

Yuexiu Property (123 HK)

Solid balance sheet facilitates land acquisitions

- Yuexiu's core profit increased 3% YoY to RMB 4.15bn
- Gross margin dropped 3.4ppt YoY to 21.8%
- 2022 contracted sales target of RMB 123.5bn implies a 7% YoY growth; management expects GPM to be 20-25% going forward
- Maintain **BUY** with revised TP of HK\$ 10.24 based on a 70% discount to NAV

Solid balance sheet with declining finance costs. Yuexiu FY21 core profit increased 3% YoY to RMB 4.15bn, 5.4% below our forecast. This is due to the weaker-than-expected GPM, which was down 3.4ppt YoY to 21.8%, despite booked ASP was up 33% YoY to RMB 24k/sqm, reflecting an unfavourable increase in land cost. Net gearing dropped 0.4ppt YoY to 47.1% as of Dec 2021 although land premium paid surged 148% YoY to RMB 44.48bn (representing 38.6% of 2021 contracted sales). In 2021, Yuexiu acquired 9.18mn sqm (attributable: ~5.797mn sqm) of new projects, of which 56% are acquired through non-public tendering, such as TOD, city operations, and SOEs cooperation. As of Dec 2021, Yuexiu had a landbank of 27.11mn sqm (+10.5% YoY). Since all the three-red-line requirements are met, Yuexiu's average finance cost declined further by 36bps YoY to 4.26%. Overall, the Group's balance sheet is solid enough for more land acquisitions as opportunities of bargain purchases are set to increase in a muted land market.

Expect contracted sales to grow 7%YoY to RMB 123.5bn for 2022. In 2022, Yuexiu targets to achieve contracted sales of RMB123.5bn (+7%YoY) based on saleable resources of RMB214.6bn and a sell-through rate of 57.5%. While 2M21 contracted sales dropped 42% YoY, we believe the annual target is still achievable based on its abundant saleable resources and our expectation of a gradual recovery in 2H on policy relaxation. As of Dec 2021, unrecognized sales were RMB 150.65bn (+25.9%YoY), which will support revenue growth in coming years. Management expects a 20-25% GPM going forward based on the declining profitability trend industry-wide. In particular, the Group expects TOD to entail a higher GPM of ~30%, comparing to ~20% for projects from open tendering.

Maintain BUY with revised TP at HK\$ 10.24. We lower our 2022E/23E core profit forecasts by 8.8%/11.1% on weaker-than-expected GPM guidance. As a result, our NAV/share forecast fell to HK\$ 34.13 (from HK\$ 40.00). We lower our TP to HK\$ 10.24 (from HK\$ 12.00) based on a 70% discount to NAV (unchanged). Maintain **BUY**. Yuexiu remains our top small/mid-cap picks given its SOE status, sound balance sheet, and diversified land acquisition channels.

Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	46,234	57,379	69,337	77,748	81,384
Chg (% YoY)	20.6	24.1	20.8	12.1	4.7
Core profit (RMB mn)*	4,020	4,150	4,517	5,099	5,278
Chg (% YoY)	14.5	3.2	8.8	12.9	3.5
Core EPS (RMB)	1.30	1.34	1.46	1.65	1.70
Chg (% YoY)	14.5	3.2	8.8	12.9	3.5
BVPS (RMB)	14.1	14.9	15.8	16.9	17.9
Chg (% YoY)	7.4	5.7	6.0	6.4	6.3
P/E (x)	4.9	4.7	4.4	3.9	3.7
P/B (x)	0.45	0.43	0.40	0.38	0.36
ROE (%)	9.2	9.0	9.2	9.8	9.5
ROA (%)	1.5	1.3	1.3	1.3	1.2
DPS (HK\$)	0.60	0.65	0.69	0.78	0.80
Yield (%)	7.6	8.3	8.7	9.9	10.2
Net gearing (%)	47.5	47.1	Net cash	Net cash	Net cash

HKD/RMB= 1.24

* Excluded post-tax revaluation gains on IP and exchange gain/(losses)

