

Yuexiu Real Estate Investment Trust

A Great Turnaround Story of 2021, Initiate with Buy

We believe market has overlooked Yuexiu REIT's double fundamental recovery through interest savings on its FX Debt, as well as the China Macro recovery since 2H20. We believe this presents an attractive opportunity to invest in a portfolio of prime assets in the Greater Bay Area, which includes the iconic Guangzhou IFC. Initiate with Buy.

A 0.8x Beta, 7.5% 2021E yield stock backed by rentals of iconic GZ IFC

While the Fixed Income USD China Property High Yield bonds have surged in the past year, driving yields to historical lows, Yuexiu REIT's dividend is still offering an attractive 2021E 7.5% yield for a stock with a Beta of only 0.8x. We believe market has overlooked Yuexiu REIT as a key beneficiary of (1) historical low USD/HKD interest rates; and (2) China's macro recovery in 2H20, with its exposure to Wuhan as well as Guangzhou Hotels market. We believe the upcoming results announcement in March 2021 will be the key catalyst to drive the share price higher, as investors look ahead into 2021E outlook. We initiate coverage of Yuexiu REIT with a target price of HK\$4.99/sh, offering a 34% upside potential.

Interest savings is a key swing to 2021E results

We believe Yuexiu REIT is a key beneficiary of the historical low USD interest rates, through its USD and HKD borrowings exposure. What was previously a key factor of its disappointing 2019 results is now a key driver to its earnings and dividend recovery, in our view. The REIT has a total HKD/USD borrowings of ~RMB13.18bn (~89% of total borrowings) on its balance sheet. As a result, every 1 ppt decline in interest rate will yield a RMB132m interest savings, i.e. ~13% (tax adjusted) of its 2020E distributable income, in our view. Yuexiu REIT has recently refinanced its USD400m bond at 2.66%, which we estimate will boost its dividend by ~RMB56m through interest savings (~6% (tax adjusted) of its 2020E dist. Income), this will be a key driver of its distributable income growth.

Reap the harvest of GBA development by owning the iconic GZ IFC

We would argue that for investors to play the Greater Bay Area theme, there is no better way to do so by owning one of the most iconic property assets in the area, Guangzhou IFC. By investing in Yuexiu REIT (~54% of assets is GZIFC as of 1H20), investors can enjoy the rental hikes that will come along with the economic growth driven by the Greater Bay Area development, without the property development risks that are associated to property developers. The infrastructure investment will drive economic growth higher in Greater Bay Area, resulting in stronger office rental demand in core assets of major cities, such as Guangzhou IFC, and investors will reap the harvest in the form of office rents. We expect rents to rise 5% p.a. over the next 5 years as the Greater Bay Area continues to mature.

Target Price of HK\$4.99/sh, implying a Target Div Yield of 5.9%

We initiate coverage of Yuexiu REIT with a target price of HK\$4.99/sh, based on a Dividend Discount Model, and our target price implies a 2021E target div yield of 5.9%. We believe the improving outlook of the REIT's distributable income from 2021E onwards will result in a yield compression. Key risks include (1) COVID-19 further adversely impacts the economy and commercial property market, thus occupancy rates and unit rents might lower than expectations; (2) Unexpected interest rate hike in US Treasury.

Stock code: 0405.HK

Rating: Buy

Price target (HK\$)	4.99
Current price (HK\$, 4 Feb 2021)	3.73
Upside/downside %	34%
Market cap (HK\$ m)	12,321
Market cap (US\$ m)	1,589
Avg daily turnover (US\$ m)	1.21

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	2,058	1,811	2,126	2,255
yoy %	1.3%	-12.0%	17.4%	6.1%
NPI	1,495	1,384	1,541	1,663
yoy %	1.8%	-7.4%	11.3%	8.0%
Dist. Income	761	682	809	879
yoy %	-10.4%	-10.4%	18.5%	8.7%
NPI Margin	72.6%	76.4%	72.5%	73.8%
Gearing	39.1%	39.5%	39.7%	40.0%
DPS	0.24	0.21	0.24	0.25
BPS	4.55	4.28	4.08	3.88

Source: Company data, AMTD Research

Valuation

	2019	2020e	2021e	2022e
Div. yield	7.5%	6.5%	7.5%	7.9%
P/BV	0.7	0.7	0.8	0.8
ROE	2.3%	2.3%	3.2%	3.8%
ROA	0.9%	0.9%	1.3%	1.5%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Figure 1: Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	2,032	2,058	1,811	2,126	2,255	PP&E	2,341	2,271	2,141	2,011	1,881
Property Op Exp	(563)	(563)	(427)	(585)	(591)	Investment Properties	29,115	29,982	29,982	29,982	29,982
NPI	1,469	1,495	1,384	1,541	1,663	Others	2,460	2,431	2,431	2,431	2,431
Non-property expenses	(350)	(387)	(370)	(395)	(416)	Non-current assets	33,916	34,684	34,554	34,425	34,295
Finance income	36	34	28	27	26	Cash and cash equivalents	1,459	1,319	1,076	1,039	944
Finance expenses	(1,008)	(778)	(472)	(415)	(415)	Trade receivables	27	16	16	16	16
FV gains on IP	905	753	-	-	-	Others	434	406	406	406	406
Others	373	265	-	-	-	Current assets	1,919	1,741	1,498	1,461	1,367
Income tax expense	(458)	(442)	(182)	(242)	(275)	Borrowings	2,277	3,218	3,218	3,218	3,218
Net Profit	967	940	388	516	585	Accruals and other payables	999	735	735	735	735
MI	55	64	59	63	64	Others	637	507	507	507	507
Attri. Net profit	912	877	329	453	520	Current liabilities	3,913	4,460	4,460	4,460	4,460
Distributable Income	850	761	682	809	879	Borrowings	11,599	11,034	11,034	11,034	11,034
DPS	0.27	0.24	0.21	0.24	0.25	Others	4,727	5,126	5,126	5,126	5,126
BPS	4.65	4.55	4.28	4.08	3.88	Non-current liabilities	16,327	16,161	16,161	16,161	16,161
						Net assets attri. to unithold	14,454	14,599	14,167	13,938	13,649
						Total equity	1,142	1,205	1,264	1,327	1,392
Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2022e	Key Ratios	2018	2019	2020e	2021e	2022e
Op CF before Working Cap	1,240	1,236	1,144	1,276	1,377	Revenue YoY	9.6%	1.3%	-12.0%	17.4%	6.1%
Chg in Working Cap	49	134	-	-	-	NPI YoY	11.8%	1.8%	-7.4%	11.3%	8.0%
Cash generated from operations	1,289	1,370	1,144	1,276	1,377	Dist. Income YoY	2.8%	-10.4%	-10.4%	18.5%	8.7%
Net Operating Cashflows	775	789	490	619	688	NPI Margin	72.3%	72.6%	76.4%	72.5%	73.8%
Acquisition of subsidiaries	(531)	-	-	-	-	Dist. Income / Revenue	42%	37%	38%	38%	39%
Disposal of subsidiaries	995	-	-	-	-	Core Net Margins	4.3%	16.2%	18.2%	21.3%	23.1%
Net Investing Cashflows	(352)	(92)	28	27	26	Total Borrowings / Total Asset	38.7%	39.1%	39.5%	39.7%	40.0%
Distributions paid	(855)	(850)	(761)	(682)	(809)	Total Liability/Total Assets	56.5%	56.6%	57.2%	57.5%	57.8%
Proceeds from borrowings	5,277	4,454	-	-	-	Asset / Equity	2.3x	2.3x	2.3x	2.4x	2.4x
Repayment of bank borrowings	(4,683)	(4,351)	-	-	-	ROE	0.6%	2.3%	2.3%	3.2%	3.8%
Net Financing Cashflows	(268)	(836)	(761)	(682)	(809)	ROA	0.2%	0.9%	0.9%	1.3%	1.5%
Net Cash Flows	155	(140)	(243)	(37)	(94)						

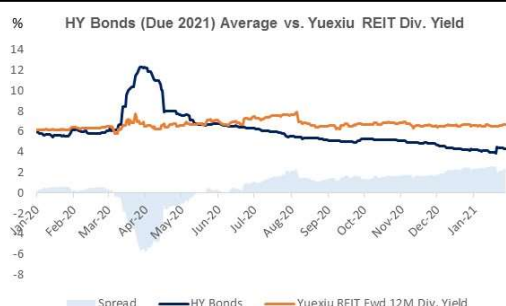
Source: Company data, AMTD Research Estimates

Markets overlooking a Double Recovery

A 0.8x Beta, 7.5% yield stock backed by rentals of iconic GZ IFC

While the Fixed Income USD China Property High Yield bonds have surged in the past year, driving yields to historical lows, Yuexiu REIT's dividend is still offering an attractive 2021E 7.5% yield for a stock with a Beta of only 0.8x. We believe market has overlooked Yuexiu REIT as a key beneficiary of (1) historical low USD/HKD interest rates; and (2) China's macro recovery in 2H20, with its exposure to Wuhan as well as Guangzhou Hotels market. We believe the upcoming results announcement in March 2021 will be the key catalyst to drive the share price higher, as investors look ahead into 2021E outlook. We initiate coverage of Yuexiu REIT with a target price of HK\$4.99/sh, offering a 34% upside potential.

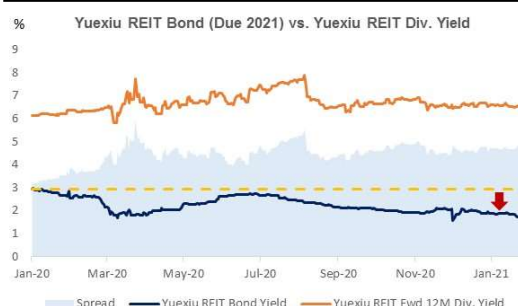
Figure 2: Yuexiu REIT dividend yield compression has lagged behind the bond market



Source: Bloomberg; AMTD Research

Notes: HY bonds including bonds issued by China Aoyuan, Powerlong, CCRE and Yuzhou

Figure 3: We expect the stock's dividend yield will follow its bond on a downward yield compression trend



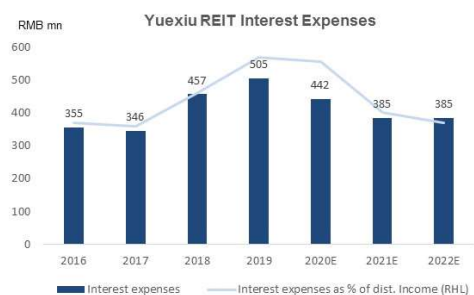
Source: Bloomberg; AMTD Research

Notes: Yuexiu REIT Fwd 12M dividend is Bloomberg census

Interest savings is a key swing to 2021E results

We believe Yuexiu REIT is a key beneficiary of the historical low USD interest rates, through its USD and HKD borrowings exposure. What was previously a key factor of its disappointing 2019 results is now a key driver to its earnings and dividend recovery, in our view. The REIT has a total HKD/USD borrowings of ~RMB13.18bn (~89% of total borrowings) on its balance sheet. As a result, every 1 ppt decline in interest rate will yield a RMB132m interest savings, i.e. ~13% (tax adjusted) of its 2020E distributable income, in our view. Yuexiu REIT has recently refinanced its USD400m bond at 2.66%, which we estimate will boost its dividend by ~RMB56m through interest savings (~6% (tax adjusted) of its 2020E dist. Income), this will be a key driver of its distributable income growth.

