

Yu Neh Huat

3Q on-track; 40% sold at KL project

Buy



Target price

Key data

| Year to 31-Dec | Revenue (MYRm) | EBITDA (MYRm) | Net Profit (MYRm) | FD EPS (sen) | EPS growth (% y-o-y) | PER (x) | DPS (sen) | Yield (%) |
|----------------|----------------|---------------|-------------------|--------------|----------------------|---------|-----------|-----------|
| 2003A | 99 | 35 | (1) | 9 | (11) | 12.1 | 5 | 4.6 |
| 2004F | 127 | 49 | 39 | 10 | 8 | 13.2 | 10 | 7.8 |
| 2005F | 190 | 79 | 55 | 16 | 65 | 8.0 | 10 | 7.8 |
| 2006F | 275 | 116 | 81 | 23 | 46 | 5.5 | 13 | 10.2 |

- **Strong 3QFY04 performance driven by stronger turnover and margins**
- **KL service residence's official launch soon; some 40% sold at pre-launch**
- **Upgrade target price by 17% to RM1.82; attractive valuation coupled with decent yields - Buy maintained**

Strong 3QFY04 performance

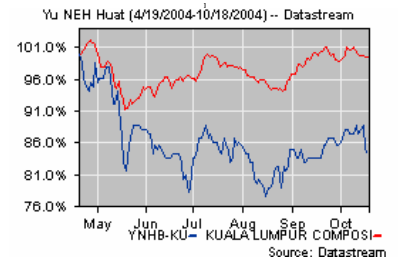
Yu Neh Huat (YNH) reported a 3QFY04 net profit of RM11m, which was inline with expectations. After last quarter's weak performance, the developer bounced back in 3Q as turnover rose 68% q-o-q. Margins were also significantly stronger, improving from last quarter's 30% to 44% driven by a larger contribution mix from its commercial developments i.e. Ipoh and Setiawan shoplots.

However, as 2Q was boosted by some land disposal gain of RM4.7m, the q-o-q net profit growth was not as strong as net profit was only up 11% q-o-q. There were no dividends announced in the 3Q.

KL service residence's official launch soon: some 40% sold at pre-launch

Management says YNH will be officially launching its first KL development, 163 Residence soon. 163's studio apartment showroom is currently under construction and should be completed by next month. The showroom, which will be housed in SPK building, Jalan Sultan Ismail, will have an aerial view over the development site. The developer will also carry out some marketing activities in order to help create awareness of the project.

Last month, YNH had a soft launch. Response has been impressive with some 40% sold i.e. sales and purchase agreement signed and deposit paid. We had previously mentioned in our previous note that YNH had already received indicative bookings to take up some 40% of 163 Residence's residential portion,



Current price MYR1.28
Target price MYR1.82

Codes

Reuters RIC YNHB.KL
Bloomberg YNHB MK

Key data

| | |
|-----------------------|------------|
| Mkt cap (MYRm) | 334 |
| Issued shares (m) | 261 |
| Free float (%) | 63 |
| Ave daily t/o ('000) | 270 |
| Net asset/share (MYR) | 1.23 |
| Net gearing (%) | 11 |
| Syariah compliant | Y |
| Listing | Main Board |

Derivatives

NA NA

Major shareholders

| | |
|-----------------------|-----|
| Dato' Dr Yu Kuan Chon | 14% |
| Yu Kuan Huat | 14% |
| Yu Kuan Seng | 9% |

Price

| | 1m | 3m | 6m |
|--------------|-----|------|-----|
| Absolute (%) | 2 | (19) | 5 |
| Relative (%) | (2) | (12) | (2) |

Analyst

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and management says these bookings have since been converted to actual sales.

The developer attributes the impressive take-up rates to the development's excellent location i.e. in Central Business District and within walking distance to KLCC, 'zero-entry cost' scheme and 2-year attractive 8% guaranteed return pa. In addition, we believe the developer also benefited from an early mover advantage.

To recap, 163 Residence, which has a gross development value of RM218m, will offer some 310 service apartments, a retail arcade and a 14-storey office block. The development will start with the launch of its service apartments. Mainly priced between RM800-1,000psf (the higher floors are priced higher), the development's residential portion has a gross development value of RM167m.