Source(s): The Company, ABCI Securities estimates

Company report

Mar 11, 2022

Rating: **BUY**
TP: HK\$ 10.24

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Share price (HK\$)	7.87
Est. share price return	30.1%
Est. dividend yield	8.7%
Est. total return	38.8%
Previous Rating & TP	BUY; HK\$12.0
Previous Report Date	Feb 16, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	9.17/6.51
Issued shares (mn)	3,096.5
Market cap (HK\$ mn)	24,369
Avg daily turnover since listing (HK\$ mn)	20.29
Major shareholder(s) (%):	
Guangzhou Yue Xiu Holdings Limited	39.78
GZ Metro	19.90

Source(s): Bloomberg, ABCI Securities

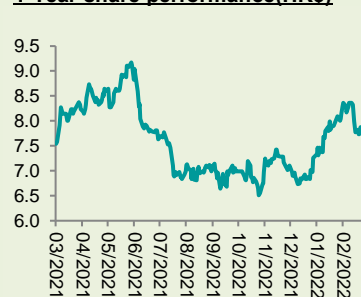
Share Performance (%)

	Absolute	Relative*
1-mth	(1.6)	15.9
3-mth	10.8	26.4
6-mth	11.2	33.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Exhibit 1: Yuexiu's 2021 results

P&L	2021	2020	YoY Chg	Operating statistics	2021	2020	YoY Chg
	RMBmn	RMBmn	(%)				
Turnover	57,379	46,234	24.1	Contracted GFA (mn sqm)	4.18	3.79	10.1
Cost of Sales	(44,896)	(34,608)	29.7	Contracted ASP (RMB/sqm)	27,570	25,247	9.2
Gross Profit	12,482	11,626	7.4	Contracted sales (RMBm)	115,150	95,763	20.2
Gross Margin (%)	21.8	25.1	(3.4ppt)	GFA Delivered (mn sqm)	2.26	2.43	(7.1)
Selling and distribution costs	(1,590)	(1,210)	31.4	Booked ASP (RMB/sqm)	24,221	18,228	32.9
Administrative expense	(1,623)	(1,344)	20.8	Booked sales (RMBmn)*	54,711	44,297	23.5
EBIT	9,269	9,072	2.2				
EBIT Margin (%)	16.2	19.6	(3.5ppt)				
Other income	730	459	59.0	Balance sheet	Dec-21	Dec-20	YoY %
Fair value gain of IP	(904)	641	(241.0)		RMBmn	RMBmn	
Other exceptional items	2,412	30	na	Gross debt	75,534	67,839	11.3
Share of profit from JCE/ Associates	415	932	(55.4)	Cash	40,499	37,308	8.6
Finance cost	(1,080)	(935)	15.5	Net debt	35,035	30,531	14.8
Profit before tax	10,842	10,200	6.3	Net gearing (%)	47.1%	47.5%	(0.4ppt)
Tax	(5,569)	(5,517)	0.9	Revenue breakdown	2021	2020	YoY %
- LAT	(3,033)	(3,058)	(0.8)		RMBmn	RMBmn	
- Enterprise tax	(2,535)	(2,459)	3.1	Property development	54,153	43,465	24.6
Profit after tax	5,274	4,683	12.6	Rental	642	603	6.6
Minority Interest	(1,685)	(435)	287.3	PM services	1,410	802	75.9
Net profit	3,589	4,248	(15.5)	Hotels and others	1,173	1,365	(14.0)
Core net profit	4,150	4,020	3.2	Total	57,379	46,234	24.1
Core net margin	7.2%	8.7%	(1.5ppt)				

* Included sales of investment properties
Source(s): The Company, ABCI Securities

Exhibit 2: Yuexiu's cash flow budget

(RMBbn)	2022E
Property sales	88.88
Rental Income and other	2.21
Total cash inflow	91.09
Land Premium Paid and Auction Deposits	(45.72)
Construction Cost	(23.38)
Interest Payment	(3.96)
Tax and Administrative and Other Expenses	(17.71)
Total cash outflow	(90.77)

