

YTL Hospitality REIT (YTLREIT MK)

2QFY22 earnings on track

Maintain HOLD

1HFY22 core net profit was within our estimates, at 55%/43% of our/consensus' FY22E. 1st interim gross DPU of 1.89 sen was also declared. No changes to our earnings forecasts and DDM-TP of MYR0.95 (Ke: 8.5%). Maintain HOLD. We view that risk-reward remains approximately balanced while long-term prospects would come from strong DPU yields in FY23-24E of 8.6%-10.3%. We prefer Axis (AXRB MK, SP: MYR1.86, BUY, TP: MYR2.30).

Lifted by Australians hotels

2QFY22 core net profit was MYR36.9m (+21% YoY, -7% QoQ). This brings 1HFY22 core earnings to MYR76.5m (+20% YoY). YoY, the quarter's core earnings were lifted by Australian hotels (+78%) due to the quarantine/hotel isolation contracts by respective district governments and weaker MYR against AUD. Nevertheless, its occupancy and RevPAR (revenue per available room) dropped YoY, to 27% and AUD53, respectively (2QFY21: 58% and AUD73). Distributable income marginally increased by 2% YoY to MYR17.8m, after excluding rental variation adjustments for its Malaysian and Japanese properties of MYR20.6m.

No change to forecasts

Notwithstanding the rental variation adjustments, near term earnings are mainly supported by master lease assets from its Malaysian and Japanese properties. However, we remain cautious on its Australian hotels near-term performances in the absence of the quarantine contracts. Pending YTLREIT briefing on 28 Feb, we maintain our forecast for now.

Expect strong DPU yields in FY23-24E

With regards the rental deferral programme (i.e. reducing the lease rentals by 50%, commencing 1 July 2020 until 30 June 2022), it should be noted that it does not involve any waiver of the rentals as the difference will be paid over FY23-29 (Fig 2). We forecast a strong net DPU yield of 8.6%-10.3% in FY23-24E attributed mainly to the repayment of rental variation adjustments and post-pandemic earnings recovery.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	426	326	364	392	399
Net property income	235	205	220	229	231
Core net profit	127	128	140	149	151
Core EPU (sen)	7.5	7.5	8.2	8.7	8.8
Core EPU growth (%)	(10.7)	0.9	9.5	5.9	1.4
Net DPU (sen)	6.0	3.7	3.0	7.8	9.3
Net DPU growth (%)	(14.7)	(38.0)	(21.0)	163.8	19.6
P/NTA (x)	0.7	0.6	0.6	0.6	0.6
Net DPU yield (%)	5.8	4.2	3.3	8.6	10.3
ROAE (%)	0.4	3.1	2.9	3.3	3.4
ROAA (%)	2.7	2.7	2.9	3.1	3.1
Debt/Assets (x)	0.43	0.43	0.43	0.43	0.43
Consensus Net DPU	-	-	3.4	7.5	8.6
MKE vs. Consensus (%)	-	-	(13.4)	4.5	8.1

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HOLD

Share Price	MYR 0.91
12m Price Target	MYR 0.95 (+8%)
Previous Price Target	MYR 0.95

Company Description

YTL Hospitality REIT invests and manages hospitality real estates. Core businesses include leasing of hospitality properties and operation of hotels.

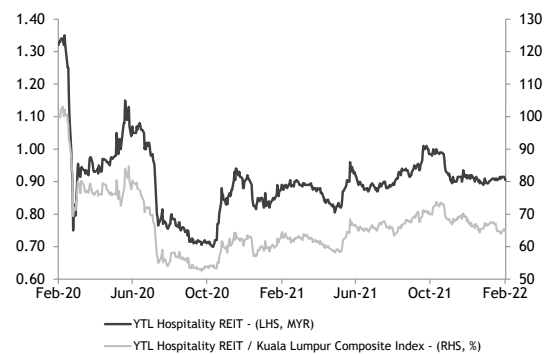
Statistics

52w high/low (MYR)	1.01/0.81
3m avg turnover (USDm)	0.1
Free float (%)	28.3
Issued shares (m)	1,704
Market capitalisation	MYR1.5B USD369M

Major shareholders:

YTL Corp Bhd.	58.6%
Yeoh Tiong Lay & Sons Holdings Sdn. Bhd.	3.7%
Employees Provident Fund	3.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(2)	2
Relative to index (%)	(3)	(6)	(0)

