

Yuexiu Property (123 HK) A “Rail + Property” developer in Greater Bay Area

- 1H20, the three atop-station developments (“TOD”) projects acquired under the “Rail + Property” development model attained RMB5.05 bn (+142%YoY) in contracted sales
- Acquisition of Guangzhou Metro Property Management drives PM revenue growth
- New “Residential + Supplementary construction” model strengthens cash flow
- Initiate **BUY** with TP HK\$ 2.44 based on a 70% discount to NAV

Formula of success- the “Rail + Property” development model. Yuexiu started the implementation in 2019, after introducing Guangzhou Metro Group (GZ Metro) as its second largest shareholder (19.9% stake) through the 3.08bn share subscription at HK\$2.0 and acquisitions of (1) a 86% stake in Yue Galaxy; (2) a 51% stake each in Yue Melody and Yue Infinity. The three large-scale atop-station developments (TOD) in Guangzhou (GZ) have a total GFA of 3.15mn sqm. In 1H20, the three TOD projects attained RMB 5.05bn (+142%YoY) in contracted sales. We expect Yuexiu to secure three or more station projects with a total GFA of ~1mn sqm per year from GZ Metro.

New “Residential + Supplementary construction” model enables a better cash flow. The Group acquired the Guangzhou Panyu Changlong project, Tinggang Station Project in Baiyun District, and the Jinshazhou project in Baiyun District through the “Residential + Supplementary construction” model in Mar, Sep, and Dec in 2020, respectively. Due to specific design and construction requirement of these supplementary government projects, developers without relevant experience will be eliminated in the tendering process. As a result, Yuexiu can obtain the site at cheaper costs. Besides, the Group can enjoy a lower initial capital outlay and better cash flow as expenses of the government projects are usually phased evenly over the two- to three-year construction period.

Acquisition of Guangzhou Metro Property Management Co., Ltd (GZMPM) drives growth. In Nov 2020, Yuexiu announced to acquire 67.0% of the indirect effective equity interest in GZMPM at RMB 281.74mn. The acquisition would further strengthen the “Rail + Property” strategy by bringing new opportunities to the Group’s property management business.

Initiate BUY with TP at HK\$ 2.44. Our valuation is based on the discount-to-NAV method. End-2021E NAV is RMB 104.5bn, or HK\$8.13/share. Our TP at HK\$ 2.44 is based on a 70% discount (in-line with small-/mid-cap peers) to our NAV estimates and implies 6.6x 21E P/E and 0.69x 21E P/B.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	26,433	38,339	47,715	61,706	68,793
Chg (% YoY)	11.1	45.0	24.5	29.3	11.5
Core profit (RMB mn)*	2,810	3,510	3,820	4,806	5,395
Chg (% YoY)	19.6	24.9	8.8	25.8	12.3
EPS (RMB)	0.23	0.24	0.25	0.31	0.35
Chg (% YoY)	19.6	7.2	2.0	25.8	12.3
BVPS (RMB)	2.7	2.6	2.8	3.0	3.2
Chg (% YoY)	4.4	(3.6)	6.4	7.2	7.5
P/E (x)	5.7	5.3	5.2	4.2	3.7
P/B (x)	0.47	0.49	0.46	0.43	0.40
ROE (%)	8.3	8.6	8.8	10.4	10.8
ROA (%)	1.7	1.5	1.5	1.7	1.7
DPS (HK\$)	0.09	0.10	0.10	0.13	0.15
Yield (%)	6.00	6.58	6.71	8.44	9.48
Net gearing (%)	61.2	74.0	69.4	55.7	Net cash

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

Source(s): The Company, ABCI Securities estimates

Company report

Jan 11, 2021

Rating: **BUY**
TP: HK\$ 2.44

Analyst : Kenneth Tung
Tel: (852) 2147 8311
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Share price (HK\$)	1.55
Est. share price return	57.4%
Est. dividend yield	6.7%
Est. total return	64.1%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	1.82/1.22
Issued shares (mn)	15,482
Market cap (HK\$ mn)	23,997
Avg daily turnover since listing (HK\$ mn)	26.6
Major shareholder(s) (%):	
Yue Xiu Enterprises (Holdings) Limited	39.78
GZ Metro	19.90

Source(s): Bloomberg, ABCI Securities

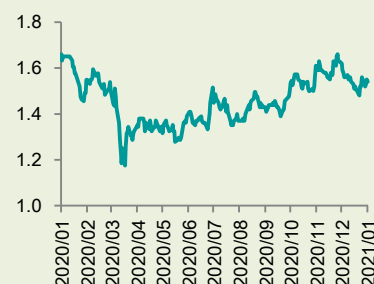
Share Performance (%)

	Absolute	Relative*
1-mth	(0.6)	(6.3)
3-mth	(1.5)	(13.6)
6-mth	7.0	(1.9)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Yuexiu Property Company Limited (123 HK, BUY)
China Property sector
Jan 11, 2021

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Formula of success: the “Rail+ Property” development model

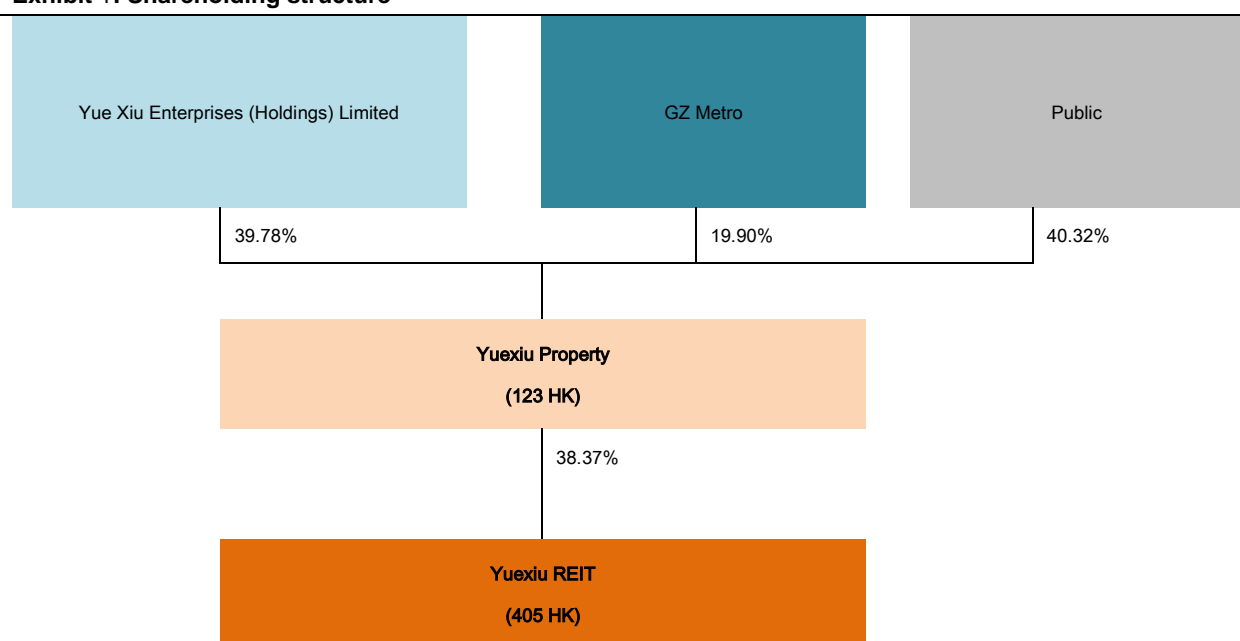
Strategic partnership with Guangzhou Metro Group