Figure 4: We expect interest expenses to decrease



Source: Company Data; AMTD Research Estimates

Figure 5: Dist. income vs. interest rates (after tax)

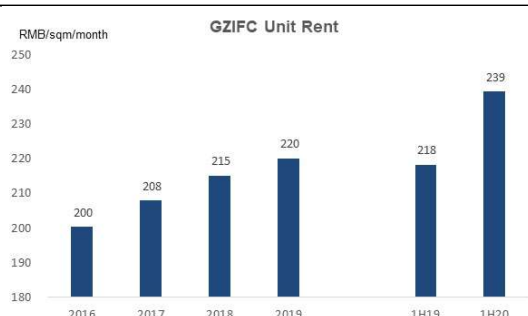
Interest rates decline based on AMTD assumption	Dist. income upside		
	2020e	2021e	2022e
-0.1ppt	1.4%	1.2%	1.1%
-0.2ppt	2.8%	2.4%	2.2%
-0.3ppt	4.3%	3.6%	3.3%
-0.4ppt	5.7%	4.8%	4.4%
-0.5ppt	7.1%	6.0%	5.5%
-0.6ppt	8.5%	7.2%	6.6%
-0.7ppt	9.9%	8.4%	7.7%
-0.8ppt	11.4%	9.6%	8.8%

Source: Company Data; AMTD Research Estimates

Reap the harvest of GBA development by owning the iconic GZ IFC

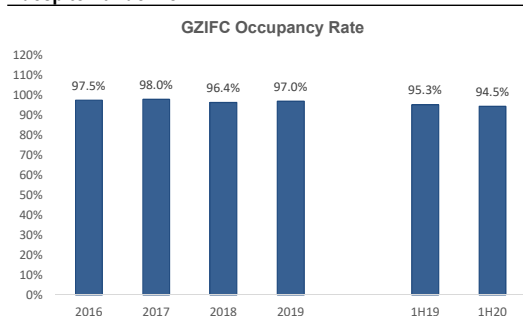
We would argue that for investors to play the Greater Bay Area theme, there is no better way to do so by owning one of the most iconic property assets in the area, Guangzhou IFC. By investing in Yuexiu REIT (~54% of assets is GZIFC as of 1H20), investors can enjoy the rental hikes that will come along with the economic growth driven by the Greater Bay Area development, without the property development risks that are associated to property developers. The infrastructure investment will drive economic growth higher in Greater Bay Area, resulting in stronger office rental demand in core assets of major cities, such as Guangzhou IFC, and investors will reap the harvest in the form of office rents. We expect rents to rise 5% p.a. over the next 5 years as the Greater Bay Area continues to mature.

Figure 6: GZIFC unit rent is resilient despite pandemic



Source: Company Data; AMTD Research Estimates

Figure 7: GZIFC occupancy rates standing firm at 94.5% despite Pandemic



Source: Company Data; AMTD Research Estimates

Our Target Price implies a target Div Yield of 5.9%

We initiate coverage of Yuexiu REIT with a target price of HK\$4.99/sh, based on a Dividend Discount Model, and our target price implies a 2021E target div yield of 5.9%. We believe the improving outlook of the REIT's distributable income from 2021E onwards will result in a yield compression. Key risks include (1) COVID-19 drives Guangzhou and Wuhan into another lock-down, impacting the economy, hotels and office market; (2) Unexpected interest rate hike in US Treasury.

Figure 8: AMTD end-2021 PT is HK\$4.99/sh based on DDM

DDM Fair Value		WACC Buildup	
Stage 1	3,772	Risk-free rate	4.0%
Stage 2	4,930	Beta	0.8
Stage 3	5,013	Equity risk premium	7.0%
Total Value(RMB mn)	13,715	Cost-of-equity (%)	9.3%
Total Value(HK\$ mn)	16,136	Perpetual growth rate	2%
Units in issue (mn)	3,234		
Target Price (HK\$)	4.99		
Implied FY2020e Div. Yield	5.0%		
Implied FY2021e Div. Yield	5.9%		
Implied FY2022e Div. Yield	6.4%		
Implied FY2020e PB	0.97x		
Implied FY2021e PB	0.98x		
Implied FY2022e PB	1.00x		

Source: Company Data; AMTD Research Estimates

Yuexiu REIT

We would argue that for investors to play the China Economy Recovery and GBA Development theme, there is no better way to do so than buy, hold and collect rents. By investing in Yuexiu REIT (~54% of assets is GZIFC as of 1H20), investors can enjoy the rental hikes that will come along with the economic activity normalization and the Greater Bay Area prosperity, without the property development risks that are associated with property developers.

Yuexiu REIT has been listed on HKEx since 2005, holding total 8 properties with valuation of RMB34.60 billion located in Mainland China as of June 2020. In 2019, Yuexiu REIT recorded NPI of RMB1.5 billion and distributable income after additional items of RMB761 million. As of 2019, distribution yield is 5.14% with distribution per unit of HKD0.2406. Yuexiu REIT also has consistent uptrend stock performance with an annual growth of 5.18% in 2019.

Figure 9: Details of Yuexiu REIT's property portfolio

Property	Type	Location	Year of Completion	Area of Ownership (sq.m.)	Total Rentable Area(3) (sq.m.)	No. of Units (Units)	Property Occupancy Rate (4)	Number of Lease (4)	Unit Rent (4)(RMB/sq. m./month)
White Horse Building	Wholesale mall	Yuexiu District	1990	50,199	50,129		97.3%	893	625
Fortune Plaza	Grade A office	Tianhe District	2003	42,764	41,355		97.1%	73	155
City Development Plaza	Grade A office	Tianhe District	1997	44,502	42,397		96.2%	96	140
Victory Plaza	Retail shopping mall	Tianhe District	2003	27,698	27,262		94.1%	24	208
GZIFC	Commercial complex	Tianhe District	2010	457,357	230,267		94.5%	276	220
Including:	Grade A office			267,804	183,540		94.0%	224	239
	Retail shopping mall			46,989	46,727		96.7%	52	147
	Hotel			91,461	N/A	344	34.2%	N/A	1,684(5)
	Serviced apartments			51,102	N/A	314	77.5%	N/A	1,001(5)
Yue Xiu Tower	Commercial complex	Shanghai Pudong	2010	62,139	46,026		88.1%	107	260
Wuhan Properties(1)	Commercial complex	New District Wuhan Qiaokou District		248,194	172,993		85.2%	236	86
Including:	Grade A office		2016	139,937	129,447		82.9%	143	97
	Retail shopping mall		2015	45,471	43,547		92.2%	93	56
	Commercial Parking		2015-2016	47,183	N/A		N/A	N/A	N/A
	Residential Parking		2014-2016	15,603	N/A		N/A	N/A	N/A
Hangzhou Victory(2)	Grade A office	Jiangan District, Hangzhou	2017	40,148	22,485		97.8%	26	117
Total/Average				973,001	632,915		92.1%(6)	1,731	208.3(6)

Source: Company Data; AMTD Research

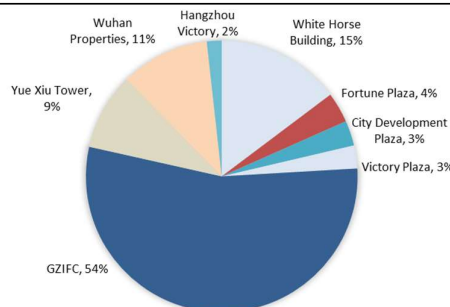
Notes: (1)Revenue from Wuhan Properties was recorded since 22 December 2017; (2)Hangzhou Victory was acquired on 28 December 2018; (3) As of June 2020; (4) Total rentable area excludes car parks, and occupancy rate also excludes the car parks' areas of total 125,868sq.m.; (5) For hotel and serviced departments, unit rent is measured by RMB/room/day; (6) Overall occupancy rate and unit rent exclude hotel and serviced apartment

From the asset portfolio historical record, Yuexiu REIT had a focus in Guangzhou city before 2015 and it expanded to Shanghai, Wuhan and Hangzhou in 2015, 2017 and 2018 respectively. Wuhan Properties and Hangzhou Properties are growth projects that completed back in 2015-2017, besides the other six are maturity projects that have operated over 9 years.

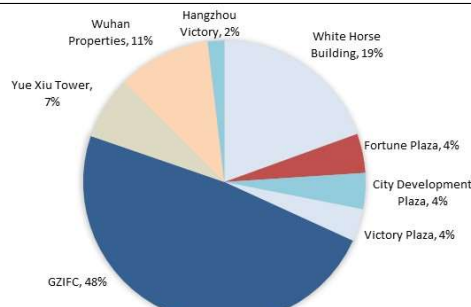
Figure 10: Share Price Performance (HK\$) and Asset Portfolio Since IPO

Source: Bloomberg, Company Data; AMTD Research

Guangzhou IFC, a complex with office, shopping mall, hotel and serviced apartment, is the major property with revenue accounting for 49% in 1H20 and value accounting for 54% as of 1H20. The three assets out of Guangzhou, Wuhan Properties, Shanghai Yuxiu Tower and Hangzhou Victory are as 11%, 9% and 2% respectively of total GAV as at 1H20, and as 11%, 7% and 2% respectively of total revenue in 1H20.

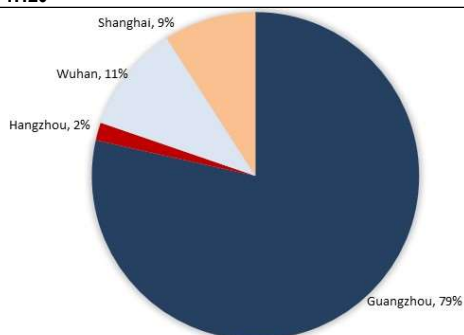
Figure 11: GAV Breakdown of Yuxiu REIT by Asset as of 1H20

Source: Company Data; AMTD Research

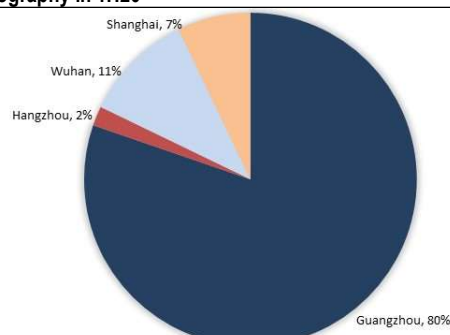
Figure 12: Revenue Breakdown of Yuxiu REIT by Asset as of 1H20

Source: Company Data; AMTD Research

As at 1H20, Yuxiu REIT still focused on Guangzhou city as 79% of assets distributed in Guangzhou in term of GAV and 80% of revenue came from Guangzhou properties in 1H20.

