

Results Update

YNH PROPERTY(RM1.30)

1HFY05 : In Line

BUY
Target Price:1.73

STOCK & SHAREHOLDERS' DATA		RESULTSSUMMARY						
		YE31 Dec (RMm)	1HFY04	1HFY05	%YoY	1Q05	2Q05	%QoQ
Bloomberg Code	: YNHBMK	Turnover	48.9	78.5	60.5	41.5	37.0	(10.9)
Reuters Code	: YNHBKL	EBIT	18.6	39.0	109.8	18.7	20.3	82
KLCI	: 938.2	Net interest	(1.2)	(2.1)		(0.9)	(1.3)	
Market Capitalisation	: RM450.2m	Other income	0.7	0.3		0.1	0.2	
Issued Capital	: 346.3m	Exceptional items	5.0	0.0		0.0	0.0	
Free Float (est)	: 62.7%	Associates	0.0	0.0		0.0	0.0	
Range 12 mths	: RM1.15-RM1.40	Pretax profit	23.1	37.2	61.0	18.0	19.2	65
Daily turnover (3 mth)	: 0.7m	Taxation	(5.0)	(10.4)		(4.8)	(5.6)	
Relative Performance	: 1-mth -4.7%	Minorities	0.0	0.0		0.0	0.0	
	: 6-mth -5.7%	Net profit	18.1	26.8	48.1	13.2	13.6	26
	: 12-mth -10.4%	EPS (sen)	7.6	8.7	14.8	4.6	4.1	(12.2)
Major Shareholders	:	Gross DPS (sen)	6.5	6.0		0.0	6.0	
Dato' Dr Yu Kuan Chon	14.3%	NTA/share (RM)	1.1	1.1		1.2	1.1	
Yu Kuan Huat	13.8%	EBIT margin (%)	38.0	49.7		45.2	54.8	
Yu Kuan Seng	9.2%	Pretax margin (%)	47.3	47.4		43.4	51.9	
		Effective tax rate (%)	21.8	28.0		26.6	29.3	

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Results analysis

In line. YNH Property ("YNHP")'s 1HFY05 net profit of RM26.8m accounted for 49.6% of our full year forecast of RM54.0m and 48.1% of consensus forecast of RM55.1m.

Northern projects driving growth. YNHP recorded a 60.5% YoY increase in 1HFY05 turnover due to strong sales from two commercial projects launched in 4Q04, namely Medan Sejahtera (Sitiawan town) and Medan Bercham (Ipoh City). Both projects contributed circa RM26m of 1HFY05 turnover.

Margin expansion. EBIT also more than doubled to RM39.0m while EBIT margins expanded by close to 12%-points to 49.7% as commercial properties carry higher margins of circa 50% vs residential of 25-30%. For FY05, EBIT margins are not likely to be sustainable at this level as the company expects to launch more residential property for its Manjung Point project in 2H05. Stripping out the exceptional gain of RM5.0m in 1HFY04 due to sale of land to a hypermarket, core net profit doubled to RM26.8m. The effective tax rate of 28.0% in 1HFY05 was higher than 21.8% in 1HFY04 as earnings in 2QFY04 was subjected to RPGT instead of corporate tax. Earnings in FY05 will still be underpinned predominantly by its Northern region projects while its Klang Valley projects will see stronger contributions in FY06. On a sequential basis, turnover was down by 10.9% but EBIT margins increased by nearly 10%-points to 54.7% due to higher recognition from its commercial property projects.

Interim dividend of 6 sen. YNHP has recommended an interim dividend of 6 sen, slightly lower than last year's payout of 6.5 sen. We are anticipating a full year dividend of 10 sen, slightly lower than 10.5 sen in FY04. This translates into a payout ratio of 31% and yields of 7.7% at current price. YNHP is the highest yielding property stock under our coverage.

Balance sheet manageable. The company is in a net debt position of RM57.7m (or net gearing of 0.14x) as at 2Q05. This is a slight improvement from 0.22x in the previous quarter. Average collection period for trade debtors remain stubbornly high

at close to 300 days (based on our FY05 turnover forecast) in 2Q05 due to the nature of its customers who are predominantly government servants.

Prospects

Strong earnings growth. In spite of the more sanguine outlook on the property sector, we expect the company to register 3-year FD EPS CAGR of 22.7% p.a. buoyed by stable earnings contribution from its Northern projects and also new projects in the prime location of Klang Valley (Mount' Kiara, Jalan Perak, KL and Subang SS14). 3-year net profit CAGR is a stronger at 34.8% due to the dilution effect of the special bumiputera issue of 85m shares at RM1.22 per share. As at 30 June 2005, all 85m shares have been allotted and RM71m out of the RM104m total proceeds have been utilised for working capital purposes for its projects.

