11 February 2008

YNH Property

BUY
RM2.75

A GREAT ENTRY POINT

Coming out from a recent meeting with management, we continue to believe in the good growth prospects and superior earnings visibility offered by the company, with unbilled sales at over 4x FY07 revenue. YNH's share price has hardly reacted to the lucrative announcement of the 50% sale of Menara YNH at a record price of RM1,230psf valued at RM920m. We strongly recommend investors capitalise on this anomaly and to accumulate the stock.

Financial Highlights					(RMm)
Year to Dec	FY05	FY06	FY07F	FY08F	FY09F
Revenue	168.7	255.1	291.1	390.9	580.7
Pretax profit	75.0	93.7	119.1	161.3	218.2
Net profit	53.6	69.5	86.6	119.1	153.1
EPS (RM)	15.3	19.6	21.9	30.1	38.7
EPS Growth (%)	4.2	28.5	11.6	37.5	28.6
Gross DPS (RM)	10.0	12.8	9.1	12.6	16.1
P/E (x)	18.0	14.0	12.6	9.1	7.1
ROE (%)	14.4	15.0	15.0	16.8	19.1
Gross yield (%)	3.6	4.7	3.3	4.6	5.9
Dividend payout (%)	46.9	46.9	30.0	30.0	30.0
Net gearing (%)	26.6	19.9	14.5	12.9	11.3
P/BV (x)	2.2	2.0	1.6	1.5	1.3

Source: Company, KAF

ISSUES TO CONSIDER

- The stock traded at RM3.48 prior to the cessation of the JV with CapitaLand on the Menara YNH project. Now, despite achieving a much better deal with a GDV of almost 2x higher and an expected EBIT contribution of 3x more, the stock is trading at RM2.75.
- Apart from the commercial project, the group has an attractive pipeline of residential projects worth an estimated RM2bn located in prime areas within the Klang Valley which should last till FY13.
- The stock currently trades at an attractive 9.1x FY08 PER supported by earnings CAGR of 37% between FY07-FY10. If we strip out the estimated RM560m NPV attributable to Menara YNH, the housing business trades at a mere 6x FY08 PER.

ACTIONABLE IDEAS

- Buy YNH. Despite providing one of the best earnings visibility, the stock trades at a steep 20% discount to the sector. In addition, it offers above average ROEs of 17% and decent yields of 5%.

KEY CATALYSTS

- Setting yet another benchmark pricing for the sale of the remaining 50% of Menara YNH and sustained high take-up rates.

KEY RISKS

- Failure to formalise the sale of Menara YNH via the execution of an S&P agreement.

Market Data

Bloomberg code	YNHB MK
Shares o/s (m)	395
Mkt Cap (RMm)	1,087
52 week high/low (RM)	3.52/1.85
Avg daily trading value (RMm)	6.4
KLCI	1,381

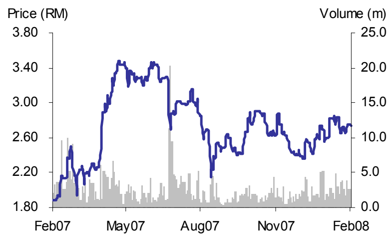
Target Price Methodology

Target (RM)	: 4.80 (+75%)
Methodology	: Justified P/B and PER
Assumptions	: P/B = 2.1x; PER = 16.5x
FY09 PER (x)	: 12.4
FY09 P/B (x)	: 2.2
FY09 Yield	: 3.4%