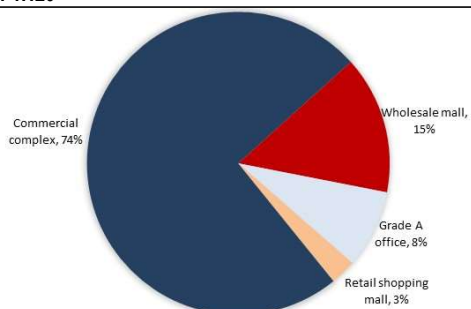
Figure 13: GAV Breakdown of Yuexiu REIT by Geography as of 1H20

Source: Company Data; AMTD Research

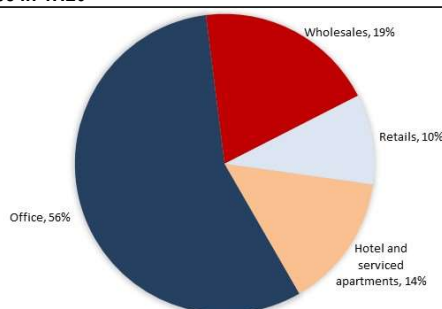
Figure 14: Revenue Breakdown of Yuexiu REIT by Geography in 1H20

Source: Company Data; AMTD Research

Rents from office, hotel and serviced apartment (GZIFC), and wholesale (White House Building) accounted for 56%, 14% and 19% respectively in 1H20, while rents from retail (shopping mall) are relatively small proportion (10%).

Figure 15: GAV Breakdown of Yuexiu REIT by Product Type as of 1H20

Source: Company Data; AMTD Research

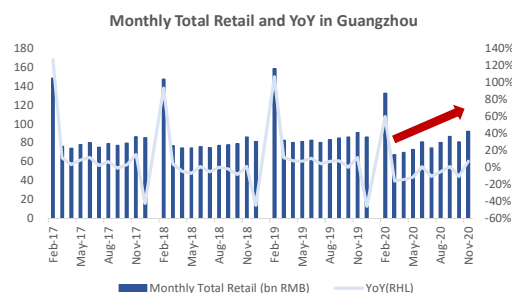
Figure 16: Revenue Breakdown of Yuexiu REIT by Product Type in 1H20

Source: Company Data; AMTD Research

In short, Yuexiu REIT is affected by economic recovery (Figure 17) and office market resilience (Figure 72 and Figure 74) in Guangzhou to a large extent. We think office market is more defensive than retail amid pandemic uncertainty due to limitation on gather. Furthermore, it is the best time point to invest Guangzhou given the Great Bay Area is maturing and Guangzhou as the core cities in the GBA planning will benefit from infrastructure construction. The portfolio of Yuexiu REIT has high exposure to that opportunity and growth, thus we believe Yuexiu REIT would be driven by result turnaround and valuation re-rating simultaneously at the turning point.

Figure 17: Guangzhou 9M20 GDP has recovered to 98% of previous year's level

Source: Wind; Statistics Department of Guangzhou; AMTD Research

Figure 18: Guangzhou 11M20 Total Retail has recovered to 96% of previous year's levelSource: Wind; Statistics Department of Guangzhou; AMTD Research
Notes: Data in Feb includes both Jan and Feb

Guangzhou IFC (54.4% of GAV) – Reaping the rewards from the GBA development

Guangzhou IFC, the urban landmark of Guangzhou, is a mature high-rise building located in the core CBD operation in Zhujiang New Town. The project is at the intersection of Metro Lines 3 and 5 and Automatic Transport System APM Line, 8 minutes away from Guangzhou East Railway Station, 20 minutes away from Guangzhou South Railway Station and 45 minutes away from Guangzhou Baiyun International Airport. Guangzhou IFC rent has kept growing at a stable speed with a 2017-2019 gross income CAGR of 2.7%. In 1H20, gross income from Guangzhou IFC declined by 27% mainly due to shrinkage in average room rate and occupancy rate of hotels and services apartments.

Figure 19: GZIFC



Source: Company Data

Figure 20: GZIFC Location



Source: Google Map

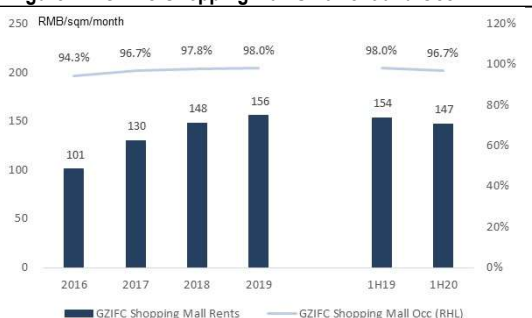
During 2016-2019, average rents of four segments in Guangzhou IFC kept uptrend, and occupancy rates remained healthy level at the same time. During 1H20, offices and shopping malls in Guangzhou IFC were resilient with a controllable negative effect. GZ IFC Office occupancy rate decreased by 6.5ppt in 1H20, but average rents increased by 10% at the same time, which recorded a premium of 17% compared to projects in similar areas. For GZIFC Shopping Mall, the turnover per square meter of the GZIFC shopping mall returned to 85% of the previous year's level as of June 2020.

Figure 21: GZIFC Office Unit Rent and Occ.



Source: Company Data; AMTD Research

Figure 22: GZIFC Shopping Mall Unit Rent and Occ.

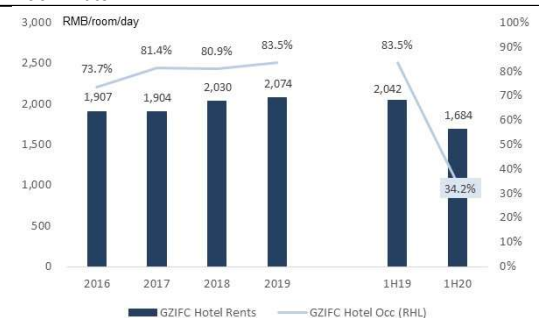


Source: Company Data; AMTD Research

Hotel and Serviced Apartment were heavily hit by the pandemic. However, according to the interim report, the occupancy rate of GZIFC Four Season Hotel has improved steadily from a stagnant 2.4% in Feb to 62.4% as of June 2020, and the occupancy rate in 1H20 was 10ppt higher than the competitors. For GZIFC Ascott Serviced Apartment, thanks to the active marketing and promotion, it ranked 1st both in operating revenue and GOP %

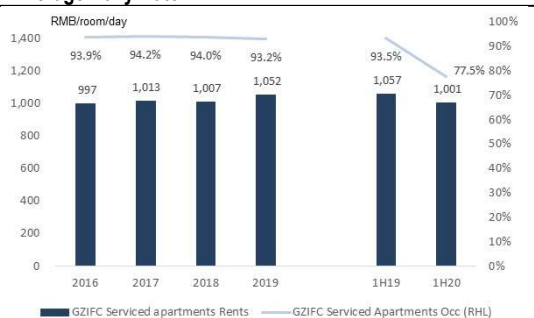
for Ascott China. Hence we believe GZIFC would further consolidate its leading position in Guangzhou amidst the challenging environment backed by renowned brand and efficient management.

Figure 23: GZIFC Four Season Hotel Occ. And Average Room Rate



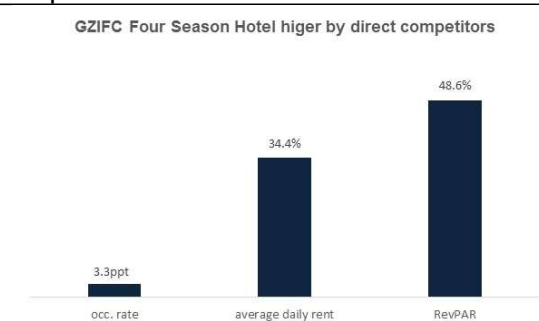
Source: Company Data; AMTD Research

Figure 24: GZIFC Ascott Serviced Apartment Occ. And Average Daily Rate



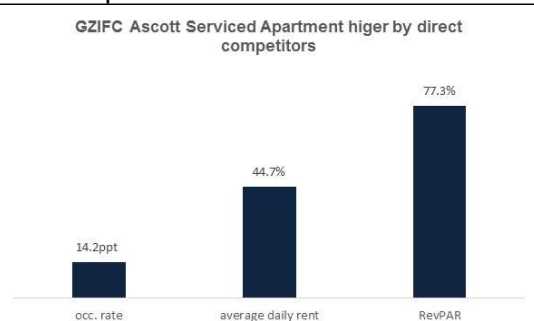
Source: Company Data; AMTD Research

Figure 25: GZIFC Four Season Hotel outperformed direct competitors as of June 2020



Source: Company Data; AMTD Research

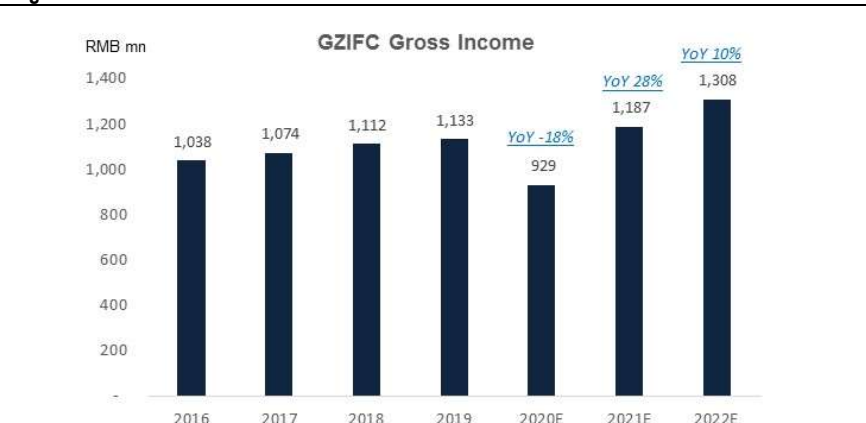
Figure 26: GZIFC Ascott Serviced Apartment outperformed direct competitors as of June 2020



Source: Company Data; AMTD Research

We estimate revenue from GZIFC would normalize in 2021E with a gross income of RMB1,171mn despite down by 18% in 2020E. As the highest-class assets in Yuexiu REIT portfolio, we expect GZIFC would contribute 56% to 2021E total revenue.

Figure 27: GZIFC 2016-2022E Revenue



Source: Company Data; AMTD Research Estimates

White Horse Building (14.7% of GAV) – Renowned wholesale market with ~100% occ. rate during 2016-2019

White Horse Building, located in the known fashion center in China – Liuhua business and exhibition area, comprises of 4 storeys of shopping mall, 5 storeys of offices and 1 storeys of underground carpark. The building is known as the top 10 China garment wholesale market, attracting more than 1,100 fashion manufacturers from various regions.

