

Yuexiu Property (123 HK)

Thriving in adversity with TOD model

- 1H22 core profit increased 1.4% YoY to RMB 2.13bn
- Gross margin dropped 5.5ppt YoY to 21.2%
- In 7M22, contracted sales rose 4% YoY to RMB54.87bn; Transit-oriented development (TOD) projects amounting to RMB 12.07bn (+59% YoY) are the key drivers
- Maintain **BUY** with revised TP of HK\$ 10.53 based on a 70% discount to NAV

Better sales and profit despite severe sectorial headwind. 1H22 core profit increased 1.4% YoY to RMB 2.13bn as revenue jumped 29.1% YoY to RMB 31.3bn on higher GFA delivery (+17% YoY) and ASP (+11% YoY), partially offset by lower gross margin (-5.5ppt YoY to 21.2%). Net gearing increased 12.6ppt HoH to 59.7% as of June 2022 as Yuexiu acquired 3.46mn sqm of new projects, of which 23.2%, 4.4% and 27.0% were acquired through the TOD model, industry-driven acquisitions, and cooperation with SOEs, respectively. As of June 2022, Yuexiu had a landbank of 28.6mn sqm (+5.5% HoH). Unrecognized sales were RMB 156.4bn, which will support revenue growth in coming years. While land acquisitions have driven up gearing by 12.6ppt, Yuexiu is still able to meet all three-red-line requirements. Leveraging its SOE background, the Company's average finance cost declined further by 34bps YoY to 4.11%. Overall, the results are encouraging with the profit growth and healthy credit profile (green-tier developer with lower finance cost) amid the severe sectorial headwind marked by drastic sales drop and refinancing pressure.

Unique TOD model to drive sales. Yuexiu maintains its full-year sales target of RMB 123.5bn (+7%YoY). In 7M22, its contracted sales rose 4% YoY to RMB 54.87bn, completing 44% of the target. While 7M22 contracted sales of its listed peers were down -49% YoY on average, Yuexiu is able to deliver positive YoY growth in YTD contracted sales despite COVID resurgence in 1H22 and mortgage boycotting since July 2022. In particular, TOD projects amounting to RMB 12.07bn (+59% YoY) have been the key drivers. The Company expands its TOD footprint to Hangzhou, its first TOD projects outside Guangzhou. Going forward, its TOD geographic expansion will likely accelerate as its PM subsidiary, Yuexiu Services, has penetrated into Fuzhou, Changsha, and Qingdao. To fulfil its 2022 sales target, we estimate Yuexiu has to achieve 9.6% YoY growth in contracted sales for Aug-Dec, which we believe to be achievable.

Maintain BUY with revised TP at HK\$ 10.53. We lower our 2022E/23E core profit forecasts by 0.8%/2.2% to factor in the lower interest income given the reduced cash balance after land acquisitions. However, we raise our NAV/share forecast to HK\$ 35.09 (from HK\$ 34.13) for the quality landbank acquired YTD. We raise our TP to HK\$ 10.53 (from HK\$ 10.24) based on a 70% discount to NAV (unchanged). Maintain **BUY**. Yuexiu remains our top small/mid-cap pick given its SOE status and TOD expansion model.

Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	46,234	57,379	69,337	77,748	86,519
Chg (% YoY)	20.6	24.1	20.8	12.1	11.3
Core net profit (RMB mn)*	4,020	4,150	4,480	4,986	6,083
Chg (% YoY)	14.6	3.2	7.9	11.3	22.0
Core EPS (RMB)	1.30	1.34	1.45	1.61	1.96
Chg (% YoY)	14.6	3.2	7.9	11.3	22.0
BVPS (RMB)	14.1	14.9	15.8	16.8	18.0
Chg (% YoY)	7.4	5.7	6.0	6.3	7.2
P/E (x)	6.1	6.0	5.5	5.0	4.1
P/B (x)	0.56	0.53	0.50	0.47	0.44
ROE (%)	9.2	9.0	9.1	9.6	10.9
ROA (%)	1.5	1.3	1.3	1.4	1.5
DPS (HK\$)	0.60	0.65	0.68	0.76	0.93
Yield (%)	6.5	7.1	7.4	8.2	10.0
Net gearing (%)	47.5	47.1	30.7	0.6	(28.5)

HKD/RMB= 1.16

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

Source(s): The Company, ABCI Securities estimates

Company report

Aug 19, 2022

Rating: **BUY**

TP: HK\$ 10.53

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Share price (HK\$)	9.26
Est. share price return	13.7%
Est. dividend yield	7.4%
Est. total return	21.1%
Previous Rating & TP	BUY; HK\$10.24
Previous Report Date	Mar 11, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	7.40/3.31
Issued shares (mn)	3,096.5
Market cap (HK\$ mn)	28,674
3-mth avg daily turnover (HK\$ mn)	49.08
Major shareholder(s) (%):	
Guangzhou Yue Xiu Holdings Limited	39.78
GZ Metro	19.90

