Yuexiu Property (123 HK)

Takeaways From Profit Warning And 1H26 Results Preview

Highlights

- The 17 July profit warning guides for 1H26 attributable and core net profit to come in at Rmb50m-100m, down 90-95% yoy, on a lower JV contribution and a settlement mix skewed towards low-margin completed properties.
- We expect 1H26 gross margin to come in at 7.0%, down 3.6ppt yoy, as Rmb160b of the Rmb220b 2026 saleable pool comprises carried-over inventory settling at low single-digit or negative margins.
- We cut 2026/27/28 attributable net profit to Rmb67m/Rmb133m/Rmb231m, but expect a more balanced 1H26/2H26 split. We expect 2026 attributable net profit to rise 22% yoy, with interim dividend maintained at a 40% payout ratio. Maintain BUY, with target price decreased slightly to HK$4.50.

BUY (Maintained)	
Share Price	HK$3.72
Target Price	HK$4.50
Upside	21.0%
Previous TP:	HK$4.80

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Analysis

- Yuexiu Property (Yuexiu) announced a profit warning, and we conducted a channel check on 17 July. Key takeaways are as follows.
- **Profit warning in 1H26.** Yuexiu's 17 July profit warning guides for 1H26 attributable and core net profit to come in at Rmb50m-100m, down 90-95% yoy. This decrease is primarily due to: a) lower investment income from JVs, and b) lower gross profit margins from property development sales, particularly as a large proportion of sales came from lower-margin inventories. The high base in 1H25 is also a key reason for the sharp yoy decline.
- **Revenue declines despite deferred deliveries in 2H26.** Contracted sales fell 17.9% yoy to Rmb50.5b in 1H26, but the company remains on track to achieve its full-year contracted sales target of over Rmb100b in 2026. We expect 1H26 revenue to decline by 20-30% yoy from Rmb47.6b, as the delivery of several projects has been deferred to 2H26. As a result, we expect the full-year revenue decline to narrow to 6.3% yoy as the deferred deliveries will be recognised in 2H26, although lower contracted sales will result in a decline in full-year revenue.
- **Pre-2021 inventory continues to weigh on gross margin. We expect gross margin to decline 3.6ppt yoy from 10.6% in 1H25 to 7.0% in 1H26.** The margin contraction is mainly attributable to the company's sales mix. Of the roughly Rmb220b of saleable resources in 2026, around Rmb160b comprises carried-over inventory, with about Rmb60b coming from projects launched before 2021 (about 27%). The inventory before 2021 is expected to settle at low single-digit or even negative gross margins. Hence, continued destocking efforts are likely to put further pressure on gross margins in 2H26 and 2027. **We forecast a 2026 gross margin of 5.5%.**

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	86,400.6	86,457.3	80,977.6	78,076.8	79,546.8
EBITDA	3,990.0	3,135.9	1,279.1	2,004.7	2,879.4
Operating profit	3,451.2	2,648.2	747.8	1,425.4	2,247.3
Net profit (rep./act.)	1,040.1	55.1	67.3	133.3	230.9
Net profit (adj.)	1,590.0	260.0	247.3	313.3	410.9
EPS (HK$)	39.50	6.46	6.14	7.78	10.21
PE (x)	8.13	49.71	52.26	41.26	31.46
P/B (x)	0.23	0.24	0.24	0.24	0.24
EV/EBITDA (x)	29.20	37.16	91.10	58.13	40.47
Dividend yield (%)	5.39	4.70	0.77	0.97	1.27
Net margin (%)	1.20	0.06	0.08	0.17	0.29
Net debt/(cash) to equity (%)	134.20	108.50	96.88	86.88	82.84
Interest cover (x)	17.09	24.28	13.74	21.07	36.61
ROE (%)	1.88	0.10	0.12	0.24	0.42
Consensus net profit (HK$m)	-	-	445.4	731.3	1,103.7
UOBKH/Consensus (x)	-	-	0.56	0.43	0.37

