

YNH Property Berhad

Sale of office space en-bloc for M\$920MM; target price and RNAV upgraded

- **Much awaited part sale of Menara YNH materialises.** YNH has accepted an offer from Kuwait Finance House (KFH) to purchase en-bloc 50% of office tower project, Menara YNH. This is a major catalyst for the stock as the project will be a key income driver accounting for 40% of EBIT in FY09-10E. YNH is negotiating to sell the other 50% of the space with various parties.
- **Pricing sets another new benchmark for KL office space.** KFH is buying the said property for M\$920MM. Based on a saleable area of 1.5MM sqft (or 0.75MM sqft for the 50% interest), this translates to pricing at M\$1,230psf, or 5.0%-5.5% cap rates.
- **GDV for project higher than expected; forecast upgraded.** The deal above also implies a higher GDV of M\$1.84B for the entire office tower project versus initial guidance of about M\$1.2B (based on lower plot ratio and pricing). To account for this, we have raised our forecast by 3% for FY08E and 14% for FY09E.
- **RNAV raised, maintain OW.** We raise our RNAV from M\$3.40 to M\$4.10/share valuing the office project based on DCF of future development profits on the higher GDV (previous RNAV valued the office project solely on land-values). Our Dec-08 PT hence also rises from M\$3.40 to M\$4.10 based on RNAV. Key risk is failure to come to a final deal conclusion on the office project upon signing of the S&P to be formalized at a later stage.

Table 1: YNH Property (Reuters: YNHB KL Bloomberg: YNHB MK)

Yr to Dec-31	FY06	FY07E	FY08E	FY09E
Sales (M\$MM)	265.3	279.1	411.0	776.2
Core Net profit (M\$MM)	71.8	90.5	120.2	176.0
Core EPS (M\$)	0.20	0.24	0.31	0.45
DPS (M\$¢)	0.07	0.08	0.11	0.16
Sales growth (%)	57	5	47	89
Net profit growth (%)	54	26	33	46
EPS growth (%)	44	18	28	46
ROE (%)	15.4	15.6	17.0	21.9
ROCE (%)	13.0	13.1	15.7	23.1
P/E (x)	14.0	11.9	9.3	6.3
P/BV (x)	2.0	1.6	1.5	1.3
EV/EBITDA (x)	11.3	10.1	7.4	4.1
Div yield (%)	2.5	2.9	3.8	5.5

Source: Company, JP Morgan

Overweight

M\$2.85

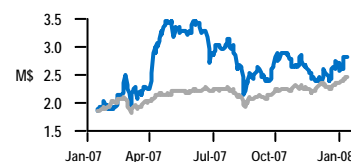
15 January 2008
Price Target: M\$4.10

Malaysia Property

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Price Performance



	YTD	-1M	-3M	-12M
Absolute	4.1%	10.6%	-3.1%	52.7%
Relative	-0.2%	3.2%	-12.7%	19.0%

Source: RIMES, Reuters.

Company data

52-wk range (M\$)	1.25-3.48
Mkt cap. (M\$MM)	1,118.9
Mkt cap. (US\$MM)	344.2
Shares O/S (MM)	392.6
Free float (%)	60
Avg. daily volume (MM)	2.0
Liquidity (US\$MM)	1.9
Exchange rate	3.25
Index	1,505.71
Year-end	December

Source: Bloomberg.

Sale of YNH's office space sets another new benchmark

KFH is buying 50% of Menara YNH for M\$920MM. Based on a saleable area of 1.5MM sqft (or 0.75MM sqft for the 50% interest), this translates to pricing at M\$1,230psf, a new benchmark compared to previous high of M\$1,120psf for Glomac Towers in Oct-07. This translates to cap rates of 5.0-5.5% assuming comparable office rentals of M\$7.20-8.00psf in KL.

The final conditions of the deal or purchase above will be concluded in a sales and purchase (S&P) agreement to be formalized by both parties.

