

Yuexiu Real Estate Investment Trust

The Comeback Kid, Reiterate Buy

We believe Yuexiu REIT is bouncing back from a tough 2020 hampered by COVID-19 and weaker-than-expected 2019 results. Wuhan Fortune Center and Guangzhou Four Seasons Hotel have shown signs of recovery in 2H20 and we expect that recovery trend to continue in 2021E. Reiterate Buy.

Recovery has begun in 2H20, 2021E to offer 7.1% Div Yield

We believe that Yuexiu REIT's recovery from the impact of COVID-19 has begun since 2H20 and will extend into 2021E. We believe interest savings from historical low USD/HKD interest rates and the macro recovery from COVID-19 will be the key drivers of its 2021E results. This can be seen through the improvement in occupancy rates and revenues from Wuhan Fortune Center during 2020, as well as occupancy rate improvement at the Four Seasons Guangzhou during 2H20. We expect operations to normalize in 2021E with Revenue, NPI and DPS recovering back to 2019 pre-COVID levels. As a result, we believe the stock is offering an attractive 7.1% 2021E Div Yield at current levels.

2H20 back on a positive HoH growth, 2020 full year results in-line

Yuexiu REIT's 2H20 revenues grew by 11.6% HoH to drive the full year 2020 revenues to reach RMB1,759m, in-line with our estimate (RMB1,810m). Net Property Income rose 2.3% HoH during 2H20 to result in a full year 2020 Net Property Income of RMB1,323m, also in-line with our estimate (RMB1,384m). This coupled with the appreciation of RMB has driven the Final Distribution per Unit to reach HK\$0.1199/unit (up 9.6% HoH). This implies a 2020 Div Yield of 6%, and we expect the div to grow to reach 7.1% in 2021E.

Wuhan Fortune Center and GZ Four Season Hotels bounced back

Occupancy rates at Wuhan Fortune Center has grown to 87.1% (+12ppt YoY) while rents remained stable at RMB96/sqm/month, driving revenues from the property to rise 9.8% YoY to RMB154m. Guangzhou Four Seasons Hotel occupancy rates have recovered back to 83.3% in Dec 2020 (Jun 20: 62.4%), with RevPAR reaching RMB1,608/night (Jun 20: ~RMB900/night). With occupancy rates normalized, we believe there is room for ADR growth in 2021E, which will drive revenues higher. Offices remained resilient during 2020, with the overall office revenues just down 0.7% YoY across its portfolio. We believe White Horse Building is a concern with revenues down 22.8% YoY posting RMB287.8m in 2020. However, as the REIT continues to grow its portfolio through M&A, the significance of White Horse Building will continue to diminish. It contributes to ~16% of 2020 total revenues.

Unchanged Target Price of HK\$4.99/sh offering 27% upside

We believe Yuexiu REIT's defensive 0.8x Beta and 7.1% 2021E div yield will attract investors' attention and thus drive a yield compression for the stock to reach our target price of HK\$4.99/sh. Our Target Price implies a target Div Yield of 5.9%, which we believe is achievable. 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 Mar 2021	3.92
Upside/downside %	27%
Market cap (HK\$ m)	12,968
Market cap (US\$ m)	1,673
Avg daily turnover (US\$ m)	1.21

Source: Bloomberg, AMTD Research

Key forecasts

(RMBm)	2019	2020	2021e	2022e
Revenue	2,058	1,759	2,126	2,255
yoy %	1.3%	-14.5%	20.9%	6.1%
NPI	1,495	1,323	1,541	1,663
yoy %	1.8%	-11.5%	16.5%	8.0%
Dist Income	761	649	809	879
yoy %	-10.4%	-14.8%	24.7%	8.7%
NPI Margin	72.6%	75.2%	72.5%	73.8%
Gearing	39.1%	38.6%	39.7%	40.0%
DPS	0.24	0.20	0.24	0.25
BPS	4.55	4.42	4.08	3.88

Source: Company data, AMTD Research

Valuation

	2019	2020	2021e	2022e
Div. yield	7.1%	6.0%	7.1%	7.5%
P/BV	0.7	0.8	0.8	0.9
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: 2020 Results Summary – P&L (RMB'000)

