

RHB Highlights

◆ Yu Neh Huat Bhd : Transforming Into A Kuala Lumpur-Based Property Company

OUTPERFORM**Yu Neh Huat Bhd (RM1.27)***Transforming Into A Kuala Lumpur-Based Property Company*

- ◆ It was wrongly reported in Star BizWeek on 11 September regarding the size of landbank at Jalan Sultan Ismail and the use of the landbank. The 1.0-acre land that will be developed into serviced apartments is the parcel of land located at Jalan Perak, and the project is named as *163 Residence Kuala Lumpur*.
- ◆ The company has started soft launching "*163 Residence Kuala Lumpur*" in mid-August. Its target market centred on residents outside Klang Valley and so far, response has been healthy with sales of around 120 units or 40% of total sales. The project also housed an arcade with area of 17,142 sq ft and office space of 35,402 sq ft. We understand that the company will be taking up some office space for its own use as it is setting up its corporate headquarter in Kuala Lumpur.
- ◆ The recent landbank it acquired at Jalan Sultan Ismail is around 3.0 acres and development will take off in CY2006. The project will be spread over a period of six years, i.e. stretching into year 2012. We understand that there are a number of foreign property developers pursuing the company to jointly develop the land.
- ◆ One major project that will take off in CY2005 is the development of 238 units of high-end condominiums located at 3.06 acres of land at Mont Kiara, with gross development value of RM130m. This is targeted for completion in 2008.
- ◆ On the Subang Jaya project located at SS14, we understand that the company is toying with the idea of divesting the landbank given attractive prices offered by some property developers, and to channel its resources onto development of two major projects in Kuala Lumpur.
- ◆ It has two major property projects in Ipoh i.e. the 20-acre development at Medan Ipoh and the 10-acre development at Medan Bercham. Both are designated for building of shop offices. Sales at Medan Ipoh were well received with take-up rate of 80% for the 100 units of shop offices. It will be launching another 48 units of 2-storey shop offices at RM0.5m per unit in the near future. Meanwhile, it is in the midst of negotiating with a third party for sale of seven to eight acres of land at Medan Ipoh for a set-up of hypermarket and petrol station.
- ◆ At Medan Bercham, which is located across from Medan Ipoh, it has put on sale 30 units of 2-storey shop offices priced at close to RM0.4m per unit, in August. Take-up rate was encouraging with sale of 15 units. Filtering through of sales at Medan Ipoh and Medan Bercham will help to lift earnings going forward. We estimate Ipoh projects to account for 19% of its operating profit in FY05.
- ◆ On track property development at *163 Residence Kuala Lumpur* and Mont Kiara will help to lift earnings contribution from Kuala Lumpur-based projects going forward. To be prudent, we factored in take-up rates of 60% in *163 Residence KL* and 50% at Mont Kiara in FY05. For the Subang Jaya project, we have factored in a take-up rate of 60% and are assuming a small profit contribution of RM5.0m in FY05. Should the project be sold off, we believe profit contribution from sale of project will mitigate the loss in development profit. We estimate the Kuala Lumpur-based projects (excluding Subang Jaya project) will account for 51% of earnings by end-FY06.
- ◆ Driven by the experienced shareholder, Dato' Dr Alex Yu, and his commitment toward the company as evidenced from naming the holding company after his late father, and his lending to the company, we believe the company will be able to attain its goal as a KL-based property developer with visible earnings growth.

- ◆ The stock is currently trading at one year forward PER of 8x against net EPS growth of 23% in FY05, which is undemanding. We believe investors have priced in a larger-than-expected risk premium on the stock given its status as an outside Klang Valley property developer status, and its involvement in high rise property projects. Taking into account these factors, we fairly valued the stock at RM1.61, which is based on one-year forward PER of 10x. Based on its underlying financial strength and well-managed cashflows, we are confident that the company will be able to deliver a gross dividend of 10 sen a year, providing an attractive gross yield of 7.9%. Maintain **OUTPERFORM**.

Healthy response to soft launching of property project at Jalan Perak: The company has started soft launching of the property project at Jalan Perak, "163 Residence Kuala Lumpur", in mid-August. We understand that build-up per unit is around 300+ sq ft priced at effective rate of RM700 p.s.f onwards, after accounting for waiver on stamp duty and legal charges and 5-15% early bird discounts. It also provides a two year guaranteed return of 8% p.a. and the units are fully furnished with air-conditioner, kitchen cabinet and furniture. Its target market centred on residents outside Klang Valley and so far, response has been healthy with sales of around 120 units or 40% of total sales. The project also housed an arcade with area of 17,142 sq ft and office space of 35,402 sq ft. We understand that the company will be taking up some office space for its own use as it is setting up its corporate headquarter in Kuala Lumpur.

Turning into a KL-based property company: It has two major projects in Kuala Lumpur that will be taking off in 2005 and 2006, respectively. The project that will take off in 2005 is the development of 238 units of high-end condominiums located at 3.06 acres of land at Mont Kiara, with gross development value of RM130m. This is targeted for completion in 2008. The major project that is planned for 2006 is the development of office cum serviced apartments at the newly acquired 3.0 acres of land at Jalan Sultan Ismail. This development will be spread over a period of six years, i.e. stretching into year 2012.

