

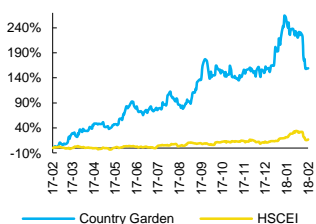
14 February 2018

Outperform Upgraded

Market Data: 13 February 2018

Closing Price (HK\$)	13.14
Price Target (HK\$)	15.60
HSCEI	12,005
HSCCI	4,355
52-week High/Low (HK\$)	19.16/5.09
Market Cap (US\$m)	36,522
Market Cap (HK\$m)	285,662
Shares Outstanding (m)	21,740
Exchange Rate (Rmb-HK\$)	1.23

Price Performance Chart:



Source: Bloomberg

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Related Reports

"Country Garden (2007 HK)—Capital structures" Jan18,2018

"Country Garden (2007 HK)—Construction innovation" Dec4,2017

"Country Garden (2007 HK)—Fast expansion" Aug24,2017

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Alert to opportunity

COUNTRY GARDEN HOLDINGS (2007:HK)

Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	113,223	153,087	227,875	313,870	420,746
YoY (%)	34%	35%	49%	38%	34%
Underlying net income (Rmbm)	9,799	11,985	18,931	23,052	28,719
YoY (%)	11%	22%	58%	22%	25%
Net income (Rmbm)	9,277	11,517	22,193	23,104	28,772
Basic EPS (Rmb)	0.43	0.52	1.04	1.06	1.32
Core EPS (Rmb)	0.45	0.54	0.89	1.06	1.32
ROE (%)	14.1%	16.2%	27.5%	23.5%	24.3%
Net gearing (%)	88%	49%	47%	45%	48%
Dividend yield (%)	4.3%	5.4%	2.8%	3.4%	4.2%
PE (x)	6.6	5.9	12.4	10.4	8.4
PB (x)	1.0	1.0	2.7	2.2	1.9

Note: Core EPS is calculated as if all non-recurring items are excluded.

Guangdong-based private developer Country Garden guided full-year 2017 net profit growth of 90%-plus YoY, citing growth in booked revenue and improved gross margin. The profit alert is not unexpected, but, given the recent decline in share price, we see potential for a near-term rally in response. Our most recent forecast of underlying net income of Rmb18.3bn in 17E (+53% YoY) factors in the firm's new construction technology, and we raise our 17E net profit attributable to shareholders forecast by 20% to Rmb22.2bn to account for the surprise from one-off items. We lift our diluted EPS forecast from Rmb0.86 to Rmb1.04 (+100% YoY) and from Rmb1.02 to Rmb1.03 in 18E (-0.1% YoY) but maintain our forecast at Rmb1.28 in 19E (+24.3% YoY). We maintain our target price at HK\$15.60 and upgrade our rating from Hold to Outperform.

Robust contract sales. Country Garden recorded contract sales of Rmb551bn in 2017 (+78% YoY; vs sector average of +58% YoY), becoming the largest mainland developer by sales. Sales by gross floor area (GFA) hit 61msqm in 2017 (+62% YoY) and the average selling price (ASP) was Rmb9,080/sqm (+10% YoY), while the interest attributable to the company was down to c.70% in 2017, vs c.76% in 2016. Street consensus of the company's 2018 sales target is Rmb700bn (+27% YoY), while in the first month this year the firm reported contract sales at Rmb69bn (+42% YoY) following a conservative disclosure of Rmb16.5bn in the last month of 2017.

Heavy land investment. The firm added 875 projects in 2017 with attributable GFA at 101msqm and average floor cost at Rmb3,225/sqm. Land investment surged by 155% YoY from 2016, with the ratio of expenditure to sales up from 55% in 2016 to 85% in 2017. We calculate total land reserves attributable to the firm of 175msqm at end-2017 with a cost at Rmb2,523/sqm (vs Rmb1,557/sqm at end-2016), sufficient for three years' development, but land cost as percentage of ASP rose to 28% (vs c.19% in 2016). In addition, with tier-1 and tier-2 cities accounting for 14% of land reserves, tier-3 cities and lower-tier cities contribute 21% and 65%.

