

Yuexiu Property Company Limited

Growth on Solid Foundations of Strong Balance Sheet and GBA

We believe Yuexiu Property's growth will be a key beneficiary of the continual development of the Greater Bay Area. The developer's solid balance sheet, SOE-status and improving execution will be a key competitive advantage in land banking and financing under the current regulatory environment. **Maintain Buy.**

On track for growth targets, potential surprise to come from IP Sales

Yuexiu Property's contracted sales grew 19% YoY to RMB52.5bn YTD July with a run-rate of 47% towards its target. We believe it is on track to reach its 2021E 17% contracted sales growth target, while its 1H21 reported earning means that 45% of 2021E core net profit is already secured. Moreover, we believe that any potential earnings surprises will come in the form of the sale of investment properties, which is part of Yuexiu's normal course of business. Yuexiu Property has an investment property portfolio worth RMB16bn on balance sheet and they own a REIT platform, through which we believe Yuexiu Property may opt to recycle its capital. In the current tightened financing environment in the property industry, such a financing channel will be a key competitive advantage over its peers, in our view. Our Target Price is unchanged at HK\$11.51/sh taking into account its stock consolidation in June. **Maintain Buy.**

Reaping the benefits of Greater Bay Area development

Following the developer's investment in the Greater Bay Area, we believe Yuexiu Property is beginning to reap the harvest. Its contracted sales in the Greater Bay Area increased 50.4% YoY to RMB33.7bn during 1H21. Yuexiu Property has further acquired 23 land parcels with a total GFA of ~5mn sqm in 1H21, of which 52% were in the Greater Bay Area. As of end-June, ~55% of its total landbank is in the Greater Bay Area.

Stable growth in 1H21 on the foundations of a strong balance sheet

Yuexiu Property's 1H21 results were stable with revenues growing 2.2% YoY to RMB24.2bn and core net profit growing 5.5% YoY to RMB2.1bn, representing 45% of our full-year earnings estimate. GP Margins dipped 1.2ppt YoY to 26.8%, although still slightly above the industry average. The developer maintained a strong balance sheet as it continued to meet all Three Red Lines in 1H21, with Net Gearing of 49.8%, Liabilities-to-Asset (excl. Contract Liabilities) of 69.4%, and Cash to Short-term Debt of 1.8x.

TOD Projects helps to boost sell-through rates

Yuexiu Property further added a 208k sqm TOD project in 1H21, bringing its total TOD landbank to 4.1mn sqm. We believe the developer's unique TOD projects located in prime areas of Guangzhou will not only help to underpin its profit margins but will also achieve a stable sell-through rate and thus inventory management. Yuexiu Property's Properties Held for Sale has steadily decreased from RMB24.9bn in end-2020 to RMB22.6bn.

Stock trading at an undemanding 4.1x 2021E P/E, 9.5% div yield

The stock is trading at undemanding valuations of 4.1x 2021E P/E, slightly below the industry average of 4.5x. Our Target Price remains unchanged taking into account its stock consolidation in June. The Target Price of HK\$11.51/sh is based on a 6.5x 2021E P/E and offers 57% upside.

Key Risks: (1) Contracted sales weaker than expected; (2) TOD projects progress slower than expected; (3) Continued decline in gross margins.

Stock code: 0123.HK

Rating: Buy

Price target (HK\$)	11.51
Current price (HK\$, 18 Aug 2021)	7.34
Upside/downside %	57%
Market cap (HK\$ m)	22,728
Market cap (US\$ m)	2,919
Avg daily turnover (US\$ m)	3.67

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2020	2021e	2022e	2023e
Revenue	46,234	54,863	71,718	91,899
yoy %	20.6%	18.7%	30.7%	28.1%
Gross Profit	11,626	13,796	18,034	23,109
yoy %	-11.4%	18.7%	30.7%	28.1%
Core NP	4,020	4,662	5,686	6,522
yoy %	14.6%	16.0%	22.0%	14.7%
Gross margin	25.1%	25.1%	25.1%	25.1%
Net gearing	48.3%	55.1%	41.6%	41.2%
EPS	1.30	1.51	1.84	2.11
DPS	0.51	0.59	0.72	0.83
BPS	14.13	15.04	16.15	17.43