Source(s): Bloomberg, ABCI Securities

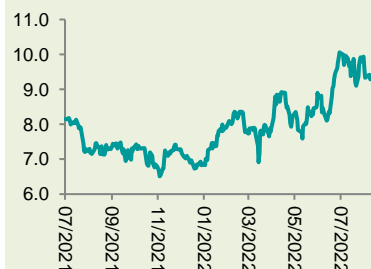
Share Performance (%)

	Absolute	Relative*
1-mth	(1.8)	2.6
3-mth	11.4	12.4
6-mth	14.7	34.0

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Risk factors: 1) Declining margin; 2) Cost overrun and delay due to complicated construction process involved in TOD projects; 3) Uncertain development of COVID-19; 4) Rising net gearing on aggressive land acquisition

Exhibit 1: Yuexiu's 1H22 results

P&L	1H22	1H21	YoY Chg	Operating statistics	1H22	1H21	YoY Chg
	RMBmn	RMBmn	(%)				
Turnover	31,293	24,236	29.1	Contracted GFA (mn sqm)	1.78	1.79	(0.8)
Cost of Sales	(24,647)	(17,750)	38.9	Contracted ASP (RMB/sqm)	27,515	26,447	4.0
Gross Profit	6,645	6,486	2.5	Contracted sales (RMBmn)	48,914	47,383	3.2
Gross Margin (%)	21.2	26.8	(5.5ppt)	GFA Delivered (mn sqm)	1.20	1.03	17.0
Selling and distribution costs	(710)	(566)	25.6	Booked ASP (RMB/sqm)	24,931	22,406	11.3
Administrative expense	(651)	(543)	19.8	Booked sales (RMBmn)	29,907	22,971	30.2
EBIT	5,284	5,377	(1.7)				
EBIT Margin (%)	16.9	22.2	(5.3ppt)				
Other gains, net	23	15	51.2	Balance sheet	Jun-22	Dec-21	YoY %
Fair value (losses)/gains of IP	(82)	71	(215.5)		RMBmn	RMBmn	
Gain on sales of IP, net	-	1	(100.0)	Gross debt	84,575	75,534	12.0
Share of profit from JCE/ Associates	7	103	(93.0)	Cash	39,054	40,499	(3.6)
Finance income	413	351	17.6	Net debt	45,521	35,035	29.9
Finance cost	(552)	(116)	374.5	Net gearing (%)	59.7%	47.1%	12.6ppt
Profit before tax	5,093	5,801	(12.2)				
Tax	(2,510)	(3,101)	(19.1)	Revenue breakdown	1H22	1H21	YoY %
- LAT	(1,120)	(1,448)	(22.6)		RMBmn	RMBmn	
- Enterprise tax	(1,389)	(1,653)	(16.0)	Property development	29,838	22,468	32.8
Profit after tax	2,583	2,700	(4.3)	Rental	180	350	(48.5)
Minority Interest	(876)	(400)	119.0	PM services	760	703	8.2
Net profit	1,707	2,300	(25.8)	Hotels and others	515	716	(28.1)
Adjusted for fair value change in IP and FX gains & losses	423	(200)	na	Total	31,293	24,236	29.1
Core net profit	2,130	2,100	1.4				
Core net margin	6.8%	8.7%	(1.9%ppt)				

Source(s): The Company, ABCI Securities

Exhibit 2: Yuexiu's 2023E 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	27.5	77,368	82%	DCF with WACC of 15.3%	2,948
Investment Properties	0.7	9,758	10%	4.5% cap rate on 2023E net rental;	
Yuexiu Services (6626 HK)		2,977	3%	66.92% of Mkt value	
Yuexiu REIT (405 HK)		4,048	4%	39.99% of Mkt value	
Total 2023E GAV		94,152	100%		
2023E Net cash/ (debt)		(502)	(1%)		
Total 2023E NAV		93,650	99%		
No. of share outstanding (diluted)		3,096			
NAV per share (RMB)		30.25			
Ex rate		1.16			
NAV per share (HKD)		35.09			
Target discount (%)		70%			
Target Price (HKD)		10.53			
WACC	15.3%				
Cost of debt	5.1%				
Cost of equity	30.0%				
Debt/ (Debt + Equity)	56%				

Source(s): Company, ABCI Securities estimates



Exhibit 3: Changes in TP and profit forecasts

	OLD	NEW	Chg	Reasons
NAV	34.13	35.09	2.8%	Factor in new land acquisitions YTD
Discount	70%	70%		
TP (HK\$)	10.24	10.53	2.8%	
Core profit (RMBmn)				
- 2022E	4,517	4,480	(0.8%)	Lower interest income due to cash spent on land acquisitions
- 2023E	5,099	4,986	(2.2%)	Lower interest income due to cash spent on land acquisitions

