Company Update

YNH PROPERTY (RM1.22) — BUY

From little acorns grow mighty oaks — **Target Price: RM1.80**

STOCK & SHAREHOLDERS' DATA

Bloomberg Code	: YNHB MK
Reuters Code	: YNHB.KL
KLCI	: 944.29
Market Capitalisation	: RM427.7m
Issued Capital	: 350.6m
Free Float (est)	: 62.7%
Range 12 mths	: RM1.06-RM1.35
Daily turnover (3 mth)	: RM0.4m
Relative Performance	: 1-mth -5.0%
	3-mth +0.9%
	12-mth -12.6%
Major Shareholders	:
Dato' Dr Yu Kuan Chon	14.3%
Yu Kuan Huat	13.8%
Yu Kuan Seng	13.2%

Gan Kim Khoon
gan-kim-khoon @ambg.com.my
603 2034 1360

COMPANY VISIT - EARNINGS (unch); REC (unch)

YE 31 July	2004	2005	2006F	2007F	2008F
Pretax profit (RMm)	51.0	77.1	109.8	130.6	130.9
Ex- EI pretax profit (RMm)	45.4	77.1	109.8	130.6	130.9
Net profit (RMm)	38.3	55.0	78.3	93.1	93.3
Ex - EI net profit (RMm)	32.7	55.0	78.3	93.1	93.3
Revision (%)		*n/a*	*n/a*	*n/a*	*n/a*
Consensus net profit (RMm)			*77.7*	*101.9*	*95.6*
EPS Ex-EI (sen)	12.5	15.7	22.3	26.6	26.6
EPS Ex-EI growth (%)	27.4	6.9	42.3	18.9	0.3
FD EPS (sen)	14.7	15.7	22.3	26.6	26.6
FD EPS growth (%)	NM	6.9	42.3	18.9	0.3
CFPS (sen)	14.9	15.9	22.5	26.8	26.9
Gross DPS (sen)	10.5	11.0	11.0	11.0	11.0
NTA/share (RM)	1.09	1.21	1.35	1.54	1.73
PER (x)	9.8	7.8	5.5	4.6	4.6
FD PER (x)	8.3	7.8	5.5	4.6	4.6
P/CF (x)	8.2	7.7	5.4	4.6	4.5
Yield (%)	8.6	9.0	9.0	9.0	9.0
P/NTA (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	13.4	13.0	16.5	17.3	15.4
EV/EBITDA (x)	7.9	6.1	4.3	3.6	***3.5***

Investment Highlights

- YNH Property ("YNHP") is expected to release 1Q06 results this evening. We expect no surprises with turnover and pretax profit coming in at circa RM45m (+8% YoY, -4% QoQ) and RM23m (+28% YoY, +6% QoQ) respectively or 16% and 21% of our full year estimates.

- Earnings from 163 Residence will be more apparent in 2H06 as piling works have been completed while Bauer is already in the midst of completing the third and fourth basement. YNHP will recognize 20-30% of the total GDV in FY06. Works on the super structure will commence in late 3Q06. Sales rate for 163 Residence is still currently 80-85%, unchanged from two months ago.

- YNHP is applying to the authorities to change its Jalan Sultan Ismail project to consist solely of office space. GDV will remain at RM880m. We view this positively given that the demand for prime office space is expected to remain buoyant with future increases in rental rates.

- In any case, YNHP is in serious negotiations with some foreign parties for a possible MoU for its Jalan Sultan Ismail project where the foreign party will build and finance the project on behalf of YNHP. In return YNHP will be paid the difference between the sale price to the foreign party and the construction cost. We believe the key draw for this possible MoU is the ability to leverage on their strong branding and profits are guaranteed without having to worry about sales, construction cost and financing issues.

- We continue to like YNHP for exposure to the property sector. Its strong points are its strong EPS CAGR growth of 19% for FY05-08, high EBITDA margins of circa 40%, attractive dividend yields of 9.0% and choice location of its projects. At a PER of 5.5x FY06, valuations are also compelling against the sector average of 7.6x. We are maintaining our target price of RM1.80 based on 8x FY06, which is also a steep 149% discount to our RNAV estimate of RM3.04/share. **Buy.**

1Q06 results preview. YNH Property ("YNHP") is expected to release 1Q06 results this evening. We expect no surprises with turnover and pretax profit coming in at circa RM45m (+8% YoY, -4% QoQ) and RM23m (+28% YoY, +6% QoQ) respectively. Earnings in 1Q06 will still be driven by its Northern projects in Bandar Manjung Point, Ipoh and Teluk Intan as well as its RM56.0m construction project in Jalan Scott, Kuala Lumpur. Due to higher sales recognition from its commercial project in Bandar Manjung Point, EBIT margins will likely expand by 8%-points YoY and 5%-points QoQ to 51%.

