

## Yuexiu Real Estate Investment Trust

### Recovery On Track, Interest Savings to Drive 2H21E Growth

We believe Yuexiu REIT offers an attractive risk-reward profile, offering a 7.1% div yield, 11.3% 2020-2023E dividend CAGR and a low volatility of 0.75 Beta. 1H21 DPU grew 12.3% YoY and interest savings from its recently refinanced USD bond will further drive its 2H21E dist. income growth, in our view. Reiterate Buy.

#### Interest savings to drive 2H21E growth

We recommend Yuexiu REIT as one of our top picks of the property sector, as the stock offers an attractive risk-reward of 7.1% div yield with a Beta of 0.75. We estimate that the REIT will benefit from the full six months' interest savings impact during 2H21E through its USD bond refinancing which was completed in 1H21. Meanwhile, we also believe that management will take advantage of the low interest cost environment and actively seek for asset acquisition opportunities in 2H21E to drive long term growth of its portfolio. We believe any value-accretive acquisition will also help to offset the structural challenges that White Horse Building is currently facing.

#### 1H21 DPU grew 12.3% YoY, on track to meet full year estimate

Yuexiu REIT announced its 1H21 results, with revenues growing by 6.1% YoY to RMB881.7m, and implies 41% of our full-year estimate. Net Property Income dropped 2.3% YoY during 1H21, mainly dragged by weaker-than-expected rental revenues from White Horse Building (-13.6% YoY) and GZ IFC Office (-2% YoY) due to the sluggish macroeconomic environment amid COVID-19, in our view. The 1H21 DPU reached HK\$0.1233/unit (up 12.3% YoY), representing 42% of our full year 2021E DPU estimate.

#### Interest savings yet to fully kick-in, 2H21E to see full impact

We believe Yuexiu REIT is a key beneficiary of the low interest environment, with its overall effective interest rate declining by 54bps to 2.47% in 1H21. The REIT successfully refinanced its USD400m during 1H21 with a bond yield of 2.66%, resulting in 233bps of interest savings. We believe such interest savings will be one of the key drivers of its distributable income growth of 25.3% during 2021E.

#### Value-accretive M&A to offset challenges at White Horse Building

We believe that management will be actively seeking for value-accretive acquisition opportunities during 2H21E which will help to offset the structural challenges that White Horse Building has been facing. White Horse Building posted another 13.6% YoY decline in 1H21 revenues. As we mentioned in our report, "China Developers' Evolution into Conglomerates: 2021-2025", dated 24 May 2021, we believe prime office assets in major Tier-1 cities will be the REIT's main acquisition targets. Parent co. Yuexiu Property currently owns two main investment properties in Guangzhou including Yuexiu Financial Tower and Guangzhou ICC.

#### Attractive risk-reward amid volatile markets

Yuexiu REIT is currently offering a 2021E dividend yield of 7.1%, which is slightly above the HK-listed REIT's sector average. The stock also trades at a low volatility of 0.75 Beta, which combines to an attractive risk-reward profile, in our view.

**Key Risks:** (1) Lower than expected rental revenues amid weaker than expected macroeconomic growth; (2) Tighter travel restrictions amid COVID-19 to impact the hotel rental revenues.

Stock code: 0405.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>4.99</b>
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Current price (HK\$), 9 Aug 2021	3.97
Upside/downside %	26%
Market cap (HK\$ m)	13,178
Market cap (US\$ m)	1,694
Avg daily turnover (US\$ m)	0.86

Source: Bloomberg, AMTD Research

#### Key forecasts

(RMBm)	2020	2021e	2022e	2023e
Revenue	1,759	2,126	2,255	2,289
yoy %	-14.5%	20.9%	6.1%	1.5%
NPI	1,323	1,541	1,663	1,683
yoy %	-11.5%	16.5%	8.0%	1.2%
Dist Income	649	813	884	896
yoy %	-14.8%	25.3%	8.7%	1.4%
NPI Margin	75.2%	72.5%	73.8%	73.5%
Gearing	38.6%	39.4%	39.6%	39.9%
DPS	0.20	0.24	0.25	0.24
BPS	4.42	4.18	3.97	3.75

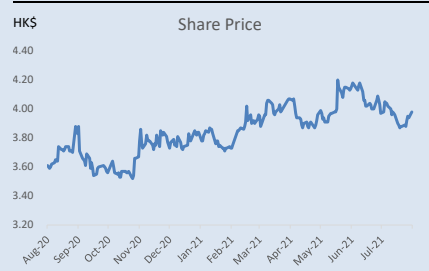
Source: Company data, AMTD Research

#### Valuation

	2020	2021e	2022e	2022e
Div. yield	5.9%	7.1%	7.4%	7.1%
P/BV	0.8	0.8	0.9	0.9
ROE	7.1%	3.1%	3.7%	3.8%
ROA	2.8%	1.2%	1.4%	1.5%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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Figure 1: 1H21 Results Summary – P&amp;L (RMB'000)

