

China / Hong Kong Company Update

Yuexiu REIT

Bloomberg: 405 HK EQUITY | Reuters: 0405.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Jun 2022

BUY

Last Traded Price (20 Jun 2022): HK\$3.00 (HSI : 21,164)
Price Target 12-mth: HK\$3.77 (26% upside) (Prev HK\$4.20)

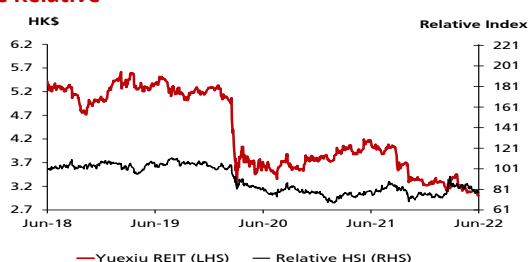
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What's New

- Recent share price weakness has more than priced in uncertainties on DPU from rental concessions, which will be amortised over a three-year horizon
- Despite market concerns, our scenario analysis suggests DPU impact from an extension of rental concession to more of Yuexiu REIT's portfolio should still be manageable
- Tax reliefs, potential launch of REIT-Connect and likely pickup of GZ retail sales are potential catalysts ahead
- BUY for its defensive FY22F yield of 7.6% even after the aforementioned disruptions; TP revised down to HK\$3.77

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Gross Revenue	1,759	1,797	2,127	2,311
Net Property Inc	1,323	1,298	1,548	1,690
Net Profit	391	645	619	703
Distribution Inc	649	798	892	981
DPU (HK\$)	0.23	0.23	0.23	0.25
DPU Gth (%)	(17)	1	(3)	10
Div Yield (%)	7.7	7.8	7.6	8.4
Gross Gearing (%)	39	40	39	39
Book Value (HK\$)	6.14	5.03	4.99	4.94
P/Book Value (x)	0.5	0.6	0.6	0.6

DPU Rev (%): (6) 0
Consensus DPU: 0.18 0.19
Other Broker Recs: B:5 S:0 H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Look beyond near-term disruptions

Investment Thesis

Uncertainties from rental concessions in price. Yuexiu REIT's started to lag behind the market (-14% vs -5% of HSI) as concerns over the possible offering of rental concessions loom from early Apr as more cities were faced with COVID-19 lockdown measures. Despite the unveiling of a rent relief plan in June, price weakness extended as the market remain in doubt on the sufficiency of the package and thus further downside risk in DPU. Our scenario analysis showed that uncertainties in this regard have been mostly priced in, especially as we believe the market has overlooked the fact that the DPU impact will be smoothed and amortized in 3 years. Even in our bear case which assumes Yuexiu REIT offers 3 months of rental concessions for all of its malls and offices, it will still trade at a decent 6.5% and 7.3% FY22F and FY23F distribution yield (vs 5.9% of 5-year historical mean). This has yet to account for the possible subsidies that the government may offer (Yuexiu REIT was offered subsidies equivalent to c.30% of rent relief in 2020).

Catalysts ahead to stimulate share price recovery. On one hand, HK is pacing up the development of H-REIT and REIT-Connect initiative. Yuexiu REIT, with its quality asset portfolio and being a major constituent of the HSREIT Index, will likely attract onshore investors and benefit from the launch of the initiative. On the other, the potential provision of subsidies by the government on rental concessions may offer support to Yuexiu REIT's DPU. A likely pickup in GZ retail sales as impact from stimulus measures starts to show in 2H22, historically a principal share price driver for the REIT, will help catalyze the company's share price performance as well.

Valuation:

We derive our TP of HK\$3.77 based on the Dividend Discount Model (DDM). The stock is now trading at a 7.6/8.3% FY22/23F yield.

Where we differ:

Uncertainties on rental concessions fully priced in. As illustrated in our scenario analysis, potential rental concessions is fully priced in. We believe it is a good entry point for investors to ride on this quality name for the upcoming launch of REIT connect programme.

Key Risks to Our View:

Faster than expected US rate hikes; sharper than expected Rmb depreciation, larger than expected offering of rental concessions.

