

Company Update

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KLCI : 924.50

Sector : PROPERTIES

Bloomberg : YNHB MK

Target price | RM1.60 (+29%)

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RM1.24

Buy

YNH Property Berhad

A Dividend Yield Play

SHARE INFO

Stock Code	YNHPROP
Listing	Main Board
Share Cap	(m) 346.29
Market Cap	429.40
Par Value	1.00
52-wk Hi/Lo	(RM) 1.39/1.20
12-mth Avg Daily Vol	('000shrs) 493
Estimated Free Float	(%) 82.20%
Beta	0.72
Major Shareholders	(%)
	Yu Kuan Chon (9.18%)
	Yu Kuan Huat (8.62%)

EXPECTED RETURN

Capital Upside	29%
Dividend Yield '05	8%
Total Return	37%
Required Return	10%
Expected excess return	27%

FINANCIAL INDICATORS

FY05		
Net debt/equity	(%)	4%
CFPS	(sen)	-18.3
P/CFPS	(x)	-6.8
ROA	(%)	9%
NTA/Share	(RM)	1.13
Price/ NTA	(x)	1.1
3-year EPS CAGR	(%)	22%

FORECAST REVISION

		FY05	FY06
Forecast Revision	(%)	-	-
Net profit	(RMm)	53.8	76.6
Consensus		55.7	79.5
TA/Consensus	(%)	-3%	-4%
Previous rating		Initiate coverage	

SHARE PERFORMANCE (%)

Price chg	YNHPROP	KLCI
1 mth	-3.1%	0.2%
3 mth	-4.6%	0.8%
6 mth	-3.9%	5.7%
12 mth	-3.1%	5.8%

After taking over the listing status of Techno Asia Holdings Bhd on the main board of Bursa Malaysia in late-03, YNH Property Berhad (YNH) has always been in the radar screen of investment fraternities, given its decent dividend track record against the backdrop of lucrative margin in recent years. It is worth noting that YNH is one of the few developers that declared hefty dividend of 8.5% for FY04. As such, we are initiating coverage on YNH with a buy recommendation. Based on PE valuation, we arrived at a price target of RM1.60, representing 29% premium to the current trading price. Combined with the expected dividend yield of 8%, the total return would be 37%.

Company Profile

YNH, formerly known as Yu Neh Huat Berhad, was founded by Yu family with Dato' Dr Yu Kuan Chon taking charge as the chairman and executive director of YNH. In late-03, YNH made its debut on the main board of Bursa Malaysia after taking over the listing status of Techno Asia Holdings Bhd. Being a prominent property developer in Setiawan, Sri Manjung and Lumut districts, YNH has built more than 8000 units of properties with a gross development value (GDV) of RM750m since late 1980s. Currently, the Yu family controls over 40% stake in the company.

Business & Latest Development

The development in Setiawan has been the earnings contributor for FY05. This development is considered as the bread and butter for the group by the management as it will keep the company busy for the next 20 years. The total sales transacted have been stellar since a naval base was set up in the

EARNINGS SUMMARY (RMm) - YNH

YE 31 Dec	2003	2004	2005E	2006F
Revenue	98.5	122.0	182.2	265.0
EBITDA	13.7	54.8	79.2	110.8
EBITDA Margins (%)	14%	45%	43%	42%
Pretax profit	8.1	51.0	72.8	105.0
Net profit	-0.5	38.3	53.8	76.6
Net profit -adj	21.8	37.6	53.8	76.6
EPS	(Sen) -0.8	14.9	15.4	21.9
EPS -Adj	(sen) 31.3	14.7	15.4	21.9
EPS Growth (%)	-	-53%	5%	42%
PER	(x) 4.0	8.5	8.1	5.7
Gross Div	(sen) 0.0	10.5	10.0	11.0
Div Yield (%)	0%	8%	8%	9%
EV/EBITDA	(x) 23.4	7.0	5.7	4.1
ROE (%)	8%	12%	13%	17%

SHARE PRICE CHART



Source : Bloomberg

mid-80s, causing an influx of navy personnel to the town that sourced for properties. On top of that, the cheap land cost of 45sen per sq ft has granted YNH a shoulder above other developers in term of pricing and profit margin.

To diversify the group's landbank, YNH has expanded into Klang Valley where the demand for properties is on the rise. For a start, it purchased a land measuring 1 acre from Danarharta, paying an average of RM442.1 per sq ft in 2004. This piece of land has been proposed for a development of 310 units of service apartment, a retail arcade and a 14-storey office block with total estimated GDV of RM218m. Additionally, YNH bought another piece of land measuring 3 acres for RM482 per sq ft from Danarharta. This land has been earmarked for its proposed Wisma YNH, which contains an office block and two blocks of service apartments with a GDV of RM880m. Another 3 acres size prime land located opposite the Garden International School in Mont' Kiara will be developed into a 238 units of high-end condominium with a GDV of RM140m. All these Klang Valley projects will be the earnings drivers of the group for FY06 and FY07.