Source: FactSet

Fig 1: Results summary

FY Jun (MYR m)	Quarterly					Cumulative		
	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	1HFY22	1HFY21	% YoY
Net revenue	89.8	78.8	13.9	90.2	(0.5)	179.9	157.8	14.0
Net property income	55.4	49.1	12.7	58.2	(4.8)	113.5	102.1	11.1
Other income	0.5	0.5	(2.1)	0.5	(13.0)	1.0	1.0	4.4
Non-property expenses	(19.0)	(17.7)	7.5	(19.2)	(0.8)	(38.3)	(35.6)	7.5
Finance costs	(15.0)	(15.4)	(2.5)	(15.1)	(0.4)	(30.1)	(31.4)	(4.1)
Fair value gain/(loss)	(17.7)	-	NM	(17.7)	(0.0)	(35.4)	-	NM
Unrealised FX gain/(loss)	(1.5)	(42.5)	(96.5)	8.1	<-100	6.7	(45.1)	<-100
Pretax profit	2.6	(26.0)	<-100	14.9	(82.4)	17.5	(9.0)	<-100
Tax	(0.1)	(0.4)	(66.3)	(0.1)	44.7	(0.2)	(0.9)	(75.9)
Net profit	2.5	(26.4)	<-100	14.8	(83.1)	17.3	(9.8)	<-100
Adjustments for:								
- Depreciation of property, plant & equipment	15.2	14.3	6.7	15.3	(0.7)	30.5	28.7	6.4
- Unrealised net FX gains/(losses)	1.5	42.5	(96.5)	(8.1)	<-100	(6.7)	45.1	<-100
- Others	(2.9)	(20.9)	(86.0)	(3.2)	(7.5)	(6.1)	(41.9)	(85.5)
Realised net profit	16.3	9.5	71.7	18.8	(13.7)	35.1	22.2	58.4
Accrued lease income	20.6	20.9	(1.5)	20.8	(1.1)	41.4	41.9	(1.0)
Core net profit	36.9	30.4	21.3	39.7	(7.1)	76.5	64.0	19.6
Distributable income	17.8	17.4	2.2	17.9	(0.5)	35.7	34.3	4.2
EPU ex-EI (sen)	2.2	1.8	21.3	2.3	(7.1)	4.5	3.8	19.6
Gross DPU (sen)^	1.9	1.8	4.3	-	NM	1.9	1.8	4.3
	2QFY22	2QFY21	+/- ppt	1QFY22	+/- ppt	1HFY22	1HFY21	+/- ppt
<i>Net property margin (%)</i>	61.7	62.3	(0.7)	64.5	(2.8)	63.1	64.7	(1.6)
<i>Net income ex-EI margin (%)</i>	41.1	38.6	2.5	44.0	(2.9)	42.5	40.5	2.0
<u>SEGMENTAL</u>	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	1HFY22	1HFY21	% YoY
<u>Revenue</u>								
Property rental								
- Malaysia	36.5	36.5	0.0	36.5	0.0	73.0	73.0	0.0
- Japan	7.1	7.3	(2.7)	7.3	(1.8)	14.4	14.7	(2.0)
Hotel								
- Australia	46.1	35.0	31.9	46.4	(0.6)	92.5	70.1	31.9
Total	89.8	78.8	13.9	90.2	(0.5)	179.9	157.8	14.0
<u>Net property income</u>								
Property rental								
- Malaysia	34.7	34.7	0.0	34.7	(0.0)	69.4	69.3	0.1
- Japan	6.3	6.4	(1.6)	6.4	(2.5)	12.7	12.7	(0.5)
Hotel								
- Australia	14.4	8.1	77.9	17.0	(15.4)	31.5	20.1	56.8
Total	55.4	49.1	12.7	58.2	(4.8)	113.5	102.1	11.1

^ Effective from 3QFY20, YTLREIT changed its income distribution frequency to semi-annual from quarterly