Figure 28: White Horse Building



Source: Company Data

Figure 29: White Horse Building Location

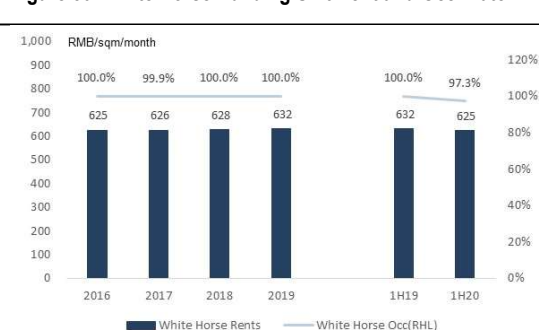


Source: Google Map

White Horse Building's operation was largely stable in 1H20 with an occupancy rate of 97.3%. As of June 2020, the customer flow recovered to 60% of the same period in the previous year. In June, customers rose by 23% MoM and the opening rate was c.90%. Although 38.1% of rental area is expected to expire in 2020E, in terms of the track record of lease expiry and occupancy rate in 2016 (32.5% of rental area expired and 100% occupancy rate) and 2017 (35.8% of lease area expired and 99.9% occupancy rate), we estimate occupancy rate would be 90% in 2020E (97.3% in 1H20) and return to 100% in 2021E-2022E.

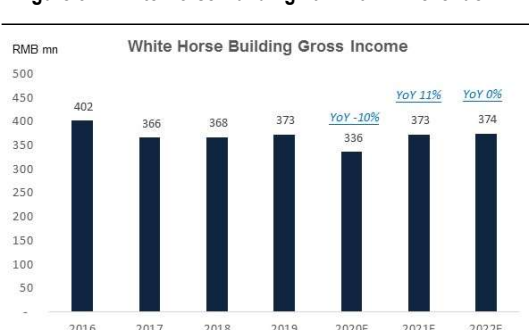
Meanwhile, we expect unit rent would remain flattish at RMB620-630sqm/month during 2020E-2022E, thus gross income from White Horse Building would normalize to 2019's level of RMB373mn in 2021E.

Figure 30: White Horse Building Unit Rent and Occ. Rate



Source: Company Data; AMTD Research

Figure 31: White Horse Building 2017-2022E Revenue



Source: Company Data; AMTD Research

Wuhan Properties (10.6% of GAV) –Beyond expectation amidst the hardship

Wuhan Properties, located in Hankou Riverside Business District which is an emerging business district in Wuhan, is a commercial complex with office (Yuxiu Fortune Centre), shopping mall (Starry Victoria Shopping Centre) and car park. Yuxiu Fortune Centre, as the landmark in Qiaokou, is currently the tallest International Grade A office building completed in Wuhan. Starry Victoria Shopping Centre is the first Hong Kong lifestyle oriented neighborhood shopping centre in Wuhan and the first shopping centre built with a covered walkway to the metro.

Figure 32: Yuxiu Fortune Centre



Source: Company Data

Figure 33: Starry Victoria Shopping Centre

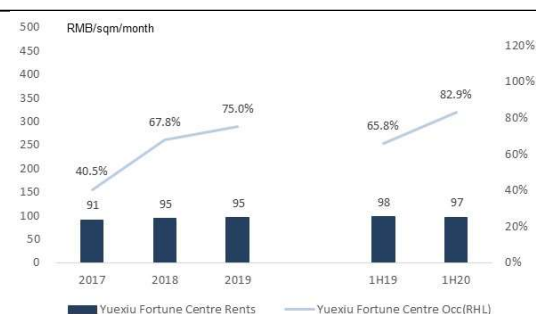


Source: Company Data

In 2020E-2022E, 26.9% / 25.5% / 24.6% of rental area is expected to expire in Yuxiu Fortune Centre, thus both rent and occupancy rate might face downward pressure. In 1H20, Yuxiu REIT adopted flexible and pragmatic leasing policies and successfully secured lease renewal intention from 75% of tenants with expiring leases throughout the year at last. As a result, the occupancy rate further increased to 82.9% in 1H20 from 75% in the end-2020 while unit rent kept largely constant at the same time. We estimate occupancy rate would ramp up to 90%/92% in 2021E/2022E and spot rent would have a stable growth with a CAGR of 0.8% during 2019-2022E.

In 2020E-2022E, 13.2% / 14.2% / 14.8% of rental area will expire in Starry Victoria Shopping Centre. The turnovers per square metre of the shopping mall returned to 85% of the previous year's level as of June 2020. In 1H20, occupancy rate of Starry Victoria Shopping Centre decline by c.7ppt to 92.2% while unit rent rose slightly. We estimate occupancy rate would recovery to 98%-99% in 2021E-2022E and spot rent would have a relatively strong growth with a CAGR of 5.2% to reflect the offline retail thriving.

Figure 34: Yuxiu Fortune Centre Unit Rent and Occ. Rate



Source: Company Data; AMTD Research

Figure 35: Starry Victoria Shopping Centre Unit Rent and Occ. Rate



Source: Company Data; AMTD Research

Along with the maturing of Wuhan Properties, we estimate 2019-2022E gross income from Wuhan Properties are RMB178mn / 191mn / 195mn with a CAGR of 4.8%.

Figure 36: Wuhan Properties 2017-2022E Revenue



Source: Company Data; AMTD Research Estimates

Shanghai Yuexiu Tower (9.1% of GAV) – Acquisition to maximize return

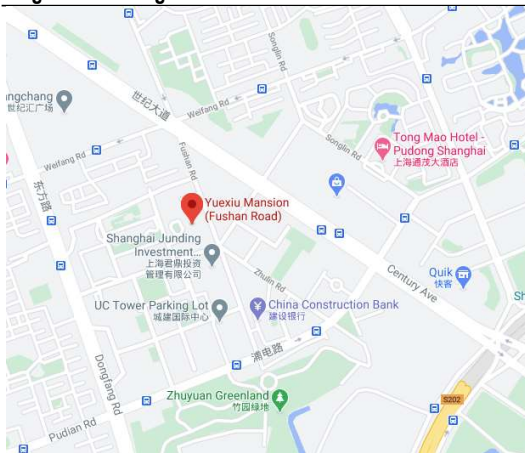
Yuexiu Tower, located in Zhuyuan commercial district, is a 25-storey Grade A office building with a 2-level basement carpark. The building is situated at the transfer point of Metro Line 2, Line 4, Line 6 and Line 9, 2 kilometers from the centre of small Lujiazui Finance and Trade Zone.

Figure 37: Shanghai Yuexiu Tower



Source: Company Data

Figure 38: Shanghai Yuexiu Tower Location

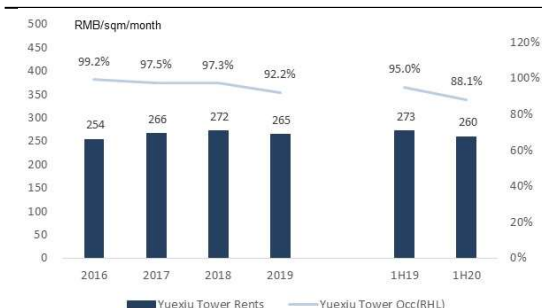


Source: Google Map

Shanghai Yuexiu Tower, whose name was Hongjia Tower then, injected in Yuexiu REIT on 31 August 2015. Yuexiu REIT acquired the Bestget Group, which hold 100% interest in Hongjia Tower from a third-party company. The transaction is different from the acquisition of GZIFC, Wuhan Properties and Hangzhou Victory, which are assets from Yuexiu Group, demonstrating Yuexiu REIT will look into acquisition with maximizing shareholder's return, instead of only considering acquisition opportunities in within Yuexiu Group.

In 2020E-2022E, 18.7% / 25.6% / 29.3% of rental area is expected to expire in Yuexiu Tower. In 1H20, occupancy rate was down by 7ppt compared with 1H19 and unit rent also decreased by c.5% in the same period. We believe Yuexiu Tower is under high pressure due to the pandemic and the fierce Grand A office market competition in Shanghai, thus we estimate occupancy rate would maintain at 85%-87% in 2020E-2022E while spot rent would decline by 10% YoY in 2020E and then rise by 5%/2% YoY in 2021E/2022E. As a result, gross income from Yuexiu Tower would grow at a CAGR of -2.6% during 2019-2022E.

Figure 39: Shanghai Yuexiu Tower Unit Rent and Occ. Rate



Source: Company Data; AMTD Research

Figure 40: Shanghai Yuexiu Tower 2016-2022E Revenue

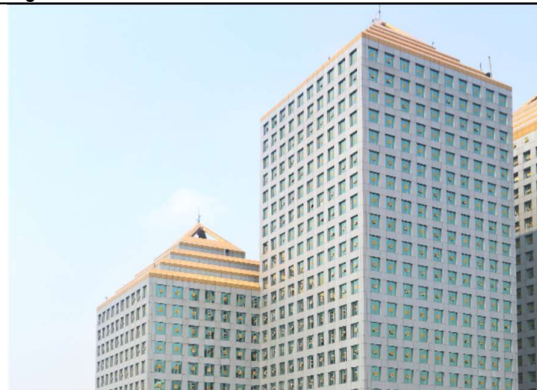


Source: Company Data; AMTD Research

Fortune Plaza (3.6% of GAV) – Located on “Guangzhou Wall Street”

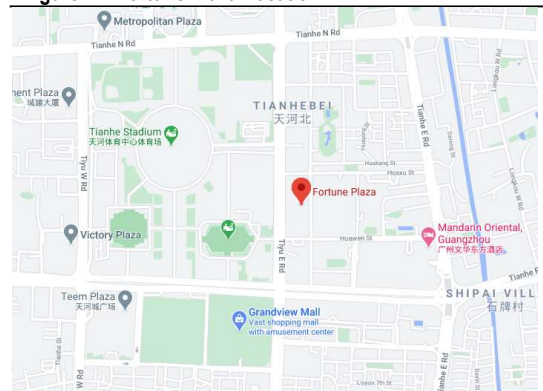
Fortune Plaza, the iconic building and landmark in the Tianhe CBD of Guangzhou, consists of a 30-storey East Tower and a 20-storey West Tower erected over a 6-storey retail commercial podium and a 2-storey basement carpark.