Share Price Performance

	1m	3m	12m
Absolute	5	4	45
Relative to KLCI	8	4	22

Share Price Movement



Source: Bloomberg

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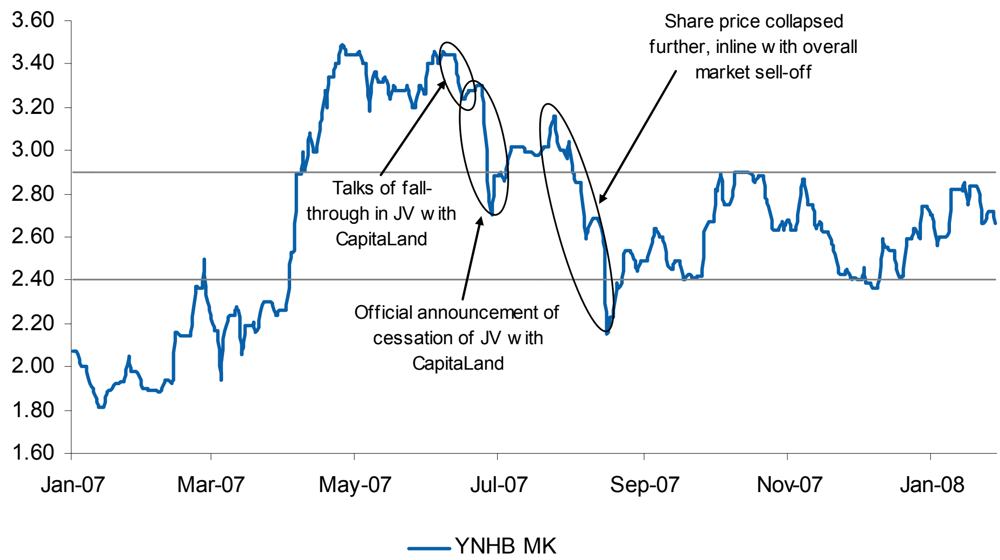
MALAYSIAN RESEARCH

A Great Entry Point

YNH's share price took a beating in mid-June 07 when the company announced the cessation of its JV with CapitaLand for its 'crown jewel' project, Menara YNH, an iconic grade A office tower strategically located within the KL city centre. The stock plunged 22% in response to the announcement but regained momentum soon after. Nevertheless, share price performance has been rather lackluster since, trading largely within the RM2.40-2.90 band. It is currently trading 21% below its high of RM3.48 that was reached prior to the cessation of the JV.

Chart 1: Share price underperformance



Source: Bloomberg, KAF

An interesting observation is that, despite achieving a GDV that is almost 2x higher and EBIT that is 3X more by doing the Menara YNH project on its own, the company is trading around the same level that it was after reacting negatively to the announcement of the termination of the JV with CapitaLand. The market, we believe, is unfairly penalising the stock by continuing to price-in an almost 'no-go' scenario for the office tower project.

Table 1: A much better deal for Menara YNH

	Previous (JV with CapitaLand)	Current
Estimated GDV	RM1.0bn	RM1.8bn
Plot ratio	1:9	1:11
NLA	1.2 mil sq ft	1.5 mil sq ft
Equity interest	60%	100%

Source: KAF

We continue to advocate a Buy recommendation on the stock premised on the following investment arguments:

- **Good growth.** On revised forecasts, we expect earnings to grow at a CAGR of 37% between FY07 and FY10 driven by its pipeline of new launches and locked-in sales.

- **Best earnings visibility within the sector.** With the recent 50% sale of Menara YNH, the company's unbilled sales figure has almost tripled to RM1.4bn, from RM500m previously, representing more than 4x historical FY07 revenue. This makes YNH the property developer with the best earnings visibility thus far, even better than that of Sunrise with an earnings visibility ratio of 3.2x.

- **Housing business trades at distressed valuations.** Valuations are compelling for a company offering a good mix of premium commercial and residential exposure. The stock currently trades at 9.1x FY08 PER falling to just 7.1x in FY09 as its new projects start contributing more significantly to earnings. If we strip out the value attributable to Menara YNH, where we estimate the NPV of the cash proceeds to be RM560m, the housing business trades at a mere 6x FY08 PER. The stock should trade at least in-line with the sector, in our view, given its prime landbank and good take-up rates.

- **Steep discount to the sector.** The stock trades at a steep 20% discount to the sector which, in our opinion, is clearly unwarranted. In addition to the above-mentioned factors, YNH generates above average ROEs of around 17%, has one of the highest margins in the sector due to its low land acquisition costs and offers a decent yield of 5%.

