

China Property	Last Close	Target Price	Upside
	HK\$ 9.09	HK\$ 10.98	+20.8%

23 June 2022

Yuexiu Property Co (123 HK)

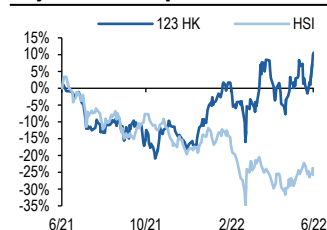
GBA-rooted SOE with land banking + funding edges; initiate with Buy

- ⊕ **Strong background of dual SOE shareholders allows access to cheap financial resources.** With Guangzhou Yuexiu Group as the largest shareholder, Yuexiu Property (Yuexiu) has long established a good reputation in the Greater Bay Area (GBA), and enjoys low-cost funding when most peers face financing challenges. After introducing Guangzhou Metro as its second largest shareholder, Yuexiu has gained advantage in enriching its transport-oriented development (TOD) platform in Guangzhou and is further expanding into nationwide TOD.
- ⊕ **Multiple channels of land replenishment to sustain land-bank growth at reasonable cost.** Benefiting from its relationship with its large shareholders, Yuexiu has the most diversified land acquisition channels among peers, including TOD, city operation, SOE cooperation, urban renewal and M&As. Less reliance on open market auctions allows it to steadily grow its landbank at more reasonable costs, laying a solid foundation for its future development and top-line expansion.
- ⊕ **GBA and tier-1 city focus to sustain high ASP and sell-through.** With half of landbank located in tier-1 cities, Yuexiu has maintained higher ASP than peers. Leveraging ample saleable resources at high ASP, Yuexiu achieved solid contracted sales CAGR of 30.6% during 2016-21, and showed its confidence by setting the highest YoY sales target growth for 2022 in the industry.
- ⊕ **Initiate with Buy and HK\$10.98 TP on undemanding valuation.** We think Yuexiu's strong backing by the two major SOE shareholders allows it to access cheaper capital, sustain land banking and gain market share amid industry consolidation. In our view, the counter should re-rate closer to SOE developer peers, and offers an attractive entry point at the current level. Based on a 60% discount to our 2022E NAV of HK\$27.44/share, we set our TP at HK\$10.98, representing an upside of 20.8%. Initiate coverage with **Buy**.
- ⊕ **Key risks:** lower-than-expected sell-through and ASP trend; higher operating costs compress margin; unexpected project delivery slippage.

Stock Rating

BUY

1-year stock performance



Source: FactSet

Stock data

52w high (HK\$)	9.09
52w low (HK\$)	6.51
Market cap (HK\$ m)	27,867.58
Avg daily vol (m)	7.59
YTD change (%)	32.31
200d MA (HK\$)	7.89

Source: FactSet

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Financial highlights

Y/E 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMB m)	46,234	57,379	64,971	71,713	80,182
YoY growth (%)	20.6	24.1	13.2	10.4	11.8
Core profit (RMB m)	4,020	4,150	4,427	4,842	5,229
Core EPS (RMB)	1.30	1.34	1.43	1.56	1.69
YoY growth (%)	6.9	3.2	6.7	9.4	8.0
P/E (x)	6.0	5.8	5.4	5.0	4.6
BVPS (RMB)	14.13	14.93	15.85	16.87	17.96
P/B (x)	0.55	0.52	0.49	0.46	0.43
Dividend yield (%)	6.7	6.9	7.4	8.0	8.7

Source: Company data, BOCOM Int'l estimates

Analyst certifications, disclosures and disclaimer at the back forms part of this report and must be read.

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Investment Highlights – SOE Deep-rooted in GBA with Land-banking and Financing Advantages

Yuxiu Property is a GBA-focused nationwide SOE developer based in Guangzhou. The company has one of the longest listing histories within the China property sector, going public on HKEx in Dec 1992 (formerly known as Guangzhou Investment Company Limited) as the ninth red-chip company in Hong Kong. Despite a long history, it faced prolonged share price weakness especially during mid-2010s due to margin decline on expansion outside Guangzhou and stagnant earnings growth. In recent years, the company has consolidated its nationwide network and shown sharply-improved financial health to grow its sales, revenue and earnings.

In contrast to the sector downturn since 2H21, Yuxiu's share price gain of ~40% YTD is among the best of all listed Chinese property developers we track. We believe the company's differentiated positioning allows it to navigate sector headwinds to attract investors' eyeballs. The key positives and differentiations of the company include:

- (1) Strong background of dual SOE shareholders – parentco Yuxiu Group and strategic shareholder Guangzhou Metro;
- (2) Multiple land-banking channels to lower land cost and maintain margins, including its unique TOD projects;
- (3) Focus on GBA and tier-1 cities to ensure higher ASP and sell-through; and
- (4) Strong access to capital market with extremely low-cost financing to mitigate the margin impact of rising cost.

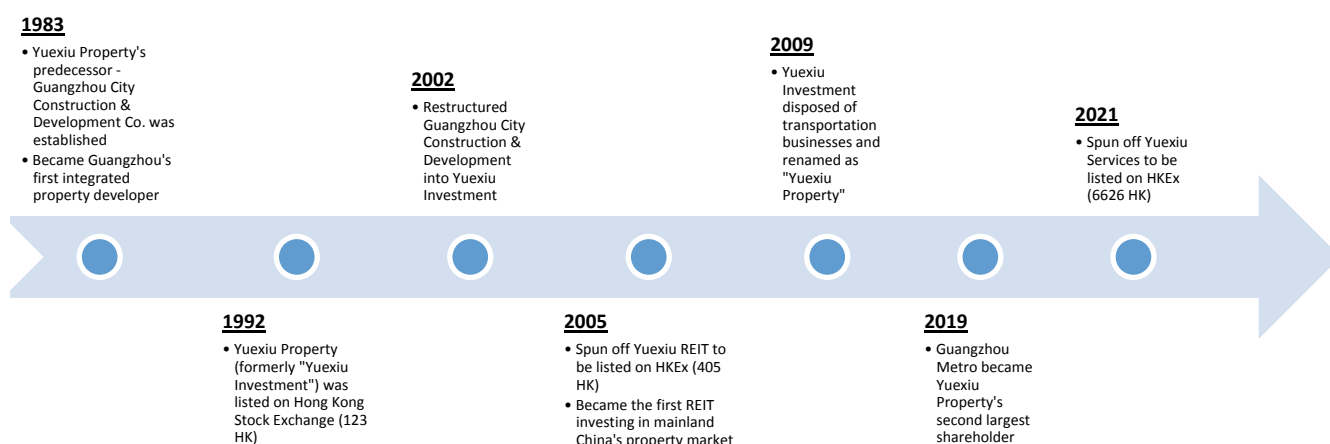
We believe the company can continue to leverage its strengths to capture market share and drive revenue. Meanwhile, we believe it will weather the sector headwinds of margin shrinkage well and maintain earnings growth in the short to medium term, which in turn will support its valuation and provide a better risk-reward profile for investors.

1. Strong support from SOE parentco and major shareholder

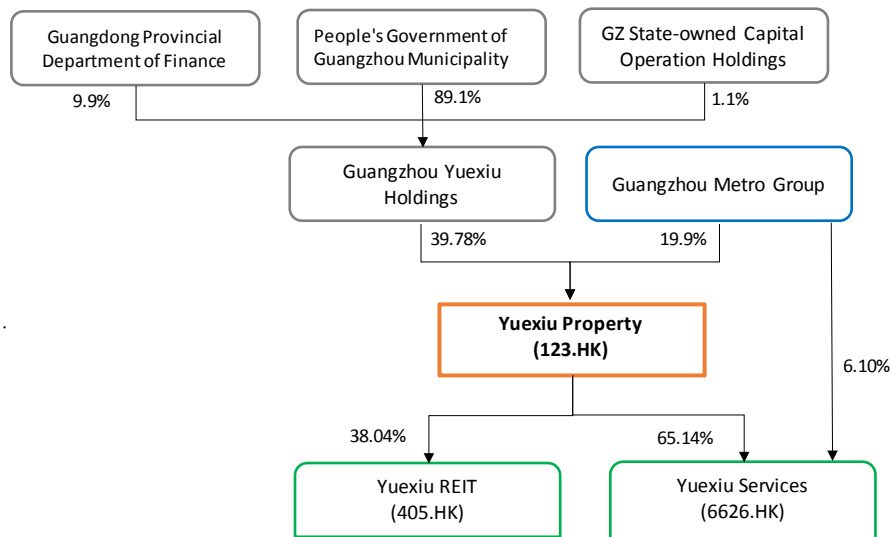
Yuexiu Property, restructured from Guangzhou City Construction & Development Co., has almost 40 years of property development experience since 1983. Guangzhou Yuexiu Holdings, being Yuexiu Property's largest shareholder, is supervised by the Guangzhou State-owned Assets Supervision and Administration Commission ("Guangzhou SASAC"). The long-established reputation renders Yuexiu with high recognition from homebuyers, especially in the GBA. In addition, strong parentco support provides Yuexiu Property with ample financial resources and cheaper financing.

