

## Yuexiu Property (123 HK)

### Profit growth amid turbulent time

- 2022 core profit increased 2.1% YoY to RMB 4.24bn
- Gross margin dropped 1.4ppt YoY to 20.4%
- In 2M23, contracted sales rose 187% YoY to RMB 22.6bn; 2023 sales target of RMB132bn (+5.6% YoY) is conservative
- Maintain **BUY** with revised TP of HK\$ 13.25 based on a 60% discount to NAV

**Profit growth despite severe sectorial headwind.** 2022 core profit increased 2.1% YoY to RMB 4.24bn or 1.1% below consensus forecast. Revenue jumped 26.2% YoY to RMB 72.42bn on higher GFA delivery but the gain was partially offset by lower gross margin (-1.4ppt YoY to 20.4%). Margin pressure is likely to persist for 2023 given a substantial portion of projects presold in 2022, where ASP was low, will be booked in 2023. Net gearing climbed 15.6ppt YoY to 62.7% as of Dec 2022 as Yuexiu acquired 6.95mn sqm of new projects, of which 11.5%, 5.0%, 34.4%, and 2.2% were acquired through the TOD model, city operation, cooperation with SOEs, and industry-driven acquisitions, respectively. As of Dec 2022, Yuexiu had a landbank of 28.45mn sqm. While land acquisitions have pushed up gearing by 15.6ppt, Yuexiu is still able to meet the three-red-line requirements. Leveraging its SOE background, average finance cost declined further 10bps YoY to 4.16%. During 2022, the Group successfully issued a total of RMB 9.84bn of onshore corporate bonds with a weighted average coupon rate of 3.11%. Instead of raising an already high payout ratio of 40%, Yuexiu decided to distribute shares in Yuexiu REIT (405 HK) as special dividends.

**Unique TOD model continues to drive sales.** 2023 full-year sales target of RMB 132bn implies a 5.6% YoY growth rate and a 55% sell-through rate with RMB 240bn of sellable resources. We believe Yuexiu's sales target to be conservative, as we estimate Yuexiu achieved a sell-through rate of 58% in 2022, when property market was extremely difficult. In 2022, contracted sales rose 8.6% YoY to RMB 125bn, of which TOD projects accounted for RMB 22.09bn, up 23.6%YoY. In 2M23, its contracted sales rose 187% YoY to RMB 22.60bn, fulfilling 17.1% of the target; GFA sold increased 105% YoY to 0.641mn sqm. Based on Yuexiu's cash flow budget, the Group is expected to spend RMB 40bn for land acquisition in 2023 (vs. RMB 41.58bn in 2022), representing ~30% of sales target. The steady land acquisition would ensure a healthy supply of sellable resources.

**Maintain BUY with revised TP at HK\$ 13.25.** We lower our 2023E/24E core profit forecasts by 13.0%/17.2% to factor in weaker margin outlook. We also lower our NAV/share forecast to HK\$ 33.14 (from HK\$ 35.09). However, we raise our TP to HK\$ 13.25 (from HK\$ 10.53) as we reduce our discount to NAV assumption to 60% (from 70%), given noticeable sales recovery of SOE players. 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	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	57,379	72,416	82,350	96,339	112,890
Chg (% YoY)	24.1	26.2	13.7	17.0	17.2
Core net profit (RMB mn)*	4,150	4,240	4,339	5,037	5,992
Chg (% YoY)	3.2	2.2	2.3	16.1	19.0
Core EPS (RMB)	1.34	1.37	1.40	1.63	1.94
Chg (% YoY)	3.2	2.2	2.3	16.1	19.0
BVPS (RMB)	14.9	15.3	16.2	17.1	18.3
Chg (% YoY)	5.7	2.6	5.4	6.0	6.7
P/E (x)	7.6	7.4	7.3	6.3	5.3
P/B (x)	0.68	0.66	0.63	0.59	0.56
ROE (%)	9.0	8.9	8.7	9.5	10.6
ROA (%)	1.3	1.2	1.1	1.2	1.4
DPS (HK\$)	0.65	0.63	0.64	0.74	0.88
Yield (%)	5.7	5.4	5.6	6.5	7.7
Net gearing (%)	47.1	62.7	23.5	(5.3)	(69.2)

HKD/RMB= 1.13

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

Source(s): The Company, ABCI Securities estimates

## Company report

Mar 17, 2023

Rating: **BUY**

TP: **HK\$ 13.25**

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Share price (HK\$)	11.50
Est. share price return	15.2%
Est. dividend yield	5.6%
Est. total return	20.8%
Previous Rating & TP	BUY; HK\$10.53
Previous Report Date	Aug 19, 2022

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$)	12.68/6.33
Issued shares (mn)	3,096.5
Market cap (HK\$ mn)	35,609
3-mth avg daily turnover (HK\$ mn)	84.36
Major shareholder(s) (%):	
Guangzhou Yue Xiu Holdings Limited	39.78
GZ Metro	19.90