Table 2: Peer comparisons

Company	Mkt Cap (RM m)	Price (RM)	PER (X)		P/B (X)		ROE (%)		Yields (%)	
			CY08	CY09	CY08	CY09	CY08	CY09	CY08	CY09
YNH Property	**1,087**	**2.75**	**9.1**	**7.1**	**1.5**	**1.3**	**16.8**	**19.1**	**4.6**	**5.9**
Glomac	398	1.35	8.9	7.2	0.9	0.9	8.9	10.1	6.7	6.7
Hunza Props.	359	2.54	8.3	6.8	1.1	1.0	20.0	21.1	4.9	6.0
KLCC Property	3,026	3.24	14.0	12.9	0.7	0.7	5.2	5.5	5.5	8.6
Mah Sing	1,181	1.90	11.1	8.3	1.6	1.4	16.2	19.0	4.4	5.9
MRCB	2,414	2.66	26.6	24.4	3.5	3.0	13.9	13.2	-	-
Naim Cendera	1,000	4.00	7.8	6.5	1.6	1.3	21.6	22.2	6.3	7.5
Plenitude	297	2.20	4.3	3.2	0.5	0.4	12.3	14.7	6.4	8.6
SP Setia	5,045	5.00	18.6	15.7	2.6	2.4	14.6	16.1	4.3	5.1
Shangri-La	1,104	2.51	11.5	9.4	1.5	1.4	13.2	15.1	7.7	10.1
Sunrise	1,255	2.80	7.1	6.2	1.7	1.4	25.4	24.7	7.0	8.0
Sunway City	1,729	3.68	9.2	6.9	1.1	1.0	12.7	15.4	4.2	6.1
Sector			**11.4**	**9.6**	**1.5**	**1.4**	**15.0**	**16.2**	**5.1**	**6.5**

Source: KAF

- **Relatively good trading liquidity.** We analyzed the 118 stocks under our coverage universe and found that YNH offers relatively good liquidity when compared to stocks of similar size. YNH, with a market cap of RM1.1bn records an average daily trading value of RM6m whilst the 16 stocks with comparable market cap's of between RM1-1.5bn are less liquid with average daily trading values of RM3m.

Table 3: Good trading liquidity

Company	Market Cap (RMm)	Average Daily Trading Value (RMm)
Kurnia Asia	1,350	0.96
Scomi	1,336	8.86
Tan Chong	1,331	1.82
TSH Resources	1,297	1.55
Kwantas	1,297	0.39
Carlsberg	1,288	0.74
Muhibbah Engineering	1,267	4.84
Petra Perdana	1,262	3.76
Sunrise	1,250	4.31
KFC	1,229	3.23
POS	1,229	2.87
Mah Sing	1,218	3.03
Ta Ann	1,213	2.38
UEM Builders	1,157	8.26
Shangri-La	1,109	0.43
YNH Property	1,087	6.36
Starhill REIT	1,085	0.82

Source: Bloomberg, KAF

Updates From Management

We met with the management of YNH Property recently to obtain updates on the company. Below are some of the key takeaways from the meeting, which was mainly centred on Menara YNH, its iconic grade A office tower strategically located within the KL city centre:

- There are currently several interested parties to purchase the remaining 50% of Menara YNH and the company expects to strike a deal within the next 3 months. However, KFH has been given the first right of refusal to purchase the remaining half.

- The sale of the second wing is expected to be priced at least at the same price as the first wing. This would bring the total estimated GDV for the project to RM1.8bn, which is much higher than the previously anticipated RM1.5bn. However, management also indicated that there is potential for further upside to the pricing, for the sale of second half of the building.

- Construction works have already started with the commencement of earthworks for the project and the relocation of the water pipes and manholes at the site which is expected to take about 5 months to complete.

- Initially, the project was expected to take approximately 5 years to complete, however, management now targets to complete the project within 3 1/2 to 4 years.