310 service apartments on offer

| | No. of Units | Unit size range (sf) | Price range (RM) |
|-----------|--------------|----------------------|------------------|
| Studio | 157 | 431-545 | 344,445-500,522 |
| 1-bedroom | 141 | 592-713 | 516,588-663,191 |
| 2-bedroom | 10 | 915-1,331 | 1-1.6m |
| Penthouse | 2 | 3,598 & 3,740 | 4.7m & 4.9m |

Source: Company

Valuation and recommendation

In view of management's 40% sales confirmation for its first Klang Valley development, we are upgrading the target price from RM1.55 to RM1.82.

We had previously valued YNH at a 15% discount to its RNAV of RM1.82 to account for risks in view of the developer's first time yet to be proven ability to penetrate the Klang Valley market. However, given its impressive take-up achieved in its first Klang Valley development, we believe this is no longer warranted and hence value the company at its NAV/per share of RM1.82.

In addition, the shares are currently trading an attractive FY05f PER of only 8x versus the sector's 10x. This is despite offering strong earnings growth prospects. Also, we believe its generous 8% dividend yield will limit any downside from current levels. Buy maintained.

Yu Neh Huat Bhd

Financial summary

Price Date : 18 Oct 2004

| Profit & loss account | | | | | Balance sheet | | | | |
|------------------------------------|--------------|-------------|------------|------------|----------------------------------|------------|------------|------------|------------|
| Y/E Dec (MYRm) | 2003A | 2004F | 2005F | 2006F | Y/E Dec (MYRm) | 2003A | 2004F | 2005F | 2006F |
| Sales | 99 | 127 | 190 | 275 | Cash & short term funds | 29 | 20 | 28 | 34 |
| EBITDA | 35 | 49 | 79 | 116 | Marketable securities at cost | 0 | 0 | 0 | 0 |
| Depreciation | 0 | 0 | 0 | 0 | Debtors | 49 | 63 | 85 | 110 |
| EBIT | 35 | 48 | 79 | 115 | Inventory | 4 | 5 | 8 | 11 |
| Net int inc/(exp) | (5) | (2) | (2) | (3) | Other current assets | 69 | 99 | 142 | 190 |
| Associate profits | 0 | 0 | 0 | 0 | Current assets | 152 | 188 | 262 | 346 |
| Exceptional items | (22) | 5 | 0 | 0 | Investments | 0 | 0 | 0 | 0 |
| Non operating income | 1 | 1 | 1 | 1 | Associates | 0 | 0 | 0 | 0 |
| Forex gains/losses | 0 | 0 | 0 | 0 | Investment properties | 0 | 0 | 0 | 0 |
| Other pretax | 0 | 0 | 0 | 0 | Undeveloped land bank | 159 | 227 | 227 | 227 |
| Pre-tax profit | 8 | 52 | 77 | 113 | Fixed assets | 135 | 136 | 146 | 159 |
| Tax | (9) | (13) | (22) | (32) | Other non-current assets | 2 | 2 | 2 | 2 |
| Minority interests | 0 | 0 | 0 | 0 | Non-current assets | 296 | 366 | 375 | 389 |
| Preference dividends | 0 | 0 | 0 | 0 | Total assets | 447 | 553 | 637 | 734 |
| Net profit | (1) | 39 | 55 | 81 | Creditors | 4 | 5 | 7 | 9 |
| Cash flow | | | | | Notes payable | 0 | 0 | 0 | 0 |
| Y/E Dec (MYRm) | 2003A | 2004F | 2005F | 2006F | ST Debt/Lease financing | 38 | 18 | 18 | 18 |
| Operating cash flow | (19) | (2) | 11 | 51 | Tax payable | 1 | 13 | 22 | 32 |
| Tax paid | 22 | (1) | (13) | (22) | Dividends payable | 0 | 0 | 0 | 0 |
