



AmInvestment Bank

Company report

YTL HOSPITALITY REIT

(YTLREIT MK EQUITY, YTLR.KL)

18 Jan 2023

Appealing distribution yield from FY23F onwards

BUY

(Maintained)

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03-2036 2299

Rationale for report: Company update

Price	RM0.925
Fair Value	RM1.10
52-week High/Low	RM0.98/RM0.85

Key Changes

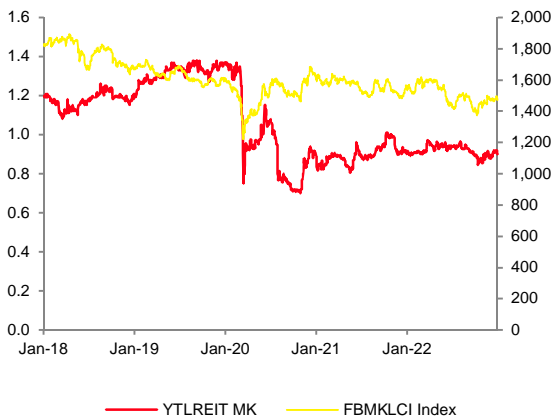
Fair value	📈
EPS	📈

YE to Jun (RM mil)	FY22	FY23F	FY24F	FY25F
Gross Revenue (RM mil)	363.9	406.3	431.6	480.9
Distributable Income (RM mil)	71.0	141.5	165.7	148.5
Consensus Net Income (RM mil)	-	124.2	135.9	138.9
EPU (sen)	4.2	8.3	9.7	8.7
DPU (sen)	4.2	8.3	9.7	8.7
DPU growth (%)	(0.0)	99.4	17.1	(10.4)
PE (x)	22.2	11.1	9.5	10.6
EV/EBITDA (x)	14.3	13.1	15.0	15.9
Distribution Yield (%)	4.5	9.0	10.5	9.4
ROE (%)	3.1	2.4	2.2	2.6
Debt-to-Asset (%)	41.6	42.4	42.9	43.2

Stock and Financial Data

Shares Outstanding (million)	1,704.4
Market Cap (RMmil)	1,576.6
Book Value (RM/share)	1.63
P/BV (x)	0.6
ROE (%)	3.1
Debt-to-Asset (%)	41.6
Major Shareholders	YTL Corp (55.0%) East-West Ventures (3.7%) EPF (3.6%)
Free Float	37.7
Avg Daily Value (RMmil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	-	(4.3)	(1.1)
Relative (%)	(4.1)	(6.3)	3.8



Investment Highlights

- We retain our BUY recommendation on YTL Hospitality REIT (YTL REIT) with a higher fair value (FV) of RM1.10/unit (from RM1.01/unit previously) based on our revised dividend discount model (DDM). No changes to our neutral 3-star ESG rating (Exhibits 11 & 12).
- We raise our FY23F/FY24F distributable income by 3%/5% after taking into account a higher average occupancy rate in YTL REIT's Australian portfolio to 75%/80% from 70%/75%.
- YTL REIT's share price plummeted since the outbreak of Covid-19 and the announcement of deferral of lease rentals in 2020. However, we expect the share price to recover in 2023 given a highly compelling distribution yield of 11% in FY24F and 9% in FY25F.
- The distribution improvement will be contributed by the normalisation of lease rentals for its Malaysian and Japanese properties and the receipt of rental repayments which have been deferred earlier (Exhibit 7).
- The steady distributable income generated from master lease agreements and repayment of rental deferrals made up 6.0/7.5/6.1 sen or 73%/77%/70% of our FY23F-25F distribution per unit (Exhibit 8).
- Moving ahead, we see minimal risk of discontinuation of its master lease agreements as all of the lessees under the agreement are the subsidiaries or related parties of its major unitholder, YTL Corporation and manager, Pintar Projek (Exhibit 1).
- For YTL REIT's hotel management business in Australia, we anticipate a strong rebound in its occupancy rate and average daily rate (ADR) with the relaxation of Covid-19 restrictions in 4QFY22 (Exhibits 2 & 4).
- Notably, Australia's domestic overnight and day trip expenditures by local tourists in 9M2022 have already exceeded 9M2019 levels.
- We believe the growth momentum will continue in its traditionally strongest quarters, 2Q and 3Q, due to increased demand for holiday vacations during the year-end season (Exhibit 3).
- Further upside to distributable income will depend on the return of international tourists. Based on the recent data from Australian Bureau of Statistics, the country registered a stronger average monthly overseas arrival of 1.2mil in Oct-Nov 2022 vs. 1mil in Jul-Sep 2022 (Exhibit 5).