ONGOING AND FUTURE PROJECTS

Project	Location	Units / property types	Sold*	
			Unit	Estimated GDV RM'm
Tmn Manjung Point Seksyen 2	Bdr Manjung Point, Perak	659 / 1- and 2-storey terraced house	298	75.6
Medan Sejahtera	Setiawan, Perak	94 / 2- and 3-storey shopoffices	91	23.8
Medan Ipoh	Next to Tesco Ipoh	149 / 2- and 3-storey shopoffices	144	88.8
Medan Bercham	Opposite Makro Ipoh	102 / 2-storey shop offices	91	35.6
Lot 163 Suites	Next to Wisma Hong Leong	310 / serviced apartments and 1 office block	194	218
Radiant Kiara	Opposite Garden International School, KL	238 / condominium units	0	140.0
Wisma YNH	Next to Shangri-La	1 office block and 2 apartment blocks	1 block	880.0

*As at 1 August 2005

Strengths

We favour YNH's endeavor in keeping down its costs of development by adopting a centralised buying approach whereby the company will source for the main building materials for its housing projects. This has resulted in huge cost saving and allowed the group to be more competitive in pricing its products. Low land cost also enhances YNH's pricing advantage on top of low development cost, which is a vital factor for development in the out skirts areas where pricing has always been the primary consideration.

Another strength of YNH lies in its ability to quickly turn over its landbank to minimise holding cost. This has somewhat to do with its hand-on experience in every housing project to expedite the construction process and keep track on work-in-progress. This is critical for the company when the company is contemplating a land acquisition.

Risks

About 80% of YNH's FY06 earnings would stem from its Klang Valley projects, which comprise high-end service apartments, commercial buildings and high-end condominiums. As a result, a dull take-up on these projects, particularly the Lot 163 Suites, is not acceptable as it would drag down the earnings considerably. Bearing in mind that the risk inherent in high rise building is always greater than the landed property, the success of its high-end service apartment would determine the group's future prospect.

As the development of high-end properties continue to mushroom, the high-end property market in the vicinity of KLCC is flooded with more than 2000 high-end units coming on stream (see Appendix A). Whether this overdevelopment can be fully absorbed remains a doubt as competition is getting stiffer. Nevertheless, we opine that the Lot 163 Suites would be able to garner good sale due to the prime location and the guaranteed rental return of 8% per annum for two years.

Financial Highlight

For the first 9-month ended 30 September 2005, YNH's revenue grew at an impressive rate of 52% YoY to RM129.0m, translating into a 46% YoY growth in pretax profit to RM55.5m. This encouraging performance can be attributed to the sale of two commercial properties in Setiawan and Ipoh city and the decent take-up on its existing developments. Going forward, we expect the company to post net earnings of RM53.8m and RM76.5m for FY05 and FY06 respectively, based on its unbilled sale of RM472m as at Aug-05.

It is worth mentioning that YNH is one of handful developers that enjoys a pretax margin of 40%. This is primarily due to the low land cost and tight cost control measures as discussed above. For this reason, YNH was able to frank out dividend yielding 8.5% for FY04, equivalent to 10.5 sen per share. Moving forward, the management has proposed that a dividend policy of a minimum of 30% of profit after tax be fixed for dividend payout. For FY05, we expect the company to declare a dividend payment of 10 sen per share.

YNH's balance sheet has been in a healthy mode with a net gearing of 0.13x as at 30 September 2005. This would enable the company to replenish its landbank, which stood at 1,100 acres at present for future development without jeopardising its financial footholds. We regard this as critically important for developers to showcase their earnings visibility from future development while being able to offset any impact arising from the slow down in the property sector.

Recommendation

We value YNH by using PE multiple, focusing on the group's ability to sustain its lucrative margin to drive earnings further. Based on our FY05 sector PE of 10.3x, we derive at a price target of RM1.60 or an upside of 29% against the current trading price. Combined together with the expected FY05 dividend yield of 8%, the total return would yield 37%, which is in excess of our 15% required rate of return. As such, we are initiating coverage on YNH with a BUY recommendation.

Appendix A: High-end Condominium & Service Apartment

<i>Condominium/ Service Apartment</i>	<i>Launch Units</i>	<i>Estimated selling price RM/psf</i>
<i>Stonor Park, Jln Stonor</i>	<i>72</i>	<i>570-730</i>
<i>Park Seven, Persiaran KLCC</i>	<i>105</i>	<i>640 onward</i>
<i>The Binjai, Jln Binjai</i>	<i>165</i>	<i>1,200-1,300</i>
<i>Suria Stonor, Lrg Stonor</i>	<i>138</i>	<i>700 above</i>
<i>Dua Residency, Jln Tun Perak</i>	<i>288</i>	<i>600-700</i>
<i>The MARC, Jln Pinang</i>	<i>578</i>	<i>600-700</i>
<i>TA Project, Jln Perak</i>	<i>248</i>	<i>Abt 500</i>
<i>The Merit, Jln Ampang</i>	<i>110</i>	<i>680</i>
<i>K Residence, Avenue K</i>	<i>180</i>	<i>650</i>
<i>Troika, Jln Binjai</i>	<i>60 offices / 166 apartments</i>	<i>950 onward</i>
<i>2 Hampshire, Persiaran Hampshire</i>	<i>93</i>	<i>500-698</i>
<i>Cendana, Jln Sultan Ismail</i>	<i>144</i>	<i>590-650</i>
<i>The Avare, Lrg Kuda</i>	<i>78</i>	<i>782-955</i>
<i>Berjaya Central Park, Jln Sultan Ismail</i>	<i>814 hotel block / 814 service suites</i>	<i>1000 onward</i>
<i>Lot 163, Jln Perak</i>	<i>310</i>	<i>780-980</i>

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