Source: Yuexiu Property, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	123 HK
Shares issued (m):	4,025.4
Market Cap (Rmbm):	14,974.5
Market cap (US$m):	1,909.8
3-mth avg t'over (US$m):	5.6

Price Performance (%)

52-week high/low				HK$5.43/HK$3.27
1mth	3mth	6mth	1yr	YTD
(1.8)	(0.8)	(9.3)	(19.3)	(6.1)

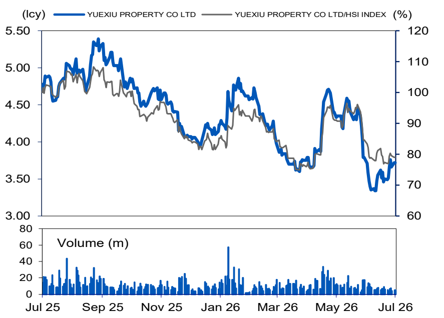
Major Shareholders

	%
Guangzhou Yuexiu Holdings Limited	45.34
Guangzhou Metro Group Co., Ltd.	19.9

Major Shareholders

FY26 NAV/Share (Rmb)	13.61
FY26 Net Debt/ Share (Rmb)	13.19

Price Chart



Source: Bloomberg

Company Description

Yuexiu Property Company Limited develops, sells, leases and manages residential and commercial properties in the PRC. It is the property development arm of Guangzhou-based state-owned Yuexiu Group, with its core land bank concentrated in Guangzhou and other tier-1 and core tier-2 cities.

- **Land acquisition remains deliberately restrained.** Yuexiu acquired six land parcels in 1H26, with attributable land premiums totalling nearly Rmb6b, compared with its full-year land acquisition budget of Rmb30b. Part of the unused budget may instead be allocated to the acquisition of the Guangzhou Machang project from its parent in Mar 27. As a result, we expect 2026 land acquisition to come in below the company's Rmb30b budget.
- **Preview for 1H26 results.** We expect a more balanced pace of earnings booking between 1H26 and 2H26, in contrast to the front-loaded earnings in 1H25 and the loss recorded in 2H25. Despite these headwinds, we still forecast 2026 attributable profit to increase slightly yoy. We also expect the interim dividend to be maintained, with the payout ratio remaining at the 40%.

Earnings Revision/Risk

- We cut our 2026/27/28 attributable net profit forecasts from Rmb271m/ Rmb265m/Rmb404m to Rmb67m/Rmb133m/Rmb231m, respectively, as we lower our forecast of property development (PD) gross profit margin from 7%/8%/9% previously to 5.5%/6.5%/7.5%.

Key Changes To Estimates

	Old			New			Change		
Rmbm	26E	27E	28E	26E	27E	28E	26E	27E	28E
Revenue	82,561	81,175	85,767	80,978	78,077	79,547	-1.9%	-3.8%	-7.3%
Revenue-PD	75,229	73,724	78,148	73,645	70,699	72,113	-2.1%	-4.1%	-7.7%
GPM	7.0%	8.0%	9.0%	5.5%	6.5%	7.5%	-1.5%	-1.5%	-1.5%
Attributable net profit	271	265	404	67	133	231	-75.2%	-49.7%	-42.9%

Source: Yuexiu Property, Bloomberg, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a target price of HK$4.50,** based on a 72% discount to our 2026 NAV of HK$15.90. We raise the discount rate of NAV from 70% to 72% to factor in Yuexiu's weaker exposure to core Tier 1 cities, which are leading this round of market stabilisation. Yuexiu is now trading at 0.24x 2026F P/B (1.5SD below mean).