Yuexiu’s “Rail +Property” development started in 2019 by introducing Guangzhou Metro Group (GZ Metro) as its second largest shareholder (19.9% stake) after the 3.08bn share subscription at HK\$ 2.0 and acquisitions of (1) a 86% stake in Yue Galaxy; (2) a 51% stake each in Yue Melody and Yue Infinity. The three large-scale atop-station developments (TOD) in Guangzhou (GZ) have a total GFA of 3.15mn sqm. In 1H20, the three TOD projects (Yue Galaxy, Yue Melody, and Yue Infinity) achieved RMB 5.05bn (+142%YoY) in contracted sales.

Strategic cooperation with GZ Metro continues smoothly. In 1H20, the Group obtained the rights to acquire a 51% interest in two new TOD projects, namely, Shuixi Project and Zhenlong Project, by entering into two option deeds with Guangzhou Yue Xiu Group, Yuexiu’s ultimate controlling shareholder. The Group exercised the two options and completed the project acquisitions in Sep 2020.

Going forward, we expect more TOD project injections from GZ Metro based on the latter’s rapid expansion in railway network. According to annual report of GZ Metro, there were 271 metro stations with 14 metro lines totaling 515km in operation as at 2019; also, 13 metro lines with a total length of 345km were under construction. We expect Yuexiu to secure three or more station projects with a total GFA of ~1mn sqm each year from GZ Metro.

Exhibit 1: Shareholding structure



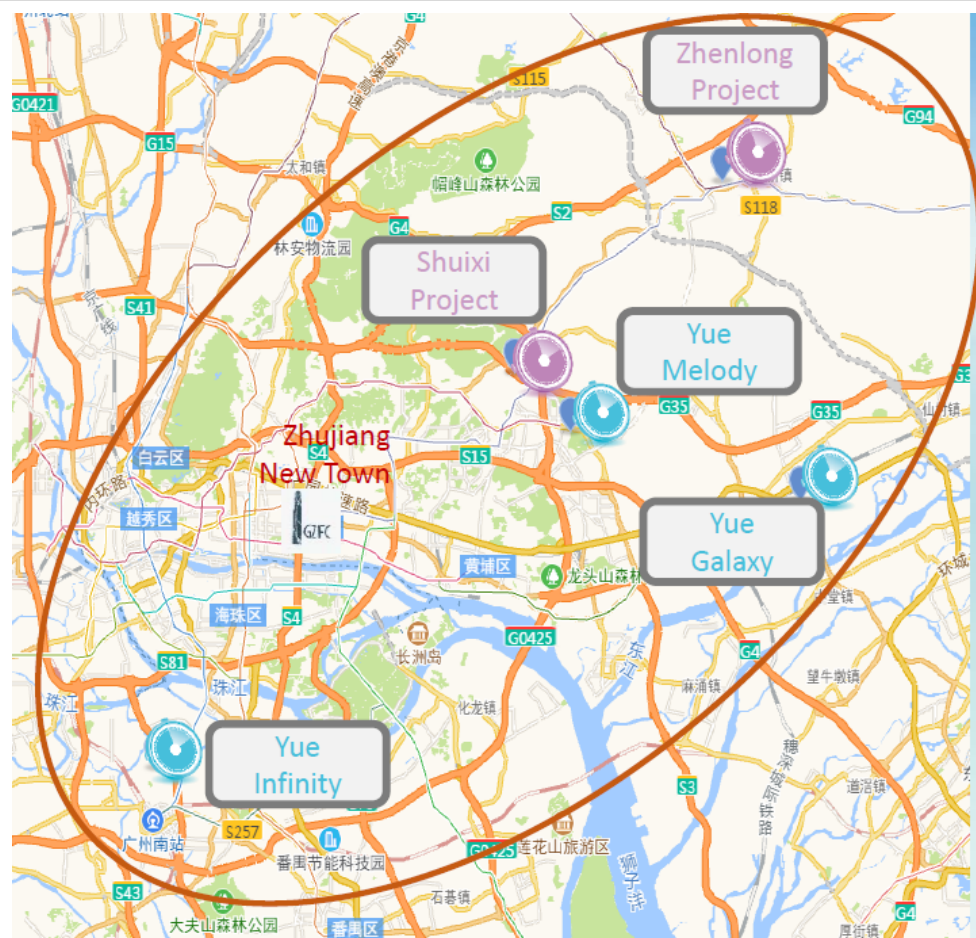
Source(s): The Company, ABCI Securities

Exhibit 2: Key TOD projects from GZ Metro

Project	GFA mn sqm	Saleable GFA mn sqm	Stake	Consideration RMBbn	Average land cost on attributable saleable GFA RMB/sqm	Metro station
Acquired in 2019						
Yue Galaxy	1.36	0.94	86%	14.11	17,451	Guanhu(官湖) Station
Yue Melody	0.91	0.61	51%	4.87	15,641	Xiangxue(香雪) Station
Yue Infinity	0.88	0.61	51%	4.02	12,875	Chentougang (陳頭崗) Station
Total	3.15	2.16		23.00		
Acquired in Sep 2020						
Shuixi Project	0.34	0.21	51%	2.33	21,965	Shuixi (水西) station
Zhenlong Project	0.71	0.47	51%	3.31	13,727	Zhenlong (鎮龍) station
Total	1.05	0.68		5.64		

Source(s): The Company, ABCI Securities

Exhibit 3: Key TOD projects from GZ Metro



Source(s): The Company, ABCI Securities

New “Residential + Supplementary construction” model enabled better cash flow

In 2019, the Group started to implement a new “Residential + Supplementary construction” model to increase landbank. In particular, the Group acquired the GZ Panyu Changlong project, Tinggang Station Project in Baiyun District, and the Jinshazhou project in Baiyun District through the “Residential + Supplementary construction” model in Mar, Sep, and Dec in 2020, respectively. Due to specific design and construction requirement of the government projects, developers without relevant experiences will be eliminated in the tendering process. As a result, Yuexiu can obtain the site at lower costs and enjoy a lower initial capital outlay since expenses for the government projects are usually phased evenly over a construction period of 2-3 years. From the local government’s perspective, the risk of potential cost overrun will be transferred to the developer. As the central government is normally entitled to 30% of land premium of the newly constructed land site, the lower land premium with extra free-of charge construction would allow for more budgeting flexibility in the local government.

