	38.7
PER (x)	7.0	6.1
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)	139.9	
52-week Share Price Range (MYR)	2.04 - 3.82	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	54.9	
Yayasan Bumiputra Pulau Pinang	8.8	

## Recommendation & Investment Risks

- Given the uncertainty over the prospects of the property sector, we are downgrading both our recommendation and our target price for Hunza. We downgrade our recommendation of Strong Buy to Hold and our 12-month target price to MYR2.45 from MYR3.62.
- Our target price is derived by applying a 7x (previous: 10x) PER multiple on projected FY08 EPS of 35.2 sen (unchanged) 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.

## Earnings Outlook

- We maintain our full-year FY08 net profit of MYR54.6 mln respectively. Our estimates are supported by locked-in sales from Alila and Seputeh, as well as maiden contributions from new projects Gurney and Infinity.

### Per Share Data

FY Jun.	2005	2006	2007	2008E
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)	15.4	17.4	33.6	38.7
Dividend (sen)	7.4	7.4	12.3	12.5
Payout Ratio (%)	38.2	31.6	30.9	29.6
PER (x)	15.3	13.5	7.0	6.1
P/Cash Flow (x)	14.1	13.0	6.9	6.6
P/Book Value (x)	1.5	1.4	1.3	1.2
Dividend Yield (%)	3.1	3.1	5.2	5.3
ROE (%)	9.9	10.6	17.6	18.7
Net Gearing (%)	70.6	80.2	66.6	52.0

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**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&amp;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	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