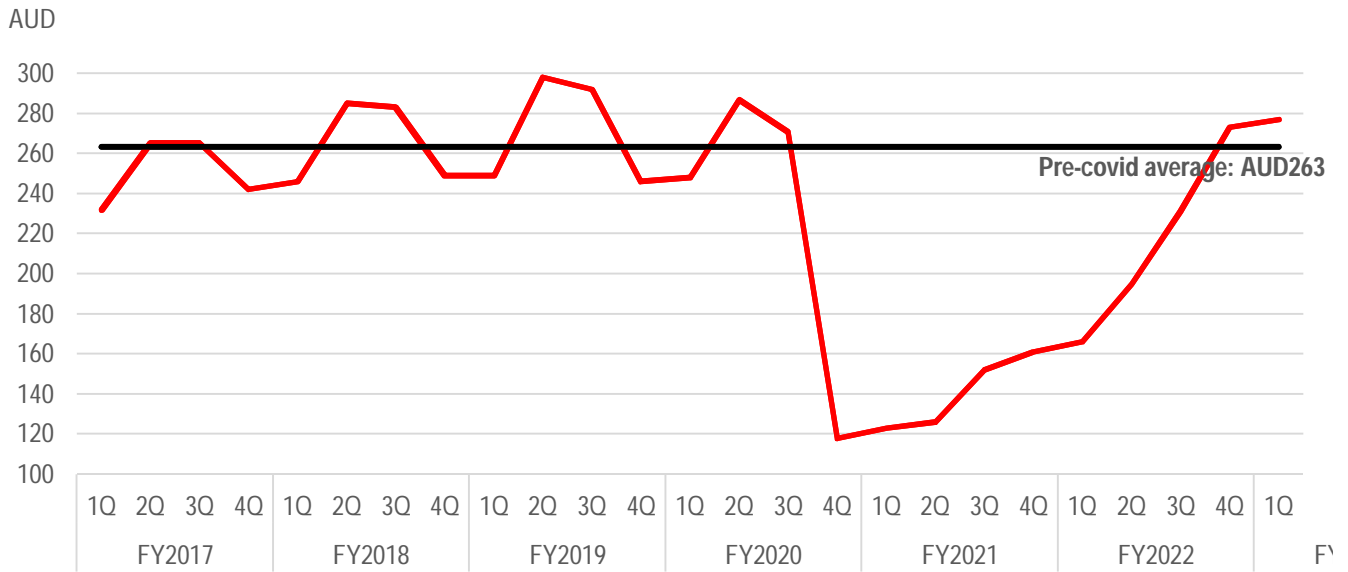
- We project that the average occupancy rate of its Australian portfolio to surpass 70% while its average daily rate (ADR) remain at above AUD270 in 2QFY23F. We also expect the occupancy rate of its Australian portfolio to gradually improve in FY23F/24F and fully recover to pre-Covid level of 85% in FY25F (Exhibit 4). This will be in tandem with Tourism Research Australia's prediction that visitor arrivals will return to pre-pandemic levels by 2025 (Exhibit 6).
- The recent aggressive policy rate hikes in the United States (US) have caused an increase in the volatility in 10-year MGS yield, which closely followed the rising trend of 10-year US Treasury (UST). However, we anticipate that the uptrend in 10-year UST yield to be tapering off with the expectation that the Federal Reserve will ease off its aggressive rate hikes after the end of 2022 as a result of weaker economic data and softening inflation rate (Exhibit 10).
- Meanwhile, we anticipate the yield spread from FY23F onwards to widen to 4%-6% vs. 5-year median of 2% with the normalisation of lease rentals for its Malaysian and Japanese properties, repayment of rental deferral accounts and the recovery in hotel management business of its Australian portfolio. The stock currently offers distribution yields of 9%-11% in FY23F-25F vs. 5% in FY22 and we expect YTL REIT to be appealing to yield-seeking investors with its higher spread against 10-year MGS.
- YTL REIT currently trades at a compelling FY24F PE of 10x vs. 2-year pre-pandemic (FY18-19) average of 13x. Meanwhile, FY24F distribution yield of 11% is attractive as compared to its 2-year pre-pandemic (FY18-19) average of 8%. It also offers the highest distribution yield of the REITs under our coverage (Exhibit 9).