Exhibit 4: Land acquisition via “Residential + Supplementary construction projects” Model

Month	Project	GFA (’000 sqm)	Estimated construction cost of government projects (RMB mn)	Land premium RMB mn)	Considerations (RMB mn)	Average land cost RMB/sqm
Mar-20	Panyu Hanxi Changlong, GZ	318	3,926*	3,937	7,863	24,755
Sep-20	Tinggang Station, Baiyun District, GZ	316	3,000**	3,715	6,715	21,269
Dec-20	Jinshazhou, Baiyun District, GZ	229	950**	2,524	3,474	15,145

* Related to phase II construction work of the Guangzhou International School Area of South China University of Technology

** Related to commercial and office ancillary facilities

Source(s): The Company, ABCI Securities

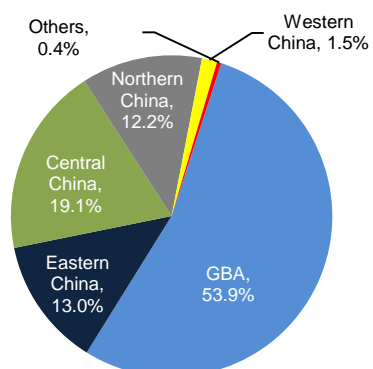
Remarkable progress in urban renewal business

In 2019, the Group obtained the qualification for the redevelopment of two old villages in GZ, namely, Lirendong village in Panyu district and Dongliu village in Nansha district. For Lirendong village, the planned redevelopment area is ~1.72mn sqm and the total GFA will be ~3.49 mn sqm after redevelopment; for Dongliu village, the planned re-development area is ~60,000 sq.m. and total GFA will be ~0.25 mn sqm after redevelopment.

“1+4” national strategic layout with a focus on Greater Bay Area

The Group implemented the “1+4” national strategic layout mandating continuous expansion into eastern China, central China, northern China, and western China, in addition to deepening penetration in the Greater Bay Area (GBA). By end-June, the Group’s landbank totaled ~23.63mn sqm across 19 cities in China, sufficient for development in the next 3-5 years. The Group continued to increase land reserves in the GBA - total landbank in six GBA cities was 12.73 mn sqm, or ~53.9% of its total landbank. TOD projects amounted to ~ 4.19 mn sqm, accounting for ~17.7% of total landbank

Exhibit 5: Yuexiu's landbank breakdown as at June 2020 (GFA: 23.63mn sqm)



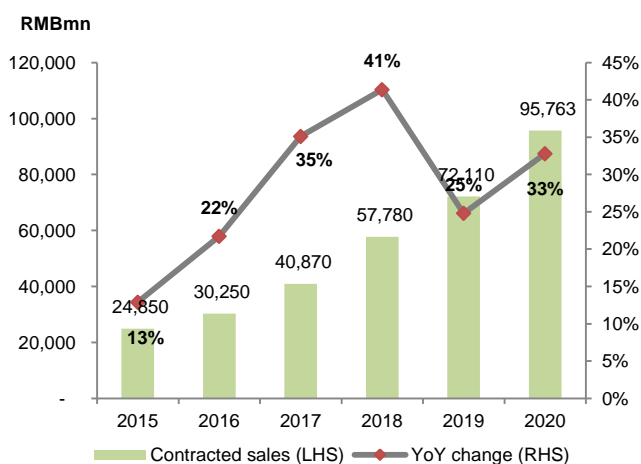
Source(s): The Company, ABCI Securities



Property development: GBA exposure drives growth

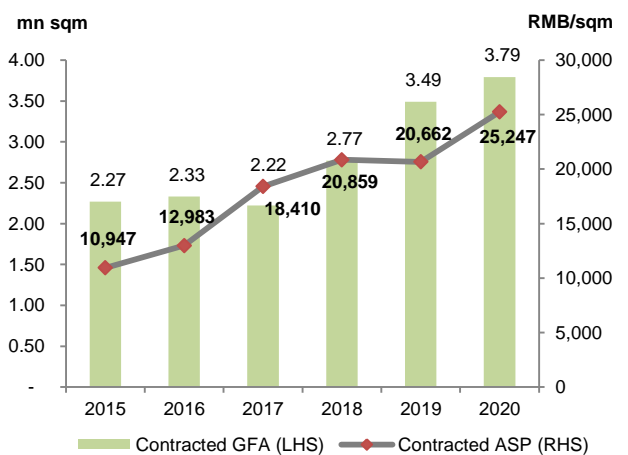
Driven by its high exposure to GBA, Yuexiu's contracted sales rose from RMB 24.85bn in 2015 to RMB 72.1bn in 2019, implying a CAGR of 31%. In 1H20, GBA accounted for 60% of total contracted sales amount. In 2020, Yuexiu's contracted sales soared 33%YoY to RMB 95.8bn, exceeding its sales target of RMB 80.2bn, thanks to the 9% YoY jump in contracted GFA to 3.79mn sqm and 22% YoY increase in ASP to RMB 25,247/sqm. We believe the surge was mainly driven by the injected TOD projects from GZ metro. We estimate the five TOD projects would contribute a total saleable resource of RMB100bn. Yuexiu has locked in significant revenue and profit for coming years. As of end-June 2020, the unrecognized sales value and sales GFA amounted to ~RMB95.54 bn and ~4.37 mn sqm.

Exhibit 6: Yuexiu's contracted sales



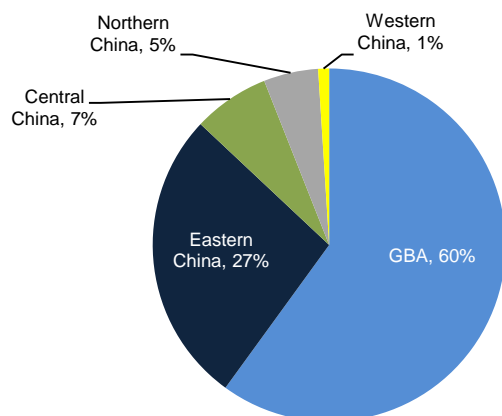
Source(s): The Company, ABCI Securities

Exhibit 7: Yuexiu's contracted GFA and contracted ASP



Source(s): The Company, ABCI Securities

Exhibit 8: Yuexiu's contracted sales by region (1H20)



Source(s): The Company, ABCI Securities

Rental income: recurring income contribution

Dual platform for rental revenue growth

As of June 30, 2020, the Group had 698k sqm of investment properties (IP) under leasing, 553k sqm under development, and 288k sqm for future development. The Group recorded a rental revenue of ~RMB 291mn in 1H20, down 13.6% YoY, mainly due to the disposal of a commercial shopping mall located in Foshan, GZ, at the end of 2019.

While rental revenue has been rising at a 25% CAGR during 2015-19, GFA of IP portfolio actually declined from 0.79mn sqm in 2015 to 0.70mn sqm in 2019, implying a higher rental rate. By disposing rental assets to its 38.37%-owned Yuexiu REIT (405 HK), the Group could achieve a better asset turnover while the latter can increase its rental revenue. In 2018, the Group transferred the Hangzhou Victory Center to Yuexiu REIT, deepening the whole-industry-chain approach of “development + operations + securitization”. We expect its high-end project, GZ International Commerce Centre, to be injected into Yuexiu REIT, and generate RMB 100mn during its first year of operation in 2021.

