Mayban Securities
(165630-M)
MALAYSIA EQUITY RESEARCH

EQUITY FOCUS

KDN PP11072/9/2004

MAIN BOARD
Properties

Yu Neh Huat Bhd

RM1.40

An underrated Manjung developer

Fair Value: RM2.00

11 May 2004

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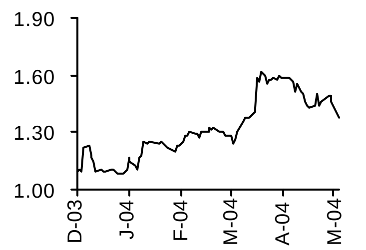
Issued share capital (m)^	345.0
Market Capitalisation (RM m)	483.0
NTA/share (RM)	1.16
Net cash/Debt (X)	0.1
2003 ROE (%) - pre-except.	8.4
Estimated free float (%)	33.7
Major Shareholders	**%**
Dato' Dr Yu Kuan Chon	27.3
Yu Kuan Huat	23.8
Yu Kuan Seng	14.7
Estate of Dato' Dr Yu Neh Huat	0.5

^Enlarged share capital post special Bumi issue

Price Chart (RM1.40)



Price Performance

52-week High/Low: RM1.45 / RM0.60

1-mth	6-mth	1-yr	YTD
13.8%	n.a.	n.a.	25.7%

Yu Neh Huat Bhd (YNH) is primarily a Perak-based property development company with dominance in the Lumut-Setiawan-Seri Manjung region. It has undeveloped landbank of approximately 1,000 acres, almost entirely in the Manjung district to sustain earnings for the next 20 years. Despite its unassuming stance, YNH deserves more attention due to its strong fundamentals:

- Dominant position in Manjung, the fastest growing region in Perak.
- Strategic recent land acquisitions in the Klang Valley. The land at Kuala Lumpur city centre, Mont'Kiara and Subang, is expected to contribute a gross development value (GDV) of at least RM660m for the next 3-4 years.
- Healthy average pretax margin of 26% (1999-2003), at par with the larger peers.
- Proven track record with a 5-year turnover and net profit CAGR of 15% and 37% (historical) respectively.
- Compelling PER05 of 8.4X with expected FY04 dividend yield of 7.1%.

Background

YNH is a special purpose vehicle established to assume the listing status of Techno Asia Holdings Bhd (TAHB). Pursuant to the proposals, YNH acquired 2 companies namely Kar Sin Bhd (KSB) and Yu & Sons Sdn Bhd (YSSB), which are active in the property development and construction industry in the Seri Manjung region. KSB's first integrated township was the 147-acre Taman Samudera in 1992 and it has completed a total of 7,576 units of residential and commercial properties worth RM580.7m to date. Both companies were founded by the late Dato' Yu Neh Huat and is currently controlled by the Yu family via its 73.2%-stake in the YNH group.

Table 1: Earnings Forecast

Year End Dec	2002A	2003A^	2004E	2005F	2006F
Turnover (RM m)	103.7	91.2	163.9	249.3	317.5
Net Profit (RM m)	22.1	22.8	32.2	57.2	76.5
EPS (sen)*	6.4	6.6	9.3	16.6	22.2
DPS (sen)*	-	-	10.0	10.0	10.0
P/E Ratio (x)	21.9	21.1	15.0	8.4	6.3
Div. Yield (%)	-	-	7.1	7.1	7.1

** Adjusted to reflect enlarged share base of 345m units.*

^ Before exceptional item of RM22.8m for backdoor listing.

Manjung: Bread and butter development

Fastest growing district in Perak

The Manjung district has a current population of approximately 200,000 and this is expected to grow to 250,000 by 2010. As the fastest growing district in Perak, the Manjung population requires about 1,800 new housing units per annum, easily absorbing YNH's annual launches of 500 units of new housing. Population growth is largely contributed by the Lumut Naval Base, which has approximately 1,000 new recruitments per annum. The Naval base is a catalyst to increased economic activities in this region and ensures steady flow of prospective buyers to YNH's developments in the Manjung district. Naval staff takes up approximately 70% of YNH's new property launches in the Manjung district. Based on YNH's planned launches of 500 units per annum over an area of 50 acres, its landbank of approximately 1,000 acres in Manjung would ensure sustainable earnings (net profit of RM25m) for the next 20 years. Besides the Naval base, economic activities in Manjung are also spurred by the TNB Janamanjung power plant, the Lumut Port and Industrial Estate and the Segari power plant.