Source: Trust, Maybank IBG Research

Fig 2: Repayment schedule for rental variations of master leases

(MYR m)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
JW Marriott Hotel Kuala Lumpur	3.0	26.7	-	-	-	-	-
The Ritz Carlton, Kuala Lumpur - Suite Wing	1.7	2.5	2.5	2.5	2.5	2.5	2.5
Cameron Highlands Resort	0.4	0.6	0.6	0.6	1.9	-	-
Hilton Niseko Village	1.7	2.5	2.5	2.5	7.4	-	-
AC Hotel Penang Bukit Jambul	0.9	1.3	1.3	1.3	3.9	-	-
AC Hotel Kuala Lumpur Titiwangsa	0.9	1.3	1.3	1.3	3.9	-	-
AC Hotel Kuantan City Centre	0.6	1.0	1.0	1.0	2.9	-	-
The Ritz Carlton, Kuala Lumpur - Hotel Wing	2.2	3.3	3.3	3.3	9.9	-	-
Pangkor Laut Resort	0.9	1.3	1.3	1.3	4.0	-	-
Tanjong Jara Resort	0.7	1.1	1.1	1.1	3.4	-	-
The Majestic Hotel Kuala Lumpur	2.7	4.0	4.0	4.0	4.0	4.0	4.0
Total	15.6	45.7	19.0	19.0	43.9	6.5	6.5
Cumulative total	15.6	61.3	80.3	99.3	143.2	149.7	156.2

Source: Company

Other highlights:

To recap, YTLREIT has agreed on rental variation adjustments with its lessees which: (i) reduces its 11 master lease assets' rental by 50% for 24 months (FY21-22), totaling MYR156m, and (ii) for these rental reductions to be re-paid to YTLREIT on a staggered basis within seven years, i.e. over the remaining tenure of the respective assets (Fig 2).

Risk statements

There are several risk factors for our earnings estimates, target price and rating for YTLREIT. Changes in rental rates, occupancy rates, operating expenses, interest rates and forex may lead to lower earnings for YTLREIT. About 14% of YTLREIT's NPI (for properties under master leases) is due for lease renewal in FY23 (earliest) and 80% of its total debt is based on floating rates. Also, 32% of NPI is derived from overseas, and FX fluctuation will impact headline earnings. There is also potential DPU impact due to changes in master leases.

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Price/DPU(x)	17.4	23.9	30.6	11.6	9.7
P/BV (x)	0.7	0.6	0.6	0.6	0.6
P/NTA (x)	0.7	0.6	0.6	0.6	0.6
DPU yield (%)	6.4	4.7	3.6	9.6	11.5
FCF yield (%)	9.8	0.8	7.6	14.2	16.2
INCOME STATEMENT (MYR m)					
Revenue	426.4	326.3	363.9	392.2	399.0
Net property income	235.2	205.3	219.9	228.8	231.0
Management and trustee fees	(10.9)	(10.3)	(10.7)	(10.9)	(10.9)
Net financing costs	(86.9)	(60.9)	(57.8)	(57.8)	(57.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(50.3)	13.4	0.0	0.0	0.0
Other pretax income/expenses	(74.0)	(61.0)	(69.2)	(68.7)	(68.1)
Pretax profit	13.1	86.4	82.1	91.5	94.2
Income tax	(3.5)	(3.6)	(3.4)	(3.9)	(4.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	9.6	82.8	78.7	87.6	90.2
Core net profit	127.1	128.2	140.4	148.7	150.7
Distributable inc to unitholders	127.1	71.0	62.3	164.3	196.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	145.9	106.7	110.1	123.9	139.1
Accounts receivable	46.5	41.9	46.9	50.5	51.4
Property, Plant & Equip (net)	1,750.2	1,928.0	1,910.4	1,893.0	1,875.7
Investment properties	2,747.2	2,772.8	2,772.8	2,772.8	2,772.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3.7	22.4	22.5	22.5	22.5
Total assets	4,693.5	4,871.9	4,862.6	4,862.6	4,861.5
ST interest bearing debt	0.0	75.0	75.0	75.0	75.0
Accounts payable	51.8	38.3	45.4	51.5	52.9
LT interest bearing debt	2,036.6	2,010.3	2,010.3	2,010.3	2,010.3
Other liabilities	49.3	43.0	43.0	43.0	43.0
Total Liabilities	2,137.6	2,166.6	2,173.7	2,179.8	2,181.2
Shareholders Equity	2,555.9	2,705.3	2,688.9	2,682.9	2,680.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,555.9	2,705.3	2,688.9	2,682.9	2,680.3
Total liabilities and equity	4,693.5	4,871.9	4,862.6	4,862.6	4,861.5
CASH FLOW (MYR m)					
Cash flow from operations	185.4	14.6	122.2	224.5	254.8
Capex	(9.7)	(1.8)	(5.0)	(5.0)	(5.0)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	1.0	0.2	0.5	0.6	0.6
CF from investing activities	(8.6)	(1.5)	(4.5)	(4.4)	(4.4)
Dividends paid	(101.8)	(79.2)	(56.1)	(147.9)	(176.8)
Interest expense	(85.3)	(58.9)	(58.4)	(58.4)	(58.4)
Change in debt	6.5	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(3.7)	(3.9)	0.0	0.0	0.0
CF from financing activities	(184.3)	(142.0)	(114.4)	(206.2)	(235.2)
Effect of exchange rate changes	4.5	6.0	0.0	0.0	0.0
Net cash flow	(3.1)	(122.9)	3.4	13.8	15.2