In 2019, Guangzhou Metro joined as its second largest shareholder by subscribing for ~3,081m shares of Yuexiu Property at HK\$2.00/share (equivalent to HK\$10 after the 5-to-1 stock merger in 2021). The strategic alliance with Guangzhou Metro gave Yuexiu a distinct advantage in enriching its TOD platform in Guangzhou and expanding into nationwide TOD projects.

Figure 1: Company milestones

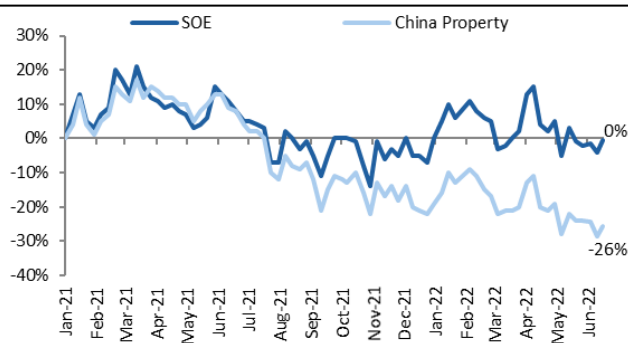


Source: Company data, BOCOM Int'l

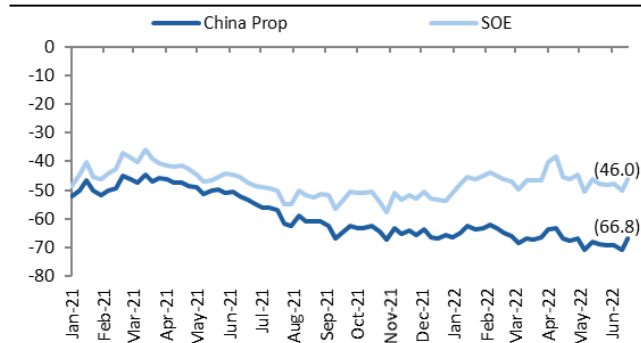
Figure 2: Shareholding structure of Yuexiu Property

Source: Company data, BOCOM Int'l

In previous years when developers focused on scale expansion, the capital market favored those private names which achieved stellar growth through heavy leverage rather than SOEs which took a more prudent approach to expansion. However, after the highly-leveraged developers started facing financial stress since Sep 2021, the market has apparently switched appetite to SOEs with financial stability. Tracking stock prices since Jan 2021, SOE developers have outperformed the overall China property sector with flattish price movement (vs. sector's 26% loss). Consequently, SOEs' NAV discount narrowed 2.6ppts to 46.0%, vs. sector's 14.5ppt widening to 66.8%. We expect the divergence to continue in the coming 2-3 years, as most private developers continue to navigate debt issues; for those who survive, their top-line growth in the near term is still limited by reduced land acquisitions since 2H21.

Figure 3: Stock price performance (4 Jan 2021 as base)

Source: Bloomberg, BOCOM Int'l

Figure 4: NAV discount, since Jan 2021

Source: Bloomberg, BOCOM Int'l

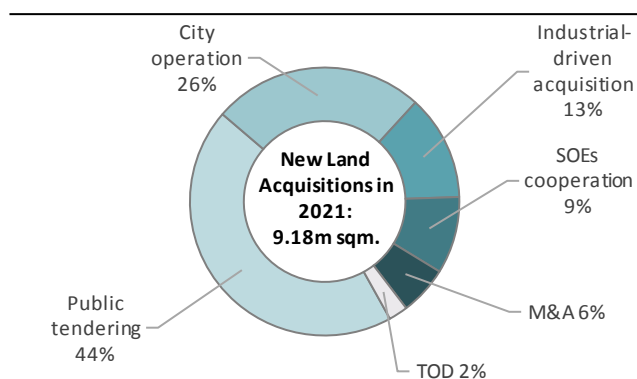
2. Multiple land-banking channels; competitive land cost

Benefiting from its relationship with large shareholders and SOE background, Yuexiu Property has the most diversified land acquisition channels among peers with its unique “6+1” acquisition platform. Apart from the most common open market channel, Yuexiu also replenishes land reserve from six other sources:

1. **TOD:** leverage the strategic cooperation with Guangzhou Metro to source TOD development projects;
2. **City operation:** master-plan and develop urban public facilities;
3. **SOE cooperation:** jointly develop projects with SOE peers;
4. **Urban renewal:** M&A and cooperation of urban renewal projects on old towns, villages and factories;
5. **Industrial-driven acquisition:** consolidate land resources from both Yuexiu Group and local government to acquire and convert land at reasonable prices; and
6. **M&A:** utilize incentive policies and financing support from banks to acquire high-quality projects from peers.

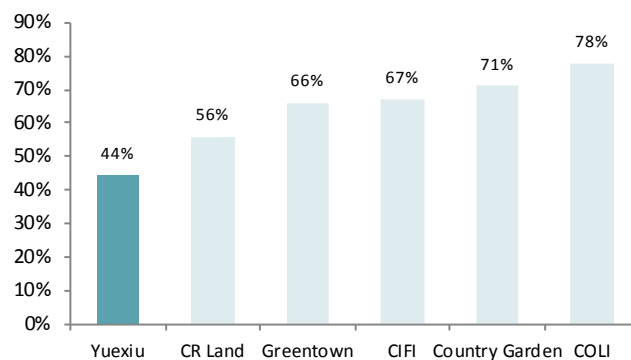
Competitive land cost; low proportion of land acquired from open market. In 2021, Yuexiu added 37 land plots with an aggregate GFA of 9.18m sqm, ~2.2x/4.1x contracted/booked sales GFA in 2021. Among the new land acquisitions in 2021, public tendering only accounted for 44% of total land costs, being the lowest among the leading peers. As open market auctions usually carry higher land costs due to more intense competition (especially when the land market was heated during 2019-1H21), diversified land acquisition channels allow Yuexiu to replenish land bank at more reasonable prices. In 2021, Yuexiu managed to lower its average land cost to ASP ratio to 34% (from 44% in 2020), which is also one of the lowest among the industry.

Figure 5: Diversified land banking channels in 2021

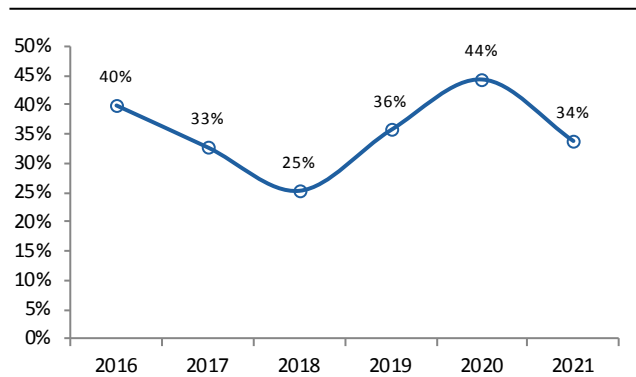


Source: Company data, BOCOM Int'l

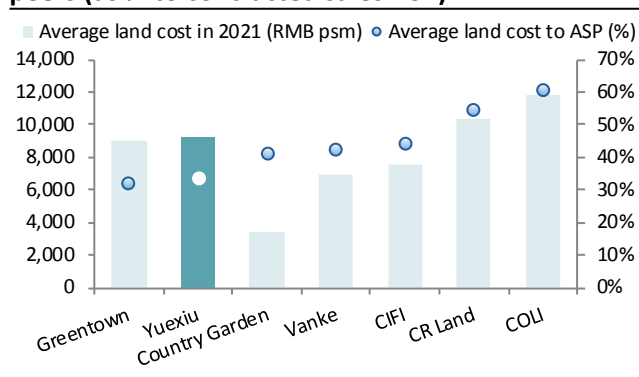
Figure 6: Land acquisition from open market as % of total land cost in 2021