Note #: excluding JV & associates
Source(s): The Company, ABCI Securities



Exhibit 3: Yuexiu's 2022E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
	(mn sqm)	(RMB mn)	% of total		
Property development	22.6	66,505	79%	DCF with WACC of 15.3%	2,948
Investment Properties	0.7	9,293	11%	4.5% cap rate on 2022E net rental;	
Yuexiu Services (6626 HK)		3,392	4%	66.9% of Mkt value	
Yuexiu REIT (405 HK)		5,015	6%	39.7% of Mkt value	
Total 2022E GAV		84,205	100%		
2022E Net cash/ (debt)		1,186	1%		
Total 2022E NAV		85,391	101%		
No. of share outstanding (diluted)		3,096			
NAV per share (RMB)		27.58			
Ex rate		1.24			
NAV per share (HKD)		34.13			
Target discount (%)		70%			
Target Price (HKD)		10.24			
WACC		15.3%			
Cost of debt		5.1%			
Cost of equity		30.0%			
Debt/ (Debt + Equity)		56%			

Source(s): Company, ABCI Securities estimates

Exhibit 4: Changes in TP and profit forecasts

	OLD	NEW	Chg	Reasons
NAV	40.00	34.13	(14.7%)	Factor in weaker-than-expected margin guidance
Discount	70%	70%		
TP (HK\$)	12.00	10.24	(14.7%)	
Core profit (RMBmn)				
- 2022E	4,955	4,517	(8.8%)	Factor in weaker-than-expected margin guidance
- 2023E	5,735	5,099	(11.1%)	Factor in weaker-than-expected margin guidance

Source(s): Company, ABCI Securities estimates

Risk factors: 1) Declining margin trend; 2) Cost overrun and delay due to complicated construction process involved in TOD projects; 3) Uncertain development of COVID-19



Financial statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenue	46,234	57,379	69,337	77,748	81,384
Cost of sales	(34,608)	(44,896)	(54,083)	(60,474)	(61,476)
Gross Profit	11,626	12,482	15,254	17,275	19,908
SG&A expenses	(2,554)	(3,213)	(3,595)	(4,069)	(4,693)
EBIT	9,072	9,269	11,659	13,206	15,215
Finance cost	(935)	(1,080)	(940)	(928)	(915)
Share of profit of associates	932	415	1,626	1,791	1,851
Other income/ (expenses)	459	730	232	403	570
Fair value gain of investment	641	(904)	-	-	-
Disposal/one-off items	30	2,412	-	-	-
Profit before tax	10,200	10,842	12,577	14,472	16,721
Tax	(5,517)	(5,569)	(4,500)	(5,227)	(6,432)
Profit after tax	4,683	5,274	8,077	9,245	10,289
Minority interest	(435)	(1,685)	(3,560)	(4,146)	(5,011)
Reported net profit	4,248	3,589	4,517	5,099	5,278
Less: exceptional items	(228)	561	0	0	(0)
Core net profit	4,020	4,150	4,517	5,099	5,278
Per share					
Reported EPS (RMB)	1.37	1.16	1.46	1.65	1.70
Core EPS (RMB)	1.30	1.34	1.46	1.65	1.70
DPS (HK\$)	0.60	0.65	0.69	0.78	0.80
Payout ratio (%)	38%	38%	38%	38%	38%
BVPS (RMB)	14.13	14.93	15.84	16.86	17.91
Growth %					
Revenue	20.6%	24.1%	20.8%	12.1%	4.7%
Gross Profit	-11.4%	7.4%	22.2%	13.2%	15.2%
EBIT	-16.6%	2.2%	25.8%	13.3%	15.2%
Core net profit	14.5%	3.2%	8.8%	12.9%	3.5%
Margin %					
Gross margin	25.1%	21.8%	22.0%	22.2%	24.5%
EBIT margin	19.7%	17.4%	20.1%	20.2%	21.7%
Core net margin	8.7%	7.2%	6.5%	6.6%	6.5%
Key assumptions					
Contracted Sales (RMB mn)	95,763	115,150	123,263	145,584	142,334
GFA sold (mn sqm)	3.79	4.18	4.63	5.55	5.93
ASP (RMB/sqm)	25,247	27,570	26,612	26,227	24,010
Booked Sales (RMB mn)	43,465	54,153	66,007	73,977	77,067
GFA delivered (mn sqm)	2.39	2.24	2.53	2.82	3.04
Booked ASP (RMB/sqm)	18,200	24,200	26,141	26,236	25,328

