EQUITY FOCUS

Aseambankers (15938-H)
MALAYSIA EQUITY RESEARCH

23 April 2007

Description: Property developer.

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YNH Property Bhd

Taking on the big boys

Buy
(Initiating Coverage)
TP: RM4.30
Current Price: RM3.32

- **We initiate coverage on YNH Property (YNHB) as a Buy with a target price of RM4.30 based on 12.5x CY08 EPS; backed by its RNAV of RM3.80.**
- **From a small town developer in Manjung District, Perak, YNH Property is making headways in the Klang Valley with its upcoming high-end residential and commercial developments in the KLCC vicinity and Mont Kiara.**
- **Its potentially explosive earnings growth with a 3-year net profit CAGR of 22%, is backed by unbilled sales of approximately RM450m, GDV of >RM5b and generous EBITDA margins of >38% which makes YNHB an attractive, yet defensive play.**

Visible earnings growth. YNHB's latest unbilled sales of RM450m (or 1.7x FY06 turnover) will ensure earnings visibility through 2008. In addition, YNHB has lined up a list of upcoming high end residential and commercial launches in the much sought after addresses in KL, i.e. along Jalan Sultan Ismail and Mont Kiara. With a GDV of >RM5.2b (comprising RM2.9b in KL and RM2.3b in Manjung) (see *Table 1*), YNHB has sufficient development work to last at least a decade. The company is among the prime beneficiaries of government's latest property incentives, and is also poised to capitalize on the improving property market outlook with the strengthening domestic economy.

Not just any small town developer. With over 25 years of business experience, YNHB has delivered more than 8,800 units of homes in Perak, and is a household name among residents in Manjung District. Its relatively low land costs and in-house construction expertise built over the past 2 decades have allowed YNHB to capture development and construction margins with impressive EBITDA margin of >38%. In recent years, it has branched out to the fast growing Klang Valley market in search of faster growth. Its recent tie-up with Singapore's CapitaLand to jointly development an iconic commercial property in the heart of KL with a GDV of >RM1b is a testament of YNHB's capabilities.

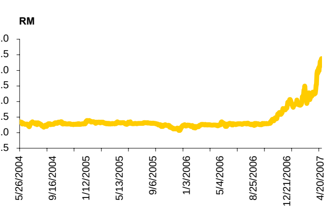
Initiating coverage as a Buy. At <10x CY08 PER, with a 3-year net profit CAGR of 22%, ROE of 18%, high EBIT margin of >38% to weather potential cost escalation, rising dividend yields to 5.3%, and backed by its RNAV of RM3.80 per share, YNHB has a strong value proposition.

Stock Information:

Ticker:	YNHB MK
Closing Price:	3.32
KLCI:	1315.37
Sector:	Property
Shares Issued (m):	355.8
Market Cap (RM m):	1,188.4
3-mth Avg Daily Volume (m):	1.5

Major Shareholders:	%
Dato' Dr Yu Kuan Chon	26.0
EPF	9.3
Lembaga Tabung Haji	5.1

Price Chart (RM3.32)



Price Performance:
52-week High/Low RM3.40/RM1.20

1-mth	3-mth	6-mth	1-yr	YTD
45.2	73.1	147.4	173.8	61.4

YNH Property – Summary Earnings Table

FYE Dec (RM m)	2005A	2006A	2007F	2008F	2009F
Turnover	168.7	265.3	303.2	484.6	637.6
EBITDA	78.2	103.5	144.7	187.5	256.9
Pretax Profit	75.0	98.7	140.1	182.9	252.4
Net Profit	53.6	71.8	102.3	122.2	132.4
Net Profit Ex. EI	53.6	71.8	102.3	122.2	132.4
EPS Ex. EI (sen)	16.3	20.4	28.7	34.4	37.2
EPS Ex. EI growth (%)	8.9	25.6	40.8	19.5	8.4
PE Ex. EI (x)	20.4	16.3	11.6	9.7	8.9
EV/EBITDA (x)	15.9	12.1	8.4	6.4	4.5
Div Yield (%)	2.4	2.2	4.2	4.9	5.3
Net Gearing (%)	18.9	16.6	5.5	3.1	Cash
ROE (%)	12.2	14.6	18.2	19.1	18.2
P/BV (x)	2.6	2.4	2.1	1.8	1.6
Earnings revision (%)	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*
Consensus NI (RM 'm)	*n.a*	*n.a*	*96.4*	*116.2*	*123.2*

Source: Bloomberg, Aseambankers

Visible earnings growth.

