

China / Hong Kong Company Update

Yuexiu REIT

Bloomberg: 405 HK EQUITY | Reuters: 0405.HK

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DBS Group Research . Equity

19 Feb 2024

BUY

Last Traded Price (16 Feb 2024): HK\$1.08 (HSI : 16,340)
Price Target 12-mth: HK\$1.43 (33% upside) (Prev HK\$2.02)

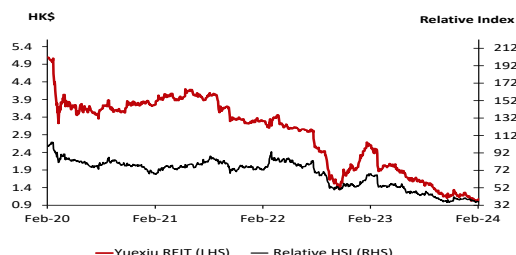
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What's New

- Near-term headwinds in the China office market may put pressure on earnings
- US interest rate roadmap, progress on onshore debt replacement and gearing trends would be key factors to watch
- Cutting FY23-24F DPU by 10-15% to reflect lower portfolio occupancy and rental assumptions
- Headwinds likely priced in with the stock trading at c.9.4% FY24F distribution yield; maintain BUY with a lower HK\$1.43 TP

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Gross Revenue	1,873	2,048	2,112	2,199
Net Property Inc	1,356	1,488	1,514	1,571
Net Profit	(529)	(186)	(179)	8
Distribution Inc	533	444	445	566
DPU (HK\$)	0.12	0.10	0.10	0.13
DPU Gth (%)	(44)	(18)	0	27
Div Yield (%)	11.4	9.3	9.4	11.9
Gross Gearing (%)	45	47	47	47
Book Value (HK\$)	3.66	3.67	3.58	3.52
P/Book Value (x)	0.3	0.3	0.3	0.3
DPU Rev (%):		(15)	(10)	New
Consensus DPU		0.11	0.10	0.10
Other Broker Recs:		B:2	S:0	H:2

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

Headwinds in the price

Investment Thesis

The largest offshore listed China REIT in HK/SG with a solid acquisition pipeline from parent. Yuexiu REIT has the largest PRC portfolio among listed REITs in Hong Kong and Singapore and is well-diversified across office (68%), retail (10%), wholesale (11%) and hotel (11%) assets. Serving as the offshore REIT platform of Yuexiu Group, Yuexiu REIT is poised to benefit from the robust development pipeline from both Yuexiu Property (123 HK) and the Group.

Near-term P&L clouded by ongoing headwinds in the office market. China's office market, comprising c.68% of Yuexiu REIT's 1H23 portfolio value and 58% of revenue, continues to face headwinds as China's macro backdrop has yet to recover and there is an ongoing supply glut. Guangzhou – where the REIT has most of its exposure (c.52% portfolio value, c.47% revenue) – is expected to see above-average new supply in 2024, representing c.14% of the city's total grade A office stock as of end-2023 and a generally rich supply pipeline that will remain elevated up to 2026, based on data from Cushman & Wakefield. This, coupled with relatively high vacancy rates, is likely to put pressure on Yuexiu REIT's near-term portfolio occupancy rates and rental reversion outlook. We have accordingly cut our FY23F-24F DPU estimates by 10-15% to reflect weaker portfolio rental and occupancy assumptions.

US Interest rate roadmap, progress on onshore debt replacement and gearing trend are key factors to monitor. Despite the REIT's effort to reduce its onshore debt exposure since early 2022, Yuexiu REIT is still susceptible to offshore interest rate fluctuations with c.48% of its existing debt unhedged as at Jun-23. The US interest rate roadmap and thus the company's progress in trimming its offshore floating debt portion are factors to keep an eye on. Meanwhile, the REIT's gearing level is also reaching a relatively elevated level at 48% as at Jun-23. While the RMB outlook and portfolio valuation are expected to stay largely stable in the near-term, developments on this front would have to be closely monitored.

Headwinds in the price; BUY with TP of HK\$1.43/sh. We derive our 12-mth DCF-based target price of HK\$1.43 based on an unchanged discount rate of 7% and a lower terminal growth of 2% (vs. previous 3%). The stock is now trading at c.9.4% FY24F yield, 2SD above the historical mean of 7.1% and should have factored in our abovementioned headwinds.

Key Risks to Our View:

Faster-than-expected US rate hikes; stronger than expected RMB depreciation; unexpected decline in asset valuations.

At A Glance

Issued Capital (m shrs)	4,784
Mkt Cap (HKm/US\$m)	5,167 / 660
Major Shareholders (%)	
Yuexiu Property Co Ltd	37.9
Yue Xiu Enterprises (Holdings) Limited	5.2
Free Float (%)	56.9
3m Avg. Daily Val. (US\$m)	0.45
GICS Industry: Real Estate / Equity Real Estate Investment	

Yuexiu REIT

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 the 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, Wuhan Yuexiu Fortune Centre in late 2017 and Yuexiu Financial Tower in mid 2022.

