



AmInvestment Bank

Company report

YTL HOSPITALITY REIT

(YTLREIT MK EQUITY, YTLR.KL)

3 Aug 2020

FY20 NPI falls 7% YoY but distributable income better than expected

BUY

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

| | |
|------------------|---------------|
| Price | RM0.96 |
| Fair Value | RM1.31 |
| 52-week High/Low | RM1.39/RM0.70 |

Key Changes

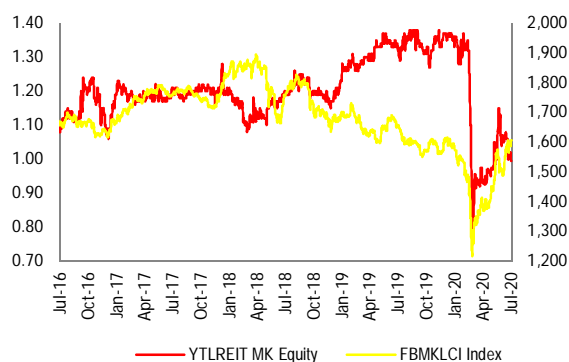
| | |
|------------|---|
| Fair value | ↕ |
| EPS | ↔ |

| YE to Jun (RM mil) | FY20 | FY21F | FY22F | FY23F |
|------------------------------------|-------|-------|-------|-------|
| Revenue (RM mil) | 426.4 | 400.4 | 460.4 | 465.5 |
| Distributable Income (RM mil) | 127.1 | 120.3 | 135.5 | 136.9 |
| Distributable Income PU (sen) | 7.5 | 7.1 | 7.9 | 8.0 |
| Distributable Income PU growth (%) | (5.3) | (5.3) | 12.6 | 1.0 |
| Consensus Net Profit (RM mil) | - | 116.0 | 139.8 | - |
| DPU (sen) | 6.7 | 6.4 | 7.2 | 7.2 |
| PE (x) | 12.7 | 13.5 | 12.0 | 11.8 |
| EV/EBITDA (x) | 14.9 | 17.2 | 15.1 | 14.9 |
| Div Yield (%) | 7.1 | 6.7 | 7.5 | 7.6 |
| ROE (%) | 4.8 | 4.7 | 5.3 | 5.3 |
| Net Debt /Total Assets (%) | 40.3 | 40.2 | 40.1 | 40.1 |

Stock and Financial Data

| | |
|------------------------------|---------------------------|
| Shares Outstanding (million) | 1,704.4 |
| Market Cap (RM mil) | 1,636.2 |
| Book Value (RM/share) | 1.56 |
| P/BV (x) | 0.6 |
| ROE (%) | 5.9 |
| Net Gearing (%) | 40.3 |
| Major Shareholders | YTL Corp Bhd 55.0% |
| | East-West Ventures S 3.7% |
| | EPF 3.1% |
| Free Float | 38.2% |
| Avg Daily Value (RM mil) | 0.63 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|--------|--------|--------|
| Absolute (%) | 1.1 | (26.8) | (22.8) |
| Relative (%) | (14.8) | (11.7) | (24.1) |



Investment Highlights

- We maintain our BUY recommendation on YTL Hospitality REIT (YTL REIT) with a lower fair value of RM1.31 from RM1.36 based on an unchanged target yield of 5%. We lower our payout ratio to 90% from 100% following management's guidance. We make no changes to our FY21–FY22 numbers while introducing FY23 distributable income forecasts at RM136.9mil.
- YTL REIT reported an FY20 distributable income of RM127.1mil (-5.3% YoY), above our and market expectations 114% and 116% of our and consensus full-year forecast respectively.
- FY20 revenue fell by 13.1% YoY mainly due to travel restrictions in Australia which have impacted the tourism and hospitality business in the country. However, this was mitigated by businesses in Malaysia and Japan which are largely unaffected due to their master lease arrangements. Nonetheless, its net property income (NPI) dropped by 7.1% to RM235.2mil for the same period due to tight cost-saving measures. Correspondingly, distributable income slid by 5.3% to RM127.1mil. YTL REIT declared a distribution of 2.84 sen per unit for 2HFY20, bringing the total distribution to 6.71 sen per unit, representing a payout ratio of 90% for FY20.
- Malaysian properties contributed a revenue and NPI of RM140.2mil (+4.5% YoY) and RM132.9mil (+4.5%) respectively in FY20. The stronger revenue and NPI was mainly attributed to additional rentals recorded from JW Marriott Hotel KL following the refurbishment which was completed in mid-2019.
- Japanese properties' FY20 revenue and NPI surged by 13.6% and 15.4% YoY to RM28.7mil and RM24.1mil respectively contributed by Green Leaf Niseko Village Hotel which was acquired in Sep 2018.
- However, Australian properties' FY20 revenue and NPI tumbled 22.3% and 25.7% to RM257.6mil and RM78.3mil respectively mainly due to the impact of the Covid-19 outbreak which affected the global tourism and hospitality businesses. On a positive note, the Australian properties participated in the Australian government's programme for self-isolation guests and remained in operations.
- The debt-to-total assets ratio remains stable at 40% vs. 39% YoY as a result of higher investing activities, but is still below the regulatory threshold of 50%. At the current level, we believe YTL REIT still has some room to gear up for future acquisitions.
- We reckon the situation is temporary for YTL REIT and believe business shall normalize once the pandemic is over. At the same time, it has master leases on properties in Malaysia and Japan that provide steady incomes. At the current price, the stock offers a potential upside of over 20%. Maintain BUY on YTL REIT.

