

# Yue Xiu REITs (405 HK)

## Market-oriented expansion is the key

Its share price fell 35% (HSI -10%) since 1H22 results due to weak fundamental caused by pandemic (DPS -30% YoY) and US rate hike. The pressure could sustain in ST on Guangzhou's weak recovery and further rate increase. LT opportunity could open up if it is expanding in a more market-oriented way.

- High portfolio concentration in Guangzhou could be a short-term risk.**  
 As of 1H22, 82% of Yuexiu REITs' portfolio value is in Guangzhou, especially the iconic IFC, newly-acquired Yuexiu financial tower both located in Zhujiang new district together with wholesale center White house building. It is basically a play on Guangzhou's macro which saw only 1% GDP YoY growth in 1H22, quite below Shenzhen and 3% national growth. As a result, its Guangzhou portfolio has recorded 17% YoY rise in 1H22 gross income, mainly on the IFC hotel and Whitehorse's wholesale business. Looking at 2H22E, we think it is hard to see significant improvement with new Covid wave in Sep, high vacancy rate in Guangzhou office at 15% (+3ppt QoQ in 2Q22) and still new supplies coming in such as Bazhou district (close to Zhujiang new districts). Moreover, Guangzhou is the headquarter for many real estate companies which are under great gain and this may further add the pressure in general.
- Acquisition only within Yuexiu Group could limit its long term:** Except for Shanghai, all the recent office acquisitions (since 2018) came from Yuexiu Group including Wuhan, Hangzhou and Guangzhou's financial tower. Not only some of these acquisitions are quite heavy with the need of equity funding to dilute DPS (Yuexiu Financial Tower at RMB7.8bn partly funded by rights issue), but this also has limited its expansion choices without reaching markets like Beijing. Especially now things become more attractive amid challenging macro but it has less room with gearing up to 40% in 1H22.
- Speedy US rate hike is not helping at all.** US has raised its interest rate 5 times this year so far to contain the inflation and this has led to 10Y treasury yield to 3.5% from 1.5% early this year. This would mean two things: 1) the spread between dividend yield and the risk free rate (10Y treasury yield) is significantly shrinking so the adjusted yield at 5% looks less attractive. 2) Higher financing costs as 92% of the debt is in HKD/USD dollar. In 1H22, the effective interest rate for its HKD debt already spiked 58bps HoH and every 10bps increase in funding rate leads to RMB3mn additional cost. As the US is estimated to further raise interest rate, it may put additional pressure.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19A	FY20A	FY21A
Revenue (RMB mn)	1,854	2,031	2,058	1,759	1,797
YoY growth (%)		9.6	1.3	-14.5	2.2
Dist Income (RMB mn)	1,437	967	940	587	675
EPS (RMB)	0.48	0.30	0.28	0.18	0.19
YoY growth (%)		-38.0	-6.7	-35.7	5.6
Consensus EPS (RMB)	N.A.	N.A.	N.A.	N.A.	N.A.
P/E (x)	4.1	6.5	7.0	10.8	10.2
Yield (%)	13.9	13.9	12.3	10.3	10.3
ROE (%)	10.3	6.7	6.5	4.0	4.6
Net gearing (%)	36.0	38.7	39.2	38.7	40.2

Source: Company data, Bloomberg

**NOT RATED**

Current Price

HK\$1.95

### China Property Sector

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### Stock Data

Mkt Cap (HK\$ mn)	10,979
Avg 3 mths t/o (HK\$ mn)	7.47
52w High/Low (HK\$)	3.90/2.35
Total Issued Shares (mn)	4,672

Source: Bloomberg

### Shareholding Structure

Yue Xiu Enterprises Holding	47.3%
Beyond Best Global Ltd	4.82%

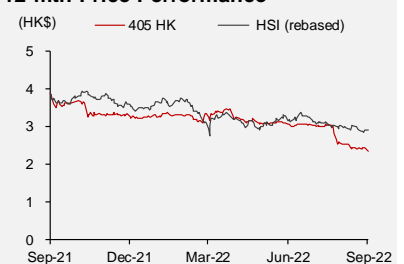
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.1%	-1.1%
3-mth	-21.0%	-11.1%
6-mth	-27.2%	-22.7%
12-mth	-38.8%	-17.1%

Source: Bloomberg

### 12-mth Price Performance



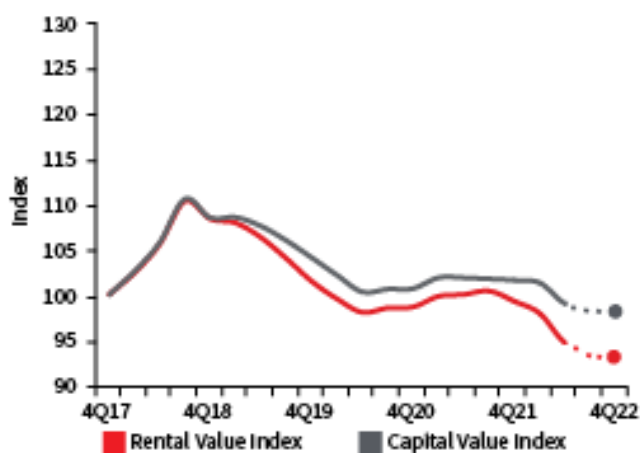
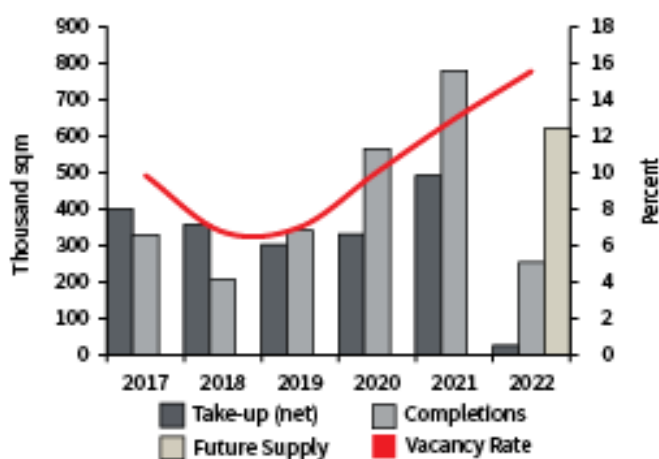
Source: Bloomberg

Auditor: PwC

**Figure 1: Gross income**

Gross income (RMB mn)	City	2017	2018	YoY	2019	YoY	2020	YoY	2021	YoY	1H22	YoY
White House Building	Guangzhou	366	368	0%	373	1%	288	-23%	260	-10%	63	-55%
Fortune Plaza	Guangzhou	72	76	5%	75	0%	73	-2%	74	0%	35	-5%
City Development Plaza	Guangzhou	64	67	4%	66	-1%	70	5%	71	1%	33	-5%
Victory Plaza	Guangzhou	67	71	6%	77	8%	67	-12%	68	1%	33	-7%
GZ IFC	Guangzhou	1074	1112	4%	1133	2%	931	-18%	962	3%	433	-8%
Yuexiu Financial Tower	Guangzhou	-	-	NA	-	NA	-	NA	-	NA	210	NA
Yue Xiu Tower	Shanghai	139	143	3%	133	-7%	118	-11%	118	0%	52	-14%
Wuhan Properties	Wuhan	-	126	NA	169	33%	179	6%	184	2%	68	-24%
Hangzhou Victory	Hangzhou	-	-	NA	32	NA	33	2%	33	2%	17	2%
Total				3%		3%		-15%		1%		-17%

Source: Company data

**Figure 2: Guangzhou office market****Financial Indices****Physical Indicators**

Source: JLL

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