Figure 41: Fortune Plaza



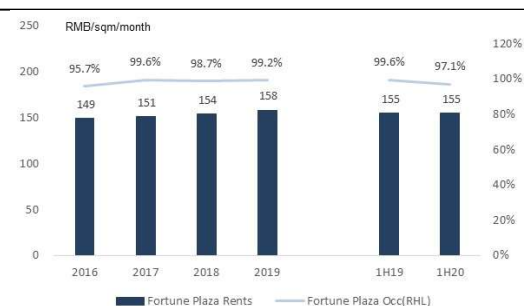
Source: Company Data

Figure 42: Fortune Plaza Location

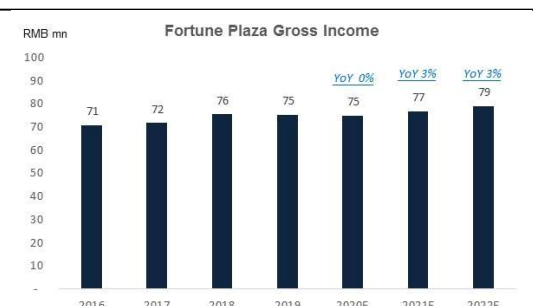


Source: Google Map

In 2020E-2022E, 22.0% / 10.1% / 48.2% of lease area will expire. Fortune Plaza adopted planning beforehand to renew expiring leases due this year, completed concluding contracts with key customer in advance, and offered contract restructuring proposals to tenants hardest hit by the pandemic. In 1H20, both occupancy rate and unit rent maintained stable. We estimate occupancy rate would recovery to normal level of 99.2% in 2021E-2022E and spot rent would have a stable growth with a CAGR of 1.4% during 2019-2022E. Thus we expect 2019-2022E revenue from Fortune Plaza grow at a CAGR of 1.6%.

Figure 43: Fortune Plaza Unit Rent and Occ. Rate

Source: Company Data; AMTD Research

Figure 44: Fortune Plaza 2016-2022E Revenue

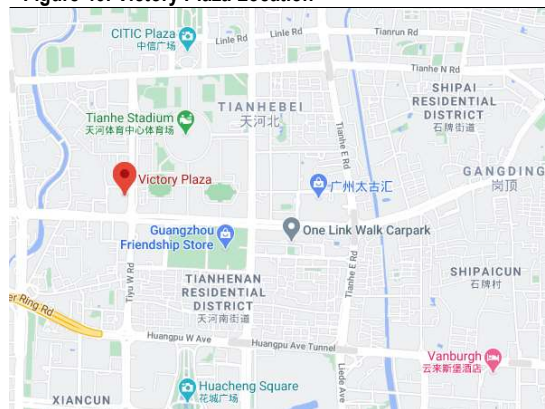
Source: Company Data; AMTD Research

Victory Plaza (2.7% of GAV) – “Diamond” Landmark in the Tianhe CBD

Victory Plaza, located at the core of Tianhe CBD of Guangzhou, is an international fast fashion shopping mall and business landmark of the prosperous area. The retail shopping mall has integrated fast fashion, global trend culture and creativity, and art space.

Figure 45: Victory Plaza

Source: Company Data

Figure 46: Victory Plaza Location

Source: Google Map

In 2020E-2022E, 20.5% / 14.2% / 0.8% of lease area will expire. In 1H20, both occupancy rate and unit rent of Victory Plaza were hit heavily, down by 5.3ppt and by -15% YoY. The overall efficiency of the shopping mall returned to over 65% of the previous year's level and the turnover per square metre of the catering industry has rebounded to 97% as of June 2020. Thus we expect the occupancy rate would fully recovery to pre-pandemic level while passing rents would lag behind due to contract renewal. We estimate 2019-2022E revenue from Victory Plaza are RMB71mn/73mn/73mn with a CAGR of -1.6%.

Figure 47: Victory Plaza Unit Rent and Occ. Rate

Source: Company Data; AMTD Research

Figure 48: Victory Plaza 2016-2022E Revenue

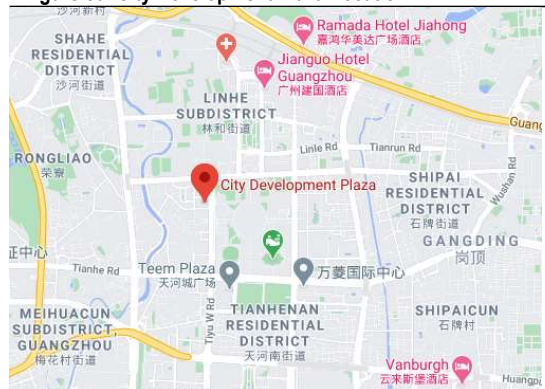
Source: Company Data; AMTD Research Estimates

City Development Plaza (3.0% of GAV) – Grade A office in Tianhe CBD

City Development Plaza, located in the Tianhe CBD of Guangzhou, consists of a 28-storey Grade A office commercial building erected over a 2-storey basement carpark. The building is adjacent to landmark buildings such as CITIC Tower and Victory Plaza.

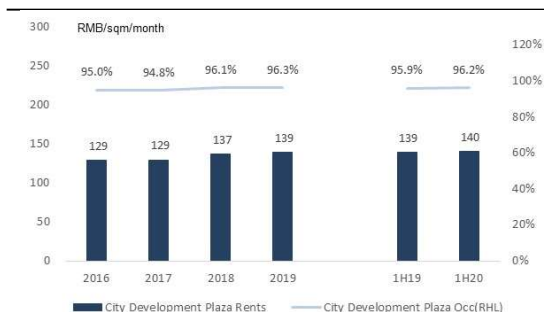
Figure 49: City Plaza Development

Source: Company Data

Figure 50: City Development Plaza Location

Source: Google Map

In 2020E-2022E, 22.1% / 50.6% / 22.3% of lease area will expire. In March and April, City Development Plaza seized market opportunities to introduce a number of renowned enterprises to fill up the vacated units. In 1H20, occupancy rate and unit rent of City Development Plaza keep uptrend, demonstrating strong demand and efficient management. We estimate occupancy rate would maintain at 96.3% in 2020E-2022E and rent would have a stable growth with a CAGR of 1.2% during 2019-2022E. We estimate revenue from City Development Plaza would rise at a CAGR of 1.4% during 2019-2022E.

Figure 51: City Development Plaza Unit Rent and Occ. Rate

Source: Company Data; AMTD Research

Figure 52: City Development Plaza 2016-2022E Revenue

Source: Company Data; AMTD Research Estimates

Hangzhou Victory (1.8% of GAV) – Growth Project injected in Dec 2018

Hangzhou Victory Business Center Tower, located in Qianjiang New Town of Jianggan District, includes Tower 2 and 315 underground parking lots, which were acquired by Yuxiu REIT in Dec 2018.

Figure 53: Hangzhou Victory

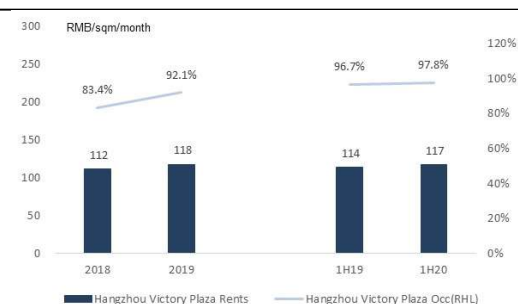
Source: Company Data

Figure 54: Hangzhou Victory Location

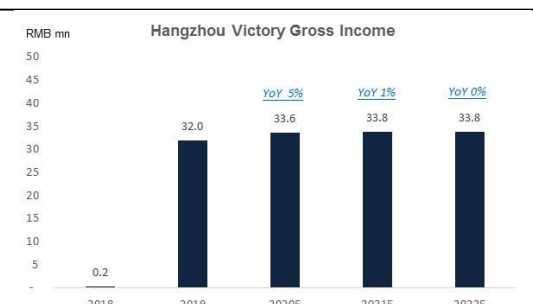
Source: Company Data

In 1H20, Hangzhou was at the peak of market supply with 213,000 sq.m. of new market supply which led the vacancy rate to 22.6%. Qianjiang New Town remained to be the preferred area for prominent customers and the recovery in demand was relatively apparent, with a leasing take-up of 13,000 sq.m.. For Hangzhou Victory, 34.8% / 27.0% / 1.9% of lease area will expire in 2020E-2022E, separately. In 1H20, occupancy rate of Hangzhou Victory increased by c.1ppt YoY and unit rent also rose by 3% YoY, implying the resilient demand.

We estimate occupancy rate would maintain at 98% in 2020E-2022E and spot rent would keep an annual growth of 5% during the same period. As a result, we estimate 2020E-2022E revenue from Hangzhou Victory would remain stable at c. RMB34mn.

Figure 55: Hangzhou Victory Unit Rent and Occ. Rate

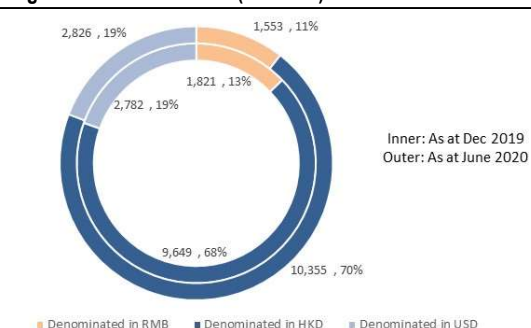
Source: Company Data; AMTD Research

Figure 56: Hangzhou Victory 2018-2022E Revenue

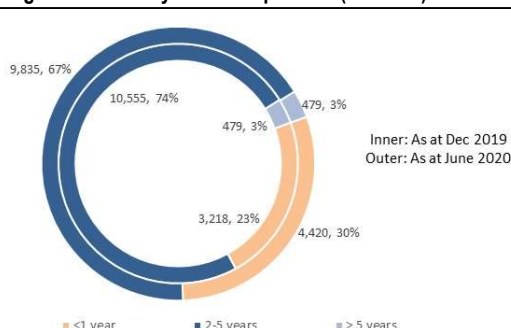
Source: Company Data; AMTD Research Estimates

Debt Analysis and Financing Cost

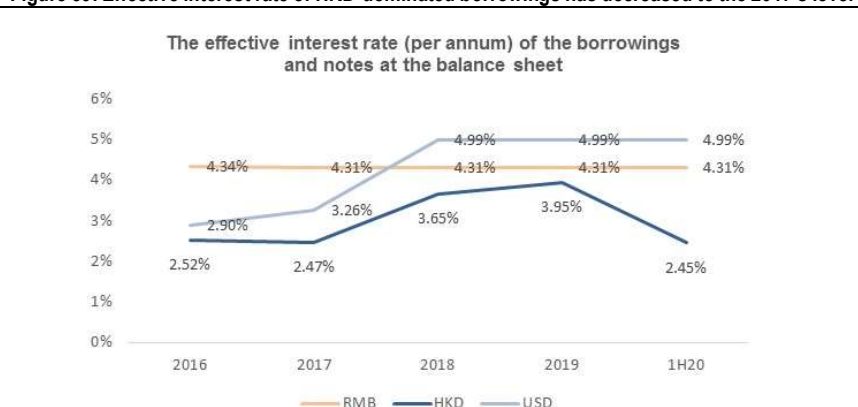
As of 1H20, there were c.RMB10bn HKD dominated borrowings, accounting for 70% of total borrowing. Meanwhile, the effective interest rate of HKD dominated borrowings has decreased to 2.45% in 1H20, lower than 1.5 ppt compared with 2019. Thus Yuxiu REIT can save RMB158mn financing cost annually based on the 2.45% interest rate achieved in 1H20.

