

YTL Hospitality REIT (YTLREIT MK)

HOLD

Share Price MYR 0.90
 12m Price Target MYR 0.95 (+9%)
 Previous Price Target MYR 0.95

1HFY22 briefing highlights

Maintain HOLD

Post YTLREIT's 1HFY22 results analyst briefing, we remain cautious on its Australian hotels near-term performances in the absence of the quarantine contracts. Meanwhile, rental income from master lease assets (Malaysian and Japanese properties) are expected to return to normalcy from July 2022, with no changes to the repayment schedule for rental variations adjustments. Our DDM-based TP of MYR0.95 (Ke: 8.5%) and earnings forecasts are unchanged. We prefer Axis (AXRB MK, BUY, TP: MYR2.30).

Remain cautious on Australian portfolio

Earnings for its Australian hotels in 1HFY22 were higher YoY largely due to rate enhancement and guaranteed income from the quarantine contracts by respective district governments. However, we note that these contracts are now gradually expiring in 3QFY22, as the mandatory quarantine restrictions are easing in several states. Notwithstanding that, we believe this to be cushioned by the re-opening of the international border from 21 Feb, whereupon we expect hotel occupancy and room rates to gradually pick up. The Australian portfolio contributed 28% of YTLREIT's 1HFY22 NPI.

Acquisition outlook

We do not expect any new asset acquisitions to happen in the immediate term. Our near-term earnings are mainly supported by stable rental income from its Malaysian and Japanese properties under master lease arrangements. YTLREIT's end-2QFY22 gross gearing of 0.43x provides debt headroom of c.MYR2b (up to 0.6x until end-2022) for future acquisitions.

Expect strong DPU yield in FY23-24E

According to management, there are no changes to the repayment schedule with regards to the rental variation adjustments of master lease assets (Fig 1). We expect these rental streams to return to normalcy from July 2022 onwards, together with repayment of rental variation over FY23-29. As such, we expect a strong net DPU yield of 8.7%-10.4% in FY23-24E.

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	8.7	10.4
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	7.1	8.4
MKE vs. Consensus (%)	-	-	(13.4)	9.8	11.5

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Company Description

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

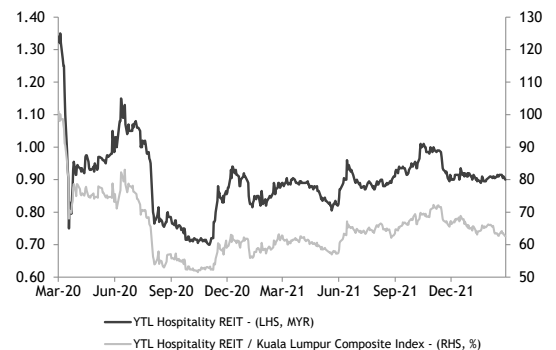
Statistics

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 USD365M

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)	3
Relative to index (%)	(6)	(6)	2

Source: FactSet

Fig 1: 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), totalling 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 1).

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	30.4	11.5	9.6
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	3.7	9.6	11.5
FCF yield (%)	9.8	0.8	7.6	14.3	16.3

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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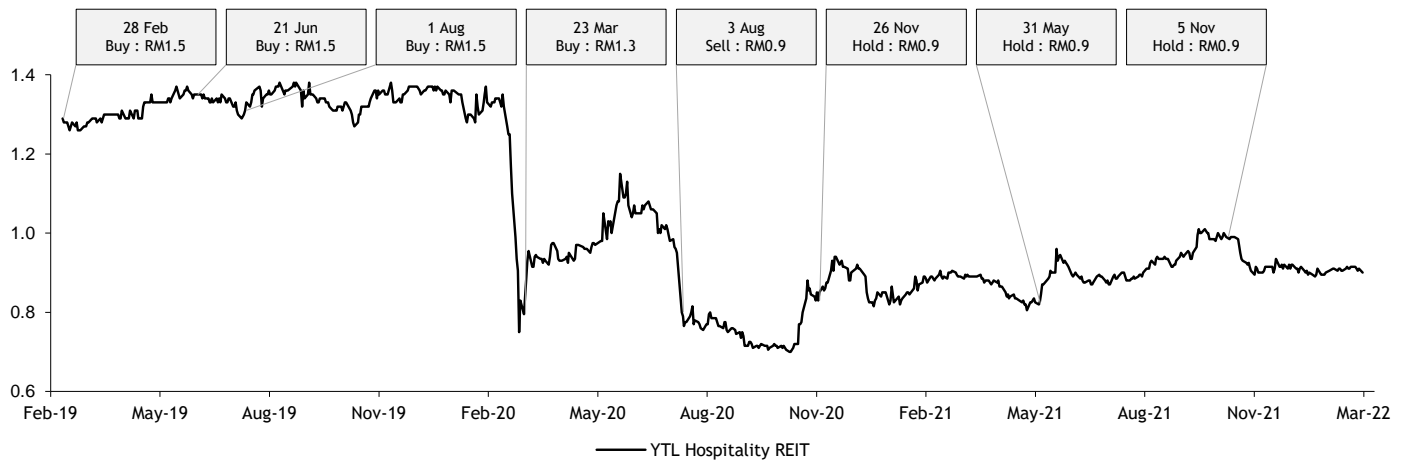
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Historical recommendations and target price: YTL Hospitality REIT (YTLREIT MK)



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