Results Note | **RM0.95 @ 25 May 2023**

"9MFY23 distributable income rebounded by 56% yoy to RM84m on higher rental payment and improved Australia operations"

Share price performance

	1M	3M	12M
Absolute (%)	-1.6	-5.9	-0.5
Rel KLCI (%)	-0.1	-2.5	8.7

	BUY	HOLD	SELL
Consensus	3	-	-

Stock Data

Sector	MREIT
Issued shares (m)	1,704.4
Mkt cap (RMm)/(US$m)	1619.2/350
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	0.85-1.02
Est free float	28.0%
Stock Beta	0.51
Net cash/(debt) (RMm)	(2,025)
ROE (CY23E)	5.4%
Derivatives	No
Shariah Compliant	No
FTSE4Good Constituent	No
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	22.6 (-1.5yoy)

Key Shareholders

YTL Corp	55.0%
East-West Ventures	3.7%
EPF	3.6%

Source: Affin Hwang, Bloomberg, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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YTL Hospitality REIT (YTLREIT MK)

BUY (maintain)
Up/Downside: +16.8%

Price Target: RM1.11
Previous Target (Rating): RM1.14 (BUY)

Higher rental, improved RevPAR drive earnings recovery

- **YTLREIT reported a healthy set of results – 9MFY23 distributable income rebounded by 56% yoy to RM84m on the resumption of full rental payments for its Malaysia and Japan properties and improved Australian operations**
- **Sequentially, 3QFY23 distributable income slipped by 3% qoq to RM26m. The results were a tad below our expectations due to lower-than-expected repatriation from its overseas operations, arising from time lag and higher refurbishment / upfront costs to resume the hotel operations post Covid**
- **We cut our FY23-25E distributable income forecasts by 3-14%. Maintain BUY with a lower DDM-derived PT of RM1.11 after we incorporate the earnings changes and roll forward our valuation horizon to 2024E**

9M23 distributable income grew by 56% yoy to RM84m, a tad below expectations

YTLREIT reported a healthy set of results – 9MFY23 distributable income grew by 56% yoy to RM84.2m on the resumption of full rental payments for its Malaysia and Japan properties and improved Australian operations. Elsewhere, the Australian hotels also reported a higher 9M23 NPI of RM69.5m (+98% yoy) driven by higher revenue per available room (RevPAR) following the reopening of Australia's border and strong recovery in tourism / business activities. Nonetheless, the sharp increase in Australian borrowing rates has somewhat dampened the country's earnings contribution – YTLREIT's 9M23 interest cost grew by 51% yoy to RM67.6m largely due to increase in the AUD-borrowing costs. Overall, the results were below market and our expectations – 9M23 distributable income only accounted for 61% of our full-year forecast due to: (i) lower-than-expected repatriation from the overseas operations, arising from time lag and higher refurbishment expenses / upfront costs when the oversea hotels ramped up its post-Covid operations; and (ii) higher-than-expected interest costs

Sequentially, YTLREIT's distributable income slipped by 3% qoq

Sequentially, YTLREIT's distributable income slipped by 3% qoq to RM26.2m (+44% yoy). While YTLREIT's net property income was relatively stable qoq at RM66.9m (+1%), an increase in finance costs (+4%) has likely affected the distributable income.

Cutting FY23-25E forecasts by 3-14%, maintain BUY with a lower TP of RM1.11

We have cut FY23-25E distributable income forecasts by 3-14% after taking into consideration the current RevPAR / operating costs for the Australian operations, incorporating higher finance cost, and higher-than-expected refurbishment / upfront costs for its overseas operations. We lower our DDM-derived 12-month price target to RM1.11 (from RM1.14) after incorporating the earnings changes and rolling forward our valuation horizon to 2024E. Maintain BUY for its attractive FY24-25E yield of 10%.