EXHIBIT 1: DETAILS OF PROPERTIES UNDER MASTER LEASE AGREEMENTS

Malaysia	Lessee	Lessee's owner	No. of room	Acquisition date	Master lease expiry
JW Marriott Hotel KL	Star Hill Hotel Sdn. Bhd.	100% owned by YTL Group	578	16-Dec-05	31-Dec-23
The Majestic Hotel KL	YTL Majestic Hotel Sdn. Bhd.	100% owned by YTL Group	300	03-Nov-17	02-Nov-32
The Ritz-Carlton KL - Suite Wing	Star Hill Hotel Sdn. Bhd.	100% owned by YTL Group	114	16-May-07 & 15-Nov-11 (2 parcels)	30-Jun-31
The Ritz-Carlton KL - Hotel Wing	East-West Ventures Sdn. Bhd.	Subsidiary of YTL Group's holding company	251	15-Nov-11	14-Nov-26
Vistana KL Titiwangsa	Prisma Tulin Sdn. Bhd.	100% owned by YTL Group	364	15-Nov-11	14-Nov-26
Vistana Penang Bukit Jambul	Business & Budget Hotels (Penang) Sdn. Bhd.	51% owned by YTL Group	427	15-Nov-11	14-Nov-26
Vistana Kuantan City Centre	Business & Budget Hotels (Kuantan) Sdn. Bhd.	50% owned by YTL Group	215	15-Nov-11	14-Nov-26
Pangkor Laut Resort	Syarikat Pelanchongan Pangkor Laut Sendirian Berhad.	Major unitholder of YTL REIT and 57%-owned subsidiary company of holding company of the major unitholder	97	15-Nov-11	14-Nov-26
Tanjong Jara Resort	Tanjong Jara Beach Hotel Sdn. Bhd.	Company related to a director of the manager, Pintar Projek	100	15-Nov-11	14-Nov-26
Cameron Highlands Resort	Cameron Highlands Resort Sdn. Bhd.	100% owned by YTL Group	56	15-Nov-11	14-Nov-26
Japan	Lessee	Lessee's owner	No. of room	Acquisition date	Master lease expiry
Hilton Niseko Village	Niseko Village K.K	100% owned by YTL Group	506	22-Dec-11	21-Dec-26
The Green Leaf Niseko Village	Niseko Village K.K.	100% owned by YTL Group	200	26-Sep-18	25-Sep-48

Source: YTL REIT, AmInvestment Bank Bhd

EXHIBIT 2: AVERAGE DAILY RATE OF YTL REIT'S AUSTRALIAN HOTEL



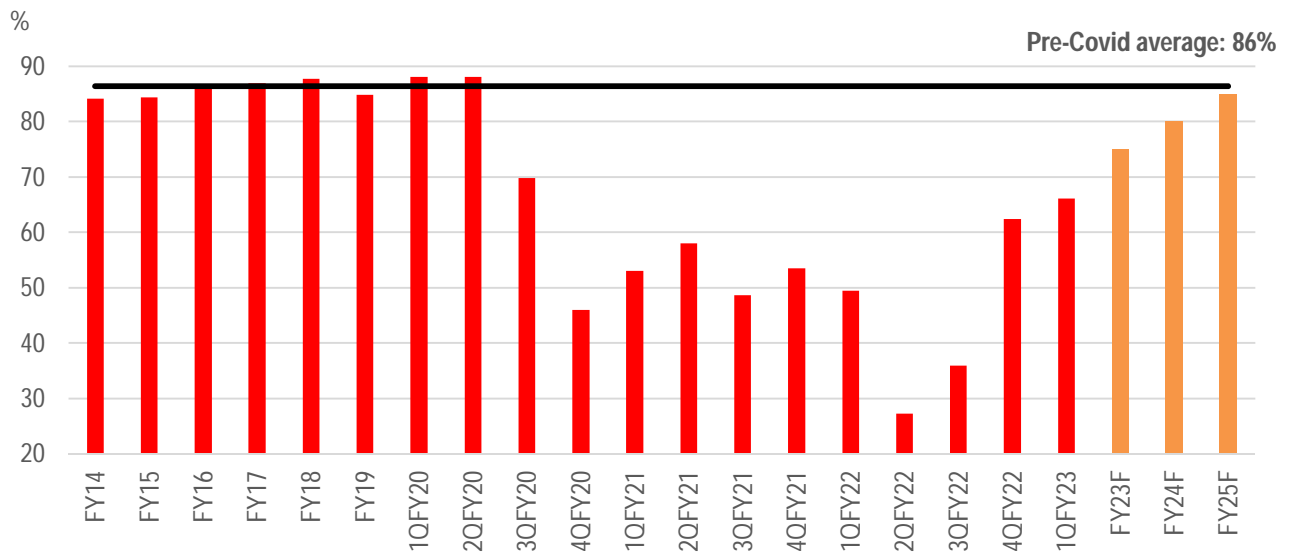
Source: YTL REIT, AmInvestment Bank Berhad