Expect a stronger 2H. Although, 1Q06 turnover and pretax will only be 16% and 21% of our full year estimates, we believe our full year forecast of RM284m in turnover (+61% YoY) and RM78m (42% YoY) in net profit will be met. Hence, we do expect a stronger second half where there will be meaningful contribution from 163 Residence. There will likely be no contribution from 163 Residence in 2Q06 but YNHP will realize a one-off gain of RM9m before tax from the sale of two parcels of land in Manjung and one in Hulu Kinta Perak.

163 Residence making good progress. Progress for the construction of the basement has been smooth and on schedule. Recall that YNHP had on 9 September 2005 awarded sub-contract works to Bauer (Malaysia) Sdn Bhd ("Bauer") for the earthworks, piling and sub-structure works of the project's development comprising the 29-storey service apartment and office space including 1 mechanical space and 4 stories of basement car park at a contract sum of RM16.1m. All piling works have been completed while Bauer is already in the midst of completing the third and fourth basement. For high-rise buildings, construction of the basement is the most complicated and cost the most. Bauer is expected to complete the sub-contract works by 9 September 2006 as stipulated in its contract. Works on the super structure will commence in late 3Q06.

…and will buoy earnings in 2H06. Sales rate for 163 Residence is still currently 80-85%, unchanged from two months ago. The balance 15-20% not sold are the larger units, which are above 1,000 sq. ft. YNHP does not discount the possibility of selling the balance 15-20% en-bloc and is negotiating with one party for a possible sale. With the piling and basement works on track to be completed by September 2006, YNHP will recognize 20-30% of the total GDV in FY06.

Solely office space for Jalan Sultan Ismail project? YNHP is applying to the authorities to change its Jalan Sultan Ismail project to consist solely of office space compared to the previous plan of 2 service apartments and one office block. Nonetheless, the GDV of the project will remain at RM880m. The project is still on track to be launched in 2H06 while earthworks should commence shortly. YNHP purchased this 3.0 acre piece of land from Danaharta for RM480 per sq. ft. in July 2004. We understand that asking prices of land in Jalan Sultan Ismail project has since risen to as high as RM1,500 per sq. ft. The development duration of this project is for 6 years and will contribute to earnings until 2012.

Pundits are bullish on prime office space and less on service apartments. Being purely office space now, its Jalan Sultan Ismail project is certainly in the right segment of the property market. Property consultants such as Jones Lang Wootton and CH Williams Talhar & Wong are bullish on prime office space. CH Williams Talhar & Wong in its 2006 property market report said that with the freeze on new office development in Kuala Lumpur in 1999, new supply in office sub-sector in Kuala Lumpur between 2006 and 2008 is only limited to Menara LTAT and Menara Commerce. As such rents of prime office space, which has been stabilizing in the previous years, would face upward pressures going forward. On the other hand, luxury condominiums and serviced apartments especially in Kuala Lumpur city center are unlikely to experience the bullishness of previous years.

Close to inking MoU for Sultan Ismail project. We had highlighted in our previous notes that YNHP was in negotiations with some foreign parties for a possible JV for this project. We were made to understand that there are four very strong names in the property and investment community vying for this choice location project. We suspect that the foreign party is scouting for prime office space regionally and is likely to REIT the property eventually. The condition is that the foreign party will build and finance the project on behalf of YNHP. In return, YNHP will be paid the difference between the sale price to the foreign party and the construction cost. The sale price is estimated to be RM680 per sq. ft. and is determined by a Quantity Surveyor's report while the construction cost will likely be fixed within a band of RM350-400 per sq. ft. Hence, total profits accruing to YNHP over the 6 years will be circa RM403m (see table below).

Assuming YNHP develops this project on its own and at a margin of 45%, profit accruing to the company is also circa RM400m. But YNHP will have bear the burden of financing cost and also look for potential buyers. We believe the key draw for this possible MoU is the ability to leverage on their strong branding and profits are guaranteed without having to worry about sales, construction cost and financing issues.