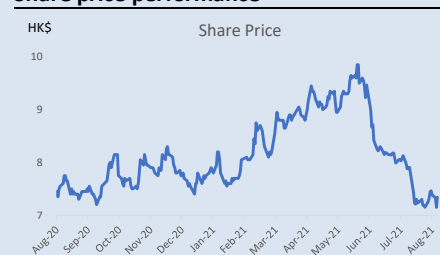
Source: Company data, AMTD Research

Valuation

	2020	2021e	2022e	2023e
P/E	4.8	4.1	3.4	3.0
P/BV	0.4	0.4	0.4	0.4
Div. yield	8.2%	9.5%	11.6%	13.3%
ROE	9.2%	10.0%	11.4%	12.1%
ROA	1.8%	1.8%	2.3%	2.8%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Figure 1: Yuexiu 1H21 Results Summary

1HFY21 Results (RMB '000)	1HFY21A	FY21E	% of FY21E	1HFY20A	YoY/Chg
Property Development	22,467,611	51,513,192	44%	22,541,774	0%
Property Management	702,532	882,104	80%	452,092	55%
Property Investment	349,591	693,225	50%	291,144	20%
Others	716,397	1,774,076	40%	428,874	67%
Revenue	24,236,131	54,862,597	44%	23,713,884	2%
Cost of Sales	(17,749,816)	(41,066,823)	43%	(17,071,363)	4%
Gross Profit	6,486,315	13,795,774	47%	6,642,521	-2%
Sales of investment properties	5,678	34,333	17%	7,346	-23%
Direct costs of investment properties sold	(4,979)	(30,877)	16%	(6,663)	-25%
Gain on sales of investment properties, net	699	3,456	20%	683	2%
Fair value (losses)/gains on revaluation of Inv Prop	71,082	-	NA	(18,042)	NA
Other gains, net	15,046	-	NA	10,577	42%
Selling and marketing costs	(565,734)	(1,344,513)	42%	(498,674)	13%
Administrative expenses	(543,489)	(1,512,577)	36%	(561,070)	-3%
Operating profit	5,463,919	10,942,141	50%	5,575,995	-2%
Finance income	350,693	458,874	76%	326,745	7%
Finance costs	(116,322)	(917,322)	13%	(505,379)	-77%
Share of profit of joint ventures	18,786	506,162	4%	(45,201)	NA
Share of profit of associated entities	84,197	548,626	15%	54,964	53%
Profit before taxation	5,801,273	11,538,481	50%	5,407,124	7%
Taxation	(3,100,796)	(6,241,199)	50%	(3,109,908)	0%
Profit of the year	2,700,477	5,297,281	51%	2,297,216	18%
Attributable to Equity holders of company	2,300,418	4,661,608	49%	1,994,723	15%
Attributable to Non-controlling interests	400,059	635,674	63%	302,493	32%
Core Attrib. Net Profit	2,100,000	4,661,608	45%	1,990,000	5.5%
Key Ratios					
GP Margin	26.8%	25.1%		28.0%	-1.2ppt
Core Net Margin	8.7%	8.5%		8.4%	0.3ppt
	1HFY21A	FY21E		1HFY20A	YoY/Chg
Net Debt to Equity	49.8%	55.1%		71.2%	-21.4ppt
Debt to Asset (excl. Contract Liabilities)	69.4%	69.7%		70.7%	-1.3ppt
Cash to Short-term Borrowings	1.8x	2.1x		2.8x	-1.0x
Total Assets to Total Equity	4.3x	4.3x		4.1x	0.2x