2020 Results	2020A	2020E	Diff (%)	2019A	YoY
White Horse Building	287,800	336,259	-14%	372,700	-23%
Fortune Plaza	73,400	74,859	-2%	75,200	-2%
City Development Plaza	69,700	68,269	2%	66,400	5%
Victory Plaza	37,200	70,543	-47%	76,600	-51%
Neo Metropolis	-	-	-	-	-
GZIFC	930,700	929,190	0%	1,133,000	-18%
Yue Xiu Tower	118,100	120,240	-2%	132,500	-11%
Wuhan Properties	179,300	178,032	1%	169,700	6%
Hangzhou Victory	32,500	33,582	-3%	32,000	2%
Gross income	1,758,732	1,810,974	-3%	2,058,112	-15%
Hotel and serviced apartments direct expenses	(248,335)	(234,075)	6%	(318,226)	-22%
Leasing agents fees	(43,973)	(45,274)	-3%	(47,456)	-7%
Property related taxes	(140,608)	(144,878)	-3%	(194,734)	-28%
Other property expenses	(3,172)	(2,601)	22%	(2,956)	7%
Total property operating expenses	(436,088)	(426,828)	2%	(563,372)	-23%
Net property income	1,322,644	1,384,146	-4%	1,494,740	-12%
Total non-property expenses	(359,169)	(370,067)	-3%	(386,836)	-7%
Net profit before finance expenses, finance income and income tax	963,475	1,014,079	-5%	1,107,904	-13%
Finance income	842,885	28,016	2909%	33,748	2398%
Fair value gain on support arrangement asset	625	-	-	32,318	-98%
Finance expenses	(488,028)	(471,816)	3%	(777,633)	-37%
Net profit before income tax	1,318,957	570,279	131%	396,337	233%
Income tax expense	(203,967)	(182,288)	12%	(441,828)	-54%
Net (loss)/profit after income tax before fair value gain on investment properties and other expenses	1,114,990	387,991	187%	(45,491)	-2551%
Fair value gain on investment properties	(297,633)	-	-	752,700	-140%
Other expenses in relation to the acquisition of subsidiaries	-	-	-	(2,858)	-100%
Fair value gain/(loss) on derivative financial instruments	(405,118)	-	-	72,331	-660%
Gain on disposal of subsidiaries	-	-	-	-	-
Gain on construction payable adjustment	174,882	-	-	163,608	7%
Net profit after income tax before transactions with Unitholders	587,121	387,991	51%	940,290	-38%
Non-controlling interests	21,626	58,750	-63%	63,589	-66%
Profit after income tax before transactions with unitholders attributable to unitholders	565,495	329,240	72%	876,701	-35%

Source: Company data, AMTD Research Estimates

Figure 2: 2020 Results Summary – Distribution Statement (RMB'000)

2020 Results	2020A	2020E	Diff (%)	2019A	YoY
Profit after income tax before transactions with unitholders attributable to unitholders	565,495	329,240	72%	876,701	-35%
Adjustments for the total distributable income	(1,099,891)	(383,647)	187%	(1,167,784)	-6%
– Fair value gain on investment properties	268,048	-		(723,188)	-137%
– Fair value gain on derivative financial instruments	-	-		(72,331)	-100%
– Foreign exchange gain in financing activities	(810,900)	-		-	
– Deferred taxation in respect of fair value gain on investment property charged to profit or loss	(53,594)	-		160,296	-133%
– Different D&A charges of Inv Prop, PP&E and land use rights under China Accounting Standards ("CAS")	(378,189)	(383,647)	-1%	(383,647)	-1%
– Gain on disposal of a subsidiary, after income tax	-	-		-	
– Fair value gain on support arrangement asset	(625)	-		(32,318)	-98%
– Write back of construction payables, net of tax	(124,631)	-		(116,596)	7%
Total distributable loss	(534,396)	(54,407)	882%	(291,083)	84%
Additional items					
– Cash received and/or receivable according to the Deed of Top-up Payments	-	-		-	
– Different D&A charge of Inv Prop, PP&E and land use rights under CAS	378,189	383,647	-1%	383,647	-1%
– D&A of PP&E and land use rights under Hong Kong Financial Reporting Standards("HKFRS")	130,997	129,796	1%	128,458	2%
– Deferred taxation in respect of the D&A of Inv Prop, PP&E and land use rights	100,116	102,281	-2%	102,281	-2%
– Manager's fee paid and payable in units in lieu of cash	113,726	120,959	-6%	118,009	-4%
– Interest income and fair value loss from top-up payment asset	-	-		-	
– Fair value loss on derivatives financial instruments	405,118	-		-	
– Gains on settlement of derivative financial instruments	-	-		-	
– Foreign exchange loss in financing activities	-	-		243,580	-100%
– Expenses incurred in connection with the acquisition of subsidiaries	-	-		-	
– Expenses incurred in connection with the acquisition of investment properties	-	-		2,859	-100%
– Support arrangement asset received/receivable	22,947	-		17,471	31%
– Surplus cash from the disposal of subsidiaries	-	-		55,900	-100%
– Surplus cash from write back of construction payables	32,000	-		-	
Distributable income after additional items	648,697	682,276	-5%	761,122	-15%

Source: Company data, AMTD Research Estimates

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AMTD Investment Ratings

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

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