- The inclusion of a well-established JV partner is still under consideration and the company is still actively in talks with several potential parties. The land would be injected into the JV company at between RM2,000-3,000 psf. A maximum of up to 45% equity interest would be allocated to the JV partner, however the exact terms of the agreement are still fluid. According to management, the rationale for the collaboration is mainly for strategic reasons as the prospective partner would be able to offer development expertise and branding upside which would come-in handy in future, given Menara YNH is targeted to be an iconic project and would be the company's trademark going forward.

- On its landbanking strategy, YNH will continue to source for prime land concentrated within the Kang Valley. The company has identified a piece of land near the Mont Kiara vicinity and should be announcing the acquisition soon. It would consist of a mixed development, with a greater concentration on the commercial element.

We also obtained an update from management on the scheduling for the pipeline of new launches over the next few years. The following table depicts a summary of some of the future project launches:

Table 4: On-going and upcoming launches in the Klang Valley

Development Project	Location	Estimated GDV (RM mil)	Details
On-Going			
163 Suites	Along Jln Tun Perak	280	Service Apartments with office and retail space
Cerian Kiara	Mont' Kiara	189	Condos
FY08			
Menara YNH	Jln Sultan Ismail	1800	Iconic office tower
D'Kiara Place	Beside Plaza Mont' Kiara	700	Condos with retail and office space
Project 6 Duta	Near Duta Nusantara	300	High-end Super Condos
FY09			
Project 1 Duta	Near Changkat Kiara	150	Condos with retail space
Project 5 Duta	Near Duta Nusantara	212	Condos with retail space
Project 3 KL	Behind Renaissance Hotel	200	Condos with retail space
FY10			
Project 2 & 3 Duta	Near Changkat Kiara	350	Condos with retail space
Project 7 KL	Along Federal Highway	100	Condos (opposite Mid Valley)

Source: Company

EARNINGS UPGRADES

We have revised upwards our FY08, FY09 and FY10 earnings by 10%, 13% and 20% respectively, due to the following reasons:

- **Realisation of a much higher GDV for Menara YNH** – Soon after the termination of the JV with CapitaLand, we factored in a conservative GDV of RM823m for the project which we derived using a NLA of 0.96m sq ft and price of RM850psf. Now, we have adjusted our numbers based on the recent 50% sale of Menara YNH for RM920m as the project is expected to be valued at least at RM1.8bn. Accordingly, we have also increased our EBIT margin assumption to 39% for this project from a more conservative margin of 25% previously. Previously, we had assumed slight earnings recognition in 2007. However, we have now revised the project's timeline to span FY08-FY12 based on management's revised guidance.

- **Re-scheduling of project pipeline** – We have made a few changes to our assumption on the scheduling of the new launches as well as the timing of earnings recognition for some of the projects, based on the updates obtained from management.

Table 5: Earnings revisions

FYE December	Original			Revised			Change		
(RM m)	2008F	2009F	2010F	2008F	2009F	2010F	2008F	2009F	2010F
Turnover	389.2	602.9	836.7	390.9	580.7	989.5	0.4%	-3.7%	18.3%
EBIT	154.5	192.3	262.6	164.5	221.4	344.9	6.5%	15.2%	31.3%
Pretax profit	145.5	182.8	252.2	161.3	218.2	341.7	10.9%	19.4%	35.5%
Net profit	107.9	135.5	187.0	119.1	153.1	223.8	10.4%	13.0%	19.7%

Source: KAF

TARGET PRICE UPGRADED TO RM4.80

Consequent to the above earnings revisions, our target price increases from RM3.90 to RM4.80, which we derive based on an average of:

- Fair value using a target PER of 16.5X (in line with the 2008 market PER at our KLCI index target) average FY08-FY09 earnings which gives a value of RM5.70.

- Fair value based on the Gordon growth version of the dividend discount model using a higher sustainable ROE of 19.1% from 13.2% previously, COE of 10.5% and long term growth of 3.5% which gives a value of RM3.95.