Unbilled sales of RM223.2m. As at 30 June 2005, YNHP has unbilled sales of RM223.2m, which is roughly equivalent to 2.0x FY04 property development turnover. This implies good earnings visibility for the next 2 financial years. Circa 75% of YNHP's unbilled sales is from 163 Residence.

Sustained growth from Sitiawan-Manjung-Lumut. YNH's bread and butter projects in the northern region continue to do well buoyed by strong demand from the Lumut Naval Base and limited competition in that area. Take up rates have on average been between 75-85%. Its key project is Manjung Point, which has 1,000 acres remaining (GDV of RM1.5bn), is enough to last the Group for the next 20 years with RM25m in profit after tax contributions per annum.

Strong take ups for "163 Residence". 75% of the 310 units of service apartments known as "163 Residence" with a GDV of RM218m has been sold. This project, which is located next to Wisma Hong Leong, was officially launched in end-October 2004 and construction is expected to start shortly. We understand that the balance 25% of the units is currently being negotiated to be sold to one company and will likely be finalised in the next 1-2 months. The units are priced at circa RM800 psf while land cost was RM444 psf. We believe the strong take ups were primarily due to the attractive 8% guaranteed yields for 2 years and also waiver of stamp duties and lawyer fees which YNHP offered to buyers.

New projects will see KL profits contributing bulk of FY06 profit. YNHP's project along Jalan Sultan Ismail (next to Shangri-la hotel) will start in FY06. This consists of 2 blocks of service apartments and one signature office block with a GDV of RM880m. Maiden launch is expected towards later part of 2006 and contribution will stretch up to 2012. Indicative pricing is also at RM800 psf and similar promotions and guaranteed yields of 8% would likely be offered. Another significant Klang Valley project is Radiant Kiara in Mount Kiara with a GDV of RM140m, which will be launched end-2005 and contribute to earnings from FY06-FY08.

Valuations and Recommendation

Maintain Buy. We continue to like YNH for its strong EPS CAGR growth, high unbilled sales providing high earnings visibility, superior dividend yields of 7.7% and high EBITDA margins of 40-45%. Valuations are also rather compelling at PERs of 8.3x FY05 and 6.0x FY06 earnings respectively, a discount to the sector average of 9.4x and 8.1x. YNHP has the strongest 2-year EPS CAGR of 31.7% vs the sector average of 14.1% and highest dividend yields among all property stocks under our coverage.

We believe a more appropriate valuation yardstick at this stage of the property cycle would be PER instead of RNAV. We are pegging YNHP's target price at RM1.73, based on a PER of 8x FY06. Our previous target price was RM1.95, based on 10% discount to RNAV. We believe this is fair given larger cap property stocks like SP Setia and IOI Properites trade at PERs of 10-12x CY06.

EARNINGS(unch);REC(unch)

YE31 Dec	2003A	2004A	2005F	2006F	2007F
Pretax profit (RMm)	10.7	50.8	75.0	104.0	130.2
Ex - EI pretax profit (RMm)	33.5	45.8	75.0	104.0	130.2
Net profit (RMm)	0.0	38.3	54.0	74.9	93.7
Ex - EI net profit (RMm)	22.8	33.3	54.0	74.9	93.7
Revision (%)					
Consensus net profit (RMm)			55.7	71.2	86.5
EPS Ex-EI (sen)	98	127	156	216	271
EPS Ex-EI growth (%)	NM	29.8	6.5	38.6	25.2
FDEPS (sen)	NM	14.6	15.6	21.6	27.1
FD EPS growth (%)	NM	NM	6.5	38.6	25.2
CFPS (sen)	0.2	14.8	15.8	21.8	27.2
Gross DPS (sen)	5.0	10.5	10.0	10.0	10.0
NTA/share (RM)	1.16	1.09	1.22	1.37	1.57
PER (x)	13.2	10.2	8.3	6.0	4.8
FDPER (x)	NM	8.9	8.3	6.0	4.8
P/CF (x)	535.6	8.8	8.3	6.0	4.8
Yield (%)	3.8	8.1	7.7	7.7	7.7
P/NTA (x)	1.1	1.2	1.1	1.0	0.8
ROE (%)	0.0	13.3	12.7	15.8	17.3
EV/EBITDA (x)	86	82	54	39	3.1