Source(s): Company, ABCI Securities estimates



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	86,519
Cost of sales	(34,608)	(44,896)	(54,083)	(60,474)	(64,314)
Gross Profit	11,626	12,482	15,254	17,275	22,205
SG&A expenses	(2,554)	(3,213)	(3,595)	(4,069)	(5,237)
EBIT	9,072	9,269	11,659	13,206	16,968
Finance cost	(935)	(1,080)	(940)	(928)	(915)
Share of profit of associates	932	415	1,626	1,791	1,950
Finance income	459	730	180	246	346
Fair value gain of investment	641	(904)	-	-	-
Disposal/one-off items	30	2,412	-	-	-
Profit before tax	10,200	10,842	12,525	14,315	18,349
Tax	(5,517)	(5,569)	(4,485)	(5,183)	(7,252)
Profit after tax	4,683	5,274	8,039	9,132	11,097
Minority interest	(435)	(1,685)	(3,560)	(4,146)	(5,014)
Reported net profit	4,248	3,589	4,480	4,986	6,083
Less: exceptional items	(228)	561	-	-	-
Core net profit	4,020	4,150	4,480	4,986	6,083
Per share					
Reported EPS (RMB)	1.37	1.16	1.45	1.61	1.96
Core EPS (RMB)	1.30	1.34	1.45	1.61	1.96
DPS (HK\$)	0.60	0.65	0.68	0.76	0.93
Payout ratio (%)	38%	38%	38%	38%	38%
BVPS (RMB)	14.13	14.93	15.83	16.83	18.04
Growth %					
Revenue	20.6%	24.1%	20.8%	12.1%	11.3%
Gross Profit	-11.4%	7.4%	22.2%	13.2%	28.5%
EBIT	-16.6%	2.2%	25.8%	13.3%	28.5%
Core net profit	14.6%	3.2%	7.9%	11.3%	22.0%
Margin %					
Gross margin	25.1%	21.8%	22.0%	22.2%	25.7%
EBIT margin	19.7%	17.4%	20.1%	20.2%	22.5%
Core net margin	8.7%	7.2%	6.5%	6.4%	7.0%
Key assumptions					
Contracted Sales (RMB mn)	95,763	115,150	123,263	147,815	165,778
GFA sold (mn sqm)	3.79	4.18	4.63	5.66	7.11
ASP (RMB/sqm)	25,247	27,570	26,612	26,124	23,300
Booked Sales (RMB mn)			66,007	73,977	82,202
GFA delivered (mn sqm)			2.53	2.82	3.30
Booked ASP (RMB/sqm)			26,141	26,236	24,902

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	291,745	309,693	339,870
Cash	28,214	32,766	42,017	65,300	92,362
Restricted cash	9,094	7,733	7,733	7,733	7,733
Trade & other receivables	162	126	126	126	126
Property under development	126,111	153,721	173,413	168,077	171,192
Other current assets	48,048	68,458	68,458	68,458	68,458
Non-current assets	51,567	51,051	53,831	56,777	59,882
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	28,916
Other non-current assets	13,062	12,625	12,625	12,625	12,625
Total Assets	263,196	313,855	345,577	366,470	399,752
Current Liabilities	131,585	182,621	208,061	221,773	246,328
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
Contract liabilities	54,201	73,177	99,618	114,330	139,884
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	278,641	303,195
Net Assets	64,276	74,367	80,648	87,829	96,557
Shareholders' Equity	43,748	46,236	49,008	52,093	55,856
Minority Interest	20,528	28,131	31,640	35,737	40,701
Total Equity	64,276	74,367	80,648	87,829	96,557
Key ratio					
Gross debt (RMB mn)	67,839	75,534	74,534	73,534	72,534
Net debt (RMB mn)	30,531	35,035	24,785	502	(27,561)
Net gearing (%)	48%	47%	31%	1%	(29%)

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

FY ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating cash flow	19,588	(1,791)	17,245	31,354	35,398
Purchase of PP&E	(661)	(1,272)	(500)	(500)	(500)
Addition of Investment Properties	-	-	(1,000)	(1,000)	(1,000)
Acquisition of subsidiaries	(5,494)	-	-	-	-
Others	(3,447)	(4,910)	180	246	346
Investing cash flow	(9,602)	(6,182)	(1,320)	(1,254)	(1,154)
Debt raised	20,563	48,575	6,000	6,000	6,000
Debt repaid	(19,468)	(35,399)	(7,000)	(7,000)	(7,000)
Interest expenses	(3,826)	(3,222)	(3,917)	(3,865)	(3,813)
Equity raised	-	-	-	-	-
Dividend to shareholders	(1,466)	(1,641)	(1,708)	(1,901)	(2,319)
Others	(1,680)	4,212	(50)	(50)	(50)
Financing cash flow	(5,877)	12,526	(6,676)	(6,816)	(7,182)
Net cash inflow/ (outflow)	4,108	4,553	9,250	23,283	27,062
Cash- beginning	24,106	28,214	32,766	42,017	65,300
Cash- year-end	28,214	32,766	42,017	65,300	92,362

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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