Source(s): Bloomberg, ABCI Securities

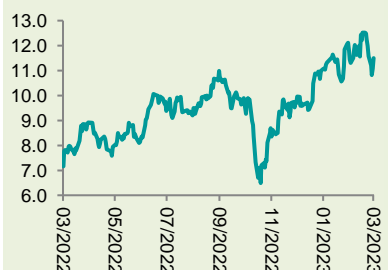
#### Share Performance (%)

	Absolute	Relative*
1-mth	(5.1)	3.9
3-mth	19.0	21.4
6-mth	4.7	3.2

\*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) Rising net gearing on aggressive land acquisition; 4) Downward adjustment of NAV; 5) Discount does not narrow as expected

**Exhibit 1: Changes in TP and profit forecasts**

	OLD	NEW	Chg	Reasons
<b>NAV*</b>	35.09	33.14	-5.6%	Factor in weaker gross margin assumption and latest land acquisition
Discount	70%	60%	-10ppt	Property sales recovery to narrow discount
<b>TP (HK\$)</b>	10.53	13.25	25.8%	
<b>Core profit (RMB mn)</b>				
- 2023E	4,986	4,339	-13.0%	Factor in weaker gross margin assumption and latest land acquisition
- 2024E	6,083	5,037	-17.2%	Factor in weaker gross margin assumption and latest land acquisition

\* Our NAV did not factor in the distribution of shares in Yuexiu REIT as special dividend, which further announcement will be made regarding the details and date of distribution. Yuexiu's stake in Yuexiu REIT should decline from 41.39% to 37.38% following the distribution.

Source(s): Company, ABCI Securities estimates

## Financial statements

### Consolidated income statement (2021A-2025E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
<b>Revenue</b>	<b>57,379</b>	<b>72,416</b>	<b>82,350</b>	<b>96,339</b>	<b>112,890</b>
Cost of sales	(44,896)	(57,610)	(66,529)	(76,668)	(89,380)
<b>Gross Profit</b>	<b>12,482</b>	<b>14,806</b>	<b>15,821</b>	<b>19,671</b>	<b>23,510</b>
SG&A expenses	(3,213)	(3,811)	(4,032)	(4,690)	(4,903)
<b>EBIT</b>	<b>9,269</b>	<b>10,995</b>	<b>11,789</b>	<b>14,981</b>	<b>18,607</b>
Finance cost	(1,080)	(916)	(982)	(971)	(959)
Share of profit of associates	415	(97)	1,869	2,128	2,434
Finance income	730	637	203	315	497
Fair value gain of investment	(904)	125	-	-	-
Disposal/one-off items	2,412	86	-	-	-
<b>Profit before tax</b>	<b>10,842</b>	<b>10,830</b>	<b>12,879</b>	<b>16,454</b>	<b>20,579</b>
Tax	(5,569)	(4,692)	(5,928)	(8,117)	(10,593)
<b>Profit after tax</b>	<b>5,274</b>	<b>6,137</b>	<b>6,951</b>	<b>8,337</b>	<b>9,986</b>
Minority interest	(1,685)	(2,184)	(2,613)	(3,300)	(3,994)
<b>Reported net profit</b>	<b>3,589</b>	<b>3,953</b>	<b>4,339</b>	<b>5,037</b>	<b>5,992</b>
Less: exceptional items	561	287	-	-	-
<b>Core net profit</b>	<b>4,150</b>	<b>4,240</b>	<b>4,339</b>	<b>5,037</b>	<b>5,992</b>
<b>Per share</b>					
Reported EPS (RMB)	1.16	1.28	1.40	1.63	1.94
Core EPS (RMB)	1.34	1.37	1.40	1.63	1.94
DPS (HK\$)	0.65	0.63	0.64	0.74	0.88
Payout ratio (%)	43%	40%	40%	40%	40%
BVPS (RMB)	14.93	15.32	16.15	17.12	18.27
<b>Growth %</b>					
Revenue	24.1%	26.2%	13.7%	17.0%	17.2%
Gross Profit	7.4%	18.6%	6.9%	24.3%	19.5%
EBIT	2.2%	18.6%	7.2%	27.1%	24.2%
Core net profit	3.2%	2.2%	2.3%	16.1%	19.0%
<b>Margin %</b>					
Gross margin	21.8%	20.4%	19.2%	20.4%	20.8%
EBIT margin	17.4%	18.0%	15.2%	15.3%	14.8%
Core net margin	7.2%	5.9%	5.3%	5.2%	5.3%
<b>Key assumptions</b>					
Contracted Sales (RMB mn)	115,150	125,030	142,529	182,450	204,117
GFA sold (mn sqm)	4.18	4.14	4.81	6.92	7.95
ASP (RMB/sqm)	27,570	30,199	29,622	26,350	25,680
Booked Sales (RMB mn)			78,010	91,398	107,204
GFA delivered (mn sqm)			2.76	3.31	4.03
Booked ASP (RMB/sqm)			28,272	27,585	26,633

\* We have not factor in the distribution of shares in Yuexiu REIT as special dividend, which further announcement will be made regarding the details and date of distribution