Earnings & Valuation Summary

FYE 30 Jun	2021	2022	2023E	2024E	2025E
Revenue	326.3	363.9	495.2	511.7	541.0
Net property income	205.3	214.8	255.4	260.7	278.3
Reported net profit	82.8	83.9	87.7	83.1	99.0
Realised net profit	128.2	138.4	148.3	148.4	164.7
Distributable income	71.0	71.0	129.8	174.0	178.6
Realised EPU (sen)	7.5	8.1	8.7	8.7	9.7
PER (x)	12.6	11.7	10.9	10.9	9.8
Distri. EPU (sen)	4.2	4.2	7.6	10.2	10.5
DPU (sen)	4.2	4.0	7.2	9.7	10.0
DPU growth (%)	-44.2	0.0	83.0	34.1	2.6
DPU Yield (%)	4.4	4.2	7.6	10.2	10.5
P/RNAV (x)	0.6	0.6	0.6	0.6	0.6
Chg in EPU (%)			-13.7	-3.4	-2.5
Affin/Consensus (x)			1.0	0.9	1.1

Source: Company, Affin Hwang estimates

Key risks to our forecasts

Downside risks to our positive view on YTLREIT would be a sharp rise in interest rates, and lower-than-expected financial performance.

Fig 1: Results Comparison

FYE Jun (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comments
Revenue	**77.5**	**130.1**	**126.9**	**-2.5**	**63.7**	**257.4**	**369.3**	**43.4**	
- Malaysia	36.5	36.5	36.5	0.1	0.1	109.5	109.6	0.1	
- Japan	7.1	6.8	6.8	0.2	-4.6	21.5	20.4	-5.2	
- Australia	33.9	86.8	83.5	-3.7	>100	126.4	239.2	89.3	Higher 9MFY23 revenue due to increase in occupancy rates and improved daily rates after the reopening of Australia's border
Net Property Income	**44.5**	**66.2**	**66.9**	**1.0**	**50.2**	**158.1**	**191.3**	**21.1**	
NPI margin (%)	*57.5*	*50.9*	*52.7*	*1.8 ppts*	*-4.7 ppts*	*61.4*	*51.8*	*-3.9 ppts*	
- Malaysia	34.6	34.6	34.7	0.1	0.1	104.0	104.0	0.0	
- Japan	6.3	6.0	5.7	-4.8	-8.8	19.0	17.8	-6.1	
- Australia	3.6	25.6	26.5	3.7	>100	35.1	69.5	98.2	Improved 9MFY23 NPI driven by recovery in revenue
Revaluation surplus / others	0.0	0.0	0.0	-	-	0.0	0.0	-	
Forex / EI	-25.9	1.6	3.6	>100	n.m	-53.5	9.4	n.m	
Net Invest. Income	**18.7**	**67.8**	**70.5**	**4.0**	**>100**	**104.5**	**200.7**	**92.1**	
REIT's expense	-2.4	-2.9	-2.9	-0.6	20.6	-7.8	-8.6	10.0	
Int expenses	-14.7	-23.4	-24.3	3.8	65.5	-44.7	-67.6	51.1	Higher interest rate on AUD borrowings
Depr / admin	-15.9	-16.3	-16.2	-0.2	2.2	-48.7	-49.1	0.9	
Pretax Profit	**-14.3**	**25.3**	**27.1**	**7.4**	**n.m**	**3.2**	**75.4**	**>100**	
Profit after tax	**-16.1**	**24.9**	**24.9**	**0.0**	**n.m**	**1.2**	**72.6**	**>100**	
Realised net profit	**25.2**	**39.1**	**37.3**	**-4.7**	**47.9**	**101.8**	**111.6**	**9.7**	
Distributable income	**18.2**	**27.0**	**26.2**	**-2.9**	**44.1**	**53.9**	**84.2**	**56.1**	Below market and our expectations
Realised EPU (sen)	1.48	2.30	2.19	-2.9	**44.1**	5.97	6.55	9.7	
DPU (sen)	0.0	3.06	1.54	-2.9	**44.1**	1.89	4.60	>100	

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

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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