

YTL Hospitality REIT (YTLREIT MK)

Higher rental for the AC Hotels

BUY

Share Price	MYR 1.02
12m Price Target	MYR 1.08 (+14%)
Previous Price Target	MYR 1.06

Maintain BUY and top pick for the sector

We are positive on the 11% incremental rental revision for YTLREIT's AC Hotels, namely for AC Hotel KL Titivangsa, AC Hotel Penang Bukit Jambul and AC Hotel Kuantan City Centre. We raise FY25-26E net profit by 1% p.a. and DDM-TP by 2sen to MYR1.08 (Ke: 8.9%). YTLREIT remains our top M-REIT BUY, due to its resilient earnings, strong pipeline of assets and favourable net DPU yield of 8+% (sector: 6.6%).

~11% additional rental for AC Hotels

YTLREIT has entered into three supplemental lease agreements with the lessee of AC Hotels, namely Prisma Tulin Sdn Bhd, Business & Budget Hotels (Penang) Sdn Bhd and Business & Budget Hotels (Kuantan) Sdn Bhd, to increase the annual rental amounting to MYR2.7m p.a. (or c.+11% of FY23A rental income of c.MYR25m). In return, YTLREIT will pay the e.MYR38.5m refurbishment cost of the respective AC Hotels (to refurbish the hotel rooms and their corridors). Management expects the supplemental agreements to take effect by 1QCY24.

Raising net profit forecasts by 1% p.a.

We raise our FY25/26E core net profit by 1% each after imputing the additional rental, post-renovation works. We are positive on the rental adjustment as it will be a direct enhancement to YTLREIT's bottom line. The AC Hotels contribute c.5% to YTLREIT's FY25/26E revenue. We also expect gross gearing to inch up to 0.42x from 0.40x as at end-FY23 (Jun) due to the refurbishment and inclusive of the recent proposed acquisition of Hotel Stripes Kuala Lumpur.

Positive on earnings outlook

We continue to like YTLREIT for its stable, recurring rental income from its assets in Malaysia and Japan, and earnings growth prospects coming from its hotels in Australia. YTLREIT's CY24E net yield of 8.4% is the highest in our M-REIT universe.

FYE Jun (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	364	487	526	542	562
Net property income	215	251	269	279	286
Core net profit	138	140	146	152	158
Core EPU (sen)	8.1	8.2	8.6	8.9	9.3
Core EPU growth (%)	7.9	0.9	4.6	4.1	4.2
Net DPU (sen)	3.6	6.7	9.1	8.1	8.4
Net DPU growth (%)	(5.0)	88.2	36.0	(10.8)	3.7
P/NTA (x)	0.6	0.6	0.6	0.6	0.6
Net DPU yield (%)	3.8	7.1	8.9	8.0	8.3
ROAE (%)	3.1	5.0	3.0	3.2	3.4
ROAA (%)	2.8	2.8	2.9	2.9	3.1
Debt/Assets (x)	0.42	0.41	0.43	0.43	0.43
Consensus Net DPU	-	-	8.7	8.0	8.3
MIBG vs. Consensus (%)	-	-	4.3	1.4	1.8

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Company Description

YTL Hospitality REIT invests and manages hospitality real estates. Core businesses include leasing of hospitality properties and operation of hotels.

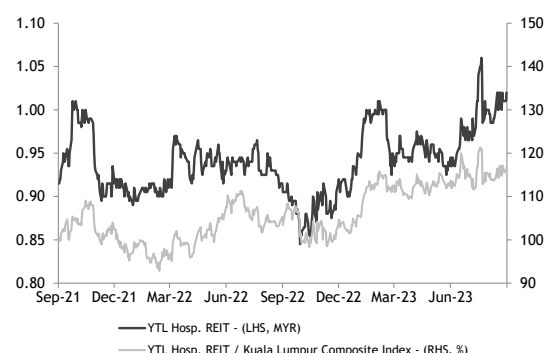
Statistics

52w high/low (MYR)	1.06/0.85
3m avg turnover (USDm)	0.2
Free float (%)	27.0
Issued shares (m)	1,704
Market capitalisation	MYR1.7B
	USD370M

Major shareholders:

YTL Corp Bhd.	58.6%
Yeoh Tiong Lay & Sons Holdings Sdn. Bhd.	3.7%
Employees Provident Fund	3.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	9	11
Relative to index (%)	1	4	11