Figure 57: Debt Structure (RMB mn) As of 1H20

Source: Company Data; AMTD Research

Figure 58: Maturity Debt Composition (RMB mn) As of 1H20

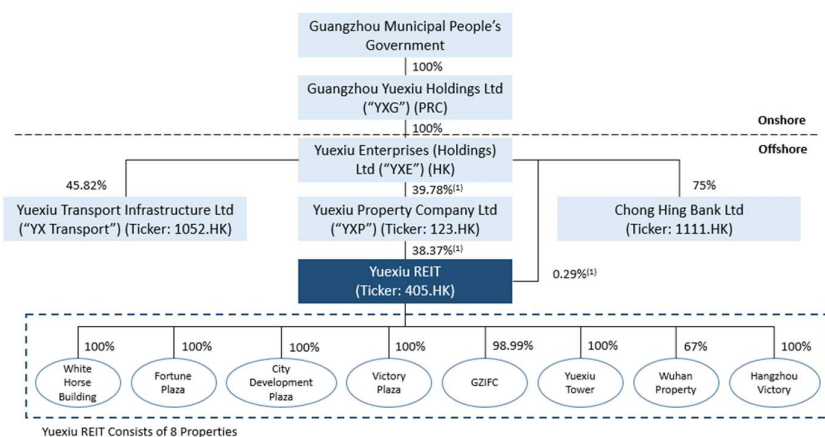
Source: Company Data; AMTD Research

Figure 59: Effective interest rate of HKD-dominated borrowings has decreased to the 2017's level

Source: Company Data; AMTD Research

Corporate Structure and Structure of Yuexiu REIT

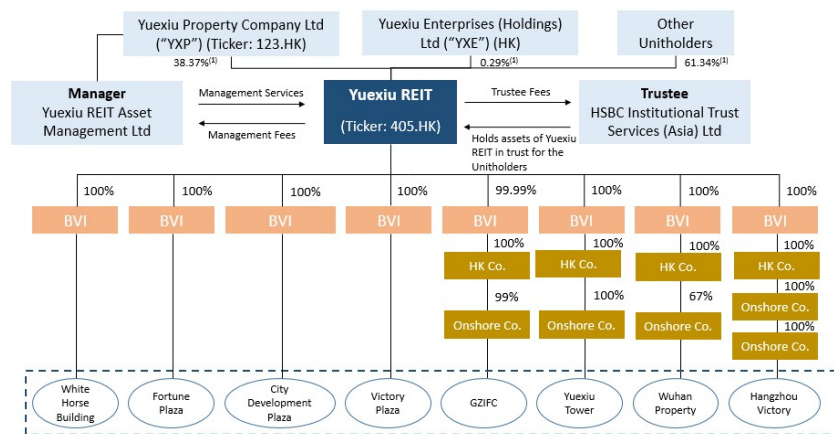
Figure 60: Corporate Structure



Source: Company Data; AMTD Research

Note: (1) As of 31 Dec 2019

Figure 61: Structure of Yuexiu REIT



Source: Company Data; AMTD Research

Note: (1) As of 31 Dec 2019

Greater Bay Area Development

Guangzhou, a core city in the GBA Development Plan with growth potential

Guangzhou is the leading city in the Guangdong-Hong Kong-Macao Greater Bay Area, ranking No.1 in terms of population, ranking No.3 in terms of 2019 nominal GDP and real GDP growth, and ranking No.4 in terms of site area among the 11 cities. In the Outline Development Plan for the GBA, Guangzhou is positioned as a national core city and an integrated gateway city, enhancing its function as an international commerce and industry centre and integrated transport hub. In such statement, Guangzhou will focus on transportation development to enlarge the number of residents and visitors. Hence we expect Guangdong would benefit from regional integration and industry upgrading.

Figure 62: Guangzhou ranked No.1 among 11 cities in the GBA in term of 2019 population

City	2019 GDP mn US\$	2019 Real GDP YOY %	2019 GDP per capital US\$	2019 Population mn	Area km ²
Shenzhen	403,906	6.7	30,523	13.4	1,997
Hong Kong	372,538	-1.2	48,713	6.5	1,050
Guangzhou	354,429	6.8	23,464	15.3	7,434
Foshan	161,265	6.9	20,077	8.2	3,798
Dongguan	142,237	7.4	16,876	8.5	2,460
Huizhou	62,661	4.2	12,907	4.9	11,347
Macao	53,859	-4.7	84,096	0.6	30
Zhongshan	46,516	1.2	13,906	3.4	1,784
Zhuhai	51,538	6.8	26,330	2.0	1,736
Jiangmen	47,200	4.3	10,229	4.6	9,509
Zhaoqing	33,732	6.3	8,090	4.2	14,891

	No.1
	No.2
	No.3

Source: NBS ;Wind; AMTD Research

As of 2019, Guangzhou has a favorable demographic structure: the population aged 15-64 years old accounted for c.75% of total residents, while the population aged at or above 65 years old made up 9% of total residents. A total of c.1.4mn new urban jobs were created in 2019 in Guangzhou, contributing more than 10% of national new urban jobs in the same period. Meanwhile, Guangzhou further relaxes the household registration requirement for eligible talents in Dec 2020: individuals with or above junior college or technical school degree and within 28 years old can register Hukou in 7 administrative areas in Guangzhou after paying 1-year social security.

Thus we believe Guangzhou as the Tier-1 city with huge economic volume, large educated population base, developed transportation network and relatively easing household registration requirement, is attractive to business and young talents. Along with working population inflow, the leasing market in Guangzhou, especially office properties, would flourish in our view.

Inter-city transportation infrastructure would bring working population

Guangzhou and Shenzhen, as tier 1 cities across the country, offer a mass of business opportunities and varieties of jobs. Migration from inner bay areas and other cities would replenish working population and create demand for offices and retail. Due to location, Guangzhou may be preferential for people from Zhaoqing, Huizhou and Foshan than Shenzhen. Moreover, followed by the opening of Nanshan Bridge in April 2019, the distance between Dongguan and Panyu District (番禺區) of Guangzhou has shortened by at least 10km.

Residents in Guangzhou increased from 14mn in 2016 to 15mn in 2019 with a CAGR of 2.9%. Guangzhou Government estimates there would be 20 million residents population in 2035 with annual newly residents of 0.3mn (as of 2019, over 20 million resident population in Beijing and Shanghai separately).

Figure 63: Migration to Guangzhou would spring up



Source: AMTD Research

Blue and purple denote cities of the GBA

Except for resident population, as inter-city railway networks develop, working population from nearby cities has more initiatives to work in Guangzhou since commuting time would reduce to less than 1 hour. In August, the National Development and Reform Commission approved Planning for the Construction of Inter-city Railway in the GBA and expected the length of railway networks (including those under construction) to reach 4,700km in the GBA by 2025, connecting all the central cities, node cities and Guangzhou, Shenzhen and other key metropolitan circles. Beyond high-speed rail, Guangzhou is expanding its subway networks to link with Zhongshan, Foshan and Dongguan and Qingyuan according to the General Planning of Territorial Space of Guangzhou.

Figure 64: Guangzhou related projects under Inter-City Railway Networks Construction Planning in GBA

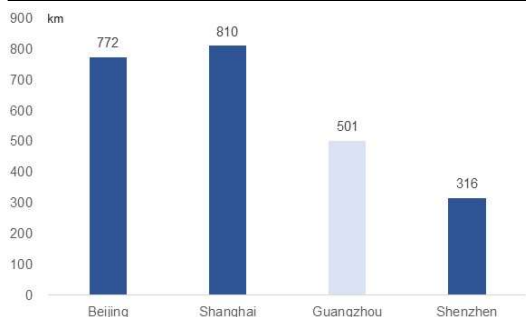
Number	Projects (EN)	Projects (CN)	Length (km)	Investment (bn RMB)	Main Stations	Notes
1	Guangzhou-Qingyuan intercity railway: North Extension Line	广清城际北延线	21	6.3	Qingyuan Station	Start by 2022
2	Guangzhou-Qingyuan intercity railway: Guangzhou North Station to Guangzhou Station	广清城际广州北至广州段	26	13.7	Guangzhou North Station, Baiyun Station, Guangzhou Station	Start by 2022
3	Foshan-Dongguan intercity railway	佛山经广州至东莞城际	107	95.3	Dongping New Town, Fangcun, Yuzhu, Xintang	NA
4	Guangzhou East-Huadu Tiangui intercity railway	广州东至花都天贵城际	38	28.5	Guangzhou East Station, Tiangui	NA
5	Fangcun-Baiyun Airport intercity railway	芳村至白云机场城际	39	32.5	Fangcun, Baiyun Station, Baiyun Airport	NA
6	Guangzhou East-Xintang Line 5-6	广州东至新塘五六线	39	58.0	Guangzhou East Station, Xintang	Start by 2022
7	Connecting Line from Guangzhou to Guangzhou South	广州至广州南联络线	15	77.0	Guangzhou Station, Guangzhou North Station	Start by 2022
8	Guangzhou East Railway Station Reconstruction Project	广州东站改造工程	NA	25.0	NA	Start by 2022
9	Guangzhou-Guangzhou East Line 3-4	广州至广州东三四线	7	55.0	Guangzhou Station, Guangzhou East Station	NA
10	Guangzhou East Station Reconstruction Project	广州站改造工程	NA	18.3	NA	NA
Total			292	409.6		

Source: NDRC; AMTD Research

As of 2019, Guangzhou had approximately a 501km track length and 9.1mn average daily passenger traffic. In comparison to transportation infrastructure in Beijing and Shanghai, Guangzhou is under higher pressure in light of passenger traffic. Under the General

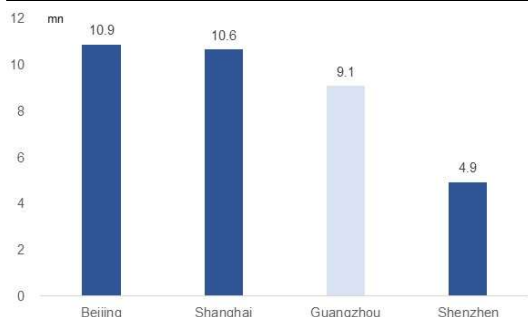
Planning of Guangzhou, there would be a total length of track of 2,000km in 2035, 4 times the level as of 2019.

Figure 65: Total Length of Urban Track in Tier 1 Cities As of 2019 (km)



Source: China Association of Urban Rail Transit; AMTD Research

Figure 66: Average Daily Passenger Traffic in Tier 1 Cities As of 2019 (mn)



Source: China Association of Urban Rail Transit; AMTD Research

In 2020, Guangzhou plans to build up 190km Inter-city railway, 205km high-speed railway and 224km normal-speed railway, realizing the target that less-than-three-hour direct access to major cities within a distance of 1000 km from Guangzhou, as well as forming a 1-hour traffic circle with Guangzhou as the core in the Guangdong-Hong Kong-Macao Greater Bay Area. In 2035E, the length of inter-city railway would further increase by 250% compared with 2019.