Capital raising and recent drop. The company raised a total of c.HK\$23bn in January this year through an issue of 460m new shares (2.2% of existing share capital) at HK\$17.13/shr and issuing HK\$15.6bn in a one-year convertible bond with a conversion price at HK\$20.56/shr (3.6% of existing shares should it be fully converted). The stock price has been under pressure since then and further corrected by more than 20% amid the recent market downturn, retreating 30% from its mid-January peak. Currently the firm is trading at 12.4x 17E PE and 2.7x 17E PB, 10.4x 18E PE and 2.2x 18E PB, or 9% discount to our net asset value (NAV) estimate at HK\$14.22.

Upgrade to Outperform. Country Garden enjoyed a sharp re-rating in 2017 with return by 248%, but YTD recorded a loss of c.12%. With two-thirds of its pipeline in lower-tier cities and limited prospects for growth in those markets amid ongoing property cooling measures and credit tightening, we remain cautious over the company's sales outlook this year. However, we remain positive on its execution capability and high earnings visibility in 2018-19E. We maintain our target valuation at a 10% premium to NAV and thus our target price of HK\$15.60. With 18.7% upside, we upgrade our recommendation from Hold to Outperform.

总部位于广东的私营开发商碧桂园于周二发布盈喜称 2017 年归属股东的净利润预计将增长超过 90%，主要受益于物业销售结算的增加以及毛利率的提高。公司的盈喜虽然略高于市场预期但整体并不意外，但考虑到股价从 1 月中旬的高点调整已达三成，我们认为在市场整体情绪企稳的当下，对股价的正面激励作用不容忽视。我们维持 12 个月目标价 15.6 元港币，较当前股价有 19% 增幅，将评级从中性上调至增持。

大量可售未结资源。继 2016 年实现合约销售同比增长 120% 后，受益于三四线城市全面回暖，碧桂园于 2017 年实现合约销售金额 5510 亿元（销售面积同比增长 62% 至 6100 万平米，销售均价同比增长 10% 至 9080 元/平米），同比增长 78%（板块平均增速为 58%），首次登顶中国最大销售规模开发商（2016 年排名第三，2015 年排名第七）。这为公司的盈利结算奠定了扎实的基础，我们在去年底参加公司的反向路演并参观了有助于缩短结算交付周期的新建筑工艺后，已经进一步上调 17 年核心净利至 183 亿元人民币（同比增长 53%），我们认为这一预测已比较充分的考虑到了结算提速的因素。但我们对于一次性非核心利润增长的部分可能略低，我们因此将包含这部分利润的 2017 归属股东净利润上调约两成至 222 亿人民币（同比增长 93%），但仅将 2017 归属股东的核心净利润上调 3% 至 189 亿人民币（同比增长 58%），同时维持 18-19 年核心净利润 230 亿元（同比增长 26%）和 287 亿元（同比增长 25%）不变。

土地购置和销售目标。业界对于碧桂园 2018 年的销售目标推测是 7000 亿元（同比增长 27%），公司于今年 1 月实现 690 亿元合约销售（同比增长 42%），但这一单月数据是在去年 12 月基于已提前完成全年目标而仅报出 165 亿元的基础上。事实上公司在 2017 年进一步加强了土地购置力度，全年新增 875 个项目（2016 年为 414 个），权益建筑面积超过 1 亿平米，平均土地成本为 3225 元/平米（2016 年为 2028 元/平米），权益代价为 3270 亿元（同比大幅增长 155%），占同期合约销售金额的比例进一步从 2016 年的 55% 攀升至 85%，相比 2015 年时仅为 34%，2009-2014 年间更低至 15%-25%。我们估算公司权益总土储建筑面积增长至 1.75 亿平米，满足三年开发需要，但平均土地成本上升至 2523 元/平米，占同期合约销售均价的比例也上升至新高的 28%，而 2014-2016 年则仅为 11%、15% 和 19%，按城市类别细分，一线和二线城市占比仅分别为 3% 和 11%，三线城市占比为 21%，其余更低阶城市占比则高达 65%。

配股和发行可转债。碧桂园于今年 1 月 16 日宣布配股集资并发行可转债，总计筹集 230 亿港元。其中，公司以每股 17.13 港币（折价 3.7%）配售 4.6 亿股股份（相当于现有股本 2.16%），融资 78 亿港元。同时，公司发行了本金总额为 156 亿港元的一年期零息可转换债券，换股价为每股 20.556 港币（溢价 15.6%），且自 3 月 11 日以后即可开始转股，假设全部转股，将可转为 7.6 亿股股份，相当于现有股本的 3.57%。自集资以后公司股价持续承压，并在上周受市场拖累大幅下挫，自 1 月中高点已累计回调接近三成。当前估值相当于 17 年 12.4 倍 PE，2.7 倍 PB，18 年 10.4 倍 PE，2.2 倍 PB。

