STANDARD
&POOR'S

Hunza Properties

Recommendation: **STRONG BUY**

Stock Code: 5018 | Bloomberg: HPB MK | Price: MYR2.46 | 12-Month Target Price: MYR3.62 | Date: February 28, 2008

Board: Main

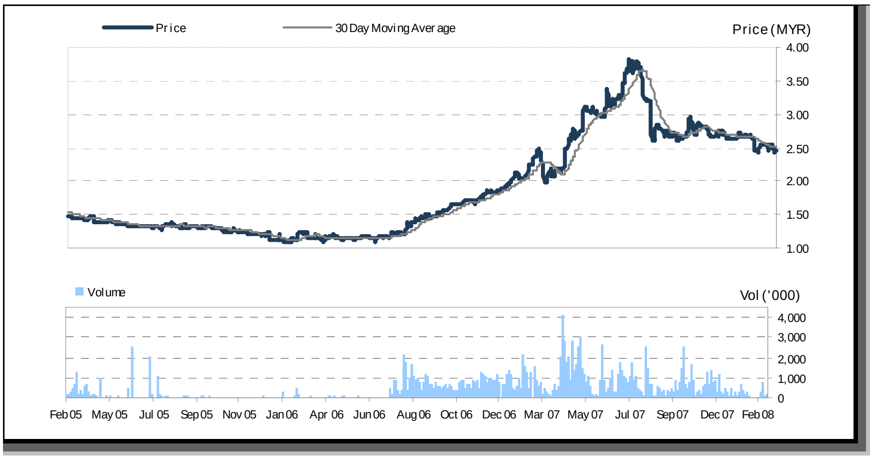
Sector: Property

GICS: Financials/Real Estate Management & Development

Market Value - Total: MYR344.2 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



Highlights

- Hunza has transformed itself over the last few years into a premium property developer with a large portfolio of niche and township projects. Hunza has a total undeveloped landbank of 814 acres, located in Penang (484 acres) and Kedah (330 acres) with a total Gross Development Value (GDV) of MYR2.3 bln.
- We maintain our full-year FY08 revenue and net profit forecast of MYR252.7 mln (+33.0% YoY) and MYR54.6 mln (+38.7% YoY) respectively. Our estimates are supported by locked-in sales from Alila and Mutiara Seputeh, as well as maiden contributions from new projects Gurney Paragon and Infinity.
- We are positive on Hunza's earnings outlook, with high-end projects contributing significantly going forward. We forecast Hunza to post strong earnings growth of over 35% per annum in FY08 and FY09.

Investment Risks

- 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.

Recommendation

- We maintain both our Strong Buy recommendation and 12-month target price of MYR3.62. Our target price is derived by applying a 9x FY08 PER and adding projected net DPS.
- Our target multiples are in line with our valuation metrics (8x-12x PER) for niche developers within our coverage.
- Hunza has a total GDV of MYR2.3 bln of projects in hand, of which, MYR1.5 bln are for sales and MYR800 mln for investment project retained for rental income.
- Hunza's proposed 1-for-4 rights issue of up to 39.4 mln new shares with up to 39.4 mln free warrants, which has been approved by shareholders, is expected to be implemented in Mar/Apr. The fund raised (up to MYR100 mln) from the proposed rights issue will be used as working capital and also to fund its property projects. Due to its expected strong earnings growth in FY08 and FY09, the dilutive impact on Hunza's EPS from the proposed rights issue is minimal.

Key Stock Statistics

FY Jun.	2007	2008E
Reported EPS (sen)	33.6	38.7
PER (x)	7.3	6.4
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)	139.9	
52-week Share Price Range (MYR)	1.98 - 3.82	
Major Shareholders:	%	
Dato' (Dr) Khor Teng Tong	54.9	
Yayasan Bumiputra Pulau Pinang	8.8	

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)	16.0	14.2	7.3	6.4
P/Cash Flow (x)	14.8	13.6	7.2	6.9
P/Book Value (x)	1.6	1.5	1.3	1.3
Dividend Yield (%)	3.0	3.0	5.0	5.1
ROE (%)	9.9	10.6	17.6	18.7
Net Gearing (%)	70.6	80.2	66.6	52.0