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Current assets	211,629	262,804	291,769	330,285	364,190
Cash	28,214	32,766	67,988	117,828	151,768
Restricted cash	9,094	7,733	7,733	7,733	7,733
Trade & other receivables	162	126	126	126	126
Property under development	155,149	190,742	184,486	173,162	173,127
Other current assets	19,010	31,436	31,436	31,436	31,436
Non-current assets	51,567	51,051	53,831	56,777	59,783
Property, plant & equipment	3,201	3,896	4,051	4,205	4,360
Investment properties	16,076	10,982	11,982	12,982	13,982
Investment in Associate and JCE	19,227	23,548	25,174	26,965	28,816
Other non-current assets	13,062	12,625	12,625	12,625	12,625
Total Assets	263,196	313,855	345,600	387,062	423,973
Current Liabilities	131,585	182,621	208,061	242,272	270,956
Short-term borrowings	16,576	29,802	28,802	27,802	26,802
Trade & other payables	2,256	1,613	1,613	1,613	1,613
Pre-sales deposits	54,201	73,177	99,618	134,829	164,513
Other current liabilities	58,552	78,029	78,029	78,029	78,029
Non-current liabilities	67,334	56,867	56,867	56,867	56,867
Long-term borrowings	51,263	45,732	45,732	45,732	45,732
Other non-current liabilities	16,071	11,135	11,135	11,135	11,135
Total Liabilities	198,920	239,488	264,929	299,140	327,824
Net Assets	64,276	74,367	80,671	87,923	96,149
Shareholders' Equity	43,748	46,236	49,031	52,186	55,451
Minority Interest	20,528	28,131	31,640	35,737	40,698
Total Equity	64,276	74,367	80,671	87,923	96,149
Key ratio					
Gross debt (RMB mn)	67,839	75,534	74,534	73,534	72,534
Net debt (RMB mn)	30,531	35,035	(1,186)	(52,026)	(86,967)
Net gearing (%)	48%	47%	-1%	-59%	-90%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

FY ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
EBITDA	9,394	9,615	12,004	13,552	15,561
Change in Working Capital	15,675	(15,995)	35,674	49,472	32,617
Tax payment	(5,481)	(5,569)	(4,500)	(5,227)	(6,432)
Operating cash flow	19,588	(11,949)	43,179	57,797	41,746
Purchase of PP&E	(661)	(500)	(500)	(500)	(500)
Addition of Investment Properties	-	(1,000)	(1,000)	(1,000)	(1,000)
Acquisition of subsidiaries	(5,494)	-	-	-	-
Others	(3,447)	8,530	232	403	570
Investing cash flow	(9,602)	7,030	(1,268)	(1,097)	(930)
Debt raised	20,563	6,000	6,000	6,000	6,000
Debt repaid	(19,468)	(9,855)	(7,000)	(7,000)	(7,000)
Interest expenses	(3,826)	(4,101)	(3,917)	(3,865)	(3,813)
Equity raised	-	-	-	-	-
Dividend to shareholders	(1,466)	(1,636)	(1,722)	(1,944)	(2,012)
Others	(1,680)	19,065	(50)	(50)	(50)
Financing cash flow	(5,877)	9,472	(6,690)	(6,860)	(6,875)
Net cash inflow/ (outflow)	4,108	4,553	35,221	49,840	33,941
Cash- beginning	24,106	28,214	32,766	67,988	117,828
Cash- year-end	28,214	32,766	67,988	117,828	151,768

Source(s): Company, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim -10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2009 (For reference: HSI total return index 2009-21 averaged at 9.2%)

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