EXHIBIT 1: EARNINGS SUMMARY

| YE to Jun (RM mil) | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | QoQ % | YoY % | FY19 | FY20 | YTD % |
|-----------------------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|--------------|--------------|---------------|
| Gross rental income | 118.7 | 120.7 | 131.1 | 104.9 | 69.8 | -33.5% | -41.2% | 490.9 | 426.4 | -13.1% |
| Property operating cost | (29.5) | (58.0) | (60.1) | (47.7) | (24.5) | -48.7% | -17.0% | (237.6) | (190.2) | -20.0% |
| Net Property income | 89.2 | 62.7 | 71.0 | 57.2 | 45.3 | -20.8% | -49.2% | 253.3 | 236.2 | -6.7% |
| Net interest | (21.6) | (22.5) | (22.5) | (21.5) | (21.4) | -0.8% | -0.8% | (86.1) | (87.9) | 2.1% |
| Other expenses | (6.7) | (5.0) | (4.8) | (3.0) | (4.8) | 59.4% | -27.4% | (21.8) | (17.7) | -18.8% |
| Fair value adjustments | 10.9 | 0.0 | 0.0 | 0.0 | (50.3) | n.a. | n.a. | 39.8 | (50.3) | n.a. |
| Income before tax | 24.0 | 40.3 | 19.0 | 75.8 | (122.0) | -261.0% | -608.7% | 107.8 | 13.1 | -87.8% |
| Taxation | (0.9) | (0.7) | (0.9) | (0.8) | (1.1) | 42.6% | 31.4% | (3.2) | (3.5) | 12.0% |
| Income after tax | 23.1 | 39.7 | 18.1 | 75.0 | (123.2) | -264.2% | -632.7% | 104.7 | 9.6 | -90.8% |
| Distribution adjustment | 12.7 | (6.3) | 14.5 | (41.0) | 150.2 | -466.8% | 1087.1% | 29.5 | 117.5 | 298.6% |
| Distributable income | 35.8 | 33.4 | 32.7 | 34.0 | 27.0 | -20.6% | -24.4% | 134.2 | 127.1 | -5.3% |
| EPU (sen) | 2.10 | 1.96 | 1.92 | 2.00 | 1.59 | -20.6% | -24.4% | 7.87 | 7.46 | -5.3% |
| DPU (sen) | 2.10 | 1.96 | 1.91 | 0.00 | 2.84 | n.a. | 35.0% | 7.87 | 6.71 | -14.7% |
| NAV/unit (RM) | 1.61 | 1.58 | 1.58 | 1.56 | 1.50 | -3.9% | -6.6% | 1.61 | 1.50 | -6.6% |
| NPI margin (%) | 75.1% | 52.0% | 54.2% | 54.5% | 64.9% | | | 51.6% | 55.4% | |
| Pretax margin (%) | 20.2% | 33.4% | 14.5% | 72.3% | -174.9% | | | 22.0% | 3.1% | |

Source: Company

EXHIBIT 2: YoY REVENUE & NPI BREAKDOWN

| Segment | FY19 Revenue | FY20 Revenue | % change | FY19 NPI | FY20 NPI | % change |
|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Malaysia | 134.2 | 140.2 | 4.5% | 127.1 | 132.9 | 4.5% |
| Japan | 25.2 | 28.7 | 13.6% | 20.8 | 24.1 | 15.4% |
| Australia | 331.5 | 257.6 | -22.3% | 105.3 | 78.3 | -25.7% |
| Total | 490.9 | 426.4 | -13.1% | 253.3 | 235.2 | -7.1% |