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

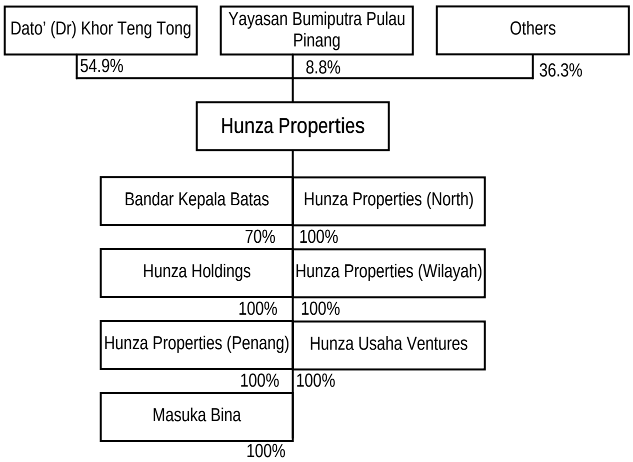
The McGraw-Hill Companies

Business

Hunza has transformed itself over the last few years into a premium property developer with a portfolio of high-end niche and township projects in Penang and Kuala Lumpur.

Hunza has a total undeveloped landbank of 814 acres, located in Penang (484 acres) and Kedah (330 acres) with a total GDV of MYR2.3 bln, of which, MYR1.5 bln are for sales and MYR800 mln for investment project retained for rental income.

Corporate Structure



Source: Company data

High-End Niche Projects

Hunza has three major on-going high-end niche projects: (i) Alila in Tanjung Bungah, Penang, (ii) Mutiara Seputeh in Kuala Lumpur, and (iii) Gurney Paragon. It has also secured two joint venture projects with land owners.

Alila and Mutiara Seputeh

Hunza expects to complete both Alila and Mutiara Seputeh by FY08/F09. Foreign buyers made up about 30% of the buyers of these two projects. Hunza has sold 83% and 15% of its 153 units and 47 units of semi-detached houses and bungalows in Mutiara Seputeh respectively, and achieved an average 87% sales for the Alila project. The two projects have remaining total GDV of MYR96.0 mln to be sold.

Gurney Paragon Condominium and Shopping Mall

Due to the good demand during its soft launch in Apr. 2007, Hunza revised the selling prices for the remaining units of its 220-unit Gurney Paragon condominiums to MRY430-530 psf from its initial average launch price of MRY420 psf. Hunza has sold 46% of this MYR380 mln project. The 2-tower condominium project is part of an integrated commercial project, Gurney Drive, which consists of the 220 units of service apartments and an MYR800 mln shopping mall, which will be retained for rental income. As the project is strategically located in the popular tourist area, Gurney Drive, and with a beach front view, we expect the Gurney Paragon condominiums to be well received by both local and foreign buyers.

Hunza is willing to dispose of up to a 30% interest of its MR800 mln Gurney Paragon shopping mall to a potential reputable partner, who could bring in technical expertise to manage the mall. Hunza is in the midst of negotiating with a number of potential partners for the mall.

Infinity

This is a 90:10 joint venture project with a landowner to build a 119-unit luxury condominium project with a GDV of MYR240 mln at Tanjung Bungah beachfront. Hunza has managed to sell 43% of the project. This project has full view of the Tanjung Bungah beachfront, which is very popular among local and foreigners. So far, 80% of its sales came from foreigners.

Alila II

Hunza has also formed an 80:20 joint venture with the landowner of an adjacent 10-acre land to its current project Alila in Tanjung Bungah. Hunza has planned a MYR206 mln mixed high-rise and landed property project there, which will be launched in 2009/2010. Hunza expects profit margin to be at least 30%.

Hunza has indicated that it is actively seeking to acquire landbank in strategic locations in the Klang Valley and also strategic locations in Penang, which will enable it to develop niche high-end projects with a GDV of MYR200-300 mln and a profit margin of at least 30%.

Township Projects

Hunza has two township projects, which are strategically located in Sungai Petani, Kedah and Bertam, Penang, which are within the Northern Corridor Economic Region (NCER).

Bayu II

This is a mass housing project catered mainly to the low to middle income group. Initially launched in 2000, the total remaining landbank and gross GDV for Bayu II is estimated to be 364 acres and MYR300 mln respectively.