Source: FactSet

Fig 1: Details of proposed rental revisions and refurbishments for the AC Hotels

Hotel	No of rooms	Estimated refurbishment costs (MYRm)	Additional annual rental (MYRm)
AC Hotel Kuala Lumpur Titiwangsa	364 (all rooms)	15.5	1.085
AC Hotel Penang Bukit Jambul	238 (excluding units in the Suite Wing)	12.5	0.875
AC Hotel Kuantan City Centre	215 (all rooms)	10.5	0.735
	Total	38.5	2.695

Source: Trust

Fig 2: Repayment schedule for rental variations of master leases

(MYR m)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
JW Marriott Hotel Kuala Lumpur	3.0	26.7	-	-	-	-	-
The Ritz Carlton, Kuala Lumpur - Suite Wing	1.7	2.5	2.5	2.5	2.5	2.5	2.5
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	-	-
AC Hotel Penang Bukit Jambul	0.9	1.3	1.3	1.3	3.9	-	-
AC Hotel Kuala Lumpur Titiwangsa	0.9	1.3	1.3	1.3	3.9	-	-
AC Hotel Kuantan City Centre	0.6	1.0	1.0	1.0	2.9	-	-
The Ritz Carlton, Kuala Lumpur - Hotel Wing	2.2	3.3	3.3	3.3	9.9	-	-
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	-	-
The Majestic Hotel Kuala Lumpur	2.7	4.0	4.0	4.0	4.0	4.0	4.0
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: Trust

Risk statement

There are several risk factors for our earnings estimates, target price and rating for YTLREIT. Changes in rental rates, occupancy rates, operating expenses, interest rates and forex may lead to lower earnings for YTLREIT. About 33% of YTLREIT's NPI (for properties under master leases) is due for lease renewal in FY26 (earliest) and 96% of its total debt is based on floating rates. Also, 45% of NPI is derived from overseas, and FX fluctuation will impact headline earnings. There is also potential DPU impact due to changes in master leases.

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	26.5	14.2	11.2	12.6	12.1
P/BV (x)	0.6	0.6	0.6	0.6	0.6
P/NTA (x)	0.6	0.6	0.6	0.6	0.6
DPU yield (%)	4.2	7.8	9.9	8.9	9.2
FCF yield (%)	1.6	19.2	16.3	15.3	15.8
INCOME STATEMENT (MYR m)					
Revenue	363.9	486.8	526.1	541.7	561.8
Net property income	214.8	251.3	269.0	278.8	285.5
Management and trustee fees	(10.6)	(11.5)	(12.1)	(12.3)	(12.4)
Net financing costs	(60.2)	(92.0)	(97.1)	(100.5)	(100.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	6.5	62.0	0.0	0.0	0.0
Other pretax income/expenses	(63.5)	(63.2)	(70.4)	(69.8)	(69.3)
Pretax profit	87.0	146.6	89.4	96.1	103.4
Income tax	(3.1)	(5.4)	(6.0)	(6.1)	(6.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	83.9	141.2	83.4	90.0	97.0
Core net profit	138.4	139.5	146.0	152.0	158.3
Distributable inc to unitholders	71.0	139.5	191.7	171.0	177.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	83.6	175.3	365.7	377.6	391.9
Accounts receivable	59.3	62.7	67.7	69.7	72.3
Property, Plant & Equip (net)	1,971.9	1,953.8	1,935.8	1,918.1	1,900.6
Investment properties	2,754.3	2,754.3	2,754.3	2,754.3	2,754.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	33.1	33.2	33.2	33.2	33.3
Total assets	4,902.3	4,979.3	5,156.9	5,153.0	5,152.5
ST interest bearing debt	622.7	622.7	622.7	622.7	622.7
Accounts payable	53.4	76.1	81.0	82.8	87.0
LT interest bearing debt	1,415.9	1,415.9	1,592.4	1,592.4	1,592.4
Other liabilities	37.6	37.6	37.6	37.6	37.6
Total Liabilities	2,129.5	2,152.2	2,333.6	2,335.4	2,339.6
Shareholders Equity	2,772.7	2,827.0	2,823.3	2,817.6	2,812.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,772.7	2,827.0	2,823.3	2,817.6	2,812.8
Total liabilities and equity	4,902.3	4,979.3	5,156.9	5,153.0	5,152.5
CASH FLOW (MYR m)					
Cash flow from operations	30.4	316.6	288.5	271.3	279.4
Capex	(5.2)	(5.0)	(5.0)	(5.0)	(5.0)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(7.0)	0.4	0.9	1.8	1.9
CF from investing activities	(12.2)	(4.6)	(4.1)	(3.2)	(3.1)
Dividends paid	(72.3)	(126.9)	(172.5)	(153.9)	(159.6)
Interest expense	(58.0)	(93.5)	(97.9)	(102.4)	(102.4)
Change in debt	0.0	0.0	176.5	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	11.0	0.0	0.0	0.0	0.0
CF from financing activities	(119.4)	(220.4)	(93.9)	(256.2)	(261.9)
Effect of exchange rate changes	(4.1)	0.0	0.0	0.0	0.0
Net cash flow	(105.2)	91.6	190.5	11.9	14.3