Defensive growth profile. YNHB's latest unbilled sales of RM450m (or 1.7x FY06 turnover) will ensure earnings visibility through 2008. Besides its ongoing "bread and butter" development in Manjung District (refer to *YNH Property background* below), YNHB is presently developing Lot 163 Suite which was launched in 2004/05. Located in the heart of city centre, adjacent to Wisma Hong Leong, Lot 163 Suite has achieved impressive sales progress. To-date, the project is almost 90% sold and the project is expected to be completed by 2008. EBITDA margins for the project are expected to come close to 50% and will be recognized progressively over the next FY07-08. 20% of the progress billings have been recognized in FY06 but its profit margin has yet to be fully recognized in line with prudent accounting practice.

Chart 1: Artist impression of Lot 163 Suite, Jalan Perak

Source: Company

YNH Property background

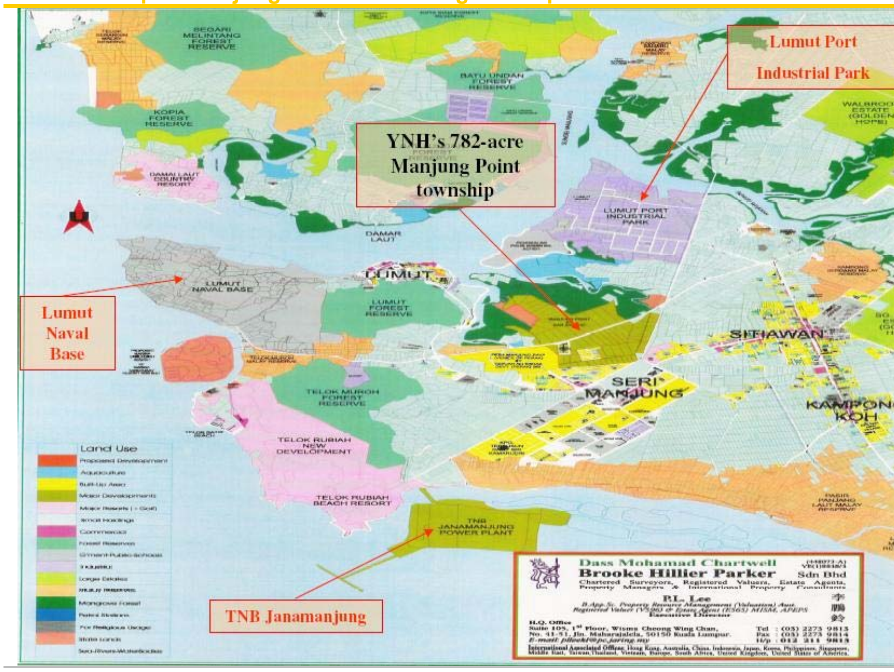
Listed on the Main Board of Bursa Malaysia on 9 December 2003, YNHB had humble beginnings in Sitiawan, Perak. Over the last 25 years, it has delivered more than 8,800 units of property in the state of Perak with GDV exceeding RM820m. It still has another 1,000 acres of land in Perak, predominantly in the Manjung District (comprising the towns of Sitiawan, Lumut and Sri Manjung) (refer to *Chart 2*), that could be developed over the next 20 years with GDV of >RM2.3b. There is no significant competition in Manjung District as YNHB commands a market share of around 65-70%. Furthermore, its land bank is strategically located in prime areas which are therefore highly saleable.

YNHB targets to sell 500 residential units and shop offices each year in Manjung District. Manjung District has a population of around 200,000. Under the Manjung Structural Plan 1991-2010, its population is expected to grow from 168,500 in 1991 to 249,800 in 2010. Its natural captive market is the Lumut Naval Base (largest in Malaysia with an estimated population of 30,000), TNB Janamanjung (coal fired power plant operated by Tenaga Nasional), Naval Dockyard operated by Boustead, Lumut Port, Lumut Industrial Estate, Segari IPP (owned by Malakoff) and Maritime University. YNHB's "bread and butter" development in Manjung district is estimated to contribute an annual recurring development profit in excess of RM25m.