Dominant player in Manjung

YNH has approximately 1,092 acres of landbank in the region of Seri Manjung at the southern coast of Perak, adjacent to the Ipoh-Lumut Development Corridor. It has completed and sold approximately 7,500 units of affordable housing and commercial units worth RM580m to date. YNH's success is partly attributable to its large tracts of strategic landbank in the vicinity of Setiawan, Bandar Baru Sri Manjung and Lumut towns, allowing YNH to command approximately 65-70% market share in this region. As there is limited competition from other developers, YNH's projects lead in terms of pricing and product specifications. Currently, YNH has 8 ongoing projects with a total GDV of RM60m in Manjung and one small project in Taiping, Perak. Besides projects in small pockets of land in Manjung district, YNH has 2 integrated township projects which is Taman Samudera and Manjung Point. Taman Samudera is YNH's first township development with 2,100 units of completed housing and commercial units on 174 acres of land. Its current flagship project is the Manjung Point township, a 782-acre integrated property development with a total GDV of RM1.5b to keep YNH busy for the next 20 years. YNH's cheap land entry cost allows it to register a commendable average EBITDA margin of 25% for its developments in Manjung.

Ipoh: Higher margin commercial developments

In an effort to improve margins, YNH ventured into commercial property developments via Medan Ipoh and Medan Bercham in Ipoh. This comprise of a 2 and 3-storey shop offices on a 31-acre plot strategically located in the vicinity of Jaya Jusco shopping mall and Makro, and next to the upcoming Tesco hypermarket. A total of 367 units would be developed, of which 100 units of the total 158 units offered during soft launch in Dec 03 have been sold. Based on the selling price of RM350k-RM500k per unit, YNH should be able to register close to 50% EBITDA margin because of its low land entry cost (acquired from Danaharta at RM20psf.). Nonetheless, we remain conservative with our forecast EBITDA margin of 35% from the Ipoh project. YNH's Ipoh development will contribute a total GDV of RM146m, of which RM113m would be launched in FY04 and FY05.

Table 2: Landbank and Planned Development for Next 4 Financial Years

	Land Size (Acre)	Total GDV (RM'm)	GDV FY04 (RM'm)	FY05 (RM'm)	FY06 (RM'm)	FY07 (RM'm)	Remaining GDV (RM'm)
Perak							
Manjung point	782	1,500.0	100.4	110.6	117.0	160.6	1,011.4
Other developments in Manjung district	275	100.0	11.2	12.3	13.0	17.8	45.7
Ipoh	31	145.7	62.8	50.4	32.5	-	-
SUB TOTAL	1,088	1,745.7	174.3	173.3	162.5	178.4	1,057.2
Klang Valley							
City centre, Jln Perak	1	180.0	180.0	-	-	-	-
Mont'Kiara	3	130.0	-	130.0	-	-	-
Subang	2	50.0	-	50.0	-	-	-
Mont'Kiara	6	300.0	-	-	300.0	-	-
SUB TOTAL	12	660.0	180.0	180.0	300.0	-	-
TOTAL	**1,100**	**2,405.7**	**354.3**	**353.3**	**462.5**	**178.4**	**1,057.2**

Source: Company, Mayban Securities

Kuala Lumpur: High-end residential developments

Despite having a stronghold in the Manjung district, YNH has plans to venture into Klang Valley to reap better margins from high-end residential development. For a start, YNH has 2 plots of prime land poised for immediate development:

- 1 acre in Jalan Perak, Kuala Lumpur city centre slated for high-rise service apartment with an estimated GDV of RM180m.
- 3 acres in Mont'Kiara for condominium development with an estimated GDV of RM130m.

The Klang Valley landbank was acquired cheap, at a discount of approximately 35%-45% to the most recent transacted prices in the same area. The low land entry cost and better pricing power from its high-end products has enabled YNH to reap better EBITDA margin of an estimated 50%. Both developments are scheduled for launching in 2004, potentially contributing to a sharp earnings growth to YNH in the next 2 financial years. YNH did not include the Klang Valley landbank into the prospectus forecast. Elsewhere, YNH can bank on 2 other prime land in the Klang Valley, which is pending injection, to grow earnings. The soon-to-be-injected plot of land are:

- 1.5 acres of land in Section 14, Subang for a 20-storey apartment block comprising of 100 units with an estimated GDV of RM50m slated for launching before end 04.
- 6 acres in Mont'Kiara for condominium project with an estimated GDV of RM300m and expected launching in 2005.