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(13.1)	(23.5)	11.5	7.8	1.7
Net property income growth	(7.1)	(12.7)	7.1	4.1	0.9
Core net profit growth	(10.7)	0.9	9.5	5.9	1.4
Distributable income growth	(5.3)	(44.2)	(12.2)	163.8	19.6
Profitability ratios (%)					
Net property income margin	55.2	62.9	60.4	58.3	57.9
Core net profit margin	29.8	39.3	38.6	37.9	37.8
Payout ratio	nm	77.1	64.1	152.0	176.5
DuPont analysis					
Total return margin (%)	2.2	25.4	21.6	22.3	22.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.8
ROAE (%)	0.4	3.1	2.9	3.3	3.4
ROAA (%)	2.7	2.7	2.9	3.1	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	2.2	2.2	2.2
Net gearing (%) (excl. perps)	74.0	73.1	73.5	73.1	72.6
Net interest cover (x)	2.6	3.2	3.6	3.8	3.8
Debt/EBITDA (x)	6.9	8.2	7.7	7.5	7.4
Capex/revenue (%)	2.3	0.5	1.4	1.3	1.3
Net debt/ (net cash)	1,890.7	1,978.6	1,975.2	1,961.4	1,946.2
Debt/Assets (x)	0.43	0.43	0.43	0.43	0.43

Source: Company; Maybank

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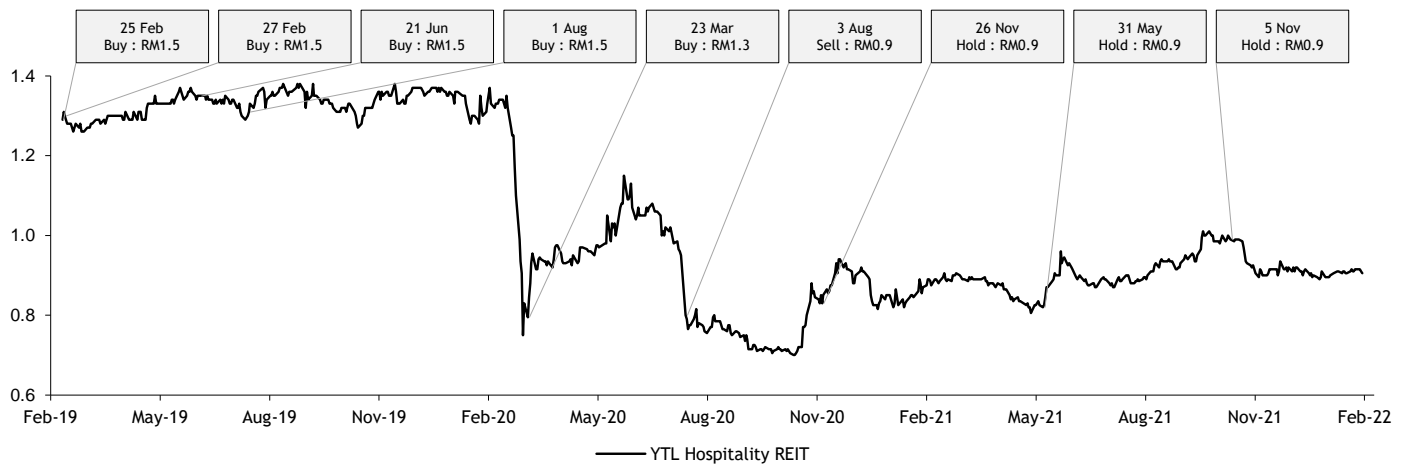
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