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2021A-2025E)**

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
<b>Current assets</b>	<b>262,804</b>	<b>283,974</b>	<b>314,066</b>	<b>343,309</b>	<b>371,789</b>
Cash	32,766	21,846	52,882	78,167	143,743
Restricted cash	7,733	13,272	13,272	13,272	13,272
Trade & other receivables	126	570	570	570	570
Property under development	153,721	178,451	177,508	181,466	144,369
Other current assets	68,458	69,835	69,835	69,835	69,835
<b>Non-current assets</b>	<b>51,051</b>	<b>62,378</b>	<b>65,318</b>	<b>68,518</b>	<b>72,023</b>
Property, plant & equipment	3,896	4,748	4,819	4,891	4,962
Investment properties	10,982	11,124	12,124	13,124	14,124
Investment in Associate and JCE	23,548	29,628	31,498	33,626	36,060
Other non-current assets	12,625	16,878	16,878	16,878	16,878
<b>Total Assets</b>	<b>313,855</b>	<b>346,352</b>	<b>379,384</b>	<b>411,827</b>	<b>443,812</b>
<b>Current Liabilities</b>	<b>182,621</b>	<b>178,510</b>	<b>206,396</b>	<b>232,589</b>	<b>257,062</b>
Short-term borrowings	29,802	15,744	14,744	13,744	12,744
Trade & other payables	1,613	1,642	1,642	1,642	1,642
Contract liabilities	73,177	74,472	103,358	130,552	156,025
Other current liabilities	78,029	86,651	86,651	86,651	86,651
<b>Non-current liabilities</b>	<b>56,867</b>	<b>83,050</b>	<b>83,050</b>	<b>83,050</b>	<b>83,050</b>
Long-term borrowings	45,732	72,554	72,554	72,554	72,554
Other non-current liabilities	11,135	10,496	10,496	10,496	10,496
<b>Total Liabilities</b>	<b>239,488</b>	<b>261,559</b>	<b>289,445</b>	<b>315,639</b>	<b>340,112</b>
<b>Net Assets</b>	<b>74,367</b>	<b>84,793</b>	<b>89,939</b>	<b>96,188</b>	<b>103,700</b>
<b>Shareholders' Equity</b>	<b>46,236</b>	<b>47,430</b>	<b>50,013</b>	<b>53,012</b>	<b>56,580</b>
Minority Interest	28,131	37,363	39,926	43,176	47,121
<b>Total Equity</b>	<b>74,367</b>	<b>84,793</b>	<b>89,939</b>	<b>96,188</b>	<b>103,700</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	75,534	88,298	87,298	86,298	85,298
Net debt (RMB mn)	35,035	53,180	21,145	(5,140)	(71,717)
Net gearing (%)	47%	63%	24%	-5%	-69%

\* We have not factor in the distribution of shares in Yuexiu REIT as special dividend, which further announcement will be made regarding the details and date of distribution

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2021A-2025E)

FY ended Dec 31 (RMB mn)	2021A	2022E	2023E	2024E	2025E
<b>Operating cash flow</b>	<b>(1,791)</b>	<b>(10,955)</b>	<b>40,190</b>	<b>34,552</b>	<b>74,990</b>
Purchase of PP&E	(1,272)	(500)	(500)	(500)	(500)
Addition of Investment Properties	-	(1,000)	(1,000)	(1,000)	(1,000)
Acquisition of subsidiaries	-	-	-	-	-
Others	(4,910)	637	203	315	497
<b>Investing cash flow</b>	<b>(6,182)</b>	<b>(863)</b>	<b>(1,297)</b>	<b>(1,185)</b>	<b>(1,003)</b>
Debt raised	43,618	14,378	6,000	6,000	6,000
Debt repaid	(35,399)	(7,000)	(7,000)	(7,000)	(7,000)
Interest expenses	(3,222)	(4,713)	(5,052)	(4,994)	(4,937)
Equity raised	-	-	-	-	-
Dividend to shareholders	(1,641)	(1,715)	(1,755)	(2,038)	(2,424)
Others	9,170	(50)	(50)	(50)	(50)
<b>Financing cash flow</b>	<b>12,526</b>	<b>899</b>	<b>(7,857)</b>	<b>(8,082)</b>	<b>(8,411)</b>
<b>Net cash inflow/ (outflow)</b>	<b>4,553</b>	<b>(10,920)</b>	<b>31,035</b>	<b>25,285</b>	<b>65,576</b>
Cash- beginning	28,214	32,766	21,846	52,882	78,167
<b>Cash- year-end</b>	<b>32,766</b>	<b>21,846</b>	<b>52,882</b>	<b>78,167</b>	<b>143,743</b>

\* We have not factor in the distribution of shares in Yuexiu REIT as special dividend, which further announcement will be made regarding the details and date of distribution

Source(s): Company, ABCI Securities estimates

## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 9\%$ )
Hold	- Market return rate ( $\sim 9\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +9\%$ )
Sell	Stock return $<$ - Market return ( $\sim -9\%$ )

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 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with Yuexiu Property.

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