Yuexiu REIT will share the below-the line profits with the Group; rental income of Yuexiu REIT will not be consolidated in Yuexiu. Yuexiu REIT's revenue increased steadily from RMB1.71bn in 2015 to RMB 2.058bn in 2019, while EBIT increased from RMB 729mn in 2015 to RMB 1,108mn in 2019.

Exhibit 9: Key IP portfolio of Yuexiu (June 2020)

	GFA 000 sqm
Yuexiu Financial Tower	212
Nansha Sheraton Hotel	55
Xiangkang Commercial Plaza	32
Other Guangzhou Commercials	206
Hangzhou Starry City (Commercial)	121
Other projects	74
Subtotal- Major Leasing Projects	698
Guangzhou International Commerce Center	229
Wuhan International Financial City (Commercial)	242
Nansha IFC	82
Subtotal- under development	553
Nansha Southern Le Sand (Commercial)	200
Hangzhou Starry City (Commercial)	88
Subtotal- for future development	288
Total	1,538

Source(s): The Company, ABCI Securities

Exhibit 10: Key IP portfolio of Yuexiu REIT (June 2020)

	GFA 000 sqm
Guangzhou IFC	457
White Horse Building	50
Fortune Plaza	43
City Development Plaza	45
Victory Plaza	28
Hangzhou Victory Center	40
Shanghai Yuexiu Building	62
Wuhan Fortune Center and Starry Victory Shopping Center	248
Total	973

Source(s): Yuexiu REIT, ABCI Securities



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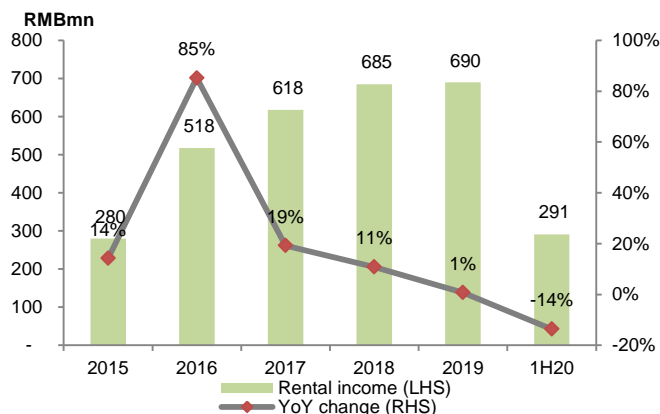
ABC SECURITIES COMPANY LIMITED

Yuexiu Property Company Limited (123 HK, BUY)

China Property sector

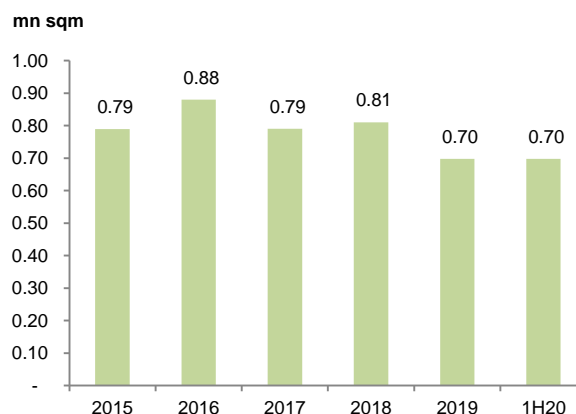
Jan 11, 2021

Exhibit 11: Yuexiu's rental revenue



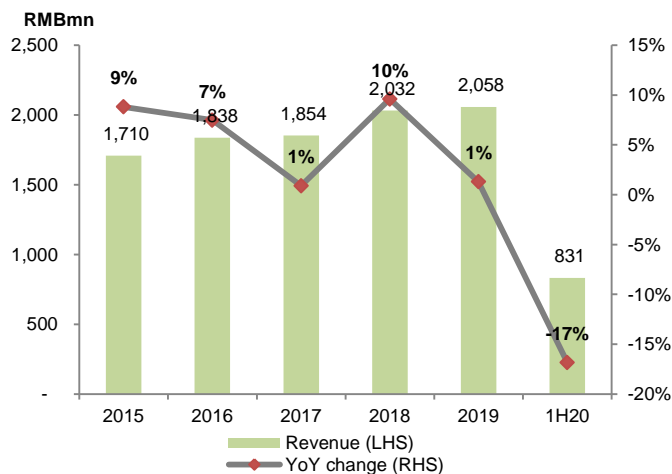
Source(s): The Company, ABCI Securities

Exhibit 12: GFA of Yuexiu's IP portfolio in operation



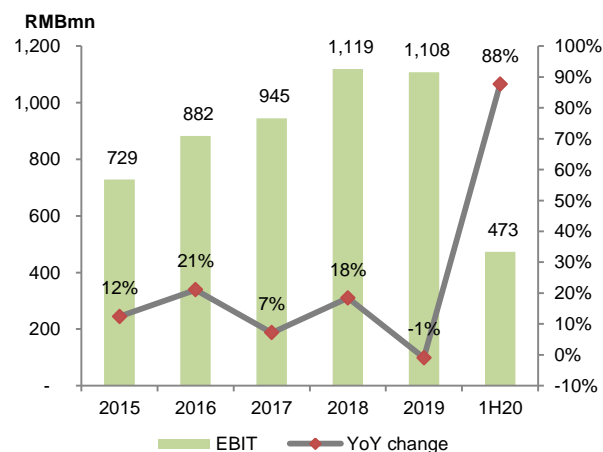
Source(s): The Company, ABCI Securities

Exhibit 13: Yuexiu REIT's total revenue



Source(s): Yuexiu REIT, ABCI Securities

Exhibit 14: Yuexiu REIT's EBIT



Source(s): Yuexiu REIT, ABCI Securities

Property management business: acquisition of Guangzhou Metro Property Management Co. Ltd (GZMPM)

In Nov 2020, Yuexiu announced to acquire 67.0% of the indirect effective equity interest in GZMPM at RMB 281.74 mn (including tax payable of RMB 5.0 mn). The acquisition would further strengthen the “Rail+Property” strategy by bringing forth new opportunities to the property management business. Currently, the Group’s property management portfolio consists mainly of residential properties and commercial properties such as office buildings and shopping malls, and the acquisition would expand the types of property under management by adding train depots and train stations to the portfolio.