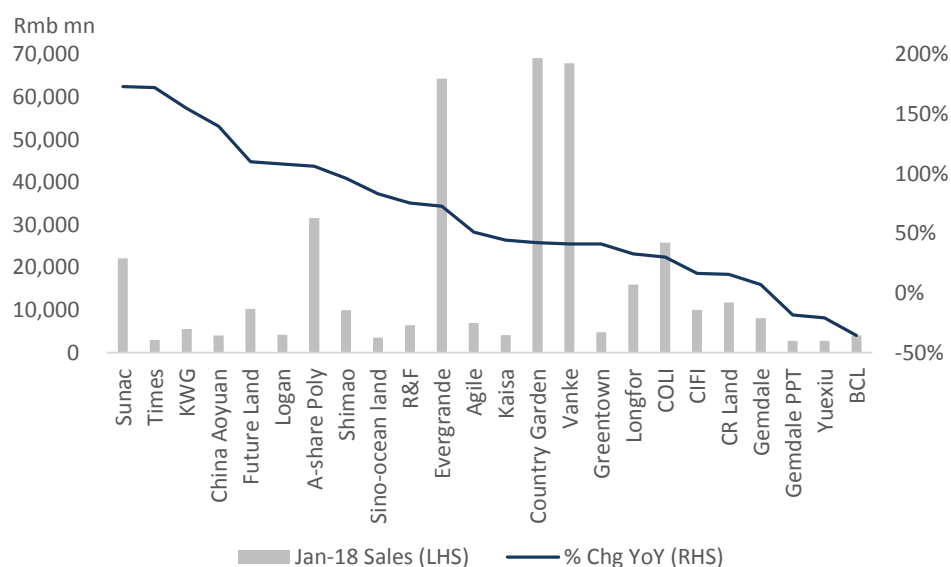
上调评级至增持。我们一直对公司三分之二位于四五线城市的土地储备持谨慎态度，我们认为这些区域的住宅销售在行业持续调控且流动性收紧的情况下很难在 2018 年延续荣景。但我们也一直强调看好碧桂园的执行力和在这些地区的先入优势，且公司未来三年的盈利能见度受益于大量已售未结资源是非常高的。近期的调整提供了较好的进入机会。我们维持目标估值不变，重申 12 个月目标价 15.6 港币，较当前股价有 19% 的上行空间，我们因此将碧桂园评级由中性提升至增持。

Fig 1: Contracted sales of key listed China developers, 2012-2017

Code	Listcos	12A	13A	14A	15A	16A	17A	% Chg YoY in 17A	5-Y cagr
1918 HK	Sunac	32	51	66	68	151	362	140%	63%
884 HK	CIFI	10	15	21	30	53	104	96%	61%
1030 HK	Future Land	16	21	24	32	65	126	94%	51%
2007 HK	Country Garden	48	106	129	140	309	551	78%	63%
960 HK	Longfor	40	48	49	55	88	156	77%	31%
1628 HK	Yuzhou	7	11	12	14	23	40	74%	44%
817 HK	China Jinmao	11	15	19	28	37	61	62%	41%
3383 HK	Agile	33	40	44	44	53	81	53%	20%
600048 CH	A-share Poly	102	125	137	154	210	315	50%	25%
813 HK	Shimao	46	67	70	67	68	101	48%	17%
2202 HK	Vanke	141	171	215	261	364	530	45%	30%
1109 HK	CR Land	52	66	69	85	108	152	41%	24%
3377 HK	Sino-ocean	31	36	40	41	50	71	40%	18%
2777 HK	R&F	33	42	54	54	61	82	35%	20%
3333 HK	Evergrande	92	100	132	201	373	501	34%	40%
1813 HK	KWG	12	16	21	20	22	38	70%	26%
688 HK	COLI	89	111	115	154	185	207	11%	18%
119 HK	Poly Ppty	23	27	24	30	35	38	9%	10%
Total/Average		818	1,069	1,240	1,479	2,257	3,515	59%	33%

