

Recommendation: **BUY**

Stock Code: 3158

Bloomberg: YNHB MK

Price: MYR1.14

12-Month Target Price: MYR1.35

Date: December 9, 2005

Board: Main

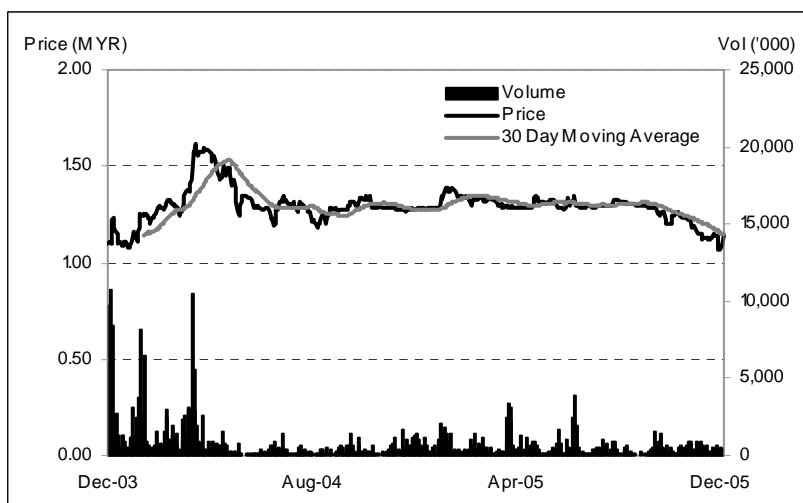
Sector: Property

GICS: Financials / Real Estate Management and Development

Market Capitalization: MYR399.7 mln

**Summary:** YNH Property (YNHP) was listed on the Main Board in Dec. 2003 and has businesses in property development, property investment, contract works and hotel operations.

Analyst: Geraldine Seah



## Highlights

- We forecast YNHP to register a 55.1% YoY growth in turnover for 2005 to MYR184.7 mln, and 41.6% for 2006 to MYR261.5 mln, mainly premised on new revenue contributions from its Kuala Lumpur projects and sustained revenue growth of its Ipoh projects.
- We expect the company to maintain EBITDA margins at around 40%-levels, and forecast net profit for 2005 to come in at MYR55.6 mln (+45.0% YoY) and MYR75.1 mln (+35.2% YoY) for 2006.
- Looking ahead, we believe earnings visibility for YNHP should continue to be strong, backed by earnings from its Kuala Lumpur projects as well as unbilled sales of about MYR290 mln to date. In addition, Manjung Point Township will also support YNHP's earnings growth through constant revenue contributions for the next 20 years.

## Investment Risks

- Risks to our recommendation and target price include an environment of rising mortgage rates which may dampen take-up rates and buying sentiment.
- Unexpected delays in construction of projects as well as slower take-up rates will also affect YNHP's earnings growth.

## Key Stock Statistics

FY Dec.	2004	2005F
EPS (sen)	14.9	16.0
PER (x)	7.6	7.1
Dividend/Share (sen)	10.5	10.0
NTA/Share (MYR)	1.09	1.21
Book Value/Share (MYR)	1.16	1.26
Issued Capital (mln shares)	350.6	
52-week Share Price Range (MYR)	1.06 – 1.40	
Major Shareholders:	%	
Yu family	24.1	
EPF Board	6.6	
Prudential Plc	5.6	

## Recommendation

- We initiate coverage on YNHP with a Buy recommendation and a 12-month target price of MYR1.35, giving a potential upside of 18.4%.
- Our 12-month target price is derived by ascribing a 6x PER multiple to our 2006 EPS forecast of 21.2 sen and adding 2H05 and 1H06 interim net DPS forecast of 7.2 sen. The ascribed multiple is in line with our valuation of 5-7x of other small to mid-cap property developers under our coverage.
- We view YNHP's foray into Kuala Lumpur properties positively as we believe the move will significantly aid the company in its progression towards a higher earnings platform from 2006 onwards.
- We project a healthy two-year CAGR in earnings of 40.0% from 2004-2006, mainly premised on: i) YNHP's expansion into Kuala Lumpur; ii) its continued dominant presence in Perak through projects like Manjung Point Township; and iii) its above-industry average margins of about 40%.