EXHIBIT 3: DETAILED LIST OF AVERAGE DAILY RATE OF YTL REIT'S AUSTRALIAN HOTEL

Average daily rate (AUD)	1Q (Jun-Sep)	2Q (Oct-Dec)	3Q (Jan-Mar)	4Q (Apr-Jun)
FY2017	232	265	265	242
FY2018	246	285	283	249
FY2019	249	298	292	246
FY2020	248	287	271	118
FY2021	123	126	152	161
FY2022	166	195	231	273
FY2023	277	N/A	N/A	N/A

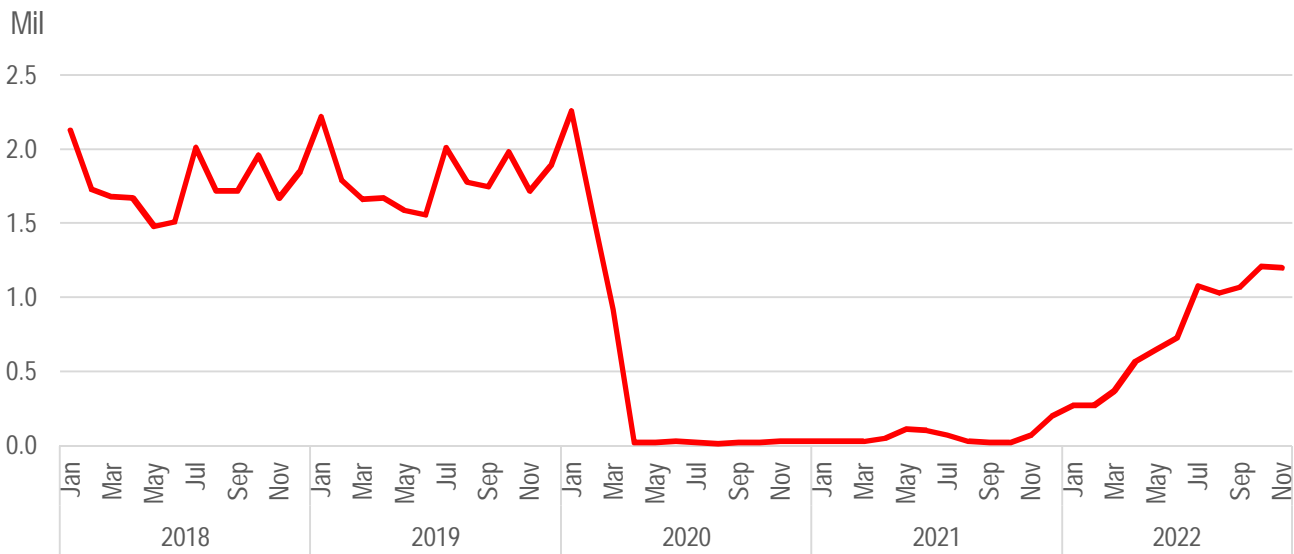
Source: YTL REIT, AmInvestment Bank Berhad

EXHIBIT 4: OCCUPANCY RATE OF YTL REIT'S AUSTRALIAN HOTEL



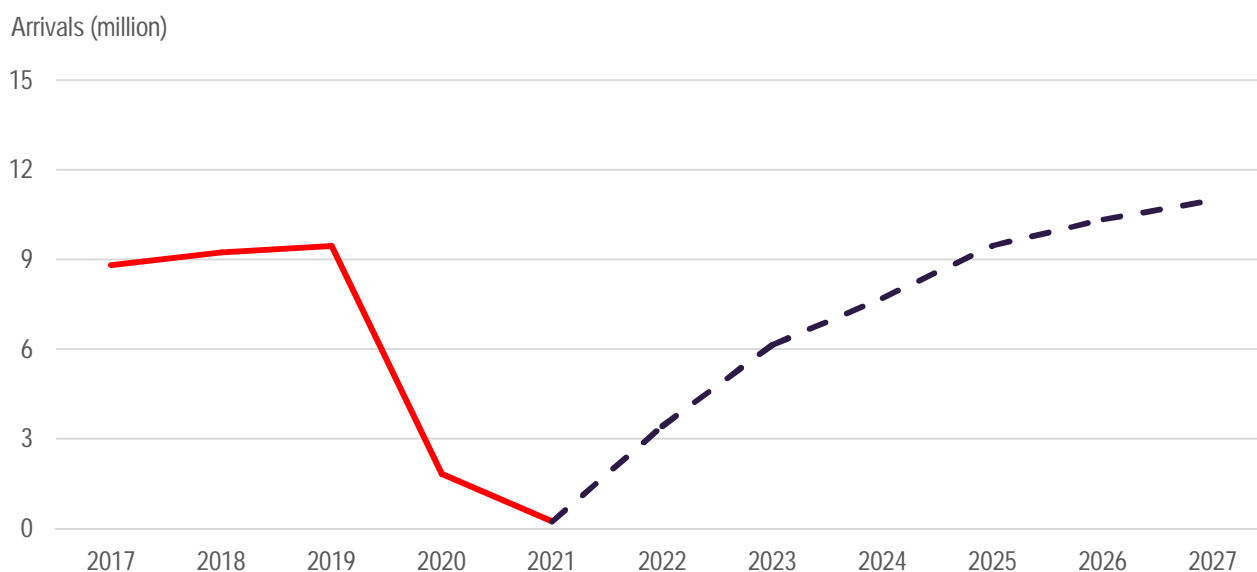
Source: YTL REIT, AmInvestment Bank Berhad