Source: Various companies, BOCOM Int'l

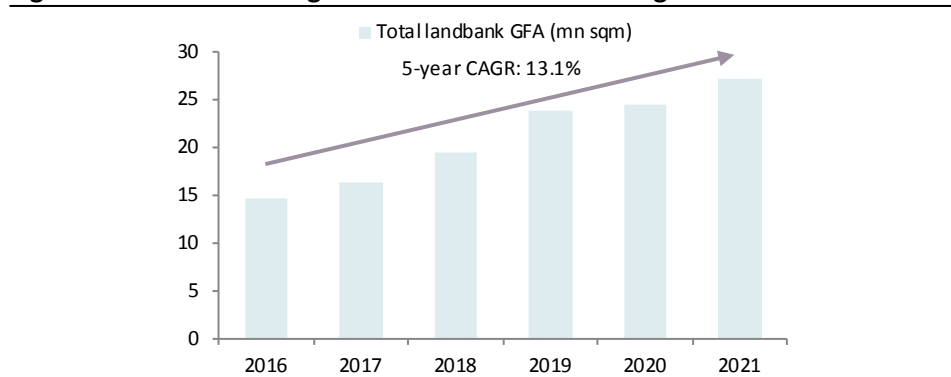
Figure 7: Yuexiu's average land cost to ASP ratio

Source: Company data, BOCOM Int'l

Figure 8: Yuexiu has lower land costs than most peers (as % to contracted sales ASP)

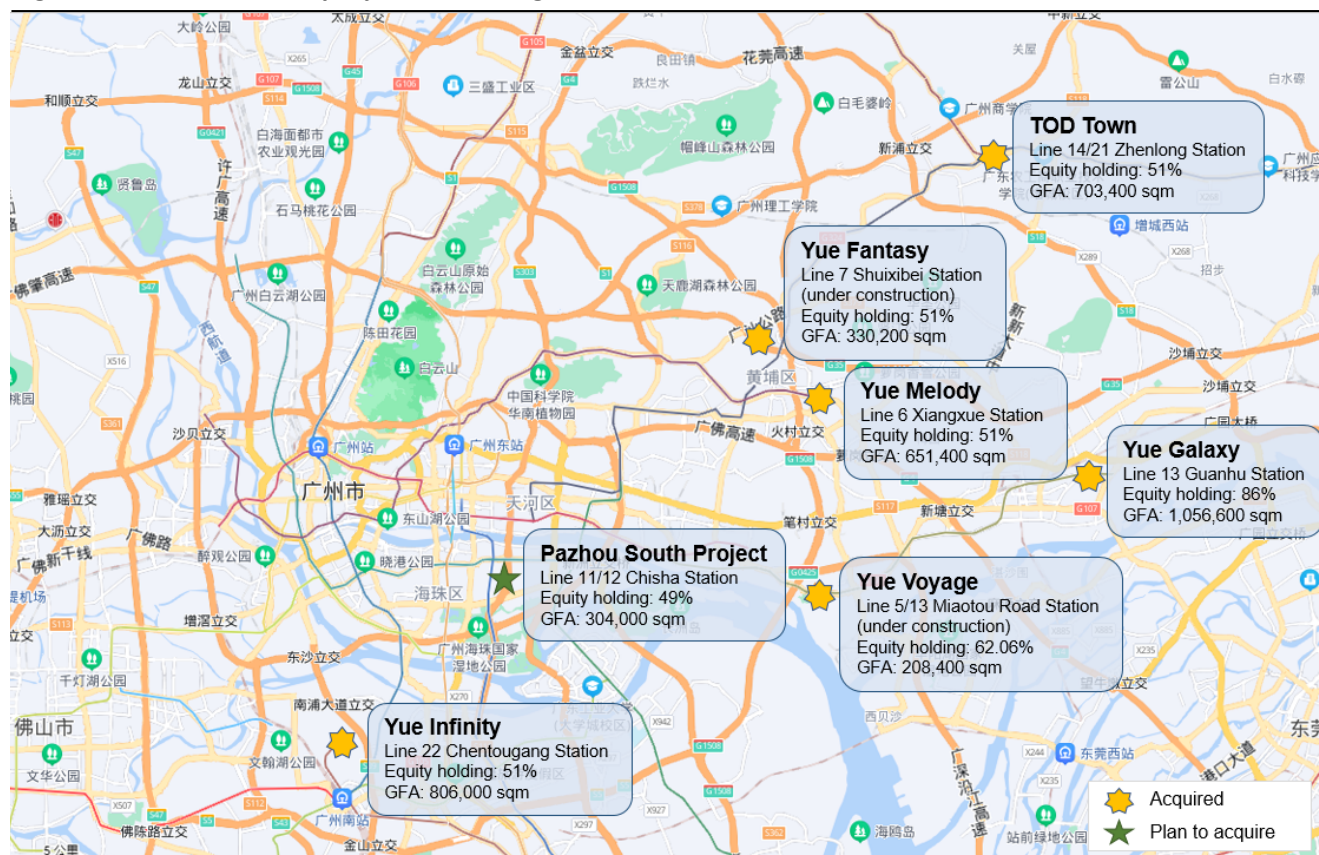
Source: Various companies, BOCOM Int'l

As a result of multi-channel land acquisitions, Yuexiu steadily expanded its landbank at a 13.1% CAGR during 2016-21. As of end-2021, Yuexiu's landbank accumulated to 27.1m sqm located in 30 cities across China, sufficient for 3-4 years of development. In contrast, some financially-troubled private developers were forced to reduce land acquisitions in 2H21 and shrink their landbank GFA.

Figure 9: Solid landbank growth at 13.1% CAGR during 2016-21

Source: Company data, BOCOM Int'l

Unique advantage in high-margin TOD projects. Among these channels, we see TOD projects as having the highest entry barrier, as it requires strong relationship with the local metro operators. After introducing Guangzhou Metro as its second largest shareholder in 2019, Yuexiu has been jointly developing six TOD projects in Guangzhou with a total GFA of ~3.76m sqm, and agreed to acquire another TOD project - Pazhou South project, in Apr 2022.

Figure 10: Yuexiu's TOD projects in Guangzhou

Source: Company data, BOCOM Int'l

Furthermore, with rich TOD development experience, Yuexiu Property won the bid of the Hangzhou Gouzhuang TOD project at minimum bidding price in May 2022, marking its first expansion of TOD project outside Guangzhou and increasing its total landbank of TOD projects to ~4.3m sqm (versus end-2021: 3.76m sqm, +14% YTD). Although the initial margin might be low, we believe Yuexiu could enhance profitability at latter phases of the projects and more importantly, replicate its TOD development experience in other areas to grow into a leading TOD project developer in China.

While projects bid from the open market are normally far from city centers or transportation hubs nowadays, TOD projects are usually located close to metro and bus stations and surrounded by shopping centers and convenient community facilities (e.g. schools, parks, and libraries), which thus can attract demand and ensure higher sell-through. In 2021, Yuexiu's TOD projects achieved strong contracted sales of RMB17.87bn, including RMB4.59bn/4.0bn/3.5bn from TOD Town/Yue Infinity/Yue Galaxy with YoY increments of 98%/34%/19%.

Figure 11: Location of Yue Infinity

Source: Company data, BOCOM Int'l

Figure 12: Location of TOD Town

Source: Company data, BOCOM Int'l

Apart from high sell-through, with relatively lower land costs (~15-20% lower than nearby land plots) and higher ASP premium, we estimate most of Yuexiu's TOD projects are able to yield a GPM of ~20-45%, far higher than projects obtained from the open market or M&As (only 15-20% normally) or other existing projects (overall GPM of property development was 23.3% in FY21).

