



KDN PP 10551/10/2004
For Private Circulation Only

Investment Research

Company Update

12 January 2005

Alvin Tai
(603) 2162 4388 ext 674
alvin.tai@osk.com.my

Recommendation

BUY

Price
RM1.36

12-mth target price
RM1.85

Share cap / Market cap
261.3m / RM355.4m

Free float
29.4%

Major shareholders
Yu family (40.0%)

Consensus (Net profit)
04F : RM36.7m
05F : RM54.7m

Yu Neh Huat

Entering A Brave New World

- Dominant market position in Manjung district
- Bought several pieces of prime land in Klang Valley at discounted prices
- 163 Residence to start contributing this financial year
- Two new projects – Mont' Kiara and Subang Jaya – to be launched this year
- Earnings to grow 36% this year to RM47m, lowering its PER to 9.0x
- Gross dividend of 10 sen for '05 translates into a gross yield of 7.4%
- Fairly valued at RM1.85 based on fully diluted RNAV
- Stock has 36% upside to our target price. Buy.

Earnings Table

Price performance chart		Year to 31 Dec	02A	03A	04F	05F	06F
	Turnover (RMm)		103.7	98.5	113.0	168.2	314.5
	EBITDA (RMm)		35.4	35.5	45.8	66.3	122.9
	Pretax (RMm)		31.3	8.1	48.3	65.8	122.4
	Net profit (RMm)		22.1	(0.5)	34.8	47.4	88.1
	FD EPS (sen)		10.4	(0.2)	13.3	15.2	26.9
	YoY change (%)		48.2	nm	nm	14.1	77.5
	PER (x)		13.1	nm	10.2	9.0	5.0
	GDPS (sen)		na	5.0	10.5	10.0	10.0
	Div yield (%)		na	3.7	7.7	7.4	7.4
	ROE (%)		na	(0.2)	12.5	13.6	21.0
	NTA PS (RM)		na	1.16	1.06	1.11	1.28
	P/BV (x)		nm	1.2	1.3	1.2	1.1

Background

Yu Neh Huat (YNH) was listed on the Main Board of Bursa Malaysia on 9 December 2003 via the reverse takeover of Techno Asia Holdings. YNH is headed by Dato' Dr Yu Kuan Chon, who together with his family owns a 40% controlling stake.

The company's property development business started in Sitiawan, Perak back in 1982 and has since delivered more than 8,000 units of property with a GDV of RM750m. YNH has strong foothold in the Manjung district (comprising Sitiawan, Lumit and Sri Manjung) where it has an estimated market share of 65 - 70%. Armed with profits made over the past 22 years, YNH expanded into the Klang Valley, buying 4 parcels of land in prime locations including two in the Golden Triangle.

Even by just concentrating on affordable housing in Manjung, YNH has achieved impressive gross margins in excess of 30% through stringent cost control and by playing the role of the main contractor. In a nutshell, YNH's business model

resembles Johor-based KSL Holdings but with additional icing in the form of high-end development in the Klang Valley.

