

Out think. Out perform.

Earnings accretion from Majestic Hotel

YTL Hospitality REIT is acquiring Majestic Hotel for RM380m under a proposed sale-and-leaseback agreement, which is expected to be DPU-accretive in FY18E onwards. Meanwhile, YTLREIT had also signed a rental revision agreement with the lessees of Ritz Carlton (Kuala Lumpur) for a RM65m capex incurred. We have revised our Price Target from RM1.38 to RM1.55, maintain BUY.

Proposed acquisition of Majestic Hotel for RM380m

YTL Hospitality REIT (YTLREIT) announced on 26th May 2017 that the REIT is acquiring the 300-room Majestic Hotel, Kuala Lumpur (Majestic) from YTL Majestic Hotel Sdn Bhd (100%-owned by YTL Corp) for RM380m cash, under a proposed sale and leaseback agreement. A sub-lease agreement for '15+15 years', with an initial net property income yield of 7%, of which includes a 5% step-up rate every 5 years, will be executed upon completion of the acquisition of Majestic (expected by 3rd quarter of 2017). The acquisition will be funded entirely by new bank borrowings and is expected to be DPU-accretive by FY18E.

Supplemental lease agreements with Ritz Carlton KL's lessees

In an earlier announcement (5th of May 2017), YTLREIT had also signed supplemental lease agreements with the lessees of the Ritz Carlton KL-Hotel Wing and Ritz Carlton KL-Suite Wing for a total rental increase of RM4.56m p.a in respect of a RM65m renovation cost incurred (funded by bank borrowings at YTLREIT). The additional monthly rental will be subject to the increases of 5% on each rental adjustment date.

Reiterate BUY, Price Target raised to RM1.55 from RM1.38

Based on our revisions, we have adjusted FY17E/FY18E/FY19E's distributable income by 0.3%/5.1%/5.0% in order to account for the above two additional income stream. YTLREIT's gearing is expected to increase to 40% from 33% (prior to the agreements), given the additional RM445m borrowings to be raised. Hence, our Dividend-Discount Model (DDM) based Price Target rises to RM1.55 from RM1.38, as we also roll-forward our valuation to CY18. (Key assumptions: 4% risk-free rate, cost-of-equity 8.1%). Key risks: i) non-renewal of lease agreements; ii) economic slowdown in Australia's key cities; iii) higher debt-refinancing rates; and iv) a steepening of the 10-year MGS yield curve.

Earnings & Valuation Summary

FYE 30 June	2015	2016	2017E	2018E	2019E
Revenue (RMm)	417.7	426.3	436.4	476.6	484.1
Net Property Income (RMm)	201.5	198.9	205.8	243.7	248.8
Profit After Tax (RMm)	95.0	(5.8)	34.5	60.4	65.5
Realized Net Profit (RMm)	107.8	102.9	114.3	140.9	146.8
Distributable Income (RMm)	105.6	104.5	114.3	140.9	146.8
Realized EPU (sen)	8.1	7.8	7.5	8.3	8.6
PER (x)	14.5	15.2	15.8	14.3	13.7
Distributable EPU (sen)	8.0	7.9	7.6	8.3	8.6
DPU (sen)	8.0	7.9	7.6	8.3	8.6
DPU growth (%)	(5.8)	(1.0)	(3.8)	8.8	4.2
DPU yield (%)	6.8	6.7	6.4	7.0	7.3
Gearing (%)	45.6	44.1	34.2	39.8	39.4
P/NAV	0.88	0.81	0.86	0.85	0.85
Chg in EPU (%)			0.3	5.1	5.0
Affin / Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Company Update

YTL Hosp REIT

YTLREIT MK
Sector: M-REITs

RM1.18 @ 26 May 2017

BUY (maintain)

Upside 18%

Price Target: RM1.55

Previous Target: 1.38



Price Performance

	1M	3M	12M
Absolute	0.0%	-1.7%	+8.3%
Rel to KLCI	-0.5%	-5.9%	-0.4%

Stock Data

Issued shares (m)	1,704.4
Mkt cap (RMm)/(US\$m)	2,011.2/470
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	1.05-1.26
Est free float	42.5%
NAV per share (RM)	1.40
P/NAV (x)	0.84
Net cash/ (debt) (RMm) (3Q17)	(1,166.9)
ROE (2017E)	5.4%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

YTL Corp	47.6%
YTL Power Intl Bhd	2.5%

Source: Affin Hwang, Bloomberg

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Fig 1: YTL Hospitality REIT: Dividend Discount Model (DDM) – fair value raised from RM1.38 to RM1.55 think. Out perform.

Year end 30 June	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Gross DPU (sen)	8.27	8.61	8.83	9.06	9.48	9.97	10.30	10.45	10.55	11.65
DPU payout ratio (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net DPU (sen)*	7.44	7.75	7.95	8.15	8.53	8.97	9.27	9.41	9.50	10.48
Discount factor	0.93	0.86	0.79	0.73	0.68	0.63	0.58	0.54	0.50	0.46
PV of DPU (sen)	6.88	6.64	6.30	5.98	5.79	5.63	5.38	5.05	4.72	4.82
* After deducting withholding tax of 10%					Assumptions:-					
	RM				Ke	8.08%				
Total PV of DPU (RM)	0.57				Beta	0.68				
PV of Terminal Value	0.97				Risk free rate	4.0%				
DDM per share	1.55				Market risk	10.0%				
					Terminal growth	3.0%				

Source: Affin Hwang estimates

YTL Hospitality REIT – FINANCIAL SUMMARY Outthink. Outperform.