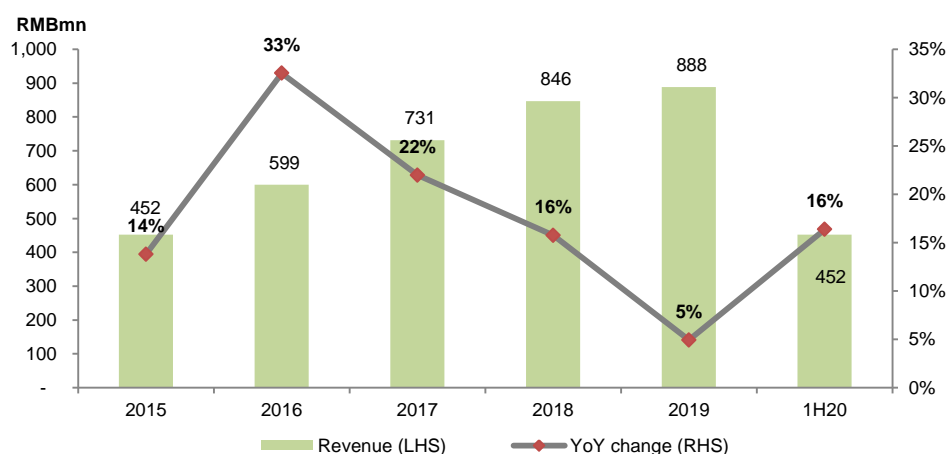
Yuexiu’s property management business has several key growth drivers.

1) Strong pipeline from parents: in 2020, Yuexiu’s GFA presold jumped 9%YoY to 3.79mn sqm. These presold GFA will become GFA under management of Yuexiu’s property management business in a year or two.

2) Premium commercial projects from Yuexiu REIT: Yuexiu REIT has an IP portfolio of total GFA of 0.973mn sqm. These projects normally entail premium management rates with significant upside potential.

3) Opportunities in public property: Given Yuexiu’s SOE status, the Group may increase the no. of public projects in the future. In particular, the new “Residential + Supplementary construction” model would increase its chance of securing the subsequent PM contracts after the construction completes.

Exhibit 15: Yuexiu’s PM revenue



Source(s): The Company, ABCI Securities

Other new initiatives

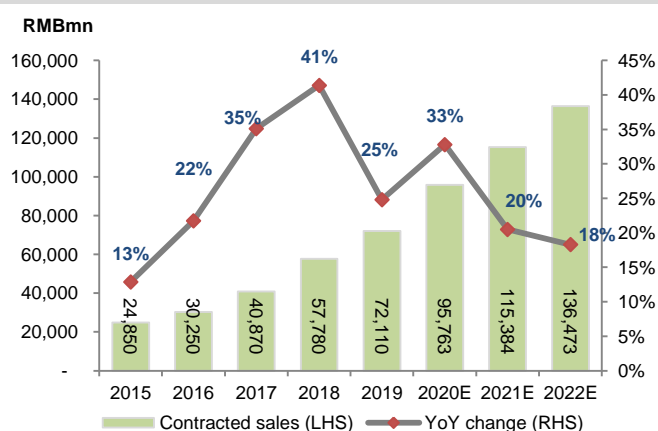
- **Retirement home:** The Group officially commenced its first “Sino-French cooperation” retirement project, Yuexiu Haiyi Garden, and the first long-term leasing project, Yuexiu Star Home
- **Education:** The Group teamed up with renowned schools and signed a contract with South China Normal University and the Primary School Affiliated to Guangzhou University for collaboration in leading education project.

Earnings forecasts

Core net profit to expand at 19% CAGR over 2020E-22E

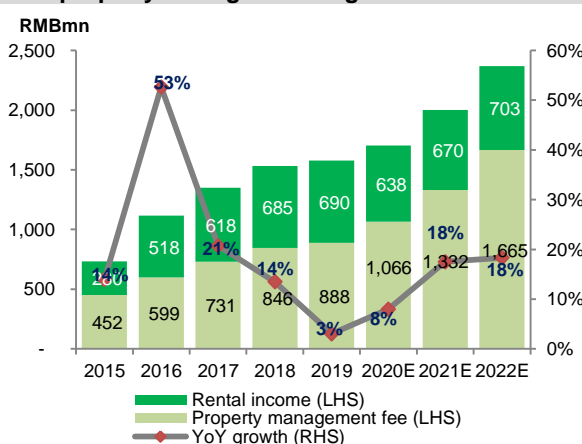
Driven by robust housing demand in GBA and quality metro station projects, we expect contracted sales to grow 20% YoY in 2021E to RMB 115bn (2020: +33%YoY to RMB 95.8bn). While we expect a decline in gross margin in 2020E resulting from Yuexiu's expansion into new cities outside the GBA, gross margin would increase moderately from 25.3% in 2020E to 26.1% in 2022E due to rising contribution from Metro station projects. Recurring income would increase at 18% CAGR for 2020E-22E on increasing GFA under management and higher rates. Overall, we forecast core net profit to rise from RMB 3,820mn in 2020E to RMB 5,395mn in 2022E, representing a 19% CAGR in 2020E-22E.

Exhibit 16: Yuexiu's contracted sales



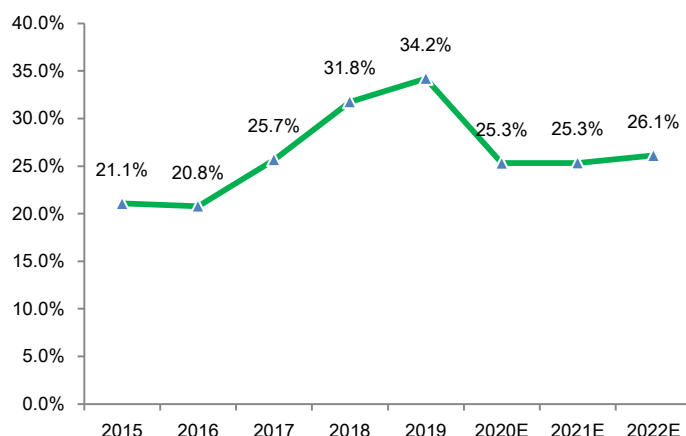
Source(s): The Company, ABCI Securities estimates

Exhibit 17: Yuexiu's recurring income from rental and property management segment



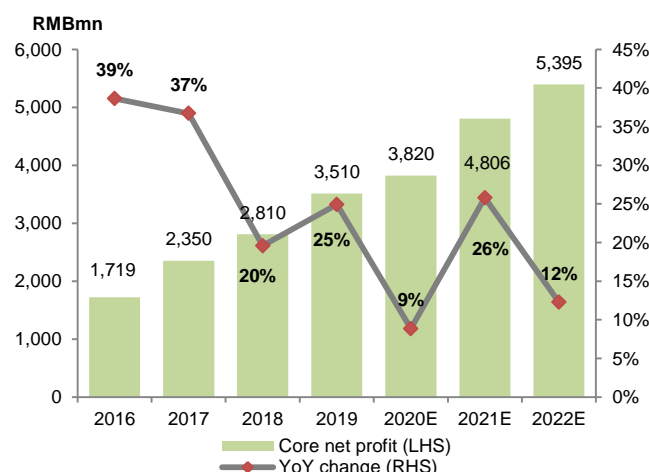
Source(s): The Company, ABCI Securities estimates