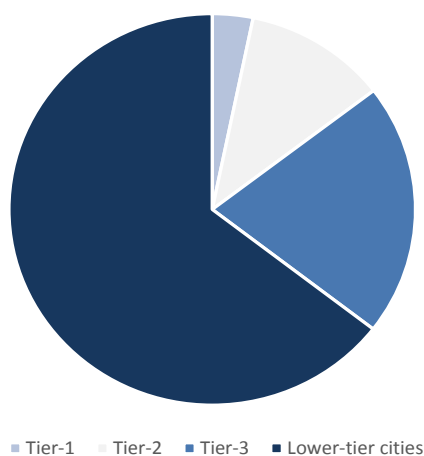
Source: Company data, SWS Research

Fig 2: Contracted sales of key listed China developers in January 2018



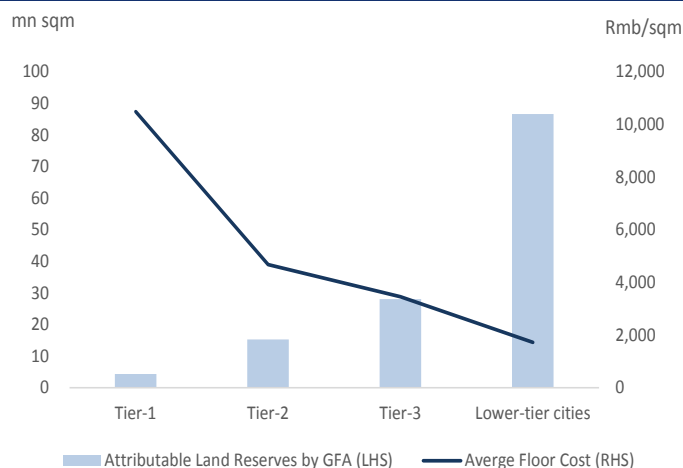
Source: Company data, SWS Research

Fig 3: Land reserves breakdown by tier of cities



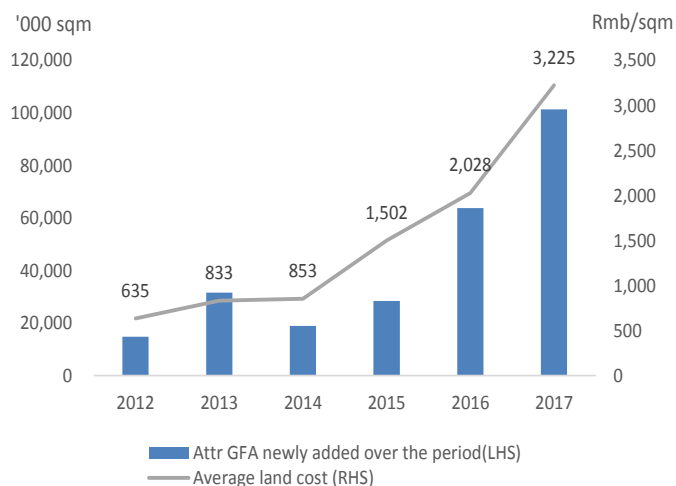
Source: Company data, SWS Research

Fig4: Land reserves in each tier of cities and corresponding land cost



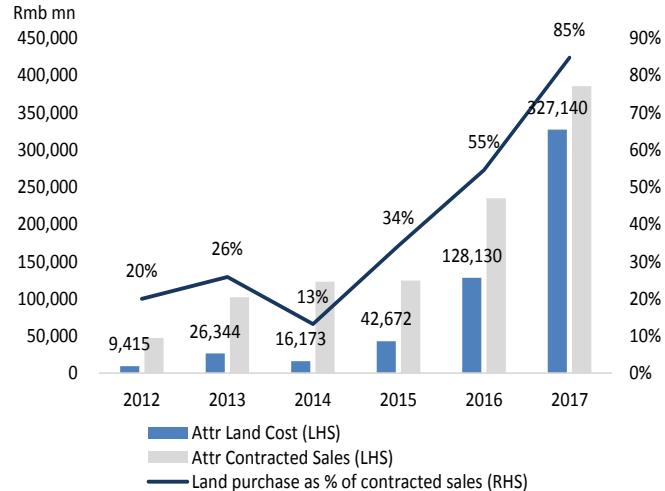
Source: Company data, SWS Research

Fig 5: Newly added GFA and average floor cost



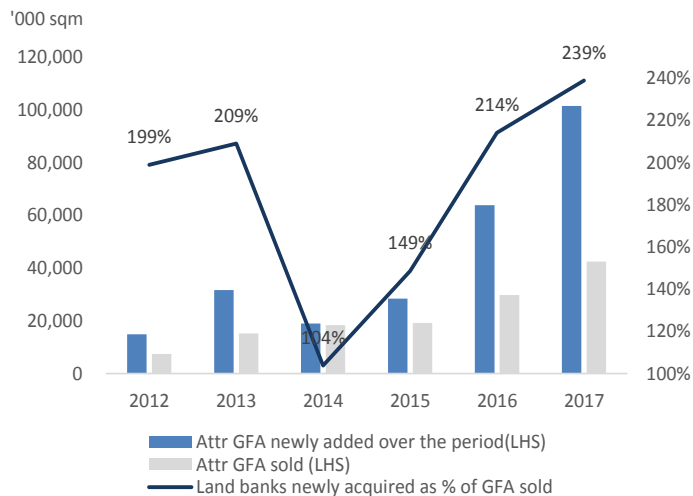
Source: Company data, SWS Research

Fig 6: Land purchase as a percentage of contract sales



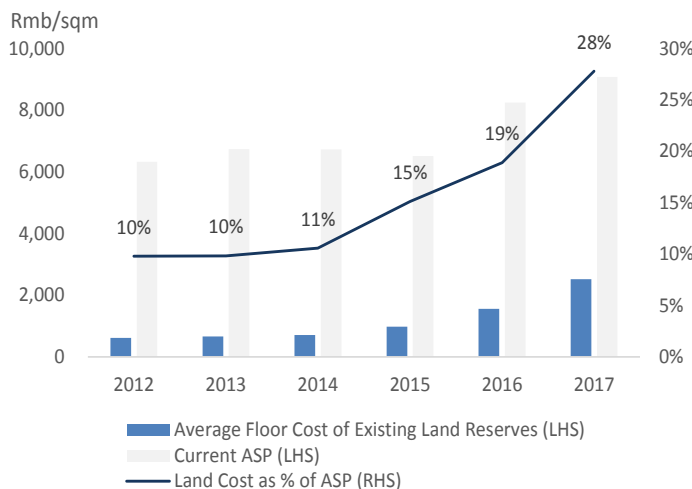
Source: Company data, SWS Research