## Per Share Data

FY Dec.	2002	2003	2004	2005F
Book Value (MYR)	NA	1.23	1.16	1.26
Cash Flow (sen)	NA	-0.1	15.2	16.2
Earnings (sen)	NA	-0.8	14.9	16.0
Dividend (sen)	NA	5.0	10.5	10.0
Payout Ratio (%)	NA	NM	58.0	45.4
PER (x)	NM	NM	7.6	7.1
P/Cash Flow (x)	NM	NM	7.5	7.0
P/Book Value (x)	NM	0.9	1.0	0.9
Dividend Yield (%)	NM	4.4	9.2	8.8
ROE (%)	NA	NM	13.0	14.9
Net Gearing (%)	NA	28.3	30.3	19.9

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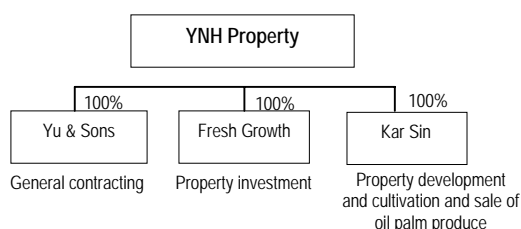
## Background

### Corporate Profile

YNHP is an investment holding company, which, through its subsidiaries, is engaged in property development, investment, hotel business, and contract works. Through a special arrangement with Danaharta, the company took over the listing status of Techno Asia Holdings and was listed on the Main Board of Bursa Malaysia on Dec. 9, 2003. On Jul. 8, 2005, the company changed its name from Yu Neh Huat to YNH Property.

The Yu family is the major shareholder of the company. Dato' Dr. Yu Kuan Chon is the Chairman and Executive Director of the company while his brother Yu Kuan Huat is the Managing Director. Both of them serve on the Board of Directors.

### Corporate Structure



Source: Company data

### Business

YNHP's core business is in property development with secondary businesses in property investment, contract works and hotel operations. Originally a property developer for the mid-level mass market in Perak, YNHP has recently diversified its property portfolio and extended its geographical reach into Kuala Lumpur through three new projects – Lot 163 Suites, Menara YNH and Radiant Kiara.

### Revenue Breakdown

FY Dec. / MYR mln	2003	2004	YoY change (%)
Sales of properties	84.42	106.03	25.6
Income from estates	1.70	2.45	44.3
Revenue from room sales, food and beverages	0.91	0.95	4.5
Proceeds from contract work	10.33	11.38	10.2
Rental income	1.19	1.17	-1.8
<b>Total Revenue</b>	<b>98.54</b>	<b>121.98</b>	<b>23.8</b>

Source: Company data

At present, YNHP has numerous small-scale as well as major projects in Perak, namely Medan Ipoh, Medan Sejahtera, Medan Bercham and Manjung Point Township. Of interest is Manjung Point Township, located along the Ipoh-Lumut highway. According to the management, this 1,000-acre project will sustain the company for the next 20 years, with an estimated total GDV of MYR1.5 bln. Up to 500 residential and commercial units are expected to be launched each year. We believe that Manjung Point Township should enjoy healthy take-up rates as it has a captive buyer market through personnel working at the nearby naval base.

Nevertheless, we believe that the bulk of YNHP's future revenue contributions will likely come from its Kuala Lumpur projects. We believe

that this shift in revenue contribution is a strategic move on YNHP's part to diversify its earnings base and place the company on a higher earnings platform. We highlight the Kuala Lumpur flagship projects below:

### Lot 163 Suites

This project is YNHP's first foray into the Kuala Lumpur property development market. Located in the heart of the city centre at Jalan Perak, the project consists of 311 units of fully furnished serviced apartment with prices averaging at MYR600-800/psf (after guaranteed rental returns over two years), as well as some retail shops. With a GDV of about MYR238 mln, the project has enjoyed a favorable take-up rate of about 75% to date. Construction work has already begun, and we expect the project to contribute significantly to revenues in 2006-2008.

### Menara YNH

This project is located along Jalan Sultan Ismail, and is adjacent to Shangri-La Hotel. With a total GDV of MYR800 mln, 30% of Menara YNH will be developed into office units, while the remaining will be developed into serviced apartments. The project is scheduled to be launched by mid-2006 and revenue contributions should flow in from 2007 to 2011.

### Radiant Kiara

This project sits on a 3-acre plot at Mont Kiara and will be developed into 238 condominium units with average size of 1,800 psf/unit. With an average selling price tagged at MYR330/psf, the total GDV estimated from this project is about MYR140 mln. Construction is slated to begin at the end of 2006, and the project should contribute to revenues in 2007-2009.

On the construction front, YNHP was awarded a MYR56 mln contract for the construction of a condominium project at Jalan Scott in Aug. 2005. Construction work should be completed by end-2006, and revenue from this will begin to flow through in 2005-2006.

Margins-wise, YNHP's business model of sourcing for raw materials for its contractors through a centralized buying system has resulted in economies of scale. These cost efficiencies can be seen in the company's above-industry average margins of about 40%.

## Earnings Outlook

YNHP's 3Q05 revenue of MYR50.6 mln was up 36.8% QoQ and up 41.1% YoY, mainly attributed to higher revenue contributions from its Ipoh projects including Medan Sitiawan, Manjung Point Township and the new project, Bandar Teluk Intan. Net profit of MYR13.8 mln, however, was up by only 1.9% QoQ due to higher sales of lower-margin products. Overall, YTD EBITDA margin of 45% continues to range above the industry average of 20-30%.