Exhibit 18: Yuexiu's gross margin



Source(s): The Company, ABCI Securities estimates

Exhibit 19: Yuexiu's core net profit



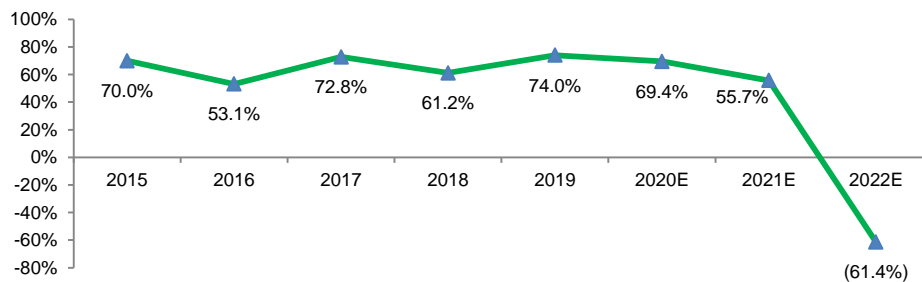
Source(s): The Company, ABCI Securities estimates



Net gearing to decline on fast-growing contracted sales

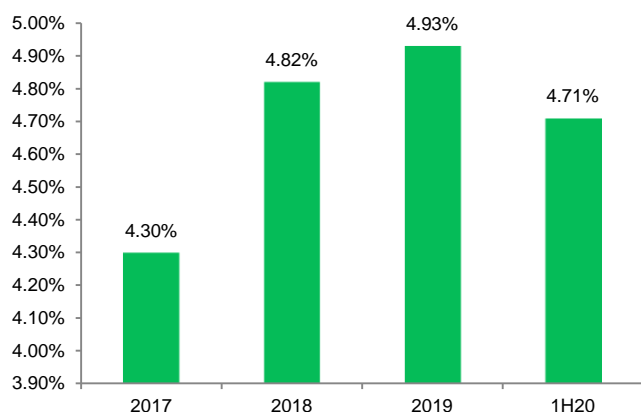
Given its SOE status, Yuexiu's average cost of debt was low at 4.71% in 1H20, 22bps lower than FY19. Driven by fast-growing contracted sales, we expect net gearing would trend down from 69% in 2020E to 56% in 2021E. In our financial forecasts, we have not factored in any cash outflow for land acquisition in and after 2021 due to unconfirmed schedule.

Exhibit 20: Yuexiu's net gearing



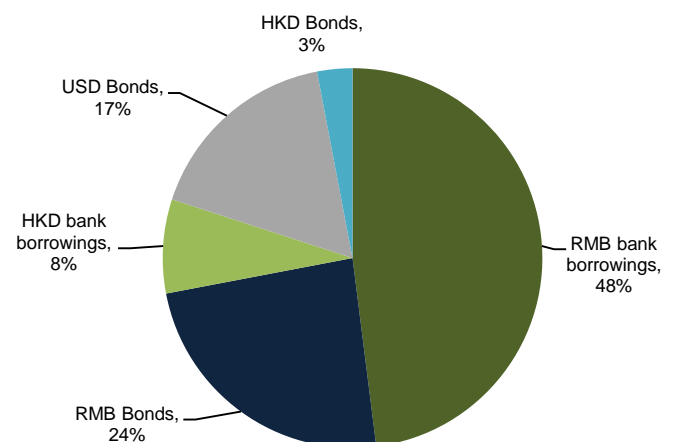
Source(s): The Company, ABCI Securities estimates

Exhibit 21: Yuexiu's average cost of debt



Source(s): The Company, ABCI Securities

Exhibit 22: Yuexiu's debt structure as at June 2020 (total borrowings: RMB71.4bn)



Source(s): The Company, ABCI Securities

Initiate BUY with TP at HK\$2.44 based on 70% discount to NAV

Our valuation for Yuexiu is based on the discount-to-NAV method, one of the commonest valuation metrics used for PRC developers:

- **Property development:** a DCF analysis with a WACC of 10.7% is applied to assess the value of Yuexiu's projects for sales; total value of property development projects arrives at RMB 121.8bn.
- **Investment properties, property management, and hotels:** a cap rate of 4.5% is applied to 2021E net rental income for Yuexiu's investment properties; a 20x 2021E P/E is used for the valuation of Yuexiu's property management business, in-line with the average of HK-listed property management companies
- **Yuexiu REIT:** based on the 38.37% share of Yuexiu REIT's market value

Our end-2021E NAV of RMB 104.5bn (HK\$ 8.13/shr) is derived by subtracting 2021E net debt (RMB 36.5bn) from the end-2021E GAV of RMB 140.97bn. We apply a 70% discount (in-line with small-mid cap peers) to the 2021E NAV to obtain a TP of HK\$ 2.44. Our target valuation of 6.6x 2021E P/E with a 5.4% yield is higher than small/mid-cap peer average of 3.8x 2021E P/E with an 9.5% yield. Initiate with **BUY**.

Exhibit 23: Yuexiu's 2021E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development	16.8	121,793	86%	DCF with WACC of 10.7%	7,271
Investment Properties and property management		15,311	11%	4.5% cap rate on 2021E net rental; 20x 2021E P/E for property management	
Yuexiu REIT (405 HK)	0.7	3,882	3%	Market cap	
Total 2021E GAV		140,986	100%		
2021E Net cash/ (debt)		(36,497)	-26%		
Total 2019E NAV		104,489	74%		
No. of share outstanding (diluted)		15,428			
NAV per share (RMB)		6.77			
Ex rate		1.20			
NAV per share (HKD)		8.13			
Target discount (%)		70%			
Target Price (HKD)		2.44			
WACC		10.7%			
Cost of debt		4.7%			
Cost of equity		20.0%			
Debt/ (Debt + Equity)		56%			