Figure 13: Details of Yuexiu's TOD projects

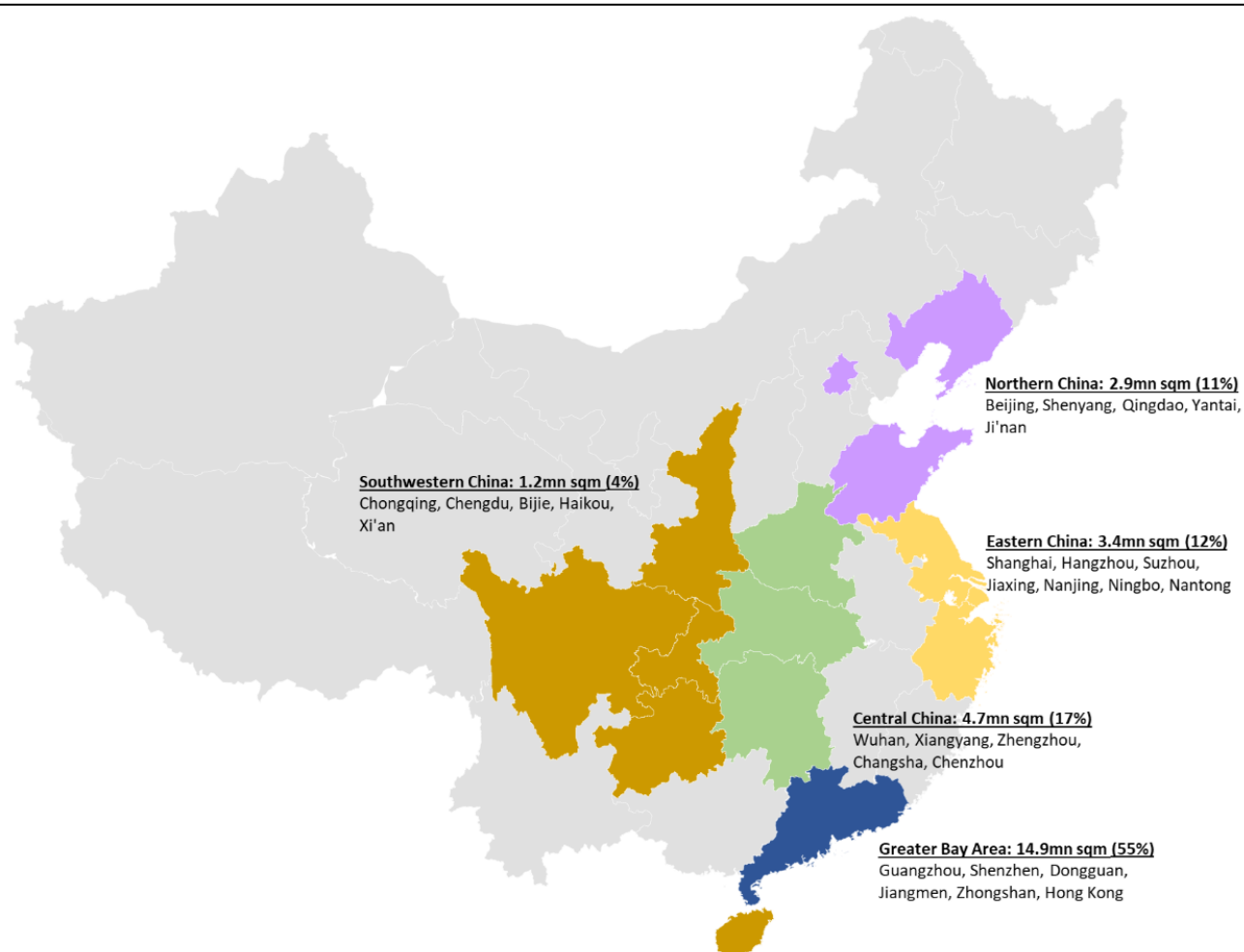
TOD projects	Metro station	Acquisition date	Equity holding (%)	Total GFA ('000 sqm)	Attr. consideration (RMB bn)	ASP in 1H21 (RMB psm)	Est. GPM (%)
Hangzhou Gouzhuang	Line 4 Gouyang Station (under construction)	May-22	51%	225.9	1.70	-	10%
Pazhou South Project	Line 11/12 Chisha Station	Apr-22	49%	304.0	5.01	-	45%
Yue Voyage	Line 5/13 Miaotou Road Station (under construction)	2021	62%	208.4	2.07	-	18%
TOD Town	Line 14/21 Zhenlong Station	Oct-20	51%	703.4	3.14	27,000	28%
Yue Fantasy	Line 7 Shuixibei Station (under construction)	Oct-20	51%	330.2	2.19	41,100	35%
Yue Infinity	Line 22 Chentougang Station	Oct-19	51%	806.0	4.02	39,300	45%
Yue Melody	Line 6 Xiangxue Station	Oct-19	51%	651.4	4.87	41,200	40%
Yue Galaxy	Line 13 Guanhu Station	Apr-19	86%	1,056.6	14.11	28,300	19%

Source: Company data, BOCOM Int'l

3. GBA and tier-1 city focus to sustain high ASP and sell-through

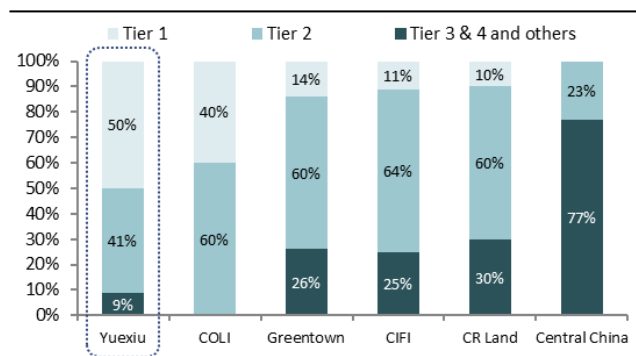
Deep-rooted in Guangzhou, 55% of Yuexiu Property's landbank is located in the GBA (including Hong Kong) with great economic importance and high growth visibility. After years of expansion, Yuexiu has also established presence in four other key regions, namely Central China (e.g. Wuhan, Zhengzhou, Changsha), Eastern China (e.g. Shanghai, Hangzhou, Suzhou), Northern China (e.g. Beijing, Shenyang, Qingdao), and Southwestern China (e.g. Chongqing, Chengdu, Xi'an), which account for 17%, 12%, 11% and 4% of total landbank respectively.

Figure 14: Location map of Yuexiu's land bank

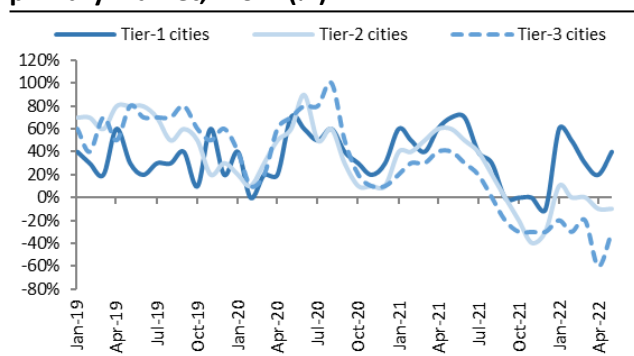


Source: Company data, BOCOM Int'l

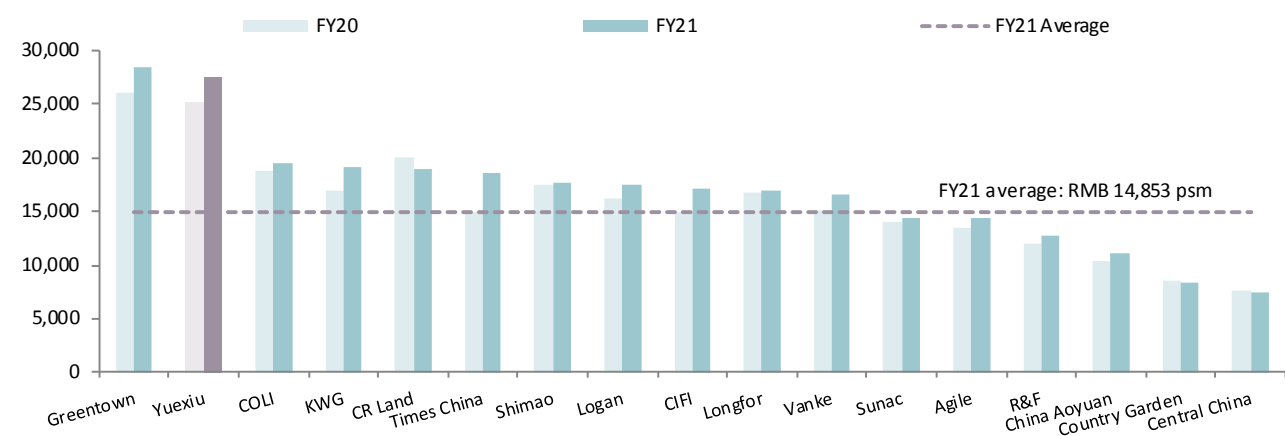
With strong presence in Guangzhou, 50% of Yuexiu's landbank is located in tier-1 cities, among the highest in the industry. Yuexiu's focus on tier-1 cities enables it to sustain higher ASP than peers. Its ASP increased 9% YoY to RMB27,570/sqm in 2021 (~86% higher than industry average), when some peers faced declining ASP due to price caps and pressure to lower price to boost volume. In the latest round of housing price correction since 2H21, tier-1 cities have shown greater resilience than lower-tier ones.