Fig 7: Newly added GFA as a percentage of GFA sold



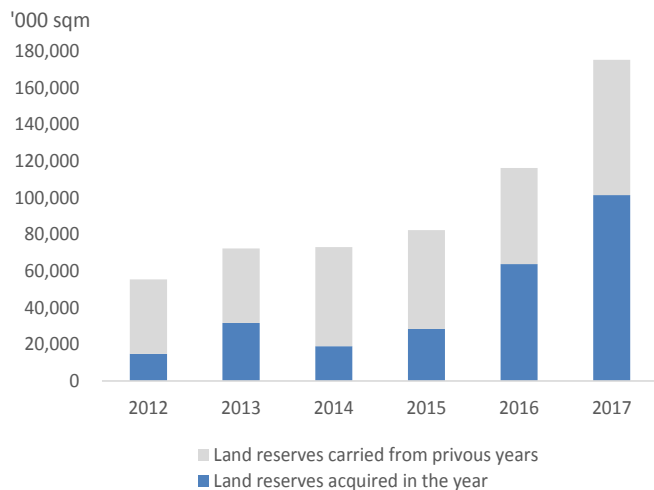
Source: Company data, SWS Research

Fig 8: Average floor cost as of contract ASP



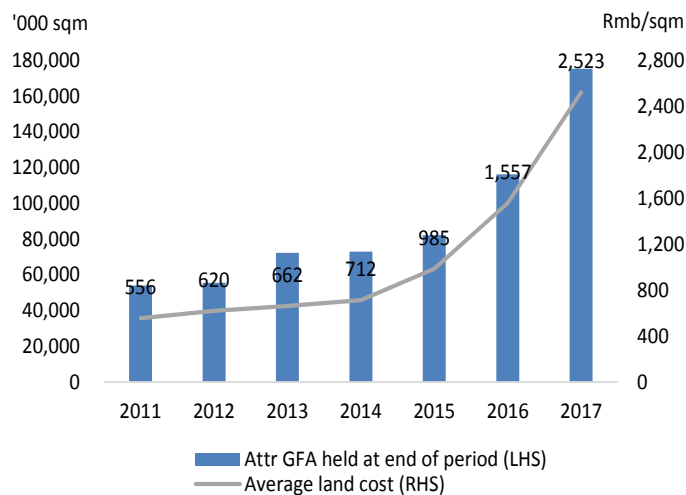
Source: Company data, SWS Research

Fig 9: The breakdown of land reserves by time of acquisitions



Source: Company data, SWS Research

Fig 10: The average land cost kept rising



Source: Company data, SWS Research

Fig 11: Valuation and TP of key listed China developers

Company	Code	Market (HK\$bn)	Rating	TP (HK\$)	PE (x)			PB (x)			NAV Disc	17E Dividend yield	Shares	
					16A	17E	18E	16A	17E	18E			2017	2018
COLI	688 HK	289	Outperform	28.65	7.4	7.5	6.5	1.0	1.1	0.9	-22%	3.1%	25%	5%
Country Garden	2007 HK	282	Outperform	15.60	5.4	12.4	10.4	0.9	2.7	2.2	-8%	2.6%	248%	-12%