We forecast YNHP to register a 55.1% YoY growth in turnover for 2005 to MYR184.7 mln, and 41.6% for 2006 to MYR261.5 mln, mainly premised on new revenue contributions from its Kuala Lumpur projects and sustained revenue growth from its Ipoh projects. In our view, YNHP's Kuala Lumpur projects will be the earnings catalyst from 2006 onwards and should lift the company onto a higher earnings platform. We expect the company to maintain EBITDA margins at the 40%-level, and forecast net profit for 2005 to come in at MYR55.6 mln (+45.0% YoY) and MYR75.1 mln (+35.2% YoY) for 2006.

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**Valuation**

Our 12-month target price of MYR1.35 for YNHP is based on ascribing a PER multiple of 6x to our 2006 EPS forecast of 21.2 sen and adding our 2H05 and 1H06 interim net DPS forecast of 7.2 sen. The ascribed multiple is in line with our valuation of 5-7x of other small to mid-cap property developers under our coverage.

YNHP is currently trading at a forward PER of 5.4x and at a slight 2.6% discount to its 3Q05 NTA of MYR1.17. We believe the company's earnings potential, attractive net dividend yield of around 6.3%, and the 18.4% upside to our target price, warrant a Buy recommendation.

**Comparative Valuation**

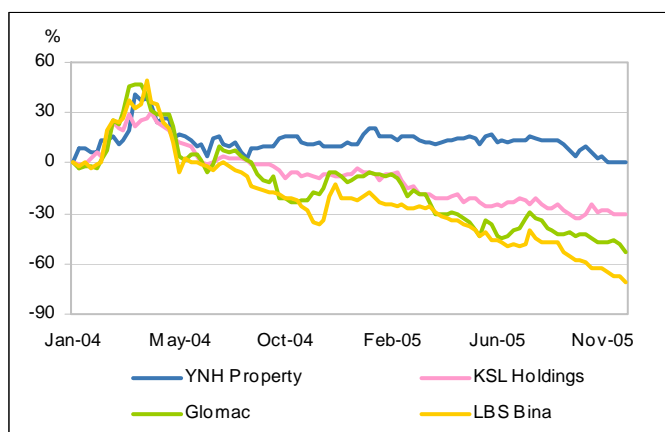
	YNHP	KSL	LBS	GLMC*
Share Price (MYR) @ Dec. 8, 05	1.14	1.65	0.43	1.09
Mkt. Cap (MYR mln)	399.7	438.6	114.3	240.3
Ave. Daily Vol. ('000)	430	29	556	214
PER FY03 (x) *	NM	6.1	3.7	5.7
PER FY04 (x) *	7.6	6.0	3.4	5.9
P/NTA	1.0	1.1	0.5	0.6
Yield (%)	9.2	0.0	14.0	10.1

\*GLMC – FY04 (Apr.) and FY05 (Apr.)

Note: KSL Holdings (KSL MK, Buy), LBS Bina (LBS MK, Buy), Glomac (GLMC MK, Not Ranked)

Source: Bloomberg, Company data

**Relative Share Price Performance of Comparables**



Source: Bloomberg, S&P Equity Research

**Recent Developments**

Oct. 2005: Release of 3Q05 results.

Sep. 2005: Awarded MYR16 mln contract for sub-contract works to Bauer (Malaysia) for earthwork, piling and sub-structure works on Lot 163 Suites. Construction work should be completed by Sep. 9, 2006.

Aug. 2005: Entered into a MYR56 mln contract with Wijaya Spektra for the construction of a condominium project at Jalan Scott. Construction work is expected to be completed by Dec. 2006.

Apr. 2005: Issue of 85 mln Bumiputera shares at MYR1.22/share, raising share capital to MYR322.8 mln from MYR261.3 mln.

**Profit & Loss**

FY Dec. / MYR mln	2003	2004	2005F	2006F
Revenue	98.5	122.0	184.7	261.5
Operating Profit (EBIT)	35.5	47.7	81.1	108.6
Depreciation	-0.5	-0.7	-0.6	-0.6
Net Interest Income / (Expense)	-5.0	-3.1	-3.9	-4.2
Pretax Profit	8.1	51.0	77.2	104.4
Effective Tax Rate (%)	NM	24.9	28.0	28.0
Net Profit	-0.5	38.3	55.6	75.1
Operating Margin (%)	36.0	39.1	43.9	41.5
Pretax Margin (%)	8.2	41.8	41.8	39.9
Net Margin (%)	NM	31.4	30.1	28.7

Source: Company data, S&P Equity Research

**Balance Sheet**

FY Dec. / MYR mln	2002	2003	2004
Total Assets	NA	447.4	461.2
Fixed Assets	NA	117.4	114.5
Current Assets	NA	151.9	166.9
Other LT Assets	NA	178.2	179.7
Current Liabilities	NA	107.3	111.4
LT Liabilities	NA	53.4	46.1
Share Capital	NA	232.8	261.3
Shareholders' Funds	NA	286.8	303.6

Source: Company data, S&P Equity Research

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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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