EXHIBIT 5: TOTAL OVERSEAS ARRIVAL IN AUSTRALIA



Source: Australian Bureau of Statistics

EXHIBIT 6: FORECAST OF OVERSEAS ARRIVAL IN AUSTRALIA



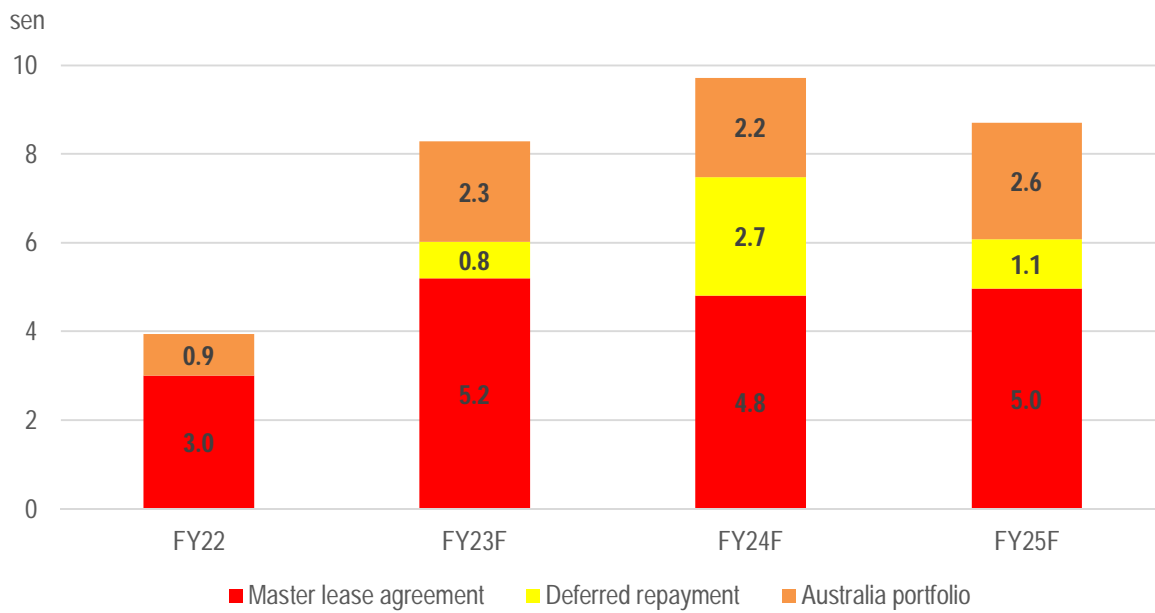
Source: Tourism Research Australia

EXHIBIT 7: PAYMENT SCHEDULE FOR THE RENTAL DIFFERENCES

RM mil	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F
JW Marriott Hotel KL	3.0	26.7	-	-	-	-	-
The Majestic Hotel KL	2.7	4.0	4.0	4.0	4.0	4.0	4.0
The Ritz-Carlton KL - Suite Wing	1.7	2.5	2.5	2.5	2.5	2.5	2.5
The Ritz-Carlton KL - Hotel Wing	2.2	3.3	3.3	3.3	9.9	-	-
Vistana KL Titiwangsa	0.9	1.3	1.3	1.3	3.9	-	-
Vistana Penang Bukit Jambul	0.9	1.3	1.3	1.3	3.9	-	-
Vistana Kuantan City Centre	0.6	1.0	1.0	1.0	2.9	-	-
Pangkor Laut Resort	0.9	1.3	1.3	1.3	4.0	-	-
Tanjong Jara Resort	0.7	1.1	1.1	1.1	3.4	-	-
Cameron Highlands Resort	0.4	0.6	0.6	0.6	1.9	-	-
Hilton Niseko Village	1.7	2.5	2.5	2.5	7.4	-	-
The Green Leaf Niseko Village	-	-	-	-	-	-	-
Total	15.6	45.7	19.0	19.0	43.9	6.5	6.5
Cumulative total	15.6	61.3	80.3	99.3	143.2	149.7	156.2