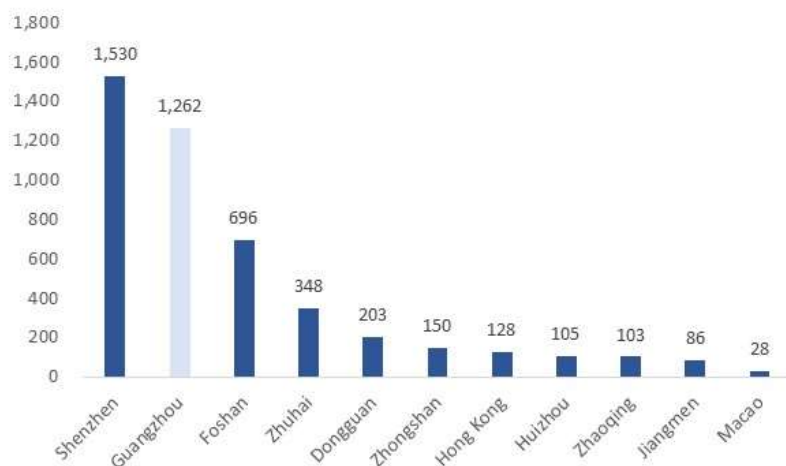
Figure 67: Track and Road Construction Planning Target in 2020E and 2035E

	2017	2020E	2035E
Track			
Passenger Traffic('0000/year)	11,711	14,220	≥39,680
High-speed Railway(km)	148	205	450
Normal-speed Railway(km)	123	224	300
Inter-city Railway(km)	13	190	500
Urban Railway(km)	391	≥500	~ 2,000
Road			
Expressway(km)	972	1,155	1,500

Source: Guangzhou Government, AMTD Research

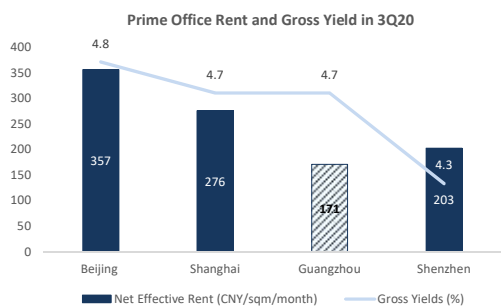
It is the best time to invest Guangzhou as population has flocked

The first stage of transportation planning is planned to accomplish in 2020, and we think it is the best time to invest Guangzhou as the policy effect has emerged since the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area signed in July 2017. From 2017 to 2019, the newly-added resident population was c.1.3mn based on 2016 and the total population reached 15.3mn in Guangzhou as of 2019. There is no doubt that resident population would continue to increase with the development of transportation.

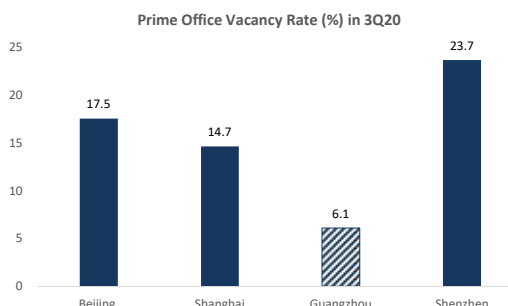
Figure 68: Newly-added resident population from 2017-2019 (thousand)

Source: NBS, AMTD Research

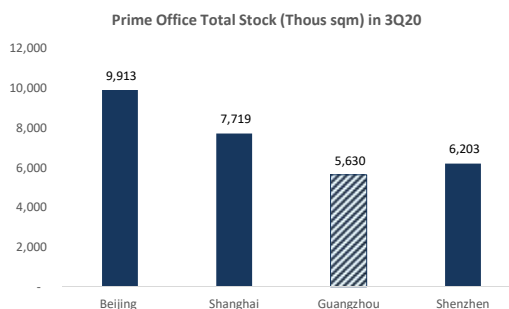
Enterprises and population inflow underpin the office market in Guangzhou and we estimate office rent and vacancy rate maintain a healthy level to drive the gross yield rise steadily. In 3Q2020, Guangzhou had the lowest vacancy rate of 6.1% when the rate in Shenzhen reached up to 23.7%. Even so, Guangzhou had the lowest new supply completed area in 3Q20 and the lowest total stock of the prime office market as of 3Q20 among four tier-1 cities. On the whole, the office leasing market in Guangzhou has a relatively low risk.

Figure 69: Guangzhou prime office gross yield stood at 4.7% in 3Q20

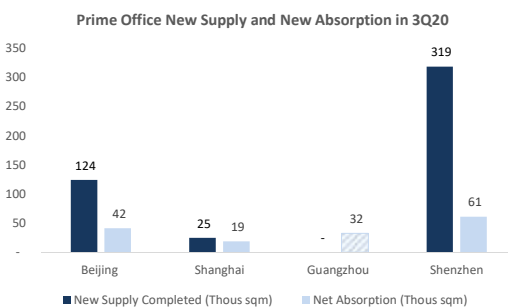
Source: Colliers International ; Bloomberg; AMTD Research

Figure 70: Guangzhou had lowest vacancy rate of prime office market among tier-1 cities in 3Q20

Source: Colliers International ; Bloomberg; AMTD Research

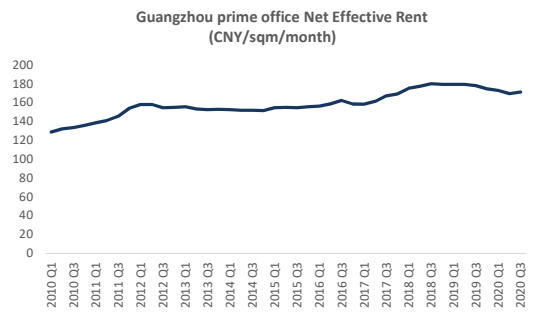
Figure 71: Guangzhou had lowest total stock of prime office market among tier-1 cities as of 3Q20

Source: Colliers International ; Bloomberg; AMTD Research

Figure 72: Guangzhou had lowest new supply completed area among tier-1 cities in 3Q20

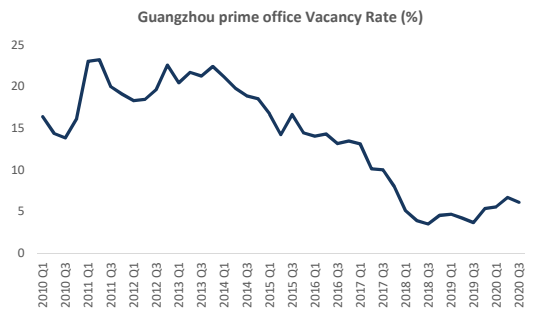
Source: Colliers International ; Bloomberg; AMTD Research

Figure 73: Guangzhou prime office's net effective rent kept stable despite pandemic



Source: Colliers International ; Bloomberg; AMTD Research

Figure 74: Guangzhou prime office's vacancy rate stood at low level compared with 2010-2016



Source: Colliers International ; Bloomberg; AMTD Research

Financial Statements

Figure 75: Income Statement

Income Statement (RMB'000)	2018	2019	2020E	2021E	2022E
White Horse Building	367,500	372,700	336,259	373,256	373,966
Fortune Plaza	75,500	75,200	74,859	76,820	78,959
City Development Plaza	67,100	66,400	68,269	68,936	69,285
Victory Plaza	70,800	76,600	70,543	72,981	73,001
Neo Metropolis	69,500	-	-	-	-
GZIFC	1,112,100	1,133,000	929,190	1,186,729	1,308,197
Yue Xiu Tower	142,800	132,500	120,240	122,357	122,456
Wuhan Properties	126,400	169,700	178,032	190,948	195,208
Hangzhou Victory	200	32,000	33,582	33,787	33,830
Gross income	2,031,876	2,058,112	1,810,974	2,125,815	2,254,903
Hotel and serviced apartments direct expenses	(313,447)	(318,226)	(234,075)	(331,888)	(322,845)
Leasing agents fees	(47,002)	(47,456)	(45,274)	(49,017)	(51,994)
Property related taxes	(194,940)	(194,734)	(144,878)	(201,140)	(213,354)
Other property expenses	(7,897)	(2,956)	(2,601)	(3,053)	(3,239)
Total property operating expenses	(563,286)	(563,372)	(426,828)	(585,098)	(591,431)
Net property income	1,468,590	1,494,740	1,384,146	1,540,717	1,663,472
Withholding tax	(58,277)	(59,174)	(54,796)	(60,994)	(65,854)
Depreciation and amortisation	(129,572)	(129,796)	(129,796)	(129,796)	(129,796)
Manager's fees	(147,263)	(147,511)	(146,719)	(152,048)	(164,163)
Trustee fees	(10,710)	(10,481)	(11,073)	(10,803)	(11,664)
Other trust expenses	(3,750)	(39,874)	(27,683)	(41,100)	(44,375)
Total non-property expenses	(349,572)	(386,836)	(370,067)	(394,742)	(415,852)
Net profit before finance expenses, finance income and income tax	1,119,018	1,107,904	1,014,079	1,145,974	1,247,620
Finance income	35,517	33,748	28,016	26,890	26,363
Fair value gain on support arrangement asset	22,736	32,318	-	-	-
Finance expenses	(1,008,160)	(777,633)	(471,816)	(414,807)	(414,807)
Net profit before income tax	169,111	396,337	570,279	758,058	859,176
Income tax expense	(458,369)	(441,828)	(182,288)	(242,311)	(274,633)
Net (loss)/profit after income tax before fair value gain on investment properties, other expenses in relation to the acquisition of subsidiaries, and fair value (loss)/gain on derivative financial instruments and gain on disposal of subsidiaries	(289,258)	(45,491)	387,991	515,747	584,543
Fair value gain on investment properties	905,159	752,700	-	-	-
Other expenses in relation to the acquisition of subsidiaries	(8,799)	(2,858)	-	-	-
Fair value gain/(loss) on derivative financial instruments	56,638	72,331	-	-	-
Gain on disposal of subsidiaries	302,779	-	-	-	-
Gain on construction payable adjustment	-	163,608	-	-	-
Net profit after income tax before transactions with Unitholders	966,519	940,290	387,991	515,747	584,543
Non-controlling interests	54,761	63,589	58,750	63,013	64,419
Profit after income tax before transactions with unitholders attributable to unitholders	911,758	876,701	329,240	452,734	520,124