At A Glance

Issued Capital (m shrs)	3,417
Mkt Cap (HKm/US\$m)	10,251 / 1,306
Major Shareholders (%)	
Yuexiu Property Co Ltd	40.0
Yue Xiu Enterprises (Holdings) Limited	8.0
Free Float (%)	52.0
3m Avg. Daily Val. (US\$m)	1.08
GICS Industry: Real Estate / Equity Real Estate Investment	



Watchlist the stock on Insights Direct to receive prompt updates



Yuexiu REIT

WHAT'S NEW

Provision of rental concessions sparked concerns over further downside risk on DPU. The closure of operating properties and lockdown measures that stem from the spread of COVID-19 increases the risk that landlords of wholesale, retail, and office properties could be under pressure to offer rental waivers. Currently, White Horse Building (Guangzhou), Yue Xiu Tower (Shanghai), and Starry Victoria Shopping Centre (Wuhan) are offering rental waivers of 3, 0.5-2, and 1 month(s), respectively, representing 4.5% of the company's FY21 total income. With the expectation that COVID-19 will still linger in China over the near term, there are concerns from investors that the current rental concession plan may not be sufficient and more rent relief may eventually have to be offered, posing downside risk the Yuexiu REIT's DPU. Some may also have overlooked the fact that the impact from rental concession will be smoothed and amortised for three years – like they did in the last round of rent relief in 2020.

Scenario analysis suggests that downside risks on DPU from further rental concessions should be manageable. In our base case, we have taken Yuexiu REIT's concession package as it was announced, and assumed that there will be no subsidies offered by local regulators. This will result in a c.7% cut to FY22F DPU. The drop could be less at c.5% if 30% of the rental concessions are subsidised by the government (like what they did in 2020). In our bear case scenario, we assume Yuexiu REIT will offer three months of rental waivers for all properties in its portfolio – malls and offices included – and in the absence of any subsidies. This could translate into a c.19% downside to FY22F DPU, and FY22/23F yields would stand at c.6.5/7.3%.

Some headwinds ahead, but these should be reflected in the price. Besides adjustments made in reflection of the DPU impact from rental concessions under our base case, we have also lowered our estimated income from hotels given muted recovery so far in the hospitality sector. Accordingly, we have cut our FY22F DPU by 7%. We expect FY22F revenue to grow c.18% (after consolidating the recent acquisition) to Rmb2.1bn, lower than our previous forecast of c.25% increase. We have also assumed that rental reversions for the wholesale market portfolio to come by be lower than our original expectations. As such, our estimated NPI growth rate is lower at c.19% vs. c.23% previously for FY22.

Catalysts to drive share price recovery; Maintain BUY with TP HK\$3.77. We lowered our TP to HK\$3.77 as we raised our discount rate in our DDM to 7.39% (from 6.59%). We

are maintaining our BUY call given the counter's attractive FY22/23F dividend yield of c.7.6/8.3% (vs 5.9% of 5-year historical mean) and share price catalysts ahead. Yuexiu REIT, as a major constituent of the HSREIT Index, could benefit from the potential REIT-Connect initiative. The potential provision of subsidies by the government on rental concessions could partially offset the negative impact, which would be another share price catalyst. A likely pickup in GZ retail sales – a factor historically shown to be a principal share price driver for the REIT – would help catalyze the company's share price performance too.

Scenario analysis of impact of rental concessions on DPU

Scenario (Rmb mn)	Bull Case	Base case	Bear case
Total income	2,153	2,127	2,008
% yoy change	20%	18%	12%
NPI	1,575	1,548	1,430
% yoy change	21%	19%	10%
Distributable income	918	892	777
% yoy change	15%	12%	-3%
Full year DPU (RMB)	0.20	0.20	0.17
Full year DPU (HKD)	0.23	0.23	0.20
% yoy change	-5%	-7%	-19%
NPV (HKD)	3.78	3.77	3.33
FY22F Div yield	7.7%	7.6%	6.5%

Source: DBS Bank HK

Note 1: under the base case, we factor in its announced rental concessions.

Note 2: under the bull case, we assume that 30% of the rental concessions will be subsidised by the government.

Note 3: under the bear case, we factor in three months of rental waivers for all properties in its portfolio.

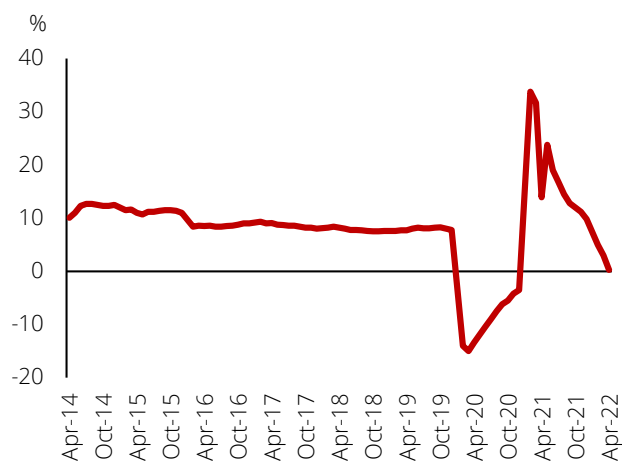
Scenario analysis of impact of rental concessions on FY22/23F yields