Source(s): ABCI Securities estimates

Exhibit 24: Valuation of HK-listed PRC developers

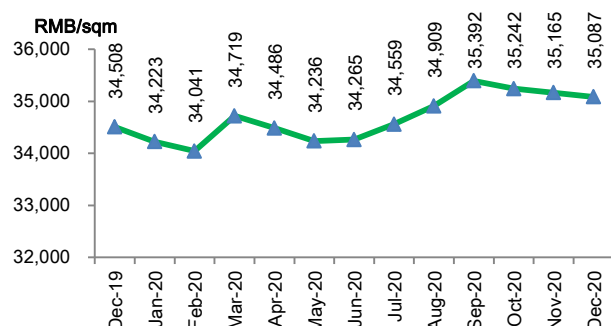
China Property	Ticker	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
				3M	YTD	2020		P/E			Yield (%)			P/B			
		(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	
Residential :																	
1	Vanke-H	2202 HK	392.6	26.90	13	1	(16)	(46.10)	8.43	6.00	5.39	4.65	5.09	5.66	1.29	1.16	1.00
2	COLI	688 HK	171.1	15.62	(22)	(7)	(42)	(76.53)	4.17	3.53	3.02	6.53	7.09	8.30	0.51	0.46	0.42
3	Country Garden	2007 HK	223.9	10.16	2	(5)	(8)	(59.53)	4.66	4.30	3.75	6.73	7.17	8.10	1.17	1.01	0.85
4	Sunac	1918 HK	135.2	29.00	(5)	1	(36)	(63.09)	5.13	3.71	3.15	5.09	5.84	6.79	1.16	1.01	0.79
5	Longfor	960 HK	265.1	43.75	(0)	(4)	29	(16.16)	14.23	11.32	9.80	3.29	3.89	4.59	2.32	2.05	1.80
6	Shimao	813 HK	81.5	23.05	(28)	(7)	(14)	(52.47)	6.50	5.24	4.45	7.53	7.83	9.08	0.90	0.84	0.74
7	Logan	3380 HK	67.1	12.16	(0)	(4)	4	(44.23)	5.17	4.42	3.69	8.50	8.76	10.50	1.59	1.33	1.05
8	Jinmao	817 HK	45.2	3.55	(16)	(1)	(38)	(74.11)	5.71	4.84	3.96	6.93	7.93	9.82	0.85	0.74	0.66
9	Powerlong	1238 HK	21.3	5.15	(16)	(4)	13	(73.74)	6.65	4.97	3.92	8.34	9.33	11.63	0.55	0.51	0.46
10	CIFI	884 HK	53.0	6.45	9	(2)	6	(64.84)	6.15	5.07	4.18	5.89	6.47	7.84	1.41	1.20	1.03
11	Yuexiu Properties	123 HK	24.0	1.55	(2)	(1)	(7)	(72.81)	5.33	5.23	4.15	6.58	6.71	8.44	0.49	0.46	0.43
12	Times Property	1233 HK	20.4	10.50	(4)	(3)	(25)	(73.21)	3.06	2.81	2.48	9.63	10.68	12.09	0.89	0.73	0.61
13	Redsun Property	1996 HK	8.9	2.69	(4)	(0)	10	(54.17)	6.04	5.34	4.20	4.94	5.62	7.14	0.54	0.51	0.47
Average					(6)	(3)	(10)	(59.31)	6.25	5.14	4.32	6.51	7.11	8.46	1.05	0.92	0.79
- Large cap					(6)	(4)	(12)	(51.16)	6.90	5.50	4.75	6.05	6.52	7.57	1.28	1.12	0.95
- Small-mid cap					(5)	(2)	(7)	(68.81)	5.49	4.71	3.82	7.05	7.79	9.49	0.79	0.69	0.61

Source(s): Bloomberg, ABCI Securities

Industry analysis- property market in GBA

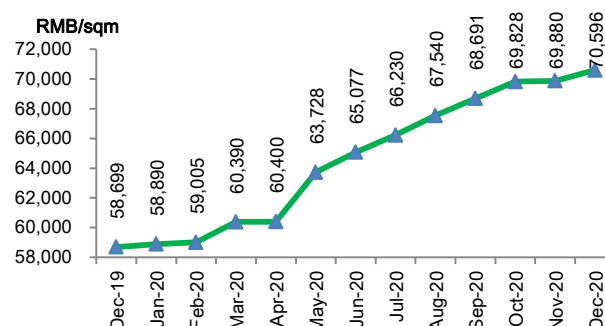
As GBA accounts for 54% of Yuexiu's landbank as at Jun 2020 and 60% of 1H20 contracted sales, the group's future financial performance is highly dependent on property market in the region. Yuexiu has entered Guangzhou, Shenzhen, Foshan, Jiangmen and Zhongshan among the GBA cities in China. Despite significant slowdown in economic growth in China, 2nd hand residential property price in Guangzhou and Shenzhen increased by 1.7% and 20.3% in 2020. Looking forward into 2021, as China's economy should resume faster growth, we expected property price should increase at faster pace.

Exhibit 25: Guangzhou 2nd hand residential property price



Source(s): fang.com, ABCI Securities

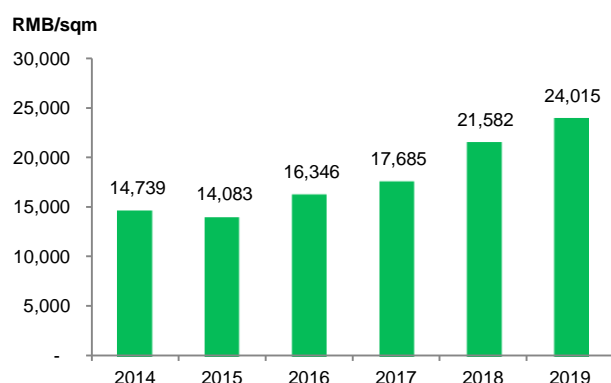
Exhibit 26: Shenzhen 2nd hand residential property price



Source(s): fang.com, ABCI Securities

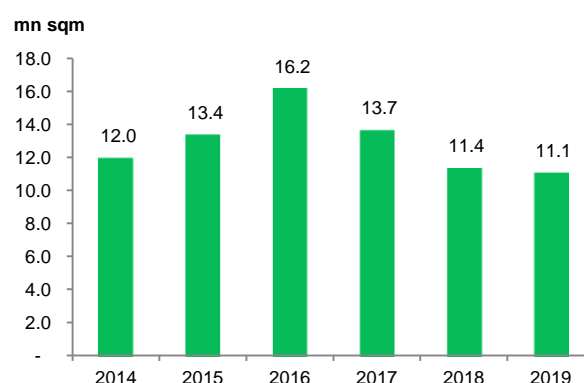
In particular, property projects in Guangzhou will represent significant proportion of future sellable resources, given upcoming TOD projects from Guangzhou metro. Guangzhou's ASP of commodity residential properties increased at 10.3% CAGR during 2014-19, while GFA of residential properties sold remained stable at 11-16mn sqm during 2014-19.

Exhibit 27: ASP of commodity residential properties in Guangzhou



Source(s): Bureau of Statistics of Guangzhou, ABCI Securities

Exhibit 28: GFA of residential properties sold in Guangzhou



Source(s): Bureau of Statistics of Guangzhou, ABCI Securities



Risk factors

- **Uncertain business environment due to COVID-19.** During the COVID-19 outbreak in 1Q20, Yuexiu's monthly contracted sales fell 35-46% YoY in Jan-Mar 2020 due to the nationwide lockdown. If COVID-19 resurges, Yuexiu's contracted sales will be adversely affected.
- **Further policy tightening.** Following the "three red lines" policy initiated last year, PBOC issued a new regulation in 2021 such that each bank's outstanding property loans as a proportion of total loans, as well as its ratio of outstanding mortgages to total loans, should be capped as required. In future, it is possible that developers' fund-raising activities may experience further hindrance; hence refinancing risk may substantially increase.
- **Declining rental revenue from IP and Yuexiu REIT.** On the back of slowing economic growth and threats from COVID-19, corporates may reduce their office space, which could result in lower occupancy and rent rates for IP.
- **Cost overrun and delay during complicated construction process.** Yuexiu's atop-station projects may involve more complicated foundation laying process as opposed to sites without trains running underground. Unexpected delay may result in cost overrun and defer completion.
- **Interest rate risk:** As at Dec 31, 2019, fixed interest rate borrowings accounted for ~ 58% of Yuexiu's total borrowings. If interest rates on borrowings had been 100 basis points higher/lower with all other variables being held constant, post-tax profit for the year would have been ~ RMB 67mn lower/higher.
- **Foreign exchange risk:** As of June 2020, borrowings denominated in USD or HKD amounted to 28% of total borrowings. Declining RMB will result in unrealized FX losses in FX debt.
- **Core net profit and implied ratio are non-IFRS measures.** Non-IFRS financial measures (such as core profit) are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies, in our view. These non-IFRS financial measures may be defined differently from similar terms used by other companies.