Figure 15: Land-bank breakdown by city tiers


Source: Various companies, BOCOM Int'l

Figure 16: 70 major cities' residential price index – primary market, MoM (%)


Source: Wind, NBS, BOCOM Int'l

Figure 17: Contracted ASP stayed higher than peers and grew 9% YoY in FY21


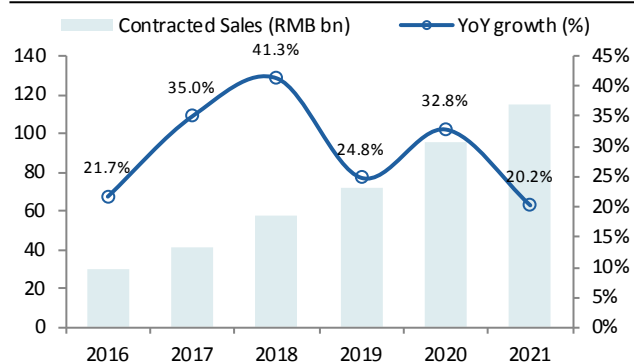
Source: Various companies, BOCOM Int'l

Solid sales growth with 30%+ CAGR during 2016-21

Leveraging ample saleable resources acquired from multiple channels and sustainably high ASP, Yuexiu Property achieved a 5-year CAGR of 30.6% in contracted sales during 2016-21. As of 5M22, Yuexiu ranked No.19 among developers in terms of gross contracted sales amount, continuously improving from No.37/46/52 in 2021/2020/2019. In Guangzhou market, Yuexiu surpassed Poly Development to rank No.1 in both gross and attributable terms in 2021 and 4M22, cementing its leading position in the region.

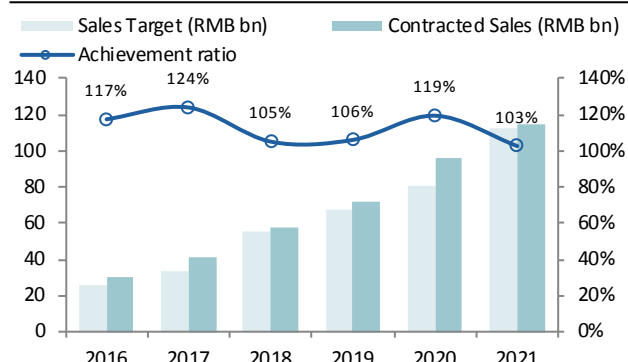
Track record of sales target achievement proves strong execution. The company has maintained a good track record of fulfilling sales target, with an average fulfilment ratio of 110% in the past six years. Even in 2021 when most developers missed their sales targets, Yuexiu Property was one of the very few who achieved target despite market headwinds (103% vs. industry average of 92%), evidencing the company's solid brand name and strong execution.

Figure 18: Contracted sales, 2016-21



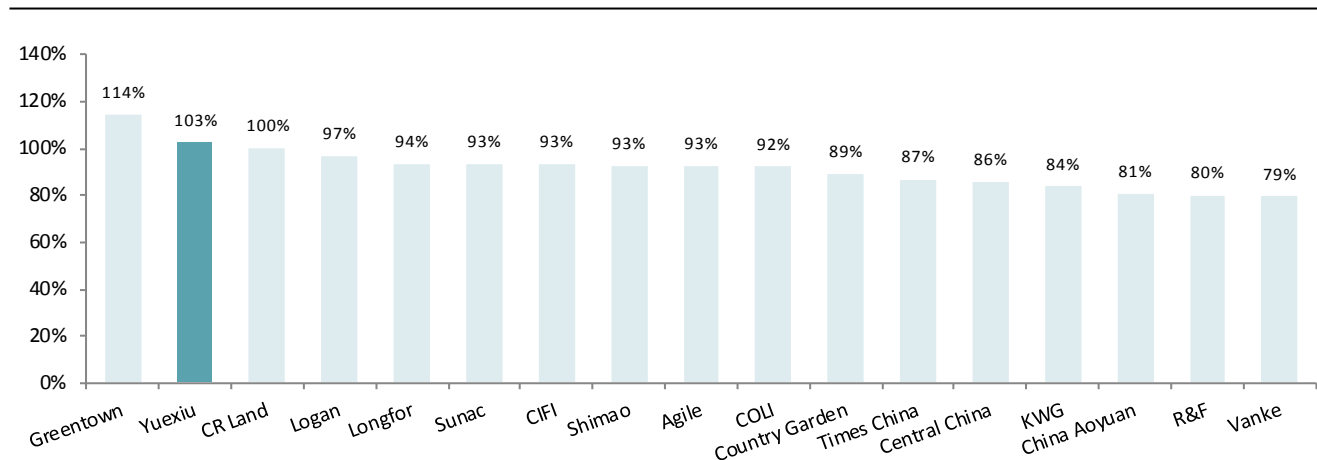
Source: Company data, BOCOM Int'l

Figure 19: Sales target fulfilment, 2016-21



Source: Company data, BOCOM Int'l

Figure 20: Major developers' sales fulfilment ratios, 2021



Source: Various companies, BOCOM Int'l

Ambitious FY22 sales target shows confidence to the market. Due to the challenging market environment with weak home purchase sentiment, only seven developers have explicitly announced 2022 sales targets so far, among which Yuexiu Property aims for the highest YoY growth at 7%. The ambitious guidance shows the company's strong confidence, as only two developers set higher sales targets than last year, whilst the rest lowered targets by up to 41% YoY.

Based on the RMB214.6bn saleable resources planned for 2022, we think the company's target of RMB123.5bn contracted sales is achievable as only 57.5% sell-through ratio is required, much lower than the actual sell-through rates of 61.7%/65.5% in 2021/2020. As of 5M22, Yuexiu had locked in 28.0% of the target, being the highest among the seven developers who announced FY22 targets. Among the 26 developers we track, Yuexiu was the only one who achieved positive YoY growth of contracted sales in Apr/May 22 (+56%/21%), while others showed YoY drops of up to 86%.

Figure 21: Developers' 5M22 sales target fulfilment ratios

Company name	Stock code	FY21 target (RMB bn)	FY22 target (RMB bn)	YoY (%)	5M22 contracted sales (RMB bn)	5M22 lock-in ratio (%)
Yuexiu Property	123 HK	115.2	123.5	7	34.6	28.0
Greentown	3900 HK	310	330	6	59.1	17.9
CM Shekou	001979 CH	330	330	0	77.7	23.5
Longfor	960 HK	310	300	-3	62.1	20.7
Jinmao	817 HK	250	240	-4	50.9	21.2
Central China	832 HK	70	53	-24	10.3	19.5
Times China	1233 HK	110	65	-41	18.0	27.8
Average						21.7

Source: Various companies, BOCOM Int'l estimates

Figure 22: Major developers' contracted sales in Apr and May 2022

Company name	Ticker	Contracted sales in Apr-22 (RMB bn)	YoY (%)	Contracted sales in May-22 (RMB bn)	YoY (%)
Yuexiu	123 HK	11.1	56	9.9	21
CR Land	1109 HK	15.1	-55	20.3	-19
COLI	688 HK	24.0	-30	24.5	-29
Poly Development	600048 CH	30.5	-41	38.0	-35
CM Shekou	001979 CH	14.1	-52	16.3	-48
Vanke	2202 HK	33.5	-40	29.3	-48
Poly (HK)	119 HK	2.3	-56	2.5	-49
Longfor	960 HK	11.6	-52	13.5	-51
Country Garden	2007 HK	30.5	-60	37.8	-53
Seazen	1030 HK	9.4	-59	11.3	-53
Greentown China	3900 HK	10.8	-58	11.0	-54
China SCE	1966 HK	4.5	-56	4.8	-54
Powerlong	1238 HK	3.1	-64	3.8	-59
CIFI	884 HK	10.1	-62	10.8	-60
Agile	3383 HK	5.3	-53	4.0	-60
Jinmao	817 HK	10.2	-57	9.0	-61
KWG	1813 HK	4.0	-69	3.5	-69
Central China	832 HK	1.6	-81	2.3	-70
R&F	2777 HK	3.1	-68	3.2	-74
BCL	2868 HK	1.6	-79	1.4	-75
Yuzhou	1628 HK	2.3	-75	2.4	-77
Shimao	813 HK	6.0	-76	6.1	-79
China Aoyuan	3883 HK	4.5	-60	2.2	-81
Logan	3380 HK	3.2	-76	2.5	-82
Sunac	1918 HK	13.6	-75	12.7	-82
Times China	1233 HK	4.0	-50	1.2	-86
Average			-55		-55

Source: CRIC, BOCOM Int'l

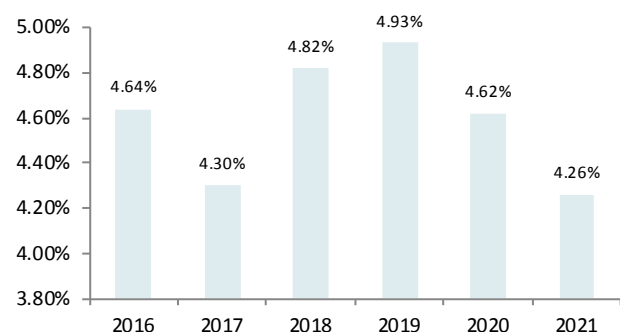
4. Strong access to capital market and low-cost funds

Since the implementation of “Three Red Lines” requirements in 2H20, Yuexiu has stayed in the “Green” camp by meeting all three requirements, and thus can enjoy the highest cap at 15% growth in interest-bearing debt per annum.