1HFY21 Results	1HFY21A	FY21E	% of FY21E	1HFY20A	YoY/Chg
White Horse Building	139,900	373,256	37%	161,900	-14%
Fortune Plaza	36,400	76,820	47%	37,300	-2%
City Development Plaza	35,200	68,936	51%	34,300	3%
Victory Plaza	34,800	72,981	48%	30,900	13%
Neo Metropolis	-	-	N/A	-	N/A
GZIFC	468,300	1,186,729	39%	402,700	16%
Yue Xiu Tower	60,600	122,357	50%	59,300	2%
Wuhan Properties	90,000	190,948	47%	89,000	1%
Hangzhou Victory	16,500	33,787	49%	15,700	5%
<b>Gross income</b>	<b>881,684</b>	<b>2,125,815</b>	<b>41%</b>	<b>831,135</b>	<b>6%</b>
Hotel and serviced apartments direct expenses	(132,742)	(331,888)	40%	(97,142)	37%
Leasing agents fees	(21,876)	(49,017)	45%	(22,348)	-2%
Property related taxes	(87,189)	(201,140)	43%	(55,806)	56%
Other property expenses	(1,371)	(3,053)	45%	(2,021)	-32%
<b>Total property operating expenses</b>	<b>(243,178)</b>	<b>(585,098)</b>	<b>42%</b>	<b>(177,317)</b>	<b>37%</b>
<b>Net property income</b>	<b>638,506</b>	<b>1,540,717</b>	<b>41%</b>	<b>653,818</b>	<b>-2%</b>
Withholding tax	(24,707)	(60,994)	41%	(26,468)	-7%
Depreciation and amortisation	(64,665)	(142,330)	45%	(65,784)	-2%
Manager's fees	(71,078)	(152,048)	47%	(73,887)	-4%
Trustee fees	(5,212)	(10,803)	48%	(5,229)	0%
Other trust expenses	(7,904)	(41,100)	19%	(9,818)	-19%
<b>Total non-property expenses</b>	<b>(173,566)</b>	<b>(407,276)</b>	<b>43%</b>	<b>(181,186)</b>	<b>-4%</b>
<b>Net profit before finance expenses, finance income and income tax</b>	<b>464,940</b>	<b>1,133,440</b>	<b>41%</b>	<b>472,632</b>	<b>-2%</b>
Finance income	144,987	26,890	539%	15,930	810%
Fair value gain on support arrangement asset	-	-	N/A	(1,760)	-100%
Finance expenses	(213,263)	(413,864)	52%	(471,633)	-55%
<b>Net profit before income tax</b>	<b>396,664</b>	<b>746,467</b>	<b>53%</b>	<b>15,169</b>	<b>2515%</b>
Income tax expense	(105,482)	(238,606)	44%	(108,421)	-3%
<b>Net (loss)/profit after income tax before fair value gain on investment properties and other expenses</b>	<b>291,182</b>	<b>507,861</b>	<b>57%</b>	<b>(93,252)</b>	<b>-412%</b>
Fair value gain on investment properties	18,513	-	N/A	(256,858)	-107%
Other expenses in relation to the acquisition of subsidiaries	-	-	N/A	-	N/A
Fair value gain/(loss) on derivative financial instruments	(24,096)	-	N/A	(36,851)	-35%
Gain on disposal of subsidiaries	-	-	N/A	-	N/A
Gain on construction payable adjustment	-	-	N/A	174,882	-100%
<b>Net profit after income tax before transactions with Unitholders</b>	<b>285,599</b>	<b>507,861</b>	<b>56%</b>	<b>(212,079)</b>	<b>-235%</b>
Non-controlling interests	19,646	63,013	31%	(381)	-5256%
<b>Profit after income tax before transactions with unitholders attributable to unitholders</b>	<b>265,953</b>	<b>444,848</b>	<b>60%</b>	<b>(211,698)</b>	<b>-226%</b>
<b>Adjustments for the total distributable income</b>	<b>(344,999)</b>	<b>(378,189)</b>	<b>91%</b>	<b>(121,155)</b>	<b>185%</b>
<b>Additional items</b>	<b>419,267</b>	<b>746,783</b>	<b>56%</b>	<b>651,473</b>	<b>-36%</b>
<b>Distributable income after additional items</b>	<b>340,221</b>	<b>813,442</b>	<b>42%</b>	<b>318,620</b>	<b>7%</b>

Source: Company data, AMTD Research Estimates

Figure 2: Peers Valuation Comparison (As of 9 August 2021)

Date Ticker	9/8/21 Name(EN)	Share Price (HK\$)	Mkt cap (USD mn)	P/B			Div. yield	
				FY20	FY21E	FY22E	FY20	FY21E
<b>HK REITs</b>								
823 HK	Link REIT	73.40	19,638	0.95x	0.96x	0.96x	3.9%	4.2%
2778 HK	Champion REIT	4.42	3,364	0.51x	0.53x	0.53x	5.7%	5.4%
778 HK	Fortune REIT	8.82	2,229	0.60x	0.61x	0.61x	5.3%	5.6%
405 HK	Yuexiu REIT*	3.97	1,694	0.79x	0.83x	0.88x	5.9%	7.1%
435 HK	Sunlight REIT	4.85	1,042	0.55x	0.56x	0.55x	5.5%	5.6%
1881 HK	Regal REIT	1.61	674	0.44x	0.44x	0.44x	8.4%	5.0%
808 HK	Prosperity REIT	3.01	593	0.61x	0.60x	0.59x	6.0%	7.1%
2191 HK	SF REIT	4.33	445	NA	0.88x	0.89x	NA	4.4%
1270 HK	Langham Hospitality	0.91	378	0.36x	0.37x	0.36x	0.0%	4.8%
<b>Total/Average</b>			<b>30,057</b>	<b>0.60x</b>	<b>0.64x</b>	<b>0.65x</b>	<b>5.1%</b>	<b>5.5%</b>

Source: Bloomberg Estimates, \*AMTD Research Estimates

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#### Stock Rating

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

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