ESTIMATED PROFIT FOR JALAN SULTAN ISMAIL PROJECT BASED ON MOU

	Total Built up (sq/ ft)	Price (RM psf)	Value (RMm)
Sold to foreign party	1,300,000	680	884
Construction cost	1,300,000	370	481
Profit accuring to YNHP			403

Source: YNHP, AmResearch

May raise selling prices for Mont Kiara project. We believe there is some upside to the initial GDV of RM120m (or RM300 per sq. ft.) for its Mont Kiara project as property prices in the Sri Hartamas area have appreciated. Pricing may be pushed upwards to RM330-360 per sq. ft. which we believe may still sell well given it is at the lower end of the pricing of surrounding developers of RM338 per sq. ft. to as high RM859 per sq. ft. (see table below). Although developers like Sunrise do have command a premium in terms of their branding and reputation, we believe the pricing differential with YNHP is too large. Additionally, with its name being more accustomed in Klang Valley now with the launch of 163 Residence, we believe the general public may begin to recognize its branding. The project is expected to be launched in late 3Q06 or early 4Q06. The location of the project is opposite the Garden International School in Mont Kiara. Earthwork has begun and piling and the construction of the super structure should commence anytime soon. Profit recognition in FY06 will not be significant but moreso in FY07.

Expanding landbank in Sri Hartamas. We understand that YNHP is also very close to purchasing 10-20 acres of landbank in Sri Hartamas (one parcel will be near Plaza Mont Kiara and another near Hartamas Heights). YNHP has already put up signs surrounding the 6-acre piece of land next to Plaza Mont Kiara. We understand that YNHP will buy 70% of a company which owns the land. Hence, it will be an equity investment and not a JV. Estimated GDV is circa RM400m and the project will be a mixture of retail, office and residential.

LAUNCHES IN SRI HARTAMAS VICINITY IN 2005

Development	Location	Developer	Price	Expected completion
Hijauan Kiara	Duta-Segambut	Bukit Kiara Developments Sdn Bhd	RM455-460 per sq. ft.	2008
Mont Kiara Banyan	Duta-Segambut	Sunrise	RM402-869 per sq. ft.	2008
Kiaramas Ayuria	Duta-Segambut	Kiaramas Development Sdn Bhd	RM338 per sq ft.	2008
Kiara 1888	Duta-Segambut	Mitraland Group	RM382 per sq. ft.	2008
Mont Kiara Meridin	Duta-Segambut	Sunrise	RM400 per sq. ft.	2008

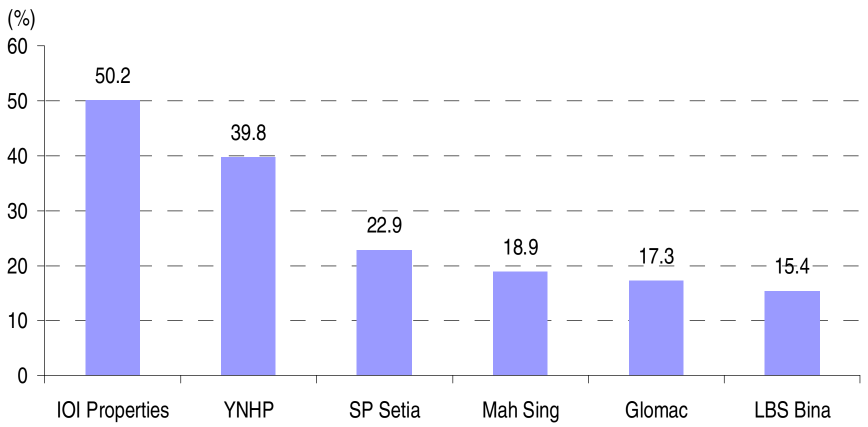
Source : CH Williams, Talhar & Wong

Bread and butter business provides solid recurring earnings. YNHP's Northern projects in Sitiawan-Sri Manjung-Lumut still has a GDV remaining of RM1.5-2bn and a development duration of another 20 years. With consistent profits of circa RM30m per annum, this provides it with a solid recurring income base. As majority of its buyers are government servants, mainly Navy personnel from the Lumut Naval base, demand is relatively stable and recession proof.

Pick up in unbilled sales of RM304.1m. We understand that YNHP has unbilled sales of circa RM380m as at 31 March 2006, a 25% increase from RM304m in the previous quarter. This is roughly equivalent to 1.4x FY06 property development turnover, implying decent earnings visibility for the next 1-2 financial years. Circa 60% of YNHP's unbilled sales is from 163 Residence.

High EBITDA margins provide a good buffer. YNHP has the among the highest EBITDA margins among property companies under our coverage as shown in the chart below. EBITDA margins of 39.8% expected in FY06 is only second to IOI Properties' 50.2%. YNHP high EBITDA margins relative to its peers makes it less susceptible to increases in interest cost from rising interest rates as well as rises in raw material costs. We believe its strong EBITDA margins is a function of i) the low acquisition cost of its land, ii) savings on property broker and advertising fees which it does not use, iii) low overheads with a lean staff force, iv) having an in-house construction arm, v) in-house architects and vi) saving on material costs as it buys in bulk.