Before the financing environment became challenging for property developers in 2H21, Yuexiu successfully captured the 1H21 lower-interest-rate window to issue US\$800m onshore bonds at 2.8-3.8% p.a. and RMB6bn onshore bonds at average cost of 3.29% p.a. As a result, Yuexiu managed to further reduce its average financing cost to 4.26% in 2021 (versus 4.62%/4.93% in 2020/19), lower than peers’ average of 4.89%.

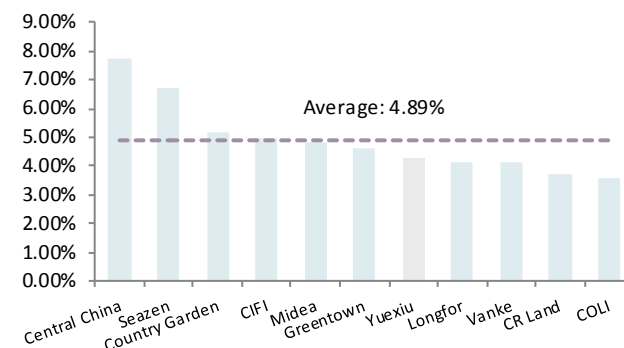
When many developers faced limited financing options due to liquidity woes, Yuexiu was approved to issue RMB10bn inter-bank medium-term notes on 30 Mar 2022. Moreover, Yuexiu entered into a strategic cooperation with ICBC on 27 Apr 2022 to obtain a loan of RMB30bn for conducting property M&As. On 17 May 2022, Yuexiu’s 95%-owned subsidiary in Guangzhou issued RMB2bn corporate bonds at interest rate of 2.9-3.38%. Yuexiu’s extensive financing channels and low financing costs show the market’s strong confidence in its financial strength and SOE background.

Figure 23: Yuexiu’s average financing cost dropped in 2020-21



Source: Company data, BOCOM Int'l

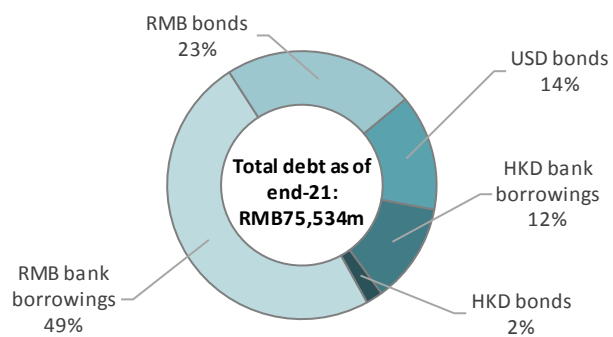
Figure 24: Yuexiu’s financing cost lower than peer average in 2021



Source: Various companies, BOCOM Int'l

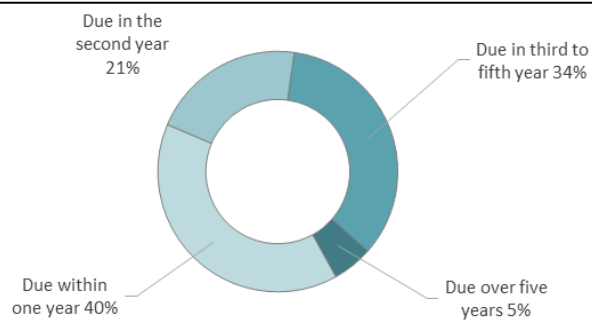
As of Dec 2021, Yuexiu’s total debt amounted to RMB75.5bn, among which only 18% was offshore borrowings. Also, short-term debt accounted for 39% of total debt, 1.36x covered by total cash balance, which is a healthy level and within the regulatory threshold.

Figure 25: Yuexiu's debt composition as of Dec-21



Source: Company data, BOCOM Int'l

Figure 26: Yuexiu's debt maturity profile as of Dec-21



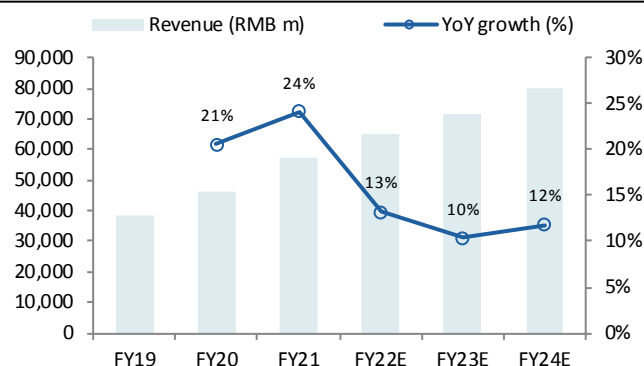
Source: Company data, BOCOM Int'l

Financial Forecasts – Sturdy Earnings Growth amid Market Downturn

Solid revenue growth on ample saleable resources

As a result of robust sales growth in the past few years, Yuexiu has built up a strong booking pipeline to support revenue growth. As of end-2021, Yuexiu had RMB150.65bn unrecognized sales (2.78x booked sales in FY21), laying a solid foundation for the revenue booking from its core business - property development - in the coming 2-3 years. According to Yuexiu's business plans, the company targets to complete a total GFA of 6.73m sqm in FY22, slightly higher than 6.62m sqm achieved in FY21. Among the completion pipeline, it is expected that more will be located in tier-1 cities with higher sales value. Looking ahead, we estimate Yuexiu Property's total revenue to grow steadily at 13%/10%/12% YoY to RMB65.0bn/71.7bn/80.2bn in FY22/23/24E.

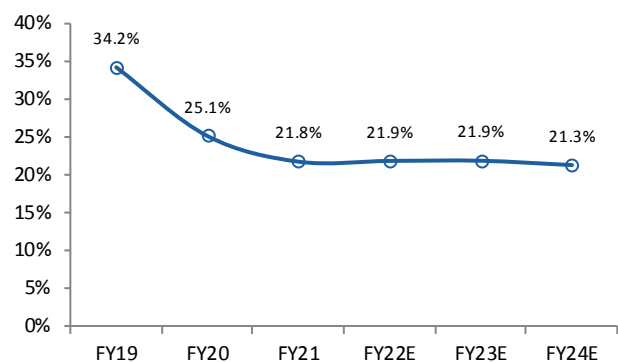
Figure 27: Revenue expected to grow steadily at 12% CAGR during FY21-24E



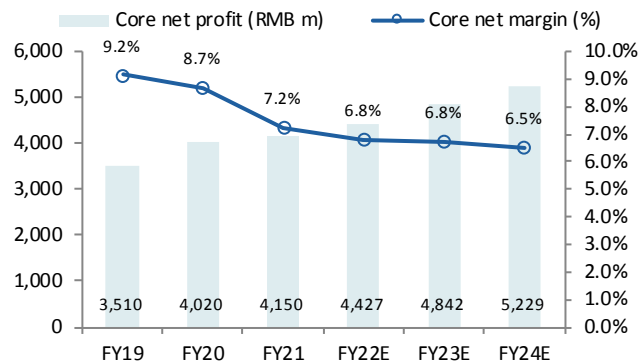
Source: Company data, BOCOM Int'l estimates

Expect 8% profit CAGR with stable gross margin

Despite industry-wide margin pressure due to soft sentiment and ASP caps, we estimate Yuexiu to keep its gross margin largely stable at ~20%+ in FY22-24E by acquiring land at lower costs and sustaining higher ASP (given strong resilience of tier-1 cities' home prices). Meanwhile, with access to cheaper capital, we expect Yuexiu's core profit margin to stay at ~6% for FY22-24E and core profit to increase at a CAGR of ~8%, from RMB4.15bn in FY21 to RMB4.4bn/4.8bn/5.2bn in FY22/23/24E, respectively.