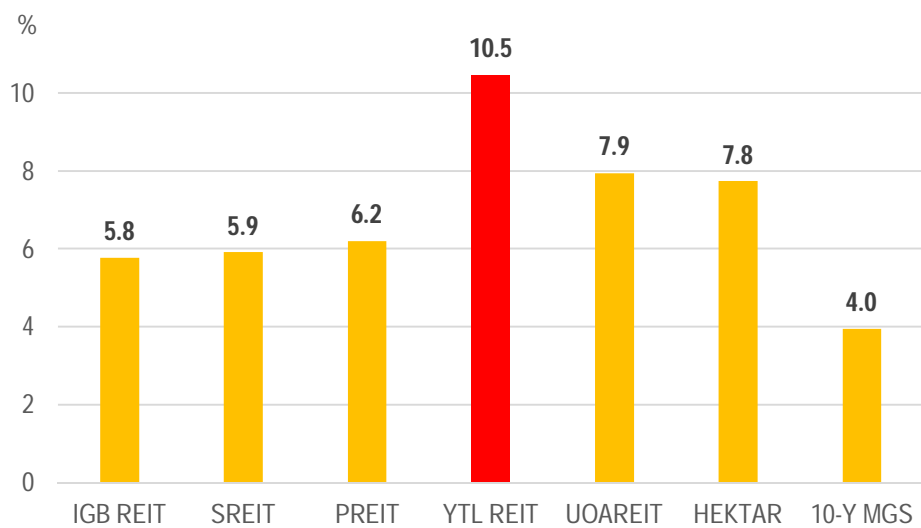
Source: YTL REIT, AmInvestment Bank Bhd

EXHIBIT 8: PORTION OF DISTRIBUTION PER UNIT



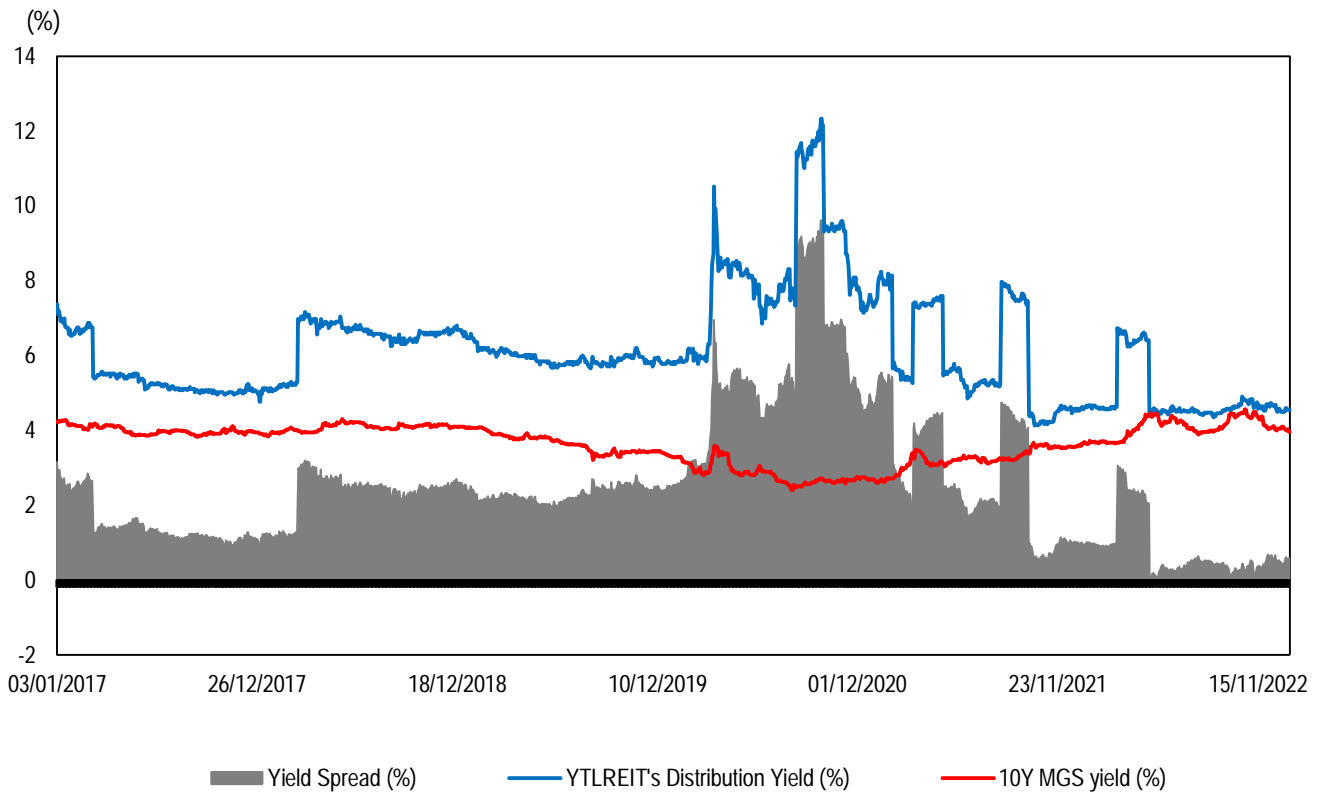
Source: AmInvestment Bank Bhd

EXHIBIT 9: COMPARISON OF DISTRIBUTION YIELD



Source: AmInvestment Bank Bhd

EXHIBIT 10: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: AmInvestment Bank Bhd, Bloomberg

EXHIBIT 11: DIVIDEND DISCOUNT MODEL (DDM) BREAKDOWN

Assumption for Weighted Average Cost of Capital (WACC)			
Risk Free Rate (10-year MGS)	4.0%		
Beta	0.77		
Market Return	14.3%		
Cost of Equity (Ke)	12.0%		
Average Cost of Debt	5.0%		
Capital Structure: (RM' mil)			
Market Cap	1,551.0	42.7%	
Total Borrowing	2,085.3	57.3%	
Total	3,636.3	100.0%	
Weighted Average Cost of Capital (WACC):	Weight	Cost	W X C
Cost of Equity (Ke)	42.7%	12.0%	5.1%
Average Cost of Debt	57.3%	5.0%	2.9%
WACC			8.0%

Multi-Stage DDM	2022	2023	2024	2025	2026	Terminal Value
Period	1	2	3	4	5	
Dividends (RM/unit)	0.04	0.08	0.10	0.09	0.08	1.16
Present Value (RM/unit)	0.04	0.07	0.08	0.06	0.06	0.79
Valuation (RM/unit)	1.10					
(+0%) no adjustment for 3-star ESG rating	0.0					
Fair Value/unit (RM)+ESG	1.10					
WACC (%)	8.0%					
Terminal Growth Rate (%)	0.7%					

Source: AmInvestment Bank Berhad

EXHIBIT 12: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★		
Waste management	★	★	★		
Pollution control	★	★	★		
Sustainable industrialization	★	★	★		
Diversity and inclusion	★	★	★		
Employees welfare	★	★	★		
Corporate social responsibilities	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank Bhd