Subsequent to its listing, YNHB took a strategic decision to focus its expansion in the Klang Valley, in search of higher margin development opportunities and faster growth. It has secured a portfolio of well-located development properties through timely land acquisitions and joint venture agreements with various land owners at attractive terms and conditions. In the coming years, the Klang Valley developments will be the key profit driver for the Group while its property developments in Perak will continue to provide steady sustainable returns.

Source: Company, Aseambankers

Chart 2: Map of Manjung and Surrounding developments



Source: Company

Rousing support to Ceriaan Kiara, Mont Kiara. Soft launched in Mar 2007, Ceriaan Kiara has received overwhelming response with 30% of sales recorded on the first day of launch. Located opposite Garden International School, this 238-unit condominium development was sold at an attractive average selling price of RM363 psf. Though it was sold at a substantial discount to Sunrise's 10@Mont Kiara which was priced at RM535 psf (-32%), management rationalised that this was a marketing strategy to attract more buyers for its upcoming D'Kiara Place, Project at 1, 2, 3 and Project 5 Duta over the next few years. Despite the lower selling price, management guided that its EBITDA margins are still lucrative at around 45%, arising from its relatively cheaper land cost of RM66 psf and other cost savings measures undertaken. Today, Ceriaan Kiara project is 60% sold and is therefore self-financing.

Table 1: Land bank summary

Projects	Expected Launch/ Development	Acres	GDV RM 'm	Remarks
Klang Valley Land				
Capital Tower @ YNH Centre, Jalan Sultan Ismail	Mid-2007	3.00	1,000.0	JV with CapitaLand (YNH 60%: CapitaLand 40%). In discussion with various parties to sell enbloc a single proposed commercial property.
Lot 163 Suite, Jalan Perak	2004/ 05	1.04	278.0	On going. 20% progress billing recognized. >85% sold. Expected completion in 2008.
Ceriaan Kiara, Mont Kiara	Mar 2007	3.06	189.0	30% snapped up on soft launch. Now 60% sold.
Project at 1 Duta	est. 2009	5.00	150.0	Located in Mont Kiara
Project at 2&3 Duta	est. 2010	6.00	350.0	Located in Mont Kiara
Project at 5 Duta	est. 2011	3.00	212.0	Located in Mont Kiara
Project at 3 KL	est. 2009	2.00	200.0	Adjacent to Cendana by Tan&Tan
D' Kiara Place, Mont Kiara	2008	6.00	550.0	MOU to purchase 70%. Expected to price >RM500 psf. In talks to sell enbloc office, retail and service apartment
Perak Land (Manjung District)	Over 20 years	1,000	2,300.0	
Total			**5,229.0**	

Source: Company, Aseambankers

Not just any small town developer

Future launches. In addition to existing projects, YNHB has lined up a list of upcoming high end residential and commercial launches at much sought after addresses in KL, i.e. along Jalan Sultan Ismail and in Mont Kiara. With a GDV of >RM5.2b (comprising RM2.9b in KL and RM2.3b in Manjung) (see *Table 1*), YNHB has sufficient development work to last at least a decade. The company is among the prime beneficiaries of the government's latest property incentives, and is also poised to capitalize on the improving property market outlook with the strengthening of our economy.

Capital Tower @ YNH Centre. Development on the 3.0-acre parcel of prime commercial land fronting Jalan Sultan Ismail (opposite Concorde Hotel and adjacent to Shangri-La Hotel) into a single iconic class A office tower cum retail centre with a GDV of RM1b will commence in mid-2007. This joint development project with CapitaLand of Singapore (which holds a 40% stake), is expected to rake in some RM500m in development profit over the life of the entire project as gross development costs are estimated at around RM442m. This piece of freehold land was acquired in July 2004 from Pengurusan Danaharta at a cost of RM63m or RM480 psf. Recent sales of commercial land in the vicinity were transacted at around RM1,000 psf. The JV partners are currently in negotiation with several parties to purchase the prime office building en-bloc.

Initiating coverage as a Buy

Fundamentals intact. Besides visible earnings growth, the balance sheet of YNHB is clean and strong. It current net gearing level is healthy, at 16.6% of shareholders funds. With ongoing and upcoming property launches featuring highly saleable prime addresses, we estimate that YNHB could move into a net cash position as early as FY2009. Furthermore, its high and sustainable EBITDA margin of >38% over the next few years will help weather any unforeseen cost escalation.