Figure 28: Gross profit margin expected to normalize at ~20%+


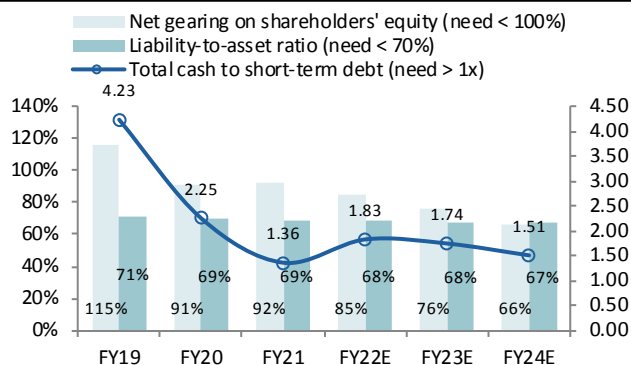
Source: Company data, BOCOM Int'l estimates

Figure 29: Core net profit estimated to grow at 8% CAGR during FY21-24E


Source: Company data, BOCOM Int'l estimates

Healthy balance sheet to stay in “Green” camp

During FY20-21, Yuexiu Property maintained good financial positions, meeting all requirements of “Three Red Lines”. We expect the company to stay in the “Green” camp during FY22-24E with cash to short-term debt ratio largely maintained at ~1.5-1.8x and net gearing ratio trending down from 92% at end-FY21 to 66% at end-FY24E.

Figure 30: Expect to stay in “Green” camp under “Three Red Lines” requirements


Source: Company data, BOCOM Int'l estimates

~7-9% FY22-24E dividend yield on strong financial fundamentals

Assuming a generally stable liquidity environment, sales momentum and cash flow, we believe Yuexiu will maintain its existing dividend policy to pay out ~40% of core profit. Thanks to the expansion in operating scale, stable margin and steady earnings growth, we estimate the company to maintain decent dividend yield of 7-9% for FY22-24E. Even in a bear-case scenario where the sector's liquidity remains tight, which would prod the company to preserve more cash and lower payout ratio to 35%, we estimate the company could still offer a 6-8% dividend yield for FY22-24E.

Figure 31: Yuexiu's dividend yield

	FY20	FY21	FY22E	FY23E	FY24E
Interim dividend (HK cents)	0.26	0.27	0.27	0.28	0.28
Final dividend (HK cents)	0.27	0.27	0.30	0.35	0.40
Total (HK cents)	0.52	0.54	0.57	0.63	0.68
Basic full-year core EPS (RMB cents)	1.30	1.34	1.43	1.56	1.69
Base-case payout ratio (%)	40	40	40	40	40
Base-case dividend yield (%)	6.7	6.9	7.3	8.0	8.6
Bear-case payout ratio (%)			35	35	35
Bear-case dividend (HK cents)			0.50	0.55	0.59
Bear-case dividend yield (%)			6.4	7.0	7.6

Source: Company data, BOCOM Int'l estimates

Initiate with Buy; Valuation Undemanding

We adopt the net asset value (NAV) method to value Yuxiu Property, as it is an appropriate and common valuation method for property development projects and mainland developers. Under this approach, we value the company using the sum of the values of development projects and investment properties, minus the amount of outstanding land premiums, net debt and future LAT & other tax liabilities. The value of projects under development is estimated by discounting the future cash inflow streams, future development and construction cost, outstanding land premium and applicable tax.

Assuming a slight drop of ASP in FY22E by 1% YoY and a gradual pick-up by 1%/2% YoY in FY23/24E, and a WACC of 9.3%, we estimate the NAV per share of Yuxiu Property at HK\$27.4 as of end-FY22. We also assume overall GPM to remain largely stable at ~21% in FY21-24E with resilient home prices in tier-1 and 2 cities.

Figure 32: Yuxiu Property's FY22E NAV

	(HK\$ m)	(HK\$ per share)	% of NAV	% of GAV
Properties under development	139,059	44.91	164	87
Investment properties	12,898	4.17	15	8
Listed investments (Yuxiu REIT & Yuxiu Services)	7,675	2.48	9	5
GAV	159,631	51.55	188	100
Outstanding land premium	(3,488)	(1.13)	-4	-2
End-FY22E net cash/(debt)	(48,595)	(15.69)	-57	-30
LAT and other liabilities	(22,568)	(7.29)	-27	-14
NAV	84,980	27.44	100	53

Source: BOCOM Int'l estimates

We perform a sensitivity analysis for our appraised NAV under various assumptions, and arrive at the range of HK\$23.8-31.7/share for the NAV estimate. In the worst-case scenario, which assumes a bear-case ASP (-3%/-1%/0% YoY in FY22/23/24) and a WACC of 11%, the NAV would be HK\$23.8/share. On the other hand, assuming a bull-case ASP (+2% YoY in FY22-24) and a WACC of 7%, the NAV per share would be higher at HK\$31.7.

Figure 33: FY22E NAV sensitivity analysis

(HK\$)		ASP		
		Bear	Base	Bull
WACC	7%	26.8	29.3	31.7
	8%	26.0	28.5	30.8
	9%	25.1	27.4	29.8
	10%	24.5	26.9	29.2
	11%	23.8	26.2	28.4

Source: BOCOM Int'l estimates

Sector trading at 67% NAV discount on average

The China property sector is trading at an average NAV discount of 67% (based on 22 Jun 2022 closing prices), whilst a distinct divergence occurs between SOEs and private developers. Due to concerns over liquidity woes, private developers are trading at a deeper NAV discount of 75.1% on average, vs. 46.0% for SOEs.

Figure 34: Valuations – China property sector trading at an average NAV discount of 67%

Company name	Ticker	Last price* (HK\$)	Market cap (HK\$ m)	— P/E —		— P/B —		— Yield —		BOCOM/ Consensus	NAV discount
				22E (x)	23E (x)	22E (x)	23E (x)	22E (%)	23E (%)	NAV (HK\$)	
SOE/SOE background				6.3	5.9	0.7	0.6	5.4	5.8	33.6	(46.0)
Yuexiu Property	123 HK	9.09	28,147	5.5	5.0	0.49	0.46	7.2	7.8	27.4	(66.9)
COLI	688 HK	23.45	256,658	5.6	5.4	0.59	0.55	5.5	5.8	34.5	(32.1)
Vanke	2202 HK	17.70	241,698	6.9	6.5	0.70	0.65	5.4	5.8	21.9	(19.3)
CR Land	1109 HK	34.00	242,452	6.9	6.3	0.84	0.77	5.0	5.6	44.6	(23.8)
Greentown	3900 HK	14.32	35,950	6.7	5.9	0.80	0.73	4.5	5.1	43.8	(67.3)
COGO	81 HK	3.87	13,248	2.1	1.9	0.33	0.29	10.4	11.2	12.1	(68.1)
Non-SOE				4.5	3.9	0.7	0.6	10.1	10.7	39.9	(75.1)
Longfor	960 HK	33.00	200,565	6.8	6.2	1.21	1.07	6.4	6.9	75.6	(56.3)
Country Garden	2007 HK	4.55	105,325	3.3	3.2	0.41	0.37	7.7	8.3	9.5	(52.0)
CIFI	884 HK	3.47	31,729	3.5	3.3	0.56	0.49	7.3	8.3	5.2	(33.6)
Sunac	1918 HK	4.58	24,956	0.7	0.7	0.13	0.12	29.8	27.7	26.5	(82.7)
Seazen	1030 HK	3.52	22,900	2.7	2.8	0.39	0.34	4.9	7.2	7.7	(54.3)
Evergrande	3333 HK	1.65	21,787	5.5	N/A	0.12	0.11	21.4	19.1	22.5	(92.7)
Shimao Property	813 HK	4.42	16,786	1.1	1.1	0.14	0.12	25.4	28.5	43.9	(89.9)
Logan	3380 HK	2.18	12,394	1.0	0.9	0.19	0.16	25.1	28.4	9.9	(78.1)
Agile Property	3383 HK	3.00	11,751	1.9	2.0	0.15	0.14	7.7	5.7	11.4	(73.6)
Guangzhou R&F	2777 HK	2.04	7,655	2.7	2.3	0.08	0.08	0.1	1.0	9.9	(79.5)
KWG Property	1813 HK	2.32	7,386	1.4	1.4	0.13	0.12	10.8	12.6	21.1	(89.0)
Times China	1233 HK	2.41	5,065	1.2	1.1	0.18	0.16	8.2	10.2	10.7	(77.5)
China Aoyuan	3883 HK	1.18	3,499	0.6	0.5	0.13	0.11	54.4	67.7	19.3	(93.9)
Yuzhou Property	1628 HK	0.48	3,141	3.9	3.6	0.10	0.10	0.0	0.0	4.3	(88.8)
Central China	832 HK	0.73	2,164	2.6	2.4	0.18	0.17	11.9	17.8	4.7	(84.5)
China developers average				5.7	5.2	0.7	0.6	7.1	7.6	35.9	(66.8)

Source: Bloomberg, BOCOM Int'l *Closing price of 22 Jun 2022 or last price before trading suspension

TP of HK\$10.98 based on 60% discount to NAV

We think Yuexiu's strong backing by the two SOE major shareholders allows it to access cheaper capital, and thus sustain land banking and capture more market share amid market downturn. We believe the market will continue to prefer SOEs to private developers, given that (1) homebuyers still lack confidence in private developers' project delivery, (2) most private developers' refinancing difficulties remain, and (3) many private developers' top-line growth is limited in the near term due to less active land banking since 2H21.