Pending injection into the group, the Subang project will only start contributing to earnings from FY05 onwards while the Mont'Kiara project from FY06 onwards. For YNH's Klang Valley projects, we forecast a lower EBITDA margin of 40% to be conservative. Overall, YNH's entry into the Klang Valley market provides exciting prospects as the landbank is in strategic locations where demand for properties is strongest. These projects will contribute a total GDV of RM660m over the next 3 years and would be the earnings catalyst for YNH with a 3-year EPS CAGR of 50% (FY04-FY07).

Concerns

The Klang Valley market remains an uncharted territory to YNH. Though we are positive on this venture, there are some concerns on:

- lack of track record in urban development especially in high-end properties.
- complete shift in focus from the traditional affordable housing and township development in a less prime area, which require changes in marketing approach with more emphasis on product quality and good customer service.
- understanding of the higher-end market segment, which is more sensitive to brandname rather than pricing.
- competition from the more established developers which have the advantage of brandname and good track record in high-end developments.
- lack of sizeable Klang Valley landbank to ensure a longer term earnings sustainability as the current landbanks may only last for the next 3 years.

These concerns are mitigated by YNH's strategically located landbank, which minimises take-up risk. It is also comforting to note that YNH has a capable management with a strong in-house construction arm, able to complete projects within 12 months compared to the normal 24 months. The special Bumiputera issue of 85m new shares is expected to generate approximately RM100m in cash, strengthening YNH's war chest to fund future land acquisition.

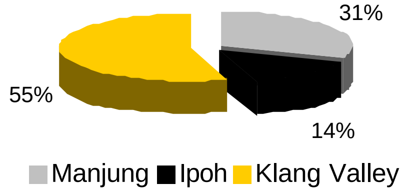
Financials

YNH's past performance has been impressive with a 5-year net profit CAGR of 37% (1998-2003) despite the challenging environment in the property market. Meanwhile, its turnover CAGR grew by a moderate 14% in the last 5 years but pretax margin improved considerably to 37% in FY03 from approximately 15% in FY98. YNH's recently released FY03 pretax profit (pre-exceptional items) of RM33.5m exceeds prospectus forecast by approximately 7%, on account of better than expected pretax margin. Balance sheet appears strong with a gearing ratio of 0.2X. The company announced a 5% final dividend for FY03, with a fairly attractive yield of 3.7%.

Prospects

YNH's Klang Valley venture would be the key growth driver for the group in the next few years. Its proposed launching of approximately RM660m in GDV of prime high-end Klang Valley properties will hoist earnings to register a forward 3-year CAGR of close to 50% (2003-2006), stronger than the historical 3-year CAGR of 35%. The downside risk to YNH's Klang Valley venture is mitigated by the current strong demand for properties and the prime location of its projects. Meanwhile, YNH's dominant position in the Manjung district is viewed as a safety net to its venture into Klang Valley. The Perak developments, especially the flagship Manjung Point township, provides a stable earnings base sufficient to drive earnings for the next 20 years. Without the Klang Valley developments, YNH can still bank on the Ipoh commercial developments (GDV RM145m), which appears to be a sure success, to grow earnings for the next few years.

Chart 1: Planned launches for FY04-FY06 (% based on GDV)



Source: Company

Outlook

For FY04, we expect YNH to register turnover and net profit growth of 80% and 41.2% respectively. Our net profit projection is 36% higher than the prospectus forecast, justified by the inclusion of the Klang Valley and Ipoh developments, which were not factored in the prospectus. For FY05 and FY06, YNH is expected to register a substantial jump in net profit of 78% and 34% respectively due to the recognition of earnings from the Klang Valley and Ipoh developments. Though this appears bullish, we are conservative on our EBITDA margin forecast of 31% to 35% compared to 42% in FY03. YNH is expected to announce dividends of 10.0 sen per share (prospectus forecast 5.0 sen) for FY04, implying an attractive yield of over 7%.

Valuation

At current level, the stock is trading at PER05 of 8.4X against the sector average of 12X. We believe the stock deserves a premium for its above-average earnings growth of 41% for FY04 (sector 14%) and superior EBITDA margin of approximately 42% (sector 20%). YNH's PEG ratio of 0.3X is also sharply lower than its peer average of 1.2X. Attaching a PER05 of 12X, YNH is worth RM2.00, a sharp 43% upside potential. We believe that appetite for undervalued property stocks is still intact and stock is poised for a re-rating closer to its peers as soon as the market turns good.