Table 3: Selected significant office building transactions in KL (2006/07)

Date	Office building	Location	Transacted price (M\$ psf)	Current gross Rental (M\$psf)	Net yield (%)
1Q06	Menara HLA	Jalan Kia Peng (Freehold)	557	4.50	6.8
1Q06	Menara ING	Jalan Raja Chulan (Freehold)	495	4.25	7.2
2Q06	Bangunan MAS	Jalan Sultan Ismail (Leasehold)	481	3.00	5.2
3Q06	Empire Tower	Jalan Ampang (Freehold)	465	4.00	7.2
4Q06	Kenanga International	Jalan Sultan Ismail (Freehold)	555	4.25	6.4
		Average 2006			6.6
1Q07	Wisma Denmark	Jalan Dang Wangi (Freehold)	530	4.75	7.5
1Q07	Menara Maxis* (super prime)	KLCC area	1,038*	7.20	5.8
Jul-07	MRCB's office tower sale to CIMB Mapletree	KL Sentral	663	5.00	6.3
Jul-07	Mah Sing's 'The Icon' west wing office tower	Nearby Jalan Tun Razak, KL	714	5.50	6.4
Oct-07	Glomac's sale of 'Glomac Tower' to KFH	Nearby KLCC	1,120	7.20	5.4
Nov-07	Mah Sing's 'The Icon' east wing office tower	Nearby Jalan Tun Razak, KL	969	5.50	4.8
Dec-07	CIMB's sale of Menara Bumi-Commerce	Jalan Raja Laut, KL	730	4.50	5.2
		Average 2007			5.9
Jan-08	Cap Square, KL	Near Jalan Dang Wangi, KL	732	5.50	6.0
Jan-08	Wisma YNH	Jalan Sultan Ismail, KL	1,230	7.20	5.0

Source: *The Edge*, JP Morgan. * Represents recent values by independent valuers.

To secure a JV partner to build the office?

We understand that YNH is negotiating to sell the other 50% of the office space with various parties. Separately, management indicated that it remains in talks with other parties as well to undertake or construct the office project on a JV basis.

RNAV and earnings raised

The deal above implies a higher GDV of M\$1.84B for the entire office tower project versus initial guidance of about M\$1.2B (based on lower plot ratio and pricing). To account for this, we have raised our forecast by 3% for FY08E and 14% for FY09E.

We raise our RNAV from M\$3.40 to M\$4.10/share valuing the office project based on DCF of future development profits on the higher GDV (previous RNAV more conservatively valued the office project solely on land-values). Our revised RNAV assumes that YNH will retain a 60%-stake in the project, and a JV partner to hold the remaining 40%. Assuming YNH undertakes the entire office project on its own however, the RNAV would rise from M\$4.10/share to M\$4.40/share.

Our Dec-08 PT hence also rises from M\$3.40 to M\$4.10 based on RNAV. At current levels, the stock is on 9x 2008E with 3.8% net dividend yield with strong earnings growth vs the property sector average of 17x and 3.2% respectively. We maintain an

Overweight on YNH. Key risk is failure to come to a final deal conclusion on the office project upon signing of the S&P to be formalized at a later stage.

Table 5: YNH Property—Base case RNAV

Undeveloped land	% Held	GDV (M\$MM)	Acres	Revaluation surplus* (M\$MM)
Manjung, Perak state	100%	2000	1,000	354
<u>Klang Valley (all on prime land)</u>				
163 Residence, KL, near KLCC	100%	278	1	49
Ceriaan Kiara, Mont Kiara	100%	189	3	44
Menara YNH	60%	1,840	3	341
Mont' Kiara, next to Plaza Mont' Kiara	70%	680	6	185
Jalan Sultan Ismail	90%	200	2	47
Duta Nusantara, Duta Solaris	90%	712	14	146
Recent acq. near Duta Solaris, Nusantara	100%	300	3	48
Federal Highway landbank	100%	100	1	
Total		6,299	1,033	1,214
Less: taxation				328
Net revaluation surplus				886
Add: FY07 shareholders funds				669
Add: Estimated gain from sale of 40%- stake in Menara YNH to JV partner				38
Total RNAV				1,593
No. of existing shares				393
RNAV/share				4.10

Source: Company, JP Morgan. Note: *Arrived at based on future development profits discounted at a WACC of 9%.