Of all mainland developers with SOE background, Yuexiu's current NAV discount of ~67% is among the largest. We think the market is underestimating Yuexiu's growth prospects and its valuation should re-rate closer to other SOE peers, which offers an attractive investment opportunity. Based on a 60% discount to our estimated NAV of HK\$27.44, we set our TP at HK\$10.98, representing an upside of 20.8% from the latest closing price. Initiate coverage with **Buy**.

Figure 35: Valuation summary

FY22E NAV/share (HK\$)	27.44		
FY22E net underlying profit (RMB m)	4,427		
FY23E net underlying profit (RMB m)	4,842		
	Bear	Base	Bull
Discount to FY22E NAV (%)	65	60	55
Valuation/share (HK\$)	9.61	10.98	12.35
Upside (%)	5.7	20.8	35.9
Implied target FY22E P/E (x)	5.8	6.6	7.4
Implied target FY23E P/E (x)	5.3	6.0	6.8

Source: BOCOM Int'l estimates

Risk Factors

Sell-through fails to meet expectations due to weak demand: Although local governments have relaxed policy control on the property market, meaningful sales recovery is yet to be seen. If the soft sentiment lasts longer than expected, the sell-through rate of new projects would be dampened and Yuxiu may not be able to achieve its annual contracted sales target, which may impact the revenue booking of property development in the coming years.

Worse-than-expected ASP trend or higher operating costs leading to deeper margin compression: We assume ASP YoY movement at -1%/1%/2% in FY22/23/24E in a base case. However, if the overall market sentiment misses expectations and drags ASP lower, the company's top-line growth and gross margin would be suppressed. Similarly, faster-than-expected construction and labor cost increase amid higher inflation would also weigh on the already-declining gross margin, and hit both earnings and NAV estimates.

Slower project delivery resulting in delay of revenue booking: The company's project construction and delivery schedule might be affected by potential COVID outbreaks, especially in GBA. In addition, given that many private developers are still troubled by liquidity crunch, the construction of some JV projects co-developed with other private developers might face financial issues and construction delays if the liquidity woes further deteriorate. In case of disruptions to project construction or delivery, the company's revenue booking might also be delayed.

Financial Statements

Income statement (RMB m)					
Y/E 31 Dec	2020	2021	2022E	2023E	2024E
Revenue	46,234	57,379	64,971	71,713	80,182
COGS	(34,608)	(44,896)	(50,771)	(56,025)	(63,101)
Gross profit	11,626	12,482	14,200	15,688	17,082
SG&A	(2,554)	(3,213)	(3,638)	(4,016)	(4,490)
Other operating income, net	41	(35)	0	0	0
Operating profit	9,113	9,235	10,561	11,672	12,592
Net finance expenses	(476)	(350)	(330)	(399)	(403)
Income from JCEs and asso.	932	415	373	457	624
Other non-op. income, net	631	1,542	110	111	112
Pre-tax profit	10,200	10,842	10,714	11,841	12,924
Tax	(5,517)	(5,569)	(5,503)	(6,082)	(6,638)
Net profit	4,683	5,274	5,211	5,759	6,286
Net profit for EPS calculation	4,020	4,150	4,427	4,842	5,229

Balance sheet (RMB m)					
As of 31 Dec	2020	2021	2022E	2023E	2024E
Cash & cash equiv	28,214	32,766	33,820	37,327	42,120
Acc & bills receivable	15,267	25,435	23,044	25,435	28,439
Inventories	24,896	26,640	27,947	29,857	31,000
PUD and land/lease prepayments	130,253	164,103	171,645	182,670	189,265
Other current assets	12,999	13,860	13,860	13,860	13,860
Total current assets	211,629	262,804	270,315	289,148	304,684
Investment properties	16,076	10,982	11,092	11,203	11,315
PPE	7,128	7,923	8,960	10,118	11,412
Intangible assets	387	429	429	429	429
Investment in associates/JCE	19,227	23,548	23,921	24,379	25,003
Other non-current assets	8,748	8,169	8,514	8,895	9,312
Total non-current assets	51,567	51,051	52,916	55,024	57,470
Total assets	263,196	313,855	323,231	344,173	362,155
Short-term loans	16,576	29,802	22,757	25,843	33,096
Trade and other payables	22,222	34,699	34,775	38,373	43,220
Other current liabilities	92,788	118,120	123,878	135,670	142,895
Total current liabilities	131,585	182,621	181,410	199,886	219,211
Long-term loans	51,263	45,732	52,855	51,426	45,837
Other non-current liabilities	16,071	11,135	11,049	10,953	10,849
Total non-current liabilities	67,334	56,867	63,903	62,379	56,687
Total liabilities	198,920	239,488	245,313	262,265	275,898
Share capital	18,035	18,035	18,035	18,035	18,035
Reserves & other capital items	25,713	28,201	31,051	34,205	37,582
Shareholders' equity	43,748	46,236	49,086	52,241	55,617
Non-controlling interests	20,528	28,131	28,833	29,667	30,640
Total equity	64,276	74,367	77,918	81,907	86,257

Source: Company data, BOCOM Int'l estimates

Cash flow (RMB m)					
Y/E 31 Dec	2020	2021	2022E	2023E	2024E
Pre-tax profit	10,676	11,192	11,044	12,240	13,328
Asso./JCE income adjustment	(932)	(415)	(373)	(457)	(624)
Depreciation & amortisation	321	346	363	381	400
Change in working capital	14,767	(7,448)	(552)	(558)	731
Interest inc/exp adjustment	(3,631)	(2,884)	(330)	(399)	(403)
Tax paid	(5,481)	(5,565)	(6,005)	(5,934)	(6,558)
Other operating cashflow	236	99	(112)	(113)	(114)
Cash flow from operation	15,956	(4,676)	4,035	5,159	6,759
Capex	(661)	(1,272)	(1,400)	(1,540)	(1,694)
Investment	(6,837)	(10,535)	0	0	0
Other investing cashflow	(2,299)	5,288	0	0	0
Cash flow from investing	(9,797)	(6,519)	(1,400)	(1,540)	(1,694)
Net chg in interest-bearing debt	(1,764)	8,219	77	1,658	1,664
Dividends paid	(1,466)	(1,641)	(1,660)	(1,770)	(1,936)
Other financing cashflow	1,266	9,215	0	0	0
Cash flow from financing	(1,964)	15,793	(1,582)	(113)	(272)
Exchange gain/loss	(87)	(45)	0	0	0
Cash & cash equiv. at year start	24,106	28,214	32,766	33,820	37,327
Cash & cash equiv. at year end	28,214	32,766	33,820	37,327	42,120

Financial ratio					
Y/E 31 Dec	2020	2021	2022E	2023E	2024E
Per share data (RMB)					
Core EPS	1.298	1.340	1.430	1.564	1.689
Fully-diluted EPS	1.298	1.340	1.430	1.564	1.689
DPS	0.520	0.536	0.572	0.625	0.675
BVPS	14.128	14.932	15.852	16.871	17.962
Margin analysis (%)					
Gross margin	25.1	21.8	21.9	21.9	21.3
EBITDA margin	20.4	15.5	15.7	15.7	15.2
EBIT margin	19.7	16.1	16.3	16.3	15.7
Net margin	10.1	9.2	8.0	8.0	7.8
Profitability analysis (%)					
ROA	1.6	1.4	1.4	1.5	1.5
ROE	9.5	9.2	9.3	9.6	9.7
Others					
Net debt to equity ratio (%)	61.6	57.5	53.6	48.8	42.7
Current ratio (x)	1.6	1.4	1.5	1.4	1.4

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Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

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Broad market benchmark for Hong Kong is the **Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

23 June 2022

Yuexiu Property Co (123 HK)

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