CR land	1109 HK	197	Outperform	29.83	7.8	10.1	8.1	1.1	1.3	1.2	-24%	2.8%	36%	24%
Longfor	960HK	127	Outperform	27.29	6.7	11.5	9.1	0.8	1.5	1.4	-20%	2.9%	106%	12%
Sunac	1918HK	118	Sell	12.16	8.8	60.1	32.3	0.8	3.4	3.3	86%	0.3%	414%	-13%
R&F	2777 HK	61	Underperform	15.52	4.4	7.7	7.5	0.7	0.8	0.8	-21%	6.5%	100%	7%
Shimao	813 HK	69	Hold	22.04	4.9	8.5	7.1	0.6	1.0	0.9	-21%	3.9%	73%	20%
Sino-ocean	3377 HK	41	Outperform	7.51	8.3	8.9	7.1	0.5	0.6	0.6	-53%	4.5%	60%	1%
KWG	1813 HK	34	Hold	8.70	4.2	7.9	6.7	0.5	1.0	0.9	-23%	4.2%	128%	22%
Poly Ppty	119 HK	14	Buy	5.36	96.0	13.4	5.1	0.3	0.5	0.5	-51%	2.3%	58%	-7%
Yuzhou	1628 HK	21	Outperform	5.53	5.5	5.8	4.7	1.1	1.3	1.1	-38%	5.4%	74%	18%
Average					6.3	9.4	7.2	0.7	1.2	1.0	-28%	3.5%	125%	6%