Table 3: Peer comparison

	Price	Mkt Cap	PER04	PEG	EBITDA margin	Div yield
	(RM)	(RM m)	(x)	(x)	(%)	(%)
KSL^	2.95	781.3	9.7	0.9	43.2	3.1
Plenitude^	1.92	267.3	6.2	0.8	28.0	1.5
Sunrise^	2.75	736.7	9.9	1.8	20.1	2.0
Yu Neh Huat	1.40	483.0*	15.0	0.3	42.0	7.1
Average (ex YNH)			***8.6***	***1.2***	***30.4***	***2.2***

Source: Company, Mayban Securities

^Note: EPS04 for KSL and Sunrise was based on IBES consensus forecast, while Plenitude based on prospectus.

* Fully diluted

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDING DECEMBER

YE Dec	2000	2001	2002	2003	2004e	2005f	2006f
Turnover	**46.0**	**77.8**	**103.7**	**91.2**	**163.9**	**249.3**	**317.5**
Growth	*-49.8%*	*69.1%*	*33.4%*	*-12.1%*	*79.7%*	*52.2%*	*27.3%*
Cost of sales	(29.1)	(62.3)	(68.3)	(52.5)	(113.7)	(164.2)	(205.3)
EBITDA	16.9	15.5	35.4	38.7	50.1	85.1	112.2
Margin	*37%*	*20%*	*34%*	*42%*	*31%*	*34%*	*35%*
Interest	3.0	(3.8)	3.6	4.6	4.8	5.1	5.3
Depreciation	0.9	0.6	0.5	0.5	0.6	0.6	0.6
Profit before associates	13.0	18.7	31.3	33.5	44.7	79.5	106.2
Associates	-	-	-	-	-	-	-
Profit before tax	**13.0**	**18.7**	**31.3**	**33.5**	**44.7**	**79.5**	**106.2**
Margin	*28%*	*24%*	*30%*	*37%*	*27%*	*32%*	*33%*
Taxation	(3.7)	(5.2)	(9.2)	(10.7)	(12.5)	(22.3)	(29.7)
Minority interest	-	-	-	-	-	-	-
Exceptional items	-	-	-	(22.8)	-	-	-
Net profit	**9.3**	**13.5**	**22.1**	**0.0**	**32.2**	**57.2**	**76.5**
Growth	*-73.0%*	*45.8%*	*63.7%*	*-99.8%*	*41.2%*	*77.7%*	*33.7%*
Fully diluted EPS (sen) pre-except.	**2.7**	**3.9**	**6.4**	**6.6**	**9.3**	**16.6**	**22.2**
Fully diluted EPS (sen)	**2.7**	**3.9**	**6.4**	**0.0**	**9.3**	**16.6**	**22.2**

BALANCE SHEET

	2003 RM'm	2004e RM'm	2005f RM'm	2006f RM'm
Property, plant & equipment	117.9	120.3	122.7	125.1
Land held for future development	161.1	165.2	169.3	173.5
Investment	0.0	0.0	0.0	0.0
Current assets	152.2	281.6	314.8	353.6
Total assets	431.3	567.1	606.8	652.3
Current liabilities	107.9	113.3	122.3	127.2
	323.4	**453.8**	**484.5**	**525.1**
Share capital	232.8	345.0	345.0	345.0
Reserves	37.1	53.2	81.8	120.0
Shareholders' fund	269.9	398.2	426.8	465.0
Deferred taxation	29.6	30.5	31.4	32.3
Non-current liablities	23.9	25.1	26.4	27.7
	323.4	**453.8**	**484.5**	**525.1**
NTA per share (RM)	1.16	1.15	1.24	1.35

Source: Company, Mayban Securities Research

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BUY	**Price appreciation in excess of 20% expected in the next 12 months**
SELL	**Price depreciation in excess of 20% expected in the next 12 months**
TRADING BUY/SELL	**Significant price movement expected in the next 3-months arising from positive/ negative newsflow. Eg:- Mergers and acquisition, corporate restructuring, and potential of obtaining new projects.**
AVOID	**Uncertainty in newsflow.**

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

P = price
PE/PER = price earnings/ PE ratio
PEG = PE ratio to growth
FV = fair value
BV = book value
EV = enterprise value
DCF = discounted cashflow
FCF = free cashflow
CAGR = compounded annual growth rate
WACC = weighted average cost of capital

PBT/PAT = Profit before tax/Profit after tax
NTA = net tangile asset
NAV = net asset value
EBIT= Earnings before interest, tax
EBITDA= EBIT, depreciation and amortisation
ROE = return on equity
ROA = return on asset
ROS = return on shareholders' funds
EPS = earnings per share
DPS = dividend per share

mom = month-on-month
yoy = year-on-year
qoq = quarter-on-quarter
ytd = year-to-date
FY/FYE = financial year/ financial year end
CY = calendar year
capex = capital expenditure
adex = advertising expenditure
p.a = per annum

Mayban Securities

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