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	11.5	33.8	8.1	3.0	3.7
Net property income growth	4.7	17.0	7.1	3.6	2.4
Core net profit growth	7.9	0.9	4.6	4.1	4.2
Distributable income growth	(0.0)	96.7	37.3	(10.8)	3.7
Profitability ratios (%)					
Net property income margin	59.0	51.6	51.1	51.5	50.8
Core net profit margin	38.0	28.7	27.7	28.1	28.2
Payout ratio	72.3	80.9	186.1	153.8	148.2
DuPont analysis					
Total return margin (%)	23.1	29.0	15.9	16.6	17.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.8
ROAE (%)	3.1	5.0	3.0	3.2	3.4
ROAA (%)	2.8	2.8	2.9	2.9	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.2	2.2	2.2
Net gearing (%) (excl. perps)	70.5	65.9	65.5	65.2	64.8
Net interest cover (x)	3.4	2.6	2.6	2.7	2.7
Debt/EBITDA (x)	7.6	6.7	6.9	6.7	6.6
Capex/revenue (%)	1.4	1.0	1.0	0.9	0.9
Net debt/ (net cash)	1,954.9	1,863.3	1,849.3	1,837.4	1,823.1
Debt/Assets (x)	0.42	0.41	0.43	0.43	0.43

Source: Company; Maybank IBG Research

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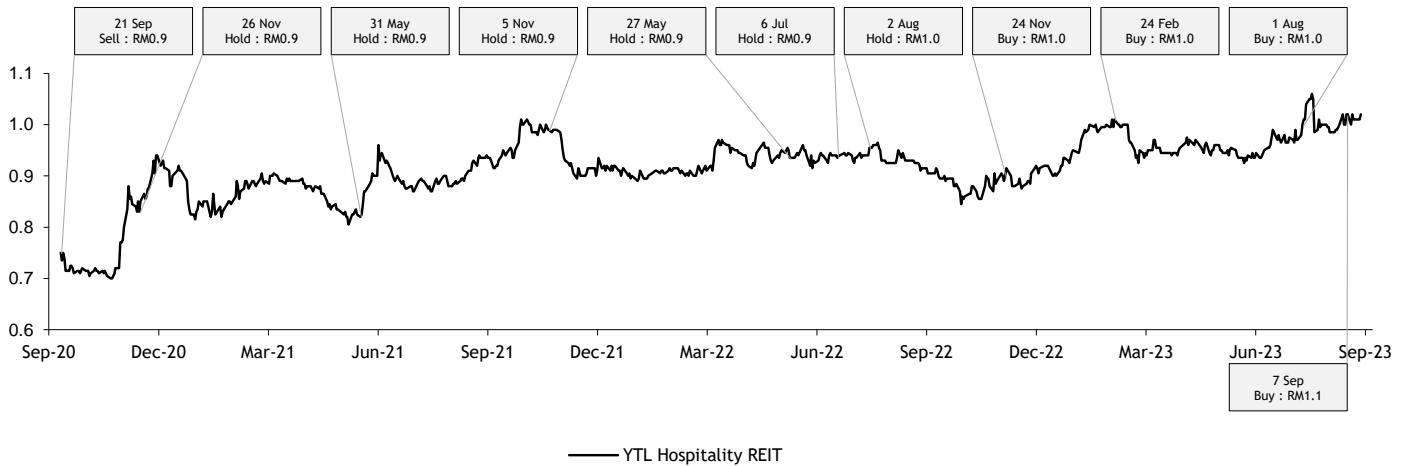
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