At fair value, the stock would trade at 12.4X FY09 PER and 2.2X P/B, which in our opinion is reasonable. We strongly re-iterate our Buy recommendation on the stock.

PROFIT AND LOSS STATEMENT

FYE Dec (RM m)	2004	2005	2006	2007F	2008F	2009F
Turnover	122.0	168.7	255.1	291.1	390.9	580.7
EBITDA	**54.8**	**78.2**	**98.4**	**123.8**	**166.1**	**223.0**
Depreciation	(0.7)	(0.7)	(0.7)	(1.5)	(1.5)	(1.5)
EBIT	**54.2**	**77.5**	**97.7**	**122.3**	**164.5**	**221.4**
Interest Income	(3.2)	(2.5)	(4.0)	(3.2)	(3.2)	(3.2)
Pretax profit	**51.0**	**75.0**	**93.7**	**119.1**	**161.3**	**218.2**
Taxation	(12.7)	(21.4)	(24.2)	(32.5)	(41.9)	(56.7)
Profit after tax	**38.3**	**53.6**	**69.5**	**86.6**	**119.4**	**161.5**
Minority interest	-	-	-	-	(0.3)	(8.3)
Net profit	**38.3**	**53.6**	**69.5**	**86.6**	**119.1**	**153.1**
No. of shares (m)	261.3	350.6	354.0	395.3	395.3	395.3
EPS (sen)	**14.7**	**15.3**	**19.6**	**21.9**	**30.1**	**38.7**

BALANCE SHEET

FYE Dec (RM m)	2004	2005	2006	2007F	2008F	2009F
Non-current assets						
Property, Plant and Equipment	114.5	166.1	147.4	150.9	154.4	157.9
Land held for development	160.9	107.2	127.8	140.0	152.1	164.2
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxation	1.2	1.5	6.6	6.6	6.6	6.6
Goodwill on consolidation	17.6	17.6	17.6	17.6	17.6	17.6
Total non-current assets	**294.3**	**292.4**	**299.5**	**315.2**	**330.8**	**346.4**
Current assets						
Development properties	36.2	109.5	67.9	167.9	177.9	182.9
Amount due from customers for contract works	3.5	2.7	8.6	8.6	8.6	8.6
Inventories	3.8	7.0	18.4	21.0	28.2	41.8
Trade receivables	83.5	142.9	122.9	140.3	188.3	279.7
Other receivables and prepayments	35.4	37.4	134.4	134.4	134.4	134.4
Tax recoverable	0.9	0.3	0.1	0.1	0.1	0.1
Term deposits with licensed banks	0.2	18.2	0.2	0.2	0.2	0.2
Cash and cash equivalents	3.5	15.3	15.0	59.8	68.4	69.2
Total current assets	**167.0**	**333.3**	**367.5**	**532.3**	**606.1**	**717.1**
Total Assets	**461.3**	**625.8**	**667.1**	**847.5**	**936.9**	**1,063.5**
Current liabilities						
Trade payables	13.1	18.8	14.8	16.9	22.7	33.7
Other payables and accruals	16.3	10.7	31.3	31.3	31.3	31.3
Amount due to customers for contract works	0.1	6.7	3.9	3.9	3.9	3.9
Provision for rectification works	0.5	0.3	1.4	1.4	1.4	1.4
Amount owing to directors	30.1	-	-	-	-	-
Short-term borrowings	49.6	88.2	74.4	74.4	74.4	74.4
Tax payable	1.8	3.8	6.8	6.8	6.8	6.8
Total current liabilities	**111.6**	**128.5**	**132.6**	**134.7**	**140.5**	**151.5**
Financed by:						
Share capital	261.3	350.6	354.0	389.7	389.7	389.7
Reserves	42.3	88.8	133.4	276.1	359.5	466.7
Shareholders' funds	**303.6**	**439.4**	**487.4**	**665.8**	**749.1**	**856.3**
Minority interest	-	-	-	-	0.3	8.7
Long-term borrowings	15.8	28.6	22.5	22.5	22.5	22.5
Deferred taxation	30.3	29.3	24.5	24.5	24.5	24.5
Total Liabilities & Shareholders' Funds	**461.3**	**625.8**	**667.1**	**847.5**	**936.9**	**1,063.5**