Initiating coverage with a Buy call. At <10x CY08 PER, with a 3-year net profit CAGR of 22%, ROE of 18%, high EBIT margin of >38% to weather potential cost escalation, rising dividend yields to 5.3%, and backed by its RNAV of RM3.80 per share, YNHB has a strong value proposition. We initiate coverage on YNHB with a Buy call and a target price of RM4.30 based on 12.5x CY08 EPS, which represents a 13% premium to our RNAV value of RM3.80 per share. The premium to its RNAV is justified given YNHB's (i) potential to unlock better value for its Capital Tower project with a GDV in excess of RM1.0b; (ii) ongoing discussions to acquire more prime land in the Klang Valley; and (iii) position as a prime beneficiary of governments' recent property sector initiatives.

RNAV of YNH Property

	Value (RM m)	Remarks
Surplus from property development	793.5	Based on projected net cash flow of upcoming property projects discounted at a WACC of 10.9%
Shareholders' funds @ 31 Dec 2007	561.5	
Total revised value	1,355.0	
No. of shares (m)	355.8	
RNAV per share (RM)	**3.80**	

Source: Company, Aseambankers

Risks

The primary risk to our view is a sudden reversal of global equity fortunes, arising from an unexpected deterioration of global economic health. Such unforeseen events could impact sentiment in Malaysia, despite the fact that our economy should be more resilient to external shocks due to the government's pump priming agenda under the 9MP. This risk is further exacerbated by the fact that YNHB's latest foreign shareholding is at around 45%.

Potential oversupply of units in Mont Kiara. YNHB has joined the list of property developers seeking a piece of action in Mont Kiara in recent years. YNHB is said to be the second largest owner of land in Mont Kiara after Sunrise, at 23.06 acres (including the recently launched 3.0-acre Cerian Kiara development). This area could potentially be overwhelmed with excessive supply without the necessary rental support to sustain capital appreciation.

Delay in launches. Our earnings forecast through FY09 assumes timely launches as highlighted in Table 1 above. Should there be any delay/rejection in approvals by the relevant authorities, there could be deferment to our earnings forecast. Similarly, any unexpected earlier launches could also bring forward our earnings forecast.

Income Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Revenue	265.3	303.2	484.6	637.6
EBITDA	103.5	144.7	187.5	256.9
Depreciation & Amortisation	(0.7)	(0.7)	(0.7)	(0.7)
Operating Profit	102.8	144.0	186.8	256.3
Associates	0.0	0.0	0.0	0.0
Interest (Exp)/Inc	(4.1)	(3.9)	(3.9)	(3.9)
Exceptional Items	0.0	0.0	0.0	0.0
Pre-Tax Profit	98.7	140.1	182.9	252.4
Tax	(26.9)	(37.8)	(47.6)	(65.6)
Minority Interest	0.0	0.0	(13.1)	(54.3)
Net Profit	71.8	102.3	122.2	132.4
Net Profit Ex. EI	71.8	102.3	122.2	132.4
Revenue Growth %	57.3	14.3	59.8	31.6
EBITDA Growth (%)	32.3	39.8	29.6	37.0
EBIT Growth (%)	32.6	40.0	29.8	37.2
Net Profit Growth (%)	34.1	42.4	19.5	8.4
Net Profit Ex. EI Growth (%)	34.1	42.4	19.5	8.4
Tax Rate %	27.2	27.0	26.0	26.0

Balance Sheet (RM m)

FY Dec	2006A	2007F	2008F	2009F
Fixed Assets	147.8	147.6	147.4	147.2
Other LT Assets	151.0	147.3	143.6	142.2
Cash/ST Investments	15.3	66.0	77.2	125.3
Other Current Assets	354.7	414.9	534.5	656.6
Total Assets	668.8	775.9	902.7	1071.3
ST Debt	75.3	75.3	75.3	75.3
Other Current Liabilities	54.4	82.9	108.3	133.1
LT Debt	21.6	21.6	21.6	21.6
Other LT Liabilities	24.5	34.5	43.4	59.9
Minority Interest	0.0	0.0	13.1	54.3
Shareholders' Equity	493.0	561.5	641.0	727.1
Total Capital	668.8	775.9	902.7	1071.3
Share Capital (m)	354.0	355.8	355.8	355.8
Net Cash/Debt	(81.6)	(30.8)	(19.7)	28.4
Working Capital	240.2	322.7	428.1	573.4
Gearing %	16.6	5.5	3.1	Cash