Source: Company

EXHIBIT 3: FINANCIAL DATA

| Income Statement (RMmil, YE 30 Jun) | FY19 | FY20 | FY21F | FY22F | FY23F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 490.9 | 426.4 | 400.4 | 460.4 | 465.5 |
| Net Property Income | 253.3 | 235.2 | 204.1 | 232.1 | 236.2 |
| Revaluation/Others | 3.5 | 1.5 | 5.8 | 6.9 | 5.1 |
| Net Investment Income | 256.8 | 236.7 | 210.0 | 239.0 | 241.4 |
| Finance Expenses | (86.1) | (87.9) | (70.2) | (80.8) | (81.7) |
| REIT's Expenses | (25.2) | (19.2) | (17.6) | (20.7) | (20.8) |
| Pretax profit | 107.8 | 13.1 | 122.2 | 137.5 | 139.0 |
| Taxation | (3.2) | (3.5) | (1.8) | (2.1) | (2.1) |
| Minorities/Pref Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PATMI | 104.7 | 9.6 | 120.3 | 135.5 | 136.9 |
| Distributable Income (RM mil) | 134.2 | 127.1 | 120.3 | 135.5 | 136.9 |
| Balance Sheet (RMmil, YE 30 Jun) | FY19 | FY20 | FY21F | FY22F | FY23F |
| PPE | 1,946.2 | 1,750.2 | 1,758.9 | 1,767.7 | 1,776.6 |
| Intangible Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Long-Term Assets | 2,735.2 | 2,749.1 | 2,762.8 | 2,776.6 | 2,790.5 |
| Total Non-Current Assets | 4,681.5 | 4,499.2 | 4,521.7 | 4,544.3 | 4,567.0 |
| Cash & Equivalent | 149.0 | 145.9 | 144.4 | 144.3 | 146.4 |
| Inventories | 0.7 | 0.4 | 0.5 | 0.6 | 0.5 |
| Trade Receivables | 33.7 | 46.5 | 32.7 | 39.8 | 43.0 |
| Other Current Assets | 0.0 | 1.5 | 1.5 | 1.5 | 1.5 |
| Total Current Assets | 183.3 | 194.3 | 179.0 | 186.2 | 191.4 |
| Trade Payables | 66.9 | 51.8 | 50.0 | 59.7 | 61.3 |
| Short-Term Borrowings | 1,007.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Current Liabilities | 35.8 | 48.4 | 48.4 | 48.4 | 48.4 |
| Total Current Liabilities | 1,110.3 | 100.2 | 98.4 | 108.1 | 109.6 |
| Long-Term Borrowings | 1,016.4 | 2,036.6 | 2,033.6 | 2,039.9 | 2,052.6 |
| Other Long-Term Liabilities | 1.0 | 0.9 | 0.8 | 1.0 | 1.0 |
| Total Long-Term Liabilities | 1,017.4 | 2,037.5 | 2,034.4 | 2,040.9 | 2,053.6 |
| Shareholders' Funds | 2,737.1 | 2,555.9 | 2,567.9 | 2,581.5 | 2,595.2 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BV/Share (RM) | 1.61 | 1.50 | 1.51 | 1.51 | 1.52 |
| Cash Flow (RMmil, YE 30 Jun) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Pretax Profit | 137.3 | 130.6 | 122.2 | 137.5 | 139.0 |
| Depreciation/Amortisation | 77.4 | 67.2 | 0.0 | 0.0 | 0.0 |
| Net Change In Working Capital | 8.2 | (5.6) | (28.6) | 2.5 | (1.6) |
| Others | (82.2) | 52.3 | 200.8 | (3.4) | (2.1) |
| Cash Flow From Operations | 140.8 | 244.5 | 294.4 | 136.6 | 135.2 |
| Capital Expenditure | (10.1) | (50.9) | (9.7) | (8.8) | (8.8) |
| Net Investments & Sale Of Fixed Assets | (4.2) | (220.2) | 0.0 | (13.8) | (13.9) |
| Others | 1.3 | (76.6) | 1.0 | 0.0 | 0.0 |
| Cash Flow From Investing | (13.1) | (347.7) | (8.6) | (22.6) | (22.7) |
| Debt Raised/(Repaid) | 9.4 | 337.1 | 6.5 | 6.3 | 12.7 |
| Equity Raised/(Repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends Paid | (133.5) | (131.9) | (101.8) | (121.9) | (123.2) |
| Others | (79.3) | (84.8) | (89.0) | 0.0 | 0.0 |
| Cash Flow From Financing | (203.4) | 120.4 | (184.3) | (115.6) | (110.5) |
| Net Cash Flow | (75.7) | 17.2 | 101.5 | (1.6) | 2.1 |
| Adjustments | (13.1) | (0.9) | 4.5 | 0.0 | 0.0 |
| Net Cash/(Debt) B/F | 142.5 | 155.5 | 149.0 | 145.9 | 144.3 |
| Net Cash/(Debt) C/F | 53.6 | 171.8 | 254.9 | 144.3 | 146.4 |
| Key Ratios (YE 30 Jun) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Revenue Growth (%) | (2.0) | (13.1) | (6.1) | 15.0 | 1.1 |
| NPI Growth (%) | 1.8 | (7.1) | (13.2) | 13.7 | 1.8 |
| NPI Margin (%) | 51.6 | 55.2 | 51.0 | 50.4 | 50.7 |
| Distributable Income Margin (%) | 27.3 | 29.8 | 30.1 | 29.4 | 29.4 |
| Interest Cover (X) | 2.0 | 1.9 | 2.9 | 2.9 | 2.9 |
| Effective Tax Rate (%) | 2.9 | 27.0 | 1.5 | 1.5 | 1.5 |
| Dividend Payout (%) | 100.0 | 90.0 | 90.0 | 90.0 | 90.0 |
| Receivable Turnover (Days) | 25.0 | 39.8 | 29.8 | 31.5 | 33.7 |
| Inventory Turnover (Days) | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Payable Turnover (Days) | 41.9 | 47.3 | 46.7 | 45.7 | 46.7 |

Source: AmInvestment Bank Bhd estimates

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