Source: Company, KAF

CASHFLOW STATEMENT

FYE Dec (RM m)	2004	2005	2006	2007F	2008F	2009F
Cashflow from operations (CFO)						
Pretax profit	51.0	75.0	93.7	119.1	161.3	218.2
Non-cash items	(0.3)	6.1	6.9	3.4	2.6	2.5
Interest income	0.1	0.1	2.4	1.2	2.1	2.3
Interest expense	(4.1)	(5.0)	(7.0)	(5.3)	(5.3)	(5.3)
Tax paid	(12.9)	(20.1)	(31.0)	(32.5)	(41.9)	(56.7)
Net change in working capital	(96.2)	(166.4)	(134.1)	(117.9)	(59.4)	(99.1)
CFO	**(13.1)**	**(30.1)**	**30.8**	**(31.9)**	**59.3**	**61.8**
Cashflow from investing (CFI)						
Purchase of PPE (Capex)	(2.2)	(65.7)	(3.6)	(5.0)	(5.0)	(5.0)
Land held for development - net of disposals	(5.1)	(10.1)	(3.9)	(10.0)	(10.0)	(10.0)
Others	11.6	2.1	0.0	-	-	-
CFI	**4.3**	**(73.7)**	**(7.4)**	**(15.0)**	**(15.0)**	**(15.0)**
Cashflow from financing (CFF)						
Drawdown of term loan	-	28.0	-	-	-	-
Dividends paid	(21.6)	(25.1)	(25.4)	(26.0)	(35.7)	(45.9)
Others	(1.7)	112.5	30.6	117.7	-	-
CFF	**(23.4)**	**115.4**	**5.2**	**91.7**	**(35.7)**	**(45.9)**
Net change in cash and cash equivalents	**(33.5)**	**(21.9)**	**6.7**	**51.5**	**60.1**	**60.9**

Per Share Data

FYE Dec	2004	2005	2006	2007F	2008F	2009F
EPS (sen)	14.7	15.3	19.6	21.9	30.1	38.7
Gross DPS (sen)	11.5	10.0	12.8	9.1	12.6	16.1
Book value per share (RM)	1.2	1.3	1.4	1.7	1.9	2.2
Cash earnings per share (sen)	14.9	15.5	19.8	22.3	30.6	41.2
FCF per share (sen)	(21.6)	(49.6)	(19.9)	(8.0)	15.1	15.7

Operational ratios

FYE Dec	2004	2005	2006	2007F	2008F	2009F
EBITDA margin (%)	45.0	46.4	38.6	42.5	42.5	38.4
EBIT margin (%)	44.4	46.0	38.3	42.0	42.1	38.1
Pretax margin (%)	41.8	44.5	36.7	40.9	41.3	37.6
Net margin (%)	31.4	31.8	27.2	29.7	30.5	26.4
EBITDA interest cover (x)	13.7	16.0	17.2	30.2	51.6	72.8
Net gearing (%)	21.6	26.6	19.9	14.5	12.9	11.3
ROE (%)	13.0	14.4	15.0	15.0	16.8	19.1
FCF/Revenue (%)	(46.3)	(103.1)	(27.6)	(10.9)	15.3	10.7

Valuation ratios

FYE Dec	2004	2005	2006	2007F	2008F	2009F
PER (X)	18.7	18.0	14.0	12.6	9.1	7.1
P/BV (X)	2.4	2.2	2.0	1.6	1.5	1.3
Gross yield (%)	4.2	3.6	4.7	3.3	4.6	5.9
Dividend payout (%)	56.4	46.9	46.9	30.0	30.0	30.0

Source: Company, KAF

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Dato' Ahmad Bin Kadis
Managing Director

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ADD	Price appreciation between 0-15% in the next 12 months
REDUCE	Price depreciation between 0-15% in the next 12 months

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