Financial statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	26,433	38,339	47,715	61,706	68,793
Cost of sales	(18,041)	(25,222)	(35,635)	(46,072)	(50,827)
Gross Profit	8,393	13,117	12,080	15,634	17,966
SG&A expenses	(1,696)	(2,234)	(2,416)	(2,691)	(3,013)
EBIT	6,697	10,883	9,664	12,943	14,953
Finance cost	(2,002)	(1,161)	(1,386)	(1,396)	(1,377)
Share of profit of associates	505	498	421	516	562
Other income/ (expenses)	170	382	247	168	302
Fair value gain of investment	371	(23)	-	-	-
Disposal/one-off items	1,042	833	-	-	-
Profit before tax	6,783	11,413	8,946	12,230	14,440
Tax	(3,744)	(6,683)	(3,124)	(4,573)	(5,562)
Profit after tax	3,039	4,731	5,822	7,658	8,878
Minority interest	(312)	(1,247)	(2,001)	(2,852)	(3,483)
Reported net profit	2,728	3,483	3,820	4,806	5,395
Less: exceptional items	82	27	-	-	-
Core net profit	2,810	3,510	3,820	4,806	5,395
Per share					
Core EPS (RMB)	0.23	0.24	0.25	0.31	0.35
DPS (HK\$)	0.09	0.10	0.10	0.13	0.15
Payout ratio (%)	35%	36%	36%	36%	36%
BVPS (RMB)	2.73	2.63	2.80	3.00	3.22
Growth %					
Revenue	11.1%	45.0%	24.5%	29.3%	11.5%
Gross Profit	37.4%	56.3%	-7.9%	29.4%	14.9%
EBIT	48.1%	62.5%	-11.2%	33.9%	15.5%
Core net profit	19.6%	24.9%	8.8%	25.8%	12.3%
Margin %					
Gross margin	31.8%	34.2%	25.3%	25.3%	26.1%
EBIT margin	26.9%	26.2%	24.6%	24.1%	24.4%
Core net margin	10.6%	9.2%	8.0%	7.8%	7.8%
Key assumptions					
Contracted Sales (RMB mn)	57,780	72,110	95,763	115,384	136,473
GFA sold (mn sqm)	2.77	3.49	3.79	4.98	5.76
ASP (RMB/sqm)	20,859	20,662	25,247	23,175	23,705
Booked Sales (RMB mn)	24,290	34,454	43,704	57,396	64,116
GFA delivered (mn sqm)	1.71	1.61	1.85	2.44	2.71
Booked ASP (RMB/sqm)	14,205	21,400	23,654	23,552	23,653

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	133,637	185,053	208,014	228,708	264,178
Cash	21,991	24,106	25,557	29,440	109,384
Restricted cash	5,169	6,084	6,084	6,084	6,084
Trade & other receivables	51	68	68	68	68
Property under development	88,096	141,941	163,450	180,261	135,787
Other current assets	18,330	12,854	12,854	12,854	12,854
Non-current assets	35,184	49,645	51,637	53,443	55,295
Property, plant & equipment	1,994	2,506	2,796	3,086	3,376
Investment properties	10,865	9,438	10,438	11,438	12,438
Investment in Associate and JCE	20,386	19,993	20,414	20,929	21,491
Other non-current assets	1,938	17,708	17,990	17,990	17,990
Total Assets	168,820	234,697	259,651	282,151	319,473
Current Liabilities	72,629	106,918	127,460	144,063	174,478
Short-term borrowings	5,786	7,138	9,138	8,138	7,138
Trade & other payables	1,408	2,433	2,433	2,433	2,433
Pre-sales deposits	31,638	41,943	60,484	78,087	109,502
Other current liabilities	33,797	55,404	55,404	55,404	55,404
Non-current liabilities	53,280	72,588	72,588	72,588	72,588
Long-term borrowings	47,620	63,884	63,884	63,884	63,884
Other non-current liabilities	5,660	8,704	8,704	8,704	8,704
Total Liabilities	125,909	179,505	200,047	216,650	247,065
Net Assets	42,912	55,192	59,603	65,500	72,408
Shareholders' Equity	33,827	40,724	43,184	46,279	49,753
Minority Interest	9,085	14,468	16,420	19,221	22,655
Total Equity	42,912	55,192	59,603	65,500	72,408
Key ratio					
Gross debt (RMB mn)	53,406	71,022	73,022	72,022	71,022
Net debt (RMB mn)	26,247	40,832	41,381	36,497	(44,447)
Net gearing (%)	61%	74%	69%	56%	-61%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	6,762	11,093	9,874	13,153	15,163
Change in Working Capital	9,119	2,557	360	4,144	79,193
Tax payment	(2,884)	(3,701)	(3,124)	(4,573)	(5,562)
Operating cash flow	12,997	9,950	7,110	12,723	88,794
Purchase of PP&E	(237)	(291)	(500)	(500)	(500)
Addition of Investment Properties	(5)	-	(1,000)	(1,000)	(1,000)
Acquisition of subsidiaries	(1,934)	(12,304)	(282)	-	-
Others	(1,200)	(7,416)	247	168	302
Investing cash flow	(3,377)	(20,011)	(1,534)	(1,332)	(1,198)
Debt raised	40,405	40,834	6,000	6,000	6,000
Debt repaid	(42,738)	(18,230)	(4,000)	(7,000)	(7,000)
Interest expenses	(2,929)	(3,738)	(4,714)	(4,747)	(4,681)
Equity raised	-	-	-	-	-
Dividend to shareholders	(1,006)	(1,433)	(1,360)	(1,711)	(1,921)
Others	1,983	(5,256)	(50)	(50)	(50)
Financing cash flow	(4,285)	12,177	(4,124)	(7,508)	(7,652)
Net cash inflow/ (outflow)	5,335	2,115	1,451	3,884	79,944
Cash- beginning	16,655	21,991	24,106	25,557	29,440
Cash- year-end	21,991	24,106	25,557	29,440	109,384

Source(s): Company, ABCI Securities estimates

Disclosures

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Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 10\%$)
Hold	- Market return (-10%) \leq Stock return $<$ 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 2008 (For reference: HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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