Table 6: YNH Property – EBIT breakdown

Yr to Dec-31 (M\$MM)	2006A	2007E	2008E	2009E	2010E
Manjung, Perak	44	44	42	42	42
Ipoh, commercial#	38	10	-	-	-
<u>Klang Valley projects (prime land)</u>					
<u>Ongoing projects</u>					
163 Jalan Perak, near KLCC	21	46	49	-	-
Ceriaan Kiara, Mont Kiara	-	15	30	14	-
Wisma YNH (iconic office tower project)*	-	-	28	112	140
Mont Kiara (next to Plaza Mont Kiara, 70% JV)**	-	-	9	59	98
<u>Others (planning stages)</u>				54	88
4 other projects with combined GDV of M\$1.3B (Jln Sultan Ismail, 2 projects at Duta Solaris in Mont Kiara, and Federal Highway landbank)					
Total	103	115	158	280	368

Source: Company, JP Morgan estimates. *Operating profits from Wisma YNH, excluding land sale gain. #Reaching tail-end. **Very prime land for commercial (office, retail) cum service apartments at Mont Kiara.

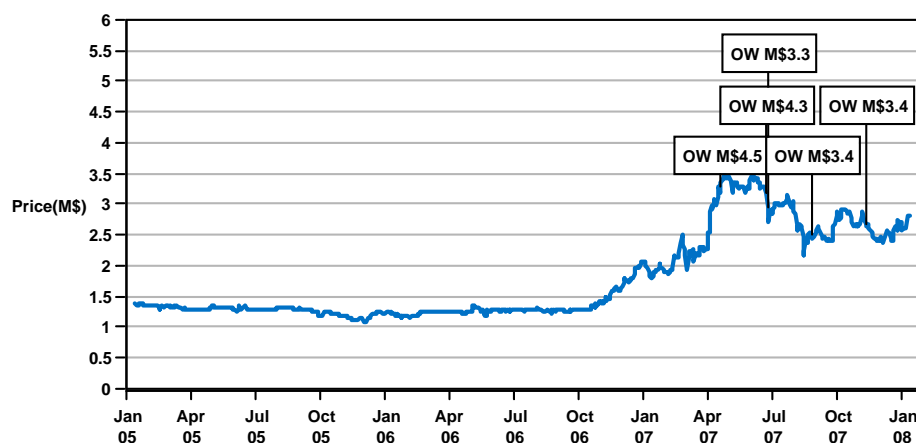
We forecast office tower project to start contributing by FY08E, and more meaningfully from FY09E

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Important Disclosures

YNH Property Berhad (YNHB.KL) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
19-Apr-07	OW	3.28	4.50
25-Jun-07	OW	3.18	4.30
27-Jun-07	OW	2.95	3.30
27-Aug-07	OW	2.50	3.40
13-Nov-07	OW	2.68	3.40

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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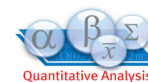
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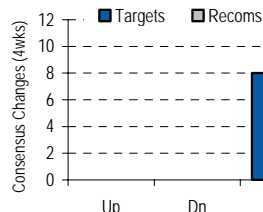
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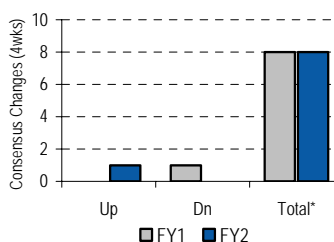
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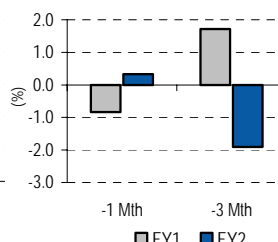
Targets & Recommendations