Toying of divesting Subang Jaya project: It entered into a S&P agreement in early March 2004 with two individuals to acquire a company that owned a parcel of land in SS14, Subang Jaya earmarked for a 20-storey apartment building. Land cost is estimated at RM83.6 p.s.f. We understand that the company is toying with the idea of divesting the landbank in Subang Jaya given attractive prices offered by some property developers, and to channel its resources onto development of two major projects in Kuala Lumpur.

Ipoh project well received with earnings to pick up significantly in FY05: It has two major property projects in Ipoh i.e. the 20-acre development at Medan Ipoh and the 10-acre development at Medan Bercham. Both are designated for building

of shop offices. To-date, it put on sale 100 units of shop offices i.e. 50 units of 3-storey shop offices priced at close to RM0.7m per unit, and 50 units of 2-storey shop offices priced at close to RM0.5m per unit. Take-up rate to-date was 80%. It will be launching another 48 units of 2-storey shop offices at RM0.5m per unit in the near future. Meanwhile, it is in the midst of negotiating with a third party for sale of seven to eight acres of land at Medan Ipoh for a set-up of hypermarket and petrol station. At Medan Bercham, which is located across from Medan Ipoh, it has put on sale 30 units of 2-storey shop offices priced at close to RM0.4m per unit, in August. Take-up rate was encouraging with sale of 15 units. Filtering through of sales at Medan Ipoh and Medan Bercham will help to lift earnings going forward. We estimate Ipoh projects to account for 19% of its operating profit in FY05 (see Table 1).

RMm	FY04	FY05	FY06
Sitiawan-Sri Manjung-Lumut	49.4	40.1	31.8
Ipoh	4.5	14.9	17.8
Klang Valley	1.1	24.2	51.0
Operating profit	55.0	79.2	100.6
% of op pf contrib'n	FY04	FY05	FY06
Sitiawan-Sri Manjung-Lumut	89.8	50.7	31.6
Ipoh	8.2	18.8	17.7
Klang Valley	2.0	30.5	50.7
Operating profit	100.0	100.0	100.0

Steady earnings contribution from development at Sitiawan-Sri Manjung-Lumut region: Property development at the Sitiawan-Sri Manjung-Lumut region will remain a key area of focus, with steady earnings contribution of more than RM30m a year. Aside from the major project at Manjung Point, Lumut, its development in Sitiawan-Sri Manjung comprising mainly development at small pockets of land well-spread out in the region.

Rising earnings contribution from Klang Valley projects: On track property development at 163 Residence Kuala Lumpur and Mont Kiara will help to lift earnings contribution from Kuala Lumpur-based projects going forward. To be prudent, we factored in take-up rates of 60% in 163 Residence KL and 50% at Mont Kiara in FY05. For the Subang Jaya

project, we have factored in a take-up rate of 60% and are assuming a small profit contribution of RM5.0m in FY05. Should the project be sold off, we believe profit contribution from sale of project will mitigate the loss in development profit. We estimate the Kuala Lumpur-based projects (excluding Subang Jaya project) will account for 51% of earnings by end-FY06.

Undemanding valuation backed by attractive dividend yield: Driven by the experienced shareholder, Dato' Dr Alex Yu, and his commitment toward the company as evidenced from naming the holding company after his late father, and his lending to the company, we believe the company will be able to attain its goal as a KL-based property developer with visible earnings growth. The stock is currently trading at one year forward PER of 8x against net EPS growth of 23% in FY05, which is undemanding. We believe investors have priced in a larger-than-expected risk premium on the stock given its status as an outside Klang Valley property developer status, and its involvement in high rise property projects. Taking into account these factors, we fairly valued the stock at RM1.61, which is based on one-year forward PER of 10x. Based on its underlying financial strength and well-managed cashflows, we are confident that the company will be able to deliver a gross dividend of 10 sen a year, providing an attractive gross yield of 7.9%. Maintain **OUTPERFORM**.

Investment Statistics

FYE Dec	Turnover (RMm)	PBT (RMm)	Net profit (RMm)	FD net EPS (sen)	Growth (%)	FD PER (x)	NTA p.s. (RM)	P/NTA (x)	DPS (sen)	Gr yield (%)
2003a	91.2	10.7	0.05	9.8 ^	-	12.9	1.16	1.1	5.0	3.9
2004f	131.8	51.4	37.0	13.1 *	33.5	9.7	1.21	1.1	10.0	7.9
2005f	179.8	77.4	55.8	16.1 *	22.9	7.9	1.29	1.0	10.0	7.9
2006f	235.4	98.8	71.1	20.5 *	27.6	6.2	1.43	0.9	10.0	7.9

^ Adding back pre-acquisition reserves

* FY04 net EPS is based on weighted average share base of 282.5m, FY05 and FY06 net EPS are based on enlarged share base of 346.3m shares

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