Bertam

Bertam is a 70:30 joint venture township project with Yayasan Bumiputra Pulau Pinang (70%: Hunza, 30%: Yayasan), and was initially launched in 2002. Total remaining GDV is estimated at MYR985 mln.

Outlook of Penang Property Market

The outlook of Penang's property sector has turned positive since the Government's introduction of a number of new policies to boost property demand in the country, and also the launch of NCER last year.

Among the new policies to boost demand for properties that the Government introduced in 2007 were: (i) liberalisation of foreign ownership of properties priced above MYR250,000; (ii) removal of real property gains tax (RPGT) from Apr. 1, 2007; (iii) allowing Employees Provident Fund (EPF) contributors to make monthly withdrawal from Account 2 for housing loan repayment; and (iv) a 50% cut in stamp duty exemption on the transfer of documents for houses costing less than MYR250,000.

More importantly, the Government is expected to implement the development of the NCER this year. A number of incentives will be given to attract foreign investment to the region. NCER will receive a development allocation of MYR50 bln from 2007 to 2020, and the development is expected to create 0.5 mln and 1 mln jobs by 2012 and 2020, respectively. Seberang Prai, the mainland area of Penang, together with Kedah, Perlis and the northern part of Perak has been identified by the NCER to spearhead the development of agricultural/food based industries, a hi-tech electronic hub and medical tourism.

Among the major infrastructure projects identified for Penang are the following: (i) Second Penang Bridge, which will offer an additional link between Penang Island and Seberang Prai (MYR3.3 bln); (ii) Penang Outer Ring Road (PORR) (MYR1 bln); and (iii) monorail (MYR1.5 bln), which will improve the traffic flow of Penang Island. The Second Penang Bridge is expected to start construction in 2008 since financing is already in place. Both the Monorail and PORR are expected to be awarded in the first half of 2008.

Since the launch of NCER, interests in real estate development in Penang has been good and secondary property prices have risen by about 10-15% over the past year. According to developers, due to it being a tourist destination for regional countries, Penang has attracted many Japanese and South Korean retirees, who are attracted by its beaches, comparative low living and health care costs. We understand from developers that there is an inflow of Japanese and South Korean retirees to Penang.

Separately, based on EPF's new monthly withdrawal for the repayment of housing loan instalment scheme, effective from Jan. 2008, we estimate that EPF contributors' borrowing capacity will increase by 23%, which should, in turn, create higher buying interest in residential properties among EPF contributors. Furthermore, under the new scheme, EPF contributors can withdraw from their EPF Account II to buy a second house even though they had previously withdrawn from the account to purchase a house under the old yearly withdrawal scheme.

Overall, we are optimistic that both demand and prices for residential properties in Penang will recover further in 2008 since the majority of house buyers will enjoy higher loan capacity through the new EPF monthly withdrawal scheme and the favorable impact from the implementation of a number of mega projects under the NCER program from 2008 onwards.

Earnings Outlook

We maintain our full-year FY08 revenue and net profit of MYR252.7 mln (+33.0% YoY) and MYR54.6 mln (+38.7% YoY), respectively. Our estimates are supported by locked-in sales from Alila and Mutiara Seputeh, as well as maiden contributions from new projects Gurney and Infinity.

We are positive on Hunza's earnings outlook, with high-end projects like Alila, Seputeh, Gurney Paragon and Infinity contributing significantly going forward.

Hunza's proposed 1-for-4 rights issue of up to 39.4 mln new share with up to 39.4 mln free warrants, has been approved by shareholders and will be implemented soon. The fund raised (up to MYR100 mln) from the proposed rights issue will be used as working capital and also to fund its property projects.

The dilutive impact on Hunza's EPS from the proposed rights issue is minimal as we expect Hunza to post strong earnings growth of over 35% per annum in FY08 and FY09.

Valuation

We maintain both our Strong Buy recommendation and 12-month target price of MYR3.62. Our target price is based on a 9x FY08 PER multiple and adding projected net DPS. Our target multiples are in line with our valuation metrics (8x-12x PER) for niche developers within our coverage.

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

Required Disclosures

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
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