Source: Company data, AMTD Research Estimates

Figure 2: China Property Developers: Peers Valuation Comparison

Date	18/8/2021	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
China Property Developers										
2202 HK	Vanke	23.55	41,318	5.8x	5.2x	4.8x	1.0x	0.9x	0.8x	6.0%
960 HK	Longfor	37.60	29,291	10.5x	8.4x	7.2x	1.8x	1.5x	1.3x	4.3%
688 HK	COLI	18.78	26,397	4.8x	4.2x	3.9x	0.6x	0.5x	0.5x	7.1%
1109 HK	CR Land	28.80	26,375	7.6x	6.3x	5.5x	0.9x	0.8x	0.7x	4.9%
2007 HK	Country Garden	8.62	24,886	4.7x	4.3x	3.7x	0.9x	0.8x	0.7x	5.9%
1918 HK	Sunac	20.55	12,303	3.0x	2.3x	2.1x	0.6x	0.5x	0.4x	9.0%
3333 HK	Evergrande	5.25	8,933	2.0x	2.5x	2.5x	0.4x	0.3x	0.3x	3.3%
813 HK	Shimao	16.66	7,569	4.2x	3.5x	3.0x	0.5x	0.5x	0.4x	10.1%
3380 HK	Logan	9.59	6,800	3.7x	3.1x	2.6x	1.1x	0.8x	0.7x	11.9%
1030 HK	Seazen	7.42	5,918	3.9x	3.8x	3.4x	1.1x	0.9x	0.7x	6.2%
884 HK	CIFI	5.38	5,779	4.9x	3.9x	3.3x	1.0x	0.8x	0.7x	7.1%
3383 HK	Agile	9.29	4,673	3.4x	3.1x	2.7x	0.6x	0.5x	0.5x	13.3%
1813 HK	KWG	9.15	3,740	4.0x	3.1x	2.6x	0.6x	0.5x	0.4x	11.4%
2777 HK	R&F	7.35	3,542	2.8x	2.8x	2.4x	0.3x	0.2x	0.2x	15.3%
3900 HK	Greentown	10.64	3,409	9.8x	7.7x	7.0x	0.7x	0.6x	0.6x	3.7%
1238 HK	Powerlong*	6.31	3,357	6.1x	4.8x	3.8x	0.6x	0.6x	0.5x	7.4%
123 HK	Yuexiu*	7.34	2,919	4.8x	4.1x	3.4x	0.4x	0.4x	0.4x	8.2%
6158 HK	Zhenro	4.82	2,704	7.3x	6.1x	5.1x	0.9x	0.8x	0.7x	2.9%
3990 HK	Midea RE	15.04	2,384	3.9x	3.0x	2.5x	0.7x	0.6x	0.5x	12.0%
9993 HK	Radianc*	4.49	2,333	5.3x	4.7x	3.6x	0.7x	0.6x	0.6x	7.2%
1638 HK	Kaisa	2.38	2,144	3.1x	1.9x	1.8x	0.4x	0.2x	0.2x	5.5%
1233 HK	Times	8.31	2,117	2.7x	2.4x	2.1x	0.7x	0.6x	0.5x	10.4%
2772 HK	Zhongliang	4.54	2,088	3.8x	3.2x	2.8x	1.3x	1.0x	0.8x	10.2%
3883 HK	Aoyuan*	5.42	1,877	2.5x	2.3x	2.0x	0.7x	0.6x	0.5x	17.0%
2103 HK	Sinic*	4.01	1,839	6.4x	5.8x	4.6x	1.2x	1.0x	0.9x	4.2%
1966 HK	China SCE	3.04	1,648	3.4x	2.7x	2.2x	0.5x	0.4x	0.4x	9.1%
272 HK	Shui On Land	1.32	1,367	NA	NA	NA	0.2x	NA	NA	0.0%
1628 HK	Yuzhou*	1.57	1,271	NA	8.7x	5.3x	0.3x	0.3x	0.3x	22.9%
95 HK	Lvgem*	1.84	1,205	12.7x	4.4x	4.3x	0.3x	0.3x	0.3x	0.0%
1996 HK	Redsun*	2.73	1,168	5.8x	4.1x	3.9x	0.5x	0.5x	0.4x	5.3%
2019 HK	Dexin China*	3.00	1,041	4.6x	4.4x	4.0x	1.2x	1.0x	0.8x	4.4%
3301 HK	Ronshine	4.50	973	2.8x	3.2x	2.6x	0.4x	0.3x	0.3x	11.5%
119 HK	Poly Prop	2.03	968	3.6x	NA	NA	0.2x	NA	NA	6.3%
1098 HK	Roadking	9.52	916	NA	NA	NA	0.3x	NA	NA	5.8%
832 HK	CCRE*	1.92	732	1.8x	1.9x	1.7x	0.4x	0.3x	0.3x	21.3%
6111 HK	Dafa*	6.19	658	12.5x	10.0x	8.3x	1.2x	1.1x	1.0x	1.6%
230 HK	Minmetals*	0.80	344	23.8x	11.0x	6.2x	0.3x	0.3x	0.3x	2.5%
Total/Average			246,986	5.6x	4.5x	3.7x	0.7x	0.6x	0.5x	8.0%

Source: Bloomberg Estimates, *AMTD Research Estimates

Note: As of 18 Aug 2021

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AMTD Investment Ratings

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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

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