| Finance servicing flows | (5) | 19 | 16 | 24 | Other current liabilities | 64 | 57 | 54 | 65 |
| Capital expenditure | (294) | (71) | (10) | (14) | Current liabilities | 107 | 93 | 100 | 124 |
| Acq/disp of subsidiaries | 0 | 0 | 0 | 0 | LT Debt/Lease financing/Bonds | 23 | 23 | 63 | 83 |
| Investment in associates | 0 | 0 | 0 | 0 | Convertible bonds | 0 | 0 | 0 | 0 |
| Other investments | (0) | 0 | 0 | 0 | Preference shares | 0 | 0 | 0 | 0 |
| Non-recurring/other | (22) | 6 | 1 | 1 | Retirement provision | 0 | 0 | 0 | 0 |
| Net flows before financing | (319) | (50) | 5 | 41 | Other non-current liabilities | 31 | 31 | 31 | 31 |
| Debt raised (repaid) | 61 | (20) | 40 | 20 | Non-current liabilities | 53 | 53 | 93 | 113 |
| Ordinary equity raised (repaid) | 287 | 61 | (37) | (55) | Total liabilities | 160 | 147 | 194 | 237 |
| Others | 0 | (0) | 0 | 0 | Paid-up capital | 233 | 346 | 346 | 346 |
| Net chg in cash & ST funds | 29 | (9) | 8 | 6 | Retained earnings | (2) | 16 | 53 | 106 |
| Cash earnings | 22 | 34 | 56 | 82 | Revaluation reserves | 0 | 0 | 0 | 0 |
| Recurring cash flow | (32) | (6) | (4) | 27 | Other reserves | 56 | 45 | 45 | 45 |
| Key statistics & ratios | | | | | Shareholders' funds | 287 | 407 | 443 | 497 |
| Y/E Dec | 2003A | 2004F | 2005F | 2006F | Minorities | 0 | 0 | 0 | 0 |
| Growth (%) | | | | | Total | 447 | 553 | 637 | 734 |
| Sales | (5) | 29 | 50 | 45 | Share data and valuations | | | | |
| EBITDA | (2) | 38 | 62 | 46 | Y/E Dec | 2003A | 2004F | 2005F | 2006F |
| EBIT | (2) | 38 | 63 | 47 | Share data (MYR) | | | | |
| Net profit | (102) | 7,265 | 44 | 46 | Reported EPS | (0.00) | 0.11 | 0.16 | 0.23 |
| Fully diluted EPS | (11) | 8 | 65 | 46 | Recurring fully diluted EPS | 0.09 | 0.10 | 0.16 | 0.23 |
| Margins (%) | | | | | NTA/share | 1.16 | 1.12 | 1.23 | 1.38 |
| EBITDA | 36 | 39 | 42 | 42 | CFPS | (0.14) | (0.02) | (0.01) | 0.08 |
| Pretax profit | 8 | 41 | 41 | 41 | DPS | 0.05 | 0.10 | 0.10 | 0.13 |
| Performance ratios (%) | | | | | PE (x) - Basic EPS | (472.1) | 11.5 | 8.0 | 5.5 |
| Effective tax rate | 107 | 26 | 28 | 28 | PE (x) - Recurring, FDEPS | 12.1 | 13.2 | 8.0 | 5.5 |
| Payout ratio | 0 | 54 | 34 | 34 | P/NTA (x) | 0.9 | 1.1 | 1.0 | 0.9 |
| Net ROE | (0) | 11 | 13 | 17 | P/CFPS (x) | (8.0) | (80.3) | (104.3) | 16.6 |
| Net gearing | 11 | 5 | 12 | 13 | Dividend yield (%) | 4.6 | 7.8 | 7.8 | 10.2 |
| ROA | (0) | 8 | 9 | 12 | Asset turnover (x) | 0.2 | 0.3 | 0.3 | 0.4 |
| ROIC | (1) | 10 | 12 | 16 | Debtors (days) | 283 | 295 | 279 | 253 |
| EV/EBITDA (x) | 8.9 | 9.9 | 6.6 | 4.7 | Creditors (days) | 22 | 22 | 22 | 22 |
| EV/EBIT (x) | 9.0 | 10.0 | 6.7 | 4.7 | Inventory (days) | 213 | 319 | 372 | 377 |

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Key to investment rankings: BUY = Expected to outperform the market by >10%; O-PF = Expected to outperform the local market by 0 – 10%; U-PF = Expected to underperform the market by 0 – 10%; SELL = Expected to underperform the market by >10%.

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