EXHIBIT 13: PB BAND CHART

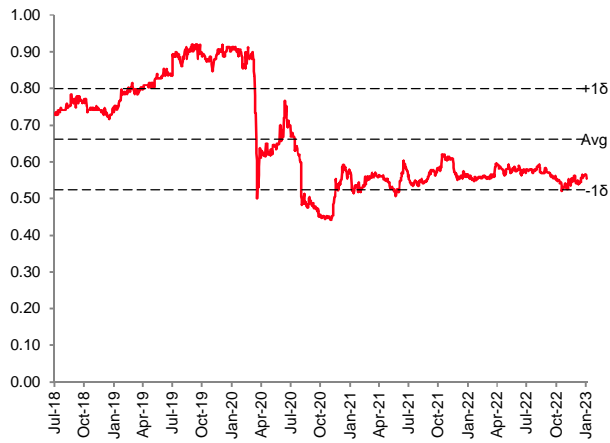


EXHIBIT 14: PE BAND CHART

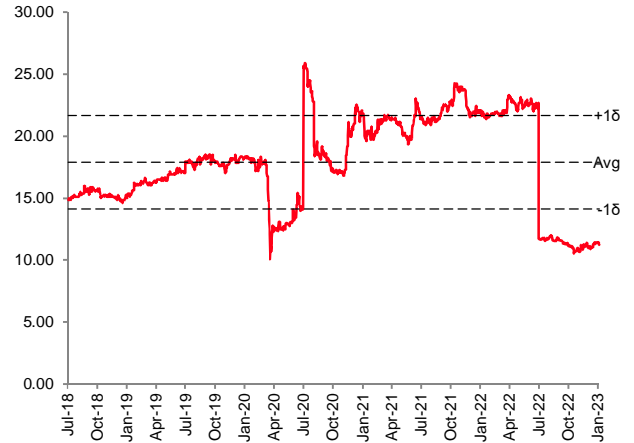


EXHIBIT 15: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY21	FY22	FY23F	FY24F	FY25F
Gross Revenue	326.3	363.9	406.3	431.6	480.9
Cost of Sales	(121.0)	(149.0)	(168.5)	(182.6)	(212.9)
Net property income (NPI)	205.3	214.8	237.8	249.0	268.0
Net Investment Income	207.7	216.9	240.3	251.5	270.5
REIT's expenses	(15.0)	(2.4)	(22.0)	(24.3)	(27.9)
Depreciation	(58.8)	(61.0)	(59.6)	(60.1)	(60.8)
EBIT	134.0	153.6	158.7	167.1	181.9
Net Finance Inc/Exp	(60.9)	(60.2)	(89.2)	(103.9)	(109.5)
Profit before EI	73.0	93.4	69.5	63.2	72.4
Profit before Taxation	86.4	87.0	69.5	63.2	72.4
Net Profit	82.8	83.9	66.8	60.3	68.8
Distributable Income	71.0	71.0	141.5	165.7	148.5
Balance Sheet (RMmil, YE 30 Jun)	FY21	FY22	FY23F	FY24F	FY25F
Property, plant and equipment	1,928.0	1,971.9	1,956.9	1,976.8	1,999.0
Other long-term assets	2,794.5	2,786.8	2,794.5	2,794.5	2,794.5
Total non-current assets	4,722.5	4,758.8	4,751.4	4,771.2	4,793.4
Inventories	0.3	0.5	0.5	0.5	0.6
Trade and other receivables	41.9	59.3	34.8	37.0	41.2
Income tax assets	0.4	0.0	0.0	0.0	0.0
Cash & deposits	106.7	83.6	128.8	81.8	66.3
Total current assets	149.4	143.5	164.1	119.3	108.1
Short-term borrowings	75.0	622.7	0.0	0.0	0.0
Trade and other payables	38.3	53.4	44.4	47.3	53.3
Other current liabilities	41.8	36.2	34.9	37.1	41.3
Total current liabilities	155.1	712.3	79.4	84.4	94.7
Long-term borrowings	2,010.3	1,415.9	2,083.9	2,098.5	2,118.9
Other payables	1.2	1.3	1.3	1.3	1.3
Total non-current liabilities	2,011.5	1,417.2	2,085.2	2,121.7	2,208.6
Shareholders' funds	2,705.3	2,772.7	2,750.8	2,684.4	2,598.3
Minority interests	n.m.	n.m.	n.m.	n.m.	n.m.
NAV/Share (RM)	1.59	1.63	1.61	1.57	1.52
Cash Flow (RMmil, YE 30 Jun)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	86.4	87.0	69.5	63.2	72.4
Depreciation	58.8	61.0	59.6	60.1	60.8
Net change in working capital	(93.6)	(88.9)	15.6	0.7	1.7
Adjustments	46.7	201.5	89.2	103.9	109.5
Cash flow from operations	98.3	112.6	233.9	227.9	244.4
Capital expenditure	0.0	0.0	15.0	(19.9)	(22.2)
Acquisition of investment properties	(1.8)	(5.2)	(18.5)	0.0	0.0
Others	0.2	(7.0)	0.2	0.2	0.2
Cash flow from investing	(1.5)	(12.2)	(3.3)	(19.7)	(22.1)
Debt raised/(repaid)	0.0	11.0	45.4	14.6	20.4
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Distribution paid	(79.2)	(72.3)	(141.5)	(165.7)	(148.5)
Interest paid	(58.9)	(58.0)	(89.3)	(104.1)	(109.7)
Others	(3.9)	(0.0)	0.0	0.0	0.0
Cash flow from financing	(142.0)	(119.4)	(185.4)	(255.2)	(237.7)
Net cash flow	(45.2)	(19.0)	45.1	(47.0)	(15.4)
Adjustments	6.0	(4.1)	0.0	0.0	0.0
Net cash/(debt) b/f	145.9	106.7	83.6	128.8	81.8
Net cash/(debt) c/f	106.7	83.6	128.8	81.8	66.3
Key Ratios (YE 30 Jun)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	(23.5)	11.5	11.7	6.2	11.4
NPI margin (%)	62.9	59.0	58.5	57.7	55.7
Pretax margin (%)	26.5	23.9	17.1	14.6	15.0
Net income margin (%)	25.4	23.1	16.4	14.0	14.3
Net Interest cover (x)	2.2	2.6	1.8	1.6	1.7
DPU payout (%)	100.0	95.0	100.0	100.0	100.0
Receivable turnover (days)	49.5	31.3	31.3	31.3	31.3
Payable turnover (days)	91.4	71.1	71.1	71.1	71.1
Inventory turnover (days)	0.7	0.7	0.7	0.7	0.7

Source: Company, AmlInvestment Bank Bhd estimates

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