Scenario	FY22F	FY23F
Bull	7.7%	8.3%
Base	7.6%	8.3%
Bear	6.5%	7.3%

Source: DBS HK

Yuexiu REIT

Y-o-y growth of retail sales in Guangzhou



Source: Wind, DBS HK

Company Background

Yuexiu REIT was established through the acquisition of four commercial properties (White Horse Building, Fortune Plaza, City Development Plaza, and Victory Plaza) from Yuexiu Property (“YXP”, 123 HK). Yuexiu REIT was listed on the Main Board of HKSE in 2005, where its IPO raised more than HK\$2bn. It is the first listed REIT with assets in the PRC. Following its listing, Yuexiu REIT acquired Neo Metropolis in 2009, GZIFC in 2012, Shanghai Yuexiu Tower in 2015, and Wuhan Yuexiu Fortune Centre in late 2017.

Yuexiu REIT

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	2,058	1,759	1,797	2,127	2,311
Property expenses	(563)	(436)	(498)	(579)	(620)
Net Property Income	1,495	1,323	1,298	1,548	1,690
Other expenses	(387)	(359)	(350)	(428)	(436)
Joint ventures	0	0	0	0	0
Interest (Exp)/Inc	(711)	355	(23)	(189)	(219)
Exceptionals	822	(703)	13	0	0
Pre-Tax Profit	1,219	616	938	932	1,036
Tax	(442)	(204)	(264)	(282)	(299)
Non-Controlling Interests	(64)	(22)	(30)	(30)	(33)
Net Profit	713	391	645	619	703
Distribution income	761	649	798	892	981
Revenue Gth (%)	1	(15)	2	18	9
NPI Gth (%)	2	(12)	(2)	19	9
Dist. Inc Growth (%)	(10)	(15)	23	12	10
DPU Growth (%)	(13)	(17)	1	(3)	10

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	29,982	29,700	37,657	37,657	37,657
Long-term Investments	3,631	3,458	3,400	3,225	3,046
Other LT Assets	0	0	0	0	0
Intangibles Assets	866	860	860	915	861
Deferred Tax Asset	205	262	260	260	260
Associates/JVs	0	0	0	0	0
Bank Balance/Cash & Liquid	1,319	1,802	1,453	1,448	1,240
ST Investments	0	0	0	0	0
Inventory	4	4	3	3	3
Debtors	23	23	24	24	24
Other Non Cash Current	358	150	206	183	179
Total Assets	36,388	36,260	43,862	43,715	43,269
ST Debt	3,218	3,307	2,894	2,894	2,894
Creditors	848	559	4,202	4,650	4,666
Other Current Liab	385	539	627	592	614
LT Debt	11,034	10,693	14,728	14,328	13,928
Deferred Tax Liabilities	4,906	4,997	5,202	5,202	5,202
Other LT Liabilities	200	392	286	232	249
Preferred Shares	0	0	0	0	0
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Non-Controlling Interests	1,205	1,188	1,206	1,236	1,269
Unitholders' funds	14,599	14,585	14,718	14,582	14,447
Total Capital	36,396	36,260	43,862	43,715	43,269
Share Capital (m)	3,206	3,303	3,417	3,417	3,417
Gross Debt	14,252	14,001	17,622	17,222	16,822
Working Capital	(848)	(920)	(4,596)	(5,031)	(5,075)
Book NAV (HK\$)	5.76	5.58	5.45	5.41	5.37
Gross Gearing (%)	39	39	40	39	39

Source: DBS HK

Yuexiu REIT
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	1,382	791	938	932	1,036
Tax Paid	(95)	(102)	(87)	(184)	(201)
Depr/Amort	81	83	85	175	180
Chg in Wkg.Cap.	134	118	87	394	47
Other Non-Cash	(713)	(195)	(249)	(354)	(189)
Operational CF	789	695	775	962	872
Net Capex	(11)	(29)	(18)	0	0
Net change in asso/jv	0	0	0	0	0
Net Change in Investments	0	0	0	0	0
Assoc, MI, Invsmt	(81)	16	(4,144)	287	257
Investment CF	(92)	(13)	(4,162)	287	257
Net Chg in Debt	15	506	3,729	(400)	(400)
New issues/Unit Buyback	0	0	0	0	0
Distribution Paid	(850)	(694)	(682)	(853)	(937)
Other Financing CF	(1)	(10)	(11)	0	0
Financing CF	(836)	(199)	3,036	(1,253)	(1,337)
Chg in Cash	(140)	483	(352)	(5)	(208)

Source: Company, DBS HK

Yuexiu REIT

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Aug-21	HK\$3.97	HK\$5.26	Buy
2:	9-Mar-22	HK\$3.25	HK\$4.20	Buy

Source: DBS HK

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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