Yuexiu REIT
Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross revenue	1,797	1,873	2,048	2,112	2,199
Property expenses	(498)	(517)	(560)	(598)	(628)
Net Property Income	1,298	1,356	1,488	1,514	1,571
Other expenses	(350)	(435)	(454)	(458)	(463)
Joint ventures	0	0	0	0	0
Interest (Exp)/Inc	(23)	(1,496)	(888)	(886)	(750)
Exceptionals	13	302	0	0	0
Pre-Tax Profit	938	(273)	147	170	357
Tax	(264)	(238)	(299)	(314)	(314)
Non-Controlling Interests	(30)	(18)	(34)	(36)	(36)
Net Profit	645	(529)	(186)	(179)	8
Distribution income	798	533	444	445	566
Revenue Gth (%)	2	4	9	3	4
NPI Gth (%)	(2)	4	10	2	4
Dist. Inc Growth (%)	23	(33)	(17)	0	27
DPU Growth (%)	1	(44)	(18)	0	27

Source: Company, DBS HK

Yuexiu REIT

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	37,657	37,702	37,702	37,702	37,702
Long-term Investments	3,400	3,399	3,259	3,113	2,964
Other LT Assets	0	30	0	0	0
Intangibles Assets	860	860	861	860	860
Deferred Tax Asset	260	235	235	235	235
Associates/JVs	0	0	0	0	0
Bank Balance/Cash & Liquid	1,453	1,334	3,017	2,868	2,853
ST Investments	0	0	0	0	0
Inventory	3	3	3	3	3
Debtors	24	20	20	20	20
Other Non Cash Current	206	283	249	253	257
Total Assets	43,862	43,866	45,346	45,055	44,895
ST Debt	2,894	4,364	4,364	4,364	4,364
Creditors	4,202	621	1,135	1,151	1,165
Other Current Liab	627	382	354	361	372
LT Debt	14,728	15,541	16,741	16,741	16,741
Deferred Tax Liabilities	5,202	5,381	5,381	5,381	5,381
Other LT Liabilities	286	256	232	215	223
Preferred Shares	0	0	0	0	0
Non-Controlling Interests	1,206	1,217	1,251	1,286	1,322
Unitholders' funds	14,718	16,104	15,888	15,556	15,327
Total Capital	43,862	43,866	45,346	45,055	44,895
Share Capital (m)	3,417	4,784	4,784	4,784	4,784
Working Capital	(4,596)	(697)	(1,217)	(1,236)	(1,257)
Book NAV (HK\$)	5.07	3.94	3.90	3.83	3.78
Gross Gearing (%)	40	45	47	47	47

Source: DBS HK

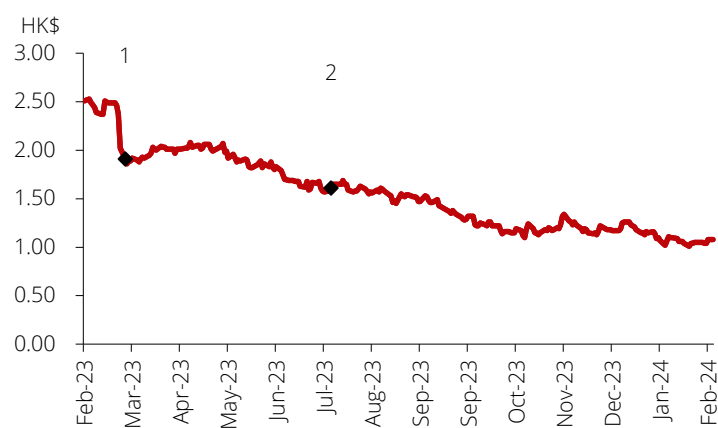
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Income	938	(273)	147	170	357
Tax Paid	(87)	49	(197)	(211)	(212)
Depr/Amort	85	88	141	145	149
Chg in Wkg.Cap.	87	(3,420)	661	192	195
Other Non-Cash	(249)	3,911	(26)	(26)	(26)
Operational CF	775	354	727	270	465
Net Capex	(18)	0	0	0	0
Net change in asso/jv	0	0	0	0	0
Net Change in Investments	0	0	0	0	0
Assoc, MI, Invsmt	(4,144)	(3,711)	26	26	26
Investment CF	(4,162)	(3,711)	26	26	26
Net Chg in Debt	3,729	2,283	1,200	0	0
New issues/Unit Buyback	0	3,359	0	0	0
Distribution Paid	(682)	(893)	(269)	(444)	(505)
Other Financing CF	(11)	(1,474)	0	0	0
Financing CF	3,036	3,274	931	(444)	(505)
Chg in Cash	(352)	(83)	1,683	(149)	(15)

Source: Company, DBS HK

Yuexiu REIT

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Mar-23	HK\$2.02	HK\$2.59	Buy
2:	11-Jul-23	HK\$1.58	HK\$2.02	Buy

Source: DBS HK

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Yuexiu REIT

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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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