Profit & Loss Statement

FYE June (RMm)	2015	2016	2017E	2018E	2019E
Revenue	417.7	426.3	436.4	476.6	484.1
Net property income	201.5	198.9	205.8	243.7	248.8
Revaluation surplus/Others	57.9	(28.4)	3.2	3.0	3.0
Net investment income	259.5	170.5	209.1	246.6	251.8
Interest expense	(79.6)	(83.2)	(72.2)	(85.8)	(84.8)
Depreciation & admin costs	(73.6)	(81.3)	(90.2)	(87.1)	(88.1)
REIT's expenses	(9.4)	(9.8)	(10.1)	(11.3)	(11.5)
Profit after tax	95.0	-5.8	34.5	60.4	65.5
Realised net profit	107.8	102.9	114.3	140.9	146.8
Distributable net profit	105.6	104.5	114.3	140.9	146.8

Balance Sheet Statement

FYE June (RMm)	2015	2016	2017E	2018E	2019E
Property, plant and equipment	1,507.0	1,623.3	1,638.2	1,654.5	1,672.4
Investment Properties	1,764.7	1,843.2	1,908.3	2,288.3	2,288.3
Deferred tax assets	3.4	2.7	2.7	2.7	2.7
Total non-current assets	3,275.0	3,469.2	3,549.2	3,945.5	3,963.4
Cash and equivalents	126.8	119.6	130.1	170.5	144.1
Trade receivables	28.0	32.4	32.4	32.4	32.4
Other current assets	0.9	0.8	0.7	0.7	0.8
Total current assets	155.6	152.7	163.2	203.6	177.2
TOTAL ASSETS	3,430.7	3,621.9	3,712.4	4,149.1	4,140.5
Payables	49.3	47.6	47.6	47.6	47.6
Provision for income distribution	31.9	28.4	36.4	64.7	70.6
Total current liabilities	81.2	76.0	84.0	112.3	118.2
Long term borrowings	1,564.9	1,599.0	1,270.6	1,650.6	1,630.3
Other long term liabilities	2.0	24.6	24.6	24.6	24.6
Total long term liabilities	1,566.9	1,623.5	1,295.2	1,675.2	1,654.8
Unitholders' Funds	1,782.6	1,922.4	2,333.2	2,361.5	2,367.5
TOTAL EQUITY & LIABILITIES	3,430.7	3,621.9	3,712.4	4,149.1	4,140.5

Cash Flow Statement

FYE Dec (RMm)	2015	2016	2017E	2018E	2019E
EBIT	118.5	107.8	105.5	145.2	149.2
Working capital changes	(3.7)	(7.8)	8.0	28.3	5.9
Cash tax paid	(0.9)	(1.5)	(2.0)	(2.0)	(2.0)
Others	68.1	80.0	79.8	80.5	81.3
Cashflow from operation	182.0	178.5	191.4	252.1	234.4
Capex / Acquisitions	(4.6)	(14.7)	(79.9)	(396.3)	(17.9)
Others	2.0	0.8	3.2	3.0	3.0
Cash flow from investing	(2.5)	(13.8)	(76.7)	(393.3)	(14.8)
Debt raised/(repaid)	-	7.1	(328.4)	380.0	(20.3)
Equity raised/(repaid)	-	-	402.8	-	-
Net int income/(expense)	(75.8)	(76.2)	(72.2)	(85.8)	(84.8)
Distribution to unit holders	(107.7)	(107.0)	(106.3)	(112.5)	(140.9)
Others	(17.8)	(1.5)	-	-	-
Cash flow from financing	(201.3)	(177.6)	(104.1)	181.6	(246.0)
Net cash generated	(23.2)	(7.2)	10.5	40.4	(26.4)
Net cash, end of year	126.7	119.6	130.1	170.5	144.1

Source: Company data, Affin estimates

Key Financial Ratios and Margins

FYE June (RMm)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	(1.8)	2.1	2.4	9.2	1.6
Net property income (%)	(0.7)	(1.3)	3.5	18.4	2.1
Distributable net profit (%)	(9.8)	(1.0)	(3.8)	8.8	4.2
Profitability					
Net property income margin (%)	48.3	46.7	47.2	51.1	51.4
Net property income yield (%)	6.2	5.7	5.8	6.2	6.3
ROA (%)	3.2	2.9	3.1	3.6	3.5
Core ROE (%)	6.2	5.6	5.4	6.0	6.2
Distribution payout ratio (%)	100.0	100.0	100.0	100.0	100.0
Liquidity					
Current ratio (x)	1.9	2.0	1.9	1.8	1.5
Op. cash flow (RMm)	182.0	178.5	191.4	252.1	234.4
Free cashflow (RMm)	177.4	163.8	111.4	235.8	216.5
FCF/share (sen)	13.4	12.4	8.4	13.8	12.7
Capital structure					
Gearing (%)	45.6	44.1	34.2	39.8	39.4
Interest cover (x)	1.5	1.3	1.5	1.7	1.8
Per Unit					
Reported EPU (sen)	7.2	(0.4)	2.3	3.5	3.8
Realized EPU (sen)	8.1	7.8	7.5	8.3	8.6
DPU (sen)	8.0	7.9	7.6	8.3	8.6
DPU yield (%)	6.8	6.7	6.4	7.0	7.3
NAV (RM)	1.35	1.45	1.37	1.39	1.39
P/NAV (x)	0.88	0.81	0.86	0.85	0.85

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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