PROPERTY COMPANIES - FY06 EBITDA MARGINS



Source: AmResearch

Committed to a 30% dividend payout policy. YNHP did not give explicit guidance on its dividend payment for FY06 expect that it would stick to its 30% dividend payout policy. YNHP declared a total dividend of 11 sen per share for FY05, slightly higher than FY04's 10.5 sen per share. This translates into a payout ratio of 50%. We are taking quite a conservative view on its FY06-07 dividend payments. We expect YNHP to at least maintain its dividends at 11 sen per share for both years or a payout ratio of 36% and 30% respectively.

Concerns of share overhang from bumi issue? YNHP completed its special issue of 85m shares (24% of current paid-up share capital) to bumiputera investors in 2Q05. We believe concerns of a share overhang is not without reason but is mitigated by a couple of reasons. First, the issue price was only at a marginal 3-4% discount to the prevailing market price. Second, its attractive dividend yield of 9.0% with a committed dividend payout ratio of 30% is enough incentive for investors to hold on to its stock. Additionally, most of these investors do not pay tax and as such yields of 9.0% and also being able to ride on potential gain arguably makes it a more attractive investment alternative than even our local REITs which offer yields of 6-7%.

Trading at a steep discount to its RNAV estimate. YNHP has still undeveloped landbank of circa 938.4 acres from its Northern projects at a net book values on a per sq. ft basis ranging from RM0.2-50.5 per sq. ft. We have used market values of each individual parcel of landbank using Colliers, Jordan Lee and Jaafar's valuation report in 2002 to derive our RNAV estimate of RM3.04 per share. We believe this is still conservative as prices of land have appreciated since. At current share price of RM1.22, YNHP is trading at a steep 149% discount to our RNAV estimate. Even if we were to take a more conservative view and assume a 10% discount to Collier's valuation, our RNAV estimate per share would still be RM2.90.

RNAV ESTIMATE

	Acres	Book Value RMm	Market Value RMm	Surplus RMm
Northern projects of Lumut, Sitiawan and Manjung	938.4	67.0	500.5	433.5
NTA as @ 31 Dec 05				423.8
DCF of 163 Residence, Jalan Sultan Ismail and M' Kiara				208.5
Total RNAV				1065.8
Paid-up capital (m)				350.6
RNAV per share (RM)				3.04
Current share price (RM)				1.22
Discount to RNAV per share (%)				149.1

Source : AmResearch and Colliers

Buy maintained. We continue to like YNHP for exposure to the property sector. Its strong points are its strong EPS CAGR growth of 19% for FY05-08, high EBITDA margins of circa 40%, attractive dividend yields of 9.0% and choice location of its projects. From an established player in Sitiawan-Sri Manjung-Lumut area, it has demonstrated strong business acumen by acquiring landbank in prime areas in the Klang Valley at attractive prices. Take up rates of 163 Residence is testament to its success in the Klang Valley and we believe will provide it with the recognition and branding to leverage on for its future Klang Valley launches. We believe the company's current focus will be more in Klang Valley and they are in the midst of scouting for prime land bank in the city and also Sri Hartamas.

At PER of 5.5x FY06, valuations are also compelling against the sector average of 7.6x. We are maintaining our target price of RM1.80 based on 8x FY06 earnings, which is also a steep 69% discount to our RNAV estimate of RM3.04/share. In spite of its short track record of only 2 over years since it was listed through a reverse take over of Techno Asia Holdings, YNHP has delivered on all its earning promises. Also to note that there has only been earnings upgrades and no downgrades since our initiating coverage report.

PROFIT AND LOSS (RMm)

YE 31 Dec	2004	2005	2006F	2007F	2008F
Turnover	**122.0**	**176.1**	**284.1**	**315.8**	**336.7**
EBITDA	**49.2**	**80.4**	**113.1**	**133.9**	**134.3**
Net Interest	(3.2)	(2.5)	(2.5)	(2.5)	(2.5)
Depreciation	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
EI	5.7	0.0	0.0	0.0	0.0
Pretax profit	**51.0**	**77.1**	**109.8**	**130.6**	**130.9**
Taxation	(12.7)	(22.1)	(31.5)	(37.5)	(37.6)
Net profit	**38.3**	**55.0**	**78.3**	**93.1**	**93.3**
Turnover growth (%)	33.8	44.4	61.3	11.2	6.6
EBITDA growth (%)	27.3	63.5	40.6	18.4	0.3
Pretax growth (%)	375.5	51.2	42.3	18.9	0.3
Net profit growth (%)	76582.4	43.5	42.3	18.9	0.3
EBITDA margin (%)	40.3	45.6	39.8	42.4	39.9
Pretax margin (%)	41.8	43.8	38.6	41.3	38.9
Net profit margin (%)	31.4	31.2	27.5	29.5	27.7