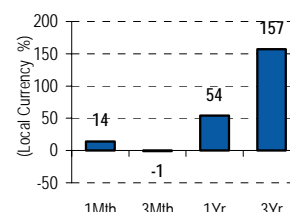
EPS Revisions



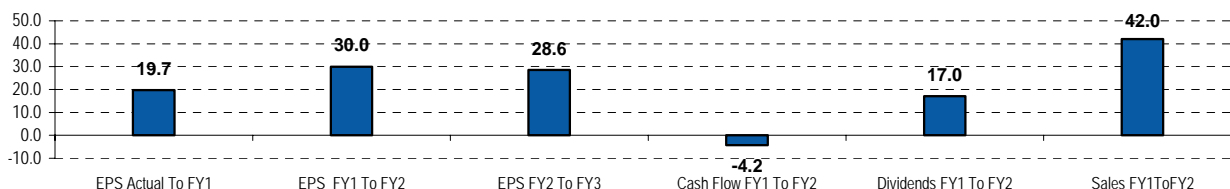
EPS Momentum (%)



Historical Total Return (%)



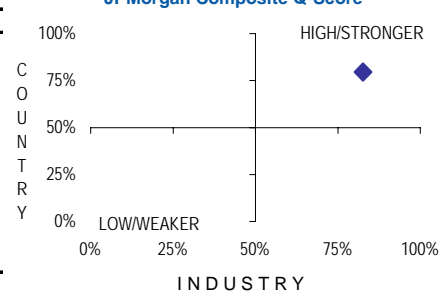
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	87%	82%
Valuations: P/E Vs Sector (12mth fwd EPS)	86%	81%
Valuations: EPS Growth (forecast)	64%	61%
Momentum: 12 Month Price Momentum	59%	64%
Momentum: 1 Month Price Reversion	10%	21%
Quality: Return On Equity (forecast)	49%	61%
Quality: Earnings Risk (Variation in Consensus)	80%	75%
Earnings&Sentiment: Earnings Momentum	27%	45%
Earnings&Sentiment: Change in Recoms	40%	32%
Earnings&Sentiment: Net Revisions Fy2 EPS	89%	94%
COMPOSITE Q-SCORE** (0% To 100%)	80%	83%

JPMorgan Composite Q-Score



Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US\$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
TCQ-AU	Trinity Group	Australia	376	0.66	15.3	73%
HEMRAJ-TH	Hemaraj Land & Development PCL	Thailand	374	0.37	10.0	53%
ROJANA-TH	Rojana Industrial Park PCL	Thailand	368	0.38	12.7	47%
SRV-AU	Servcorp Ltd.	Australia	350	0.73	13.0	61%
5073-MY	Naim Cendera Holdings Bhd	Malaysia	349	0.25	11.9	83%
3158-MY	YNH Property Bhd	Malaysia	339	1.25	11.9	83%
CK-TH	Ch. Kamchang PCL	Thailand	336	1.08	46.1	3%
5109-MY	Starhill REIT	Malaysia	332	0.14	13.3	40%
8888-JP	Creed Corp.	Japan	326	9.71	6.2	87%
KIJA-ID	Kawasan Industri Jababeka	Indonesia	314	2.51	33.8	56%
CPNRF-TH	CPN Retail Growth Property Fund	Thailand	306	0.25	11.3	23%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
2836-MY	Carlsberg Brewery Malaysia Bhd	Beverages: Alcoholic	400	0.15	19.4	35%
5231-MY	Pelikan International Corp. Bhd	Other Transportation	399	0.31	11.1	77%
3492-MY	KFC Holdings (Malaysia) Bhd	Restaurants	382	0.97	12.0	41%
5073-MY	Naim Cendera Holdings Bhd	Engineering & Construction	349	0.25	11.9	86%
5115-MY	Alam Maritim Resources Bhd	Oilfield Services/Equipment	342	0.23	25.7	69%
3158-MY	YNH Property Bhd	Agricultural Commodities/Milling	339	1.25	11.9	80%
5109-MY	Starhill REIT	Real Estate Investment Trusts	332	0.14	13.3	29%
6351-MY	Amway (Malaysia) Holdings Bhd	Catalog/Specialty Distribution	324	0.29	14.0	96%
4308-MY	Sunway Holdings Bhd	Engineering & Construction	323	0.73	13.4	93%
4243-MY	WTK Holdings Bhd	Forest Products	321	0.27	12.8	5%
2615-MY	JT International Bhd	Tobacco	302	0.17	10.6	51%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.

* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

YNH Property: Summary of Financials

Profit and Loss statement						Cash flow statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E	MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	169	265	279	411	776	EBIT	78	103	115	158	280
% change Y/Y	38.3	57.3	5.2	47.3	88.9	Depreciation & amortisation	1	2	2	3	5
EBIT	78	103	115	158	280	Change in working capital	-158	-41	-10	-64	-178
% change Y/Y	43.2	32.6	22.0	40.6	69.6	Taxes	-21	-27	-32	-43	-74
EBIT Margin (%)	46.0	38.8	41.1	38.3	36.1	Cash flow from operations	-101	37	75	52	33
Net Interest	-3	-4	-3	-3	-4	Capex	1	-3	-94	-43	-35
Earnings before tax	75	99	122	174	295	Disposal/ (purchase)	0	-5	0	0	0
% change Y/Y	47.0	31.6	23.8	42.0	70.1	Net Interest	-3	-4	-3	-3	-4
Tax	-21	-27	-32	-43	-74	Free cash flow	-103	25	-22	7	-6
as % of EBT	28.6	27.2	26.0	25.0	25.0	Equity raised/ (repaid)	107	7	117	0	0
Net Income (Reported)	54	72	90	120	176	Debt raised/ (repaid)	51	-20	50	0	0
% change Y/Y	40	34	26	33	46	Other	-1	-5	0	0	0
Core Net Profit	47	72	90	120	176	Dividends paid	25	25	32	42	62
% change Y/Y	21	54	26	33	46	Beginning cash	4	34	15	140	124
Shares Outstanding	329	352	377	393	393	Ending cash	34	15	140	124	75
EPS (reported)	0.14	0.20	0.24	0.31	0.45	DPS	0.08	0.07	0.08	0.11	0.16
% change Y/Y	-5	44	17	28	46						
Core EPS	0.141	0.204	0.240	0.307	0.449						
% change Y/Y	-5	44	18	28	46						

Balance sheet						Ratio Analysis					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E	%, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	34	15	140	124	75	EBIT margin	46.0	38.8	41.1	38.3	36.1
Accounts receivable	143	120	126	186	351	Operating margin	46.0	38.8	41.1	38.3	36.1
Inventories	7	18	22	33	62	Net profit margin	31.8	27.1	32.4	29.2	22.7
Others	150	216	216	216	216	SG&A/sales					
Current assets	333	370	505	559	704	Sales per share growth	38.3	57.3	5.2	47.3	88.9
LT investments	19	24	24	24	24	Sales growth	38.3	57.3	5.2	47.3	88.9
Net fixed assets	273	99	122	174	295	Net profit growth	39.7	34.1	25.9	32.9	46.4
Total assets	626	669	896	989	1,165	EPS growth	-5.3	44.4	17.5	27.7	46.4
Liabilities						Interest coverage (x)	0.0	0.1	0.0	0.0	0.0
ST loans	88	75	75	75	75	Net debt to total capital	14	13	1	3	7
Payables	29	38	38	44	60	Net debt to equity	19	17	1	3	8
Others	11	17	17	17	17	Sales/assets	27	40	31	42	67
Total current liabilities	129	130	130	136	152	Assets/equity	142	136	134	132	135
Long term debt	29	22	72	72	72	ROE	12.5	15.4	15.6	17.0	21.9
Other liabilities	29	25	25	35	80	ROCE	11.7	13.0	13.1	15.7	23.1
Total liabilities	186	176	226	242	304						
Shareholders' equity	439	493	669	747	862						
BVPS	1.33	1.40	1.77	1.90	2.20						

Source: Company, JP Morgan