Source: Company Data; AMTD Research Estimates

Figure 76: Balance Sheet

Balance Sheet (RMB'000)	2018	2019	2020E	2021E	2022E
Non-current assets					
Property, plant and equipment	2,340,934	2,270,852	2,141,056	2,011,260	1,881,464
Right-of-use assets	-	1,359,784	1,359,784	1,359,784	1,359,784
Land use rights	1,379,969	-	-	-	-
Investment properties	29,115,000	29,982,000	29,982,000	29,982,000	29,982,000
Deferred assets	219,847	205,430	205,430	205,430	205,430
Goodwill	859,868	859,868	859,868	859,868	859,868
Derivative financial instruments	-	6,166	6,166	6,166	6,166
Support arrangement asset	-	-	-	-	-
Sub-Total	33,915,618	34,684,100	34,554,304	34,424,508	34,294,712
Current assets					
Inventories	4,337	4,071	4,071	4,071	4,071
Trade receivables	26,785	15,887	15,887	15,887	15,887
Amounts due from related parties	238,915	228,082	228,082	228,082	228,082
Prepayments, deposits and other receivables	147,852	85,112	85,112	85,112	85,112
Derivative financial instruments	-	37,209	37,209	37,209	37,209
Tax recoverable	8,526	4,072	4,072	4,072	4,072
Support arrangement asset	11,645	25,163	25,163	25,163	25,163
Top-up payment asset	-	-	-	-	-
Short-term bank deposits	22,633	22,750	22,750	22,750	22,750
Cash and cash equivalents	1,458,755	1,319,010	1,075,675	1,038,941	944,486
Sub-Total	1,919,448	1,741,356	1,498,021	1,461,287	1,366,832
Total assets	35,835,066	36,425,456	36,052,325	35,885,795	35,661,544
Current liabilities					
Trade payables	17,689	14,205	14,205	14,205	14,205
Rental deposits, current portion	172,221	186,707	186,707	186,707	186,707
Receipts in advance	85,625	80,827	80,827	80,827	80,827
Accruals and other payables	998,607	735,140	735,140	735,140	735,140
Amounts due to related parties	103,227	98,262	98,262	98,262	98,262
Derivative financial instruments	113,745	-	-	-	-
Borrowings	2,276,543	3,217,958	3,217,958	3,217,958	3,217,958
Lease liabilities	-	9,164	9,164	9,164	9,164
Tax payable	144,845	117,750	117,750	117,750	117,750
Sub-Total	3,912,502	4,460,013	4,460,013	4,460,013	4,460,013
Non-current liabilities, other than net assets attributable to unitholders					
Rental deposits, non-current portion	184,377	198,816	198,816	198,816	198,816
Receipt in advance	-	-	-	-	-
Borrowings	11,599,185	11,034,441	11,034,441	11,034,441	11,034,441
Deferred tax liabilities	4,536,795	4,906,156	4,906,156	4,906,156	4,906,156
Derivative financial instruments	6,273	1,249	1,249	1,249	1,249
Lease liabilities	-	20,026	20,026	20,026	20,026
Sub-Total	16,326,630	16,160,688	16,160,688	16,160,688	16,160,688
Total liabilities, other than net assets attributable to unitholders	20,239,132	20,620,701	20,620,701	20,620,701	20,620,701
Net assets attributable to unitholders	14,454,122	14,599,360	14,167,478	13,937,935	13,649,266
Equity					
Revaluation reserve	420,174	419,655	419,655	419,655	419,655
Retained earnings	(420,174)	(419,655)	(419,655)	(419,655)	(419,655)
Non-controlling interests	1,141,812	1,205,395	1,264,145	1,327,158	1,391,577
Total equity	1,141,812	1,205,395	1,264,145	1,327,158	1,391,577
Total Liabilities and equity	35,835,066	36,425,456	36,052,325	35,885,795	35,661,544

Source: Company Data; AMTD Research Estimates

Figure 77: Cash Flow Statement

Cash Flow Statement (RMB'000)	2018	2019	2020E	2021E	2022E
Profit before income tax and transactions with unitholders	1,424,888	1,382,236	570,279	758,058	859,176
Adjustments for:					
Depreciation expenses of property, plant and equipment	80,287	80,510	129,796	129,796	129,796
Amortisation of land use right	49,285	-	-	-	-
Depreciation of right-of-assets	-	50,116	-	-	-
Amortisation of transaction costs for bank borrowings	24,020	29,992	-	-	-
Foreign exchange loss on financing activities	527,549	243,580	-	-	-
Fair value gains on investment properties	(905,159)	(752,700)	-	-	-
Fair value gain on derivative financial instruments	(56,638)	(73,636)	-	-	-
Fair value loss on top-up payment asset	-	-	-	-	-
Fair value gain on support arrangement asset	(22,736)	(32,318)	-	-	-
gain on disposal of a subsidiary	(302,779)	-	-	-	-
loss on disposal of property, plant and equipment	2	-	-	-	-
Write back of construction payables	-	(163,608)	-	-	-
Interest income	(35,517)	(33,748)	(28,016)	(26,890)	(26,363)
Interest and finance charges paid/payable for lease liabilities	-	118	-	-	-
Interest expenses	456,471	505,248	471,816	414,807	414,807
Changes in working capital:					
Deferred assets	2,455	14,417	-	-	-
Inventories	(1,210)	266	-	-	-
Trade receivables	(6,748)	10,898	-	-	-
Amounts due from related parties	27,442	10,833	-	-	-
Prepayments, deposits and other receivables	(26,882)	62,740	-	-	-
Trade payables	78	(3,484)	-	-	-
Rental deposits	13,640	28,925	-	-	-
Receipts in advance	3,847	(4,798)	-	-	-
Accruals and other payables	(83,771)	19,274	-	-	-
Amounts due to related parties	120,109	(4,965)	-	-	-
Cash generated from operations	1,288,633	1,369,896	1,143,875	1,275,770	1,377,416
Interest paid	(438,117)	(505,248)	(471,816)	(414,807)	(414,807)
Corporate income tax paid	(86,235)	(94,905)	(182,288)	(242,311)	(274,633)
Support arrangement assets received	11,091	18,800	-	-	-
Top-up payment received	-	-	-	-	-
Net cash generated from operating activities	775,372	788,543	489,770	618,653	687,976
Cash flows from investing activities					
Additions of investment properties	(14,841)	(114,300)	-	-	-
Additions of property, plant and equipment	(19,325)	(11,212)	-	-	-
Disposal of property, plant and equipment	-	55	-	-	-
Interest received	35,517	33,748	28,016	26,890	26,363
Decrease/(increase) in short-term bank deposits with original maturity	4,069	(117)	-	-	-
Settlement of deferred payment	(822,737)	-	-	-	-
Acquisition of subsidiaries, net of cash acquired	(530,575)	-	-	-	-
Disposal of subsidiaries	995,472	-	-	-	-
Net cash used in investing activities	(352,420)	(91,826)	28,016	26,890	26,363
Cash flows from financing activities					
Distributions paid	(854,762)	(850,194)	(761,122)	(682,276)	(808,794)
Proceeds from borrowings, net of transaction costs	5,276,630	4,454,458	-	-	-
Repayment of bank borrowings	(4,683,244)	(4,351,359)	-	-	-
Settlement of derivative financial instruments	(6,725)	(88,508)	-	-	-
Principal elements of lease payments	-	(859)	-	-	-
Net cash (used in)/generated from financing activities	(268,101)	(836,462)	(761,122)	(682,276)	(808,794)
Net increase in cash and cash equivalents	154,851	(139,745)	(243,335)	(36,734)	(94,455)
Cash and cash equivalents at beginning of the year	1,303,904	1,458,755	1,319,010	1,075,675	1,038,941
Cash and cash equivalents at end of the year	1,458,755	1,319,010	1,075,675	1,038,941	944,486

Source: Company Data; AMTD Research Estimates

Valuation & Risks

We initiate coverage of Yuexiu REIT with a target price of HK\$4.99/sh, based on a Dividend Discount Model, and our target price implies a 2021E target div yield of 5.9%. For HK-listed REITs, the industry is trading at a 7.1% FY21E dividend yield thus we believe Yuexiu REIT's valuation is attractive at a 7.5% FY21E dividend yield on the back of its large exposure to Guangzhou and office assets.

Figure 78: AMTD end-2021 PT is HK\$4.99/sh based on DDM

DDM Fair Value		WACC Buildup	
Stage 1	3,772	Risk-free rate	4.0%
Stage 2	4,930	Beta	0.8
Stage 3	5,013	Equity risk premium	7.0%
Total Value(RMB mn)	13,715	Cost-of-equity (%)	9.3%
Total Value(HK\$ mn)	16,136	Perpetual growth rate	2%
Units in issue (mn)	3,234		
Target Price (HK\$)	4.99		
Implied FY2020e Div. Yield	5.0%		
Implied FY2021e Div. Yield	5.9%		
Implied FY2022e Div. Yield	6.4%		
Implied FY2020e PB	0.97x		
Implied FY2021e PB	0.98x		
Implied FY2022e PB	1.00x		

Source: Company Data; AMTD Research Estimates

Figure 79: HK-listed REITs

Date	4/2/2021	Share Price	Mkt cap	P/B			Div. yield		
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E
HK-listed REITs									
823 HK	Link REIT	67.80	18,206	0.76x	0.87x	0.88x	4.0%	4.2%	4.3%
2778 HK	Champion REIT	4.45	3,390	0.40x	0.45x	0.45x	6.0%	5.5%	5.3%
778 HK	Fortune REIT	7.00	1,769	0.42x	0.45x	0.44x	7.3%	6.3%	6.6%
87001 HK	Huixian REIT	1.73	1,610	0.35x	0.34x	0.33x	14.3%	6.2%	9.6%
405 HK	Yuexiu REIT	3.73	1,589	0.70x	0.74x	0.78x	7.5%	6.5%	7.5%
435 HK	Sunlight REIT	3.82	821	0.39x	0.43x	0.43x	7.1%	7.0%	7.1%
1881 HK	Regal REIT	1.32	555	0.29x	0.29x	0.29x	9.4%	8.3%	8.3%
808 HK	Prosperity REIT	2.40	473	0.42x	0.41x	0.44x	7.6%	7.5%	7.5%
1270 HK	Langham Hospitality	0.97	404	0.21x	0.35x	0.35x	12.4%	6.0%	3.4%
1503 HK	CMC REITs	2.44	355	0.65x	NA	NA	NA	10.2%	11.2%
Total/Average			29,172	0.46x	0.48x	0.49x	8.4%	6.8%	7.1%

Source: Bloomberg; AMTD Research Estimates

Notes: Priced at 4 Feb 2021; Link REIT and Sunlight REIT's FY20 data is actual as their fiscal years end at March and June, respectively.

Key Risks

Key risks include (1) COVID-19 further adversely impacts the economy and commercial property market, thus occupancy rates and unit rents might lower than expectations; (2) Unexpected interest rate hike in US Treasury.

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We, Jacky Chan and Karen Huang, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

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AMTD Global Markets Limited has an investment banking relationship with Yuexiu Real Estate Investment Trust and/or their affiliate(s) within the past 12 months.

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