Share Price Catalyst

- Faster-than-expected destocking of pre-2021 inventory.
- Stronger-than-expected recovery in Tier 1 city property markets.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	86,457.3	80,977.6	78,076.8	79,546.8
EBITDA	3,135.9	1,279.1	2,004.7	2,879.4
Deprec. & amort.	487.7	531.3	579.3	632.1
EBIT	2,648.2	747.8	1,425.4	2,247.3
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	801.9	392.9	447.7	526.3
Net interest income/(expense)	-129.1	-93.1	-95.2	-78.7
Pre-tax profit	3,321.0	1,047.6	1,777.9	2,694.9
Tax	-1,542.7	-486.6	-825.9	-1,251.8
Minorities	-1,723.3	-493.7	-818.7	-1,212.2
Net profit	55.1	67.3	133.3	230.9
Net profit (adj.)	260.0	247.3	313.3	410.9

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	10,953.1	10,583.5	10,659.6	10,724.7
Other LT assets	61,105.9	57,596.1	58,428.7	59,362.6
Cash/ST investment	45,351.7	51,555.6	56,937.9	59,106.2
Other current assets	252,334.1	250,560.3	255,731.1	274,838.3
Total assets	369,744.9	370,295.6	381,757.3	404,031.8
ST debt	27,201.9	28,562.0	29,990.1	31,489.6
Other current liabilities	154,843.1	156,198.2	168,564.1	191,975.8
LT debt	77,625.1	76,072.6	74,551.1	73,060.1
Other LT liabilities	4,242.4	4,155.7	4,155.7	4,155.7
Shareholders' equity	54,817.3	54,785.6	54,793.6	54,860.2
Minority interest	51,015.1	50,521.5	49,702.7	48,490.5
Total liabilities & equity	369,744.9	370,295.6	381,757.3	404,031.8

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	24,528.1	4,428.1	-2,173.5	-15,788.3
Profit fo the year	3,321.0	1,047.6	1,777.9	2,694.9
Tax	-1,542.7	-486.6	-825.9	-1,251.8
Deprec. & amort.	487.7	531.3	579.3	632.1
Associates	-801.9	-392.9	-447.7	-526.3
Working capital changes	21,279.0	2,232.4	-4,696.5	-18,616.6
Non-cash items	1,566.8	1,410.1	1,269.1	1,142.2
Other operating cashflows	218.2	86.2	170.3	137.3
Investing	17,247.5	4,460.0	0.0	0.0
Capex (growth)	-312.9	0.0	0.0	0.0
Investment	19,019.7	15,010.2	15,272.6	15,540.2
Capex (growth)	0.0	0.0	0.0	0.0
Others	-1,459.3	-10,550.2	-15,272.6	-15,540.2
Financing	-26,151.9	-2,684.0	7,556.1	17,957.0
Dividend payments	-696.4	-607.8	-98.9	-125.3
Proceeds from borrowings	938.2	-192.4	-93.4	8.5
Loan repayment	828.3	792.3	794.3	777.8
Others/interest paid	-27,222.0	-2,676.0	6,954.0	17,296.0
Net cash inflow (outflow)	15,623.7	6,204.2	5,382.5	2,168.7
Beginning cash & cash equivalent	29,728.3	45,351.7	51,555.6	56,937.9
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	45,352.0	51,555.8	56,938.2	59,106.6

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	3.6	1.6	2.6	3.6
Pre-tax margin	3.8	1.3	2.3	3.4
Net margin	0.1	0.1	0.2	0.3
ROA	0.0	0.0	0.0	0.1
ROE	0.1	0.1	0.2	0.4
Growth				
Turnover	0.1	(6.3)	(3.6)	1.9
EBITDA	(21.4)	(59.2)	56.7	43.6
Pre-tax profit	(20.8)	(68.5)	69.7	51.6
Net profit	(94.7)	22.3	98.0	73.2
Net profit (adj.)	(83.6)	(4.9)	26.7	31.2
EPS	(83.6)	(4.9)	26.7	31.2
Leverage				
Debt to total capital	49.8	49.8	50.0	50.3
Debt to equity	191.2	191.0	190.8	190.6
Net debt/(cash) to equity	108.5	96.9	86.9	82.8
Interest cover (x)	24.3	13.7	21.1	36.6