Cash Flow Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Profit before taxation	98.7	140.1	182.9	252.4
Depreciation	0.7	0.7	0.7	0.7
Net interest receipts/(payments)	4.1	3.9	3.9	3.9
Working capital change	(42.8)	(31.7)	(94.2)	(97.3)
Cash tax paid	(26.9)	(37.8)	(47.6)	(65.6)
Others (incl'd exceptional items)	(6.9)	13.6	12.4	2.3
Cash flow from operations	26.9	88.7	58.1	96.3
Capex	0.0	(0.5)	(0.5)	(0.5)
Disposal/(purchase)	(3.5)	(3.7)	(3.7)	(1.4)
Others	0.0	0.0	0.0	0.0
Cash flow from investing	(3.5)	(4.2)	(4.2)	(1.9)
Debt raised/(repaid)	27.0	0.0	0.0	0.0
Equity raised/(repaid)	3.6	2.1	0.0	0.0
Dividends (paid)	(25.5)	(35.8)	(42.8)	(46.4)
Others	0.0	0.0	0.0	0.0
Cash flow from financing	5.2	(33.7)	(42.8)	(46.4)
Change in cash	28.6	50.8	11.2	48.1

Rates & Ratios

FY Dec	2006A	2007F	2008F	2009F
EBITDA Margin %	39.0	47.7	38.7	40.3
Op. Profit Margin %	38.8	47.5	38.6	40.2
Net Profit Margin %	27.1	33.7	25.2	20.8
ROE %	14.6	18.2	19.1	18.2
ROA %	10.7	13.2	13.5	12.4
Dividend Cover (x)	27.1	33.7	25.2	20.8
Interest Cover (x)	2.8	2.9	2.9	2.9
Asset Turnover (x)	25.1	37.2	48.2	66.1
Asset/Debt (x)	39.7	39.1	53.7	59.5
Net Gearing %	6.9	8.0	9.3	11.1
Debt/ EBITDA (x)	0.9	0.7	0.5	0.4
Debt/ Market Cap (x)	0.1	0.1	0.1	0.1
EV (RMm)	1,256.9	1,212.1	1,201.0	1,152.9
EV/EBITDA (x)	12.1	8.4	6.4	4.5

Source: Company, Aseambankers

Definition of Ratings

Aseambankers uses the following rating system:

STRONG BUY	Total return is expected to exceed 20% in the next 12 months
BUY	Total return is expected to be between 10-20% in the next 12 months
HOLD	Total return is expected to be between above 0% to 10% in the next 12 months
FULLY VALUED	Total return is expected to be between -10% and 0% in the next 12 months
SELL	Total return is expected to be below -10% in the next 12 months
TRADING BUY	Total return is expected to be between 10-20% in the next 6 months arising from positive newsflow e.g. mergers and acquisition, corporate restructuring, and potential of obtaining new projects. However, the upside may or may not be sustainable

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure
BV = Book Value
CAGR = Compounded Annual Growth Rate
Capex = Capital Expenditure
CY = Calendar Year
DCF = Discounted Cashflow
DPS = Dividend Per Share
EBIT = Earnings Before Interest And Tax
EBITDA = EBIT, Depreciation And Amortisation
EPS = Earnings Per Share
EV = Enterprise Value
FCF = Free Cashflow
FV = Fair Value
FY = Financial Year
FYE = Financial Year End
MoM = Month-On-Month
NAV = Net Asset Value
NTA = Net Tangible Asset
P = Price
P.A. = Per Annum
PAT = Profit After Tax
PBT = Profit Before Tax
PE = Price Earnings
PEG = PE Ratio To Growth
PER = PE Ratio
QoQ = Quarter-On-Quarter
ROA = Return On Asset
ROE = Return On Equity
ROSF = Return On Shareholders' Funds
WACC = Weighted Average Cost Of Capital
YoY = Year-On-Year
YTD = Year-To-Date

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