Manjung – the bread ‘n’ butter project	YNH has around 1,000 acres of landbank in Manjung, of which 782 acres are at Manjung Point. This land is expected to last 20 years, based on an annual usage of 50 acres per annum. YNH accumulated small parcels of land over time at prices between RM0.50 – RM1.00 per sq ft. Property sale in Manjung is anchored by Lumut Naval Base, the population of which increases by about 1,000 annually due to the intake of new recruits. Other drivers include TNB-owned power plant, Naval Dockyard, Lumut Port, Lumut Industrial Estate and Malakoff-owned Segari IPP.
Medan Ipoh – the hottest spot in Ipoh	YNH bought the 30.8-acre land in Ipoh for approximately RM20 per sq ft from Danaharta. Located in the vicinity of Kinta City, Makro and Tesco hypermarkets at the brink of Ipoh Garden, the area has turned out to be the prime location in Ipoh not only for shopping but for night life as well. YNH will develop the land into 367 units of 2 and 3-storey shop offices with a total GDV of RM146m. All the 147 units launched since December '03 have been snapped up.
Klang Valley projects – the growth driver	While YNH has grown at an impressive rate of 26.7% annually over the past 3 years, growth will be even stronger going forward due to contributions from its Klang Valley projects. YNH has 4 parcels of land in Klang Valley, which are located at Jalan Sultan Ismail, Jalan Perak, Mont' Kiara and Subang Jaya. These are prime locations with good sales visibility. Moreover, YNH acquired these parcels of land at attractive prices. The Jalan Sultan Ismail and Jalan Perak land are bought at RM480 and RM444 per sq ft respectively. Prices in the vicinity have recently been transacted between RM770 – 900 per sq ft.
163 Residence	YNH launched the 163 Residence at its 1.04-acre Jalan Perak land in 3Q last year. Located between Wisma Hong Leong and Rohas Perkasa and 10 minutes walking distance to Petronas Twin Towers, 163 Residence has achieved a take-up rate in excess of 50% even without advertising. According to the management, buyers are generally Malaysians from other states. To make the proposition attractive to buyers, YNH has offered a guaranteed yield of 8% per annum for 2 years. This serviced residence has a project GDV is RM218m, translating into average price per sq ft of RM800. Net lettable area is 272,500 sq ft, translating into a land efficiency ratio of 6.0. Based on project margin of 50%, we estimate the 163 Residence has net present value (NPV) of RM60.3m.
Mont' Kiara project	YNH bought this piece of 3.06-acre land at RM66 per sq ft, which is cheap considering its location opposite Garden International School. Scheduled for launch this year, the condominium project will have a GDV of RM130m. YNH plans to sell the 238 units at an average price of RM300 per sq ft. In comparison, Sunrise's last launch the Kiara Designer Suite was priced at RM324 per sq ft and the upcoming MK Banyan will be priced at RM405 per sq ft. We believe pricing its units at a discount is a wise move as YNH has not established its foothold in the Klang Valley. We value YNH's Mont' Kiara project at RM31.1m.
Jalan Sultan Ismail, KL	Located opposite Concorde Hotel and adjoining Shangri-la Hotel, this parcel of 3.0-acre land is the last piece of vacant land on this stretch of Jalan Sultan Ismail and the jewel in YNH's crown. Bought at RM480 per sq ft, YNH plans to develop it into a block of grade A office and 2 residential blocks with total GDV estimated at RM680m. As per the management, the project duration will be from 2006 – 2012. We are assuming YNH will develop the office block with a residence block in the first phase followed by the second residence block in phase 2. YNH expects to derive development profits amounting to RM238m, which translates into NPV of RM45.4m.
Subang Jaya	YNH acquired this piece of 1.51-acre land in SS14 for RM5.5m in March '04, translating into price per sq ft of RM83.60. It is to be developed into a 20-storey apartment block with a GDV of RM50m.

Earnings

Earnings number for FY12/05 – FY12/06

We forecast a net profit of RM47.4m for FY12/05, which represents a growth of 36.2% from FY12/04. The boost in earnings is due to contribution from 163 Residence, which will see its maiden contribution this year. We expect FY12/06 to surge to RM88.1m due to more significant contribution from 163 Residence as well as contribution from its Mont' Kiara project, which will be launched this year. YNH's Sultan Ismail project will also take off in FY12/06, hence FY12/06 will have contribution from 6 projects compared to 4 in FY12/05.

Valuation

PER to fall significantly in '06

Based on FY12/05 earnings, YNH is trading at 9.0x PER, which is not particularly attractive. However, its PER will fall significantly to 5.0x come '06 due to the strong surge in earnings.

Attractive dividend yield

From the dividend angle, YNH is trading at attractive levels. Based on the 10.5 sen gross dividend for FY12/04, YNH offers gross yield of 7.7%. YNH is likely to maintain a minimum 10 sen dividend going forward, which will translate into a yield of 7.4%.

Valuation undemanding on RNAV basis

Using NPV method to value its Klang Valley and Ipoh projects and a 20% discount to market value for its Sri Manjung landbank, we derive a basic RNAV per share of RM2.06 for YNH. Taking into account the 85m Bumiputra issue at assumed price of RM1.22 per share, we arrive at a fully-diluted RNAV per share of RM1.85. At RM1.85, YNH will still trade at attractive dividend yield of 5.4%. Given the 36% upside to our fully-diluted RNAV, we rate YNH as **Buy**.

Figure 5: Estimate of YNH's RNAV (RM m)

	Basis	Surplus
163 Residence	NPV	60.53
Sultan Ismail project	NPV	45.38
Mont' Kiara	NPV	31.09
Subang	NPV	8.28
Ipoh project	NPV	12.51
Sri Manjung	20% discount to market	104.54
Total project NPV		262.33
NTA		276.22
Basic RNAV		538.55
Share capital		261.29
Basic RNAV per share (RM)		2.06
Basic RNAV		538.55
Bumiputra issue		103.70
FD RNAV		642.25
Basic share capital		261.29
Bumi issue		85.00
FD no of shares		346.29
FD RNAV per share (RM)		1.85

Source: OSK Research

The information in this report has been obtained from sources believed by OSK Research Sdn Bhd (OSK) to be reliable but its accuracy or completeness is not guaranteed. Opinions contained herein are subject to change without notice. This report is for informational purposes only and is not to be construed as an offer or solicitation for the purchase or sale of any financial instrument. This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report and is not a substitute for the exercise of independent judgement. We accept no liability for any direct or indirect loss arising from the use of this report. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of OSK. All rights are reserved. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.