Source: Company data, SWS Research

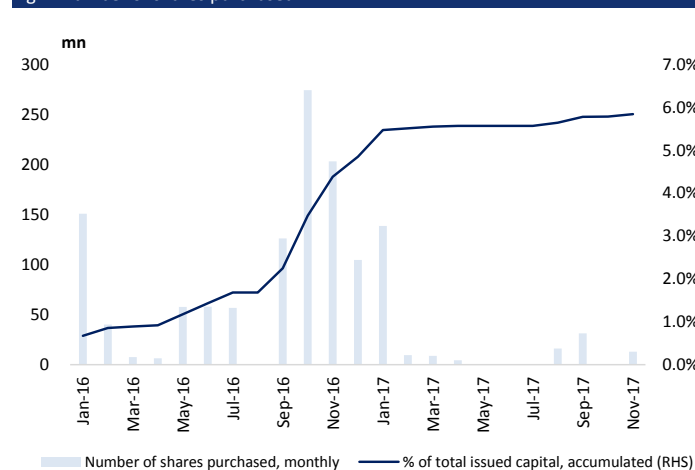
APPENDIX 1, Shares buyback

Fig 1: Country Garden's shares buyback in 2016-2017

Month	Total paid amount, monthly (HK\$ mn)	Number of shares purchased, monthly (mn shares)	Number of shares purchased, accumulated (mn shares)	% of total issued capital, accumulated (%)	Average purchase price, monthly (HK\$/shr)
Jan-16	447	151	151	0.7%	2.96
Feb-16	119	40	191	0.9%	2.96
Mar-16	23	8	198	0.9%	3.02
Apr-16	19	6	205	0.9%	3.00
May-16	174	58	263	1.2%	3.01
Jun-16	177	58	321	1.4%	3.06
Jul-16	184	57	377	1.7%	3.25
Aug-16	--	--	--	--	--
Sep-16	525	126	503	2.2%	4.16
Oct-16	1,106	274	778	3.5%	4.03
Nov-16	858	203	981	4.4%	4.22
Dec-16	453	105	1,086	4.9%	4.32
Jan-17	587	139	1,225	5.5%	4.23
Feb-17	41	9	1,234	5.5%	4.39
Mar-17	61	9	1,243	5.6%	6.92
Apr-17	31	4	1,247	5.6%	6.96
May-17	--	--	--	--	--
Jun-17	--	--	--	--	--
Jul-17	--	--	--	--	--
Aug-17	164	16	1,263	5.6%	10.22
Sep-17	359	31	1,295	5.8%	11.44
Oct-17	4	0	1,295	5.8%	11.94
Nov-17	155	13	1,308	5.8%	11.93

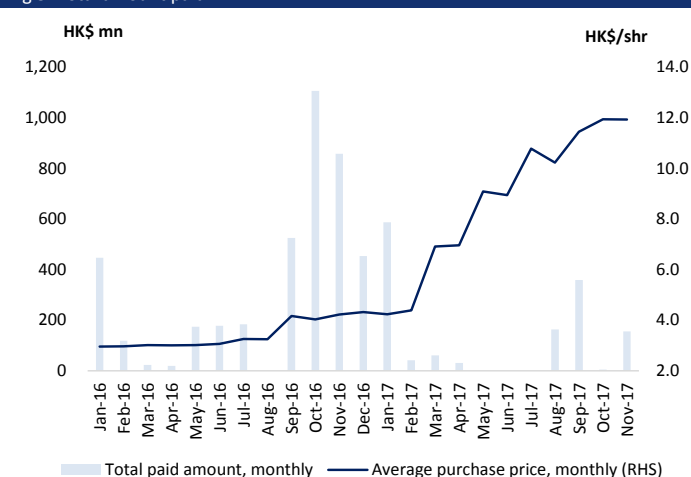
Source: Company data, SWS Research

Fig 2: Number of shares purchased



Source: Company data, SWS Research

Fig 3: Total amount paid



Source: Company data, SWS Research

APPENDIX 2, Financials

Figure 1: Forecast Income Statement

Rmbm	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	41,890	62,725	84,549	113,223	153,087	227,875	313,870	420,746
Property sales	40,012	60,043	81,898	109,460	148,180	222,300	307,515	413,478
Construction business	314	867	468	746	1,143	1,314	1,512	1,738
Ppty mgmt	592	820	1,051	1,561	2,056	2,467	2,961	3,553
Hotel mgmt	972	995	1,132	1,455	1,708	1,793	1,883	1,977
Cost of Sales	(26,552)	(43,713)	(62,494)	(90,359)	(120,851)	(174,469)	(240,366)	(325,193)
Gross Profit	15,339	19,012	22,055	22,863	32,236	53,406	73,504	95,553
Revaluation gains			1,880	810	712	747		
Other Income	103	21	186	424	1,530	1,700	70	71
Distribution expenses	(2,186)	(4,304)	(4,356)	(4,689)	(7,384)	(11,814)	(15,358)	(19,965)
Administrative expenses	(1,568)	(2,033)	(3,160)	(3,230)	(4,970)	(6,213)	(7,766)	(9,708)
EBIT	11,688	12,696	16,605	16,178	22,124	37,826	50,450	65,951
Fair value changes	74							
Share of loss of an associate	(94)	(26)	(40)	(56)	362	(49)	(48)	(47)
Finance Costs	(126)	803	(196)	(1,290)	(1,095)	1,341	(1,470)	(648)
Profit before tax	11,541	13,473	16,369	14,833	21,391	39,118	48,932	65,257
Tax expense	(4,657)	(4,625)	(5,757)	(5,121)	(7,727)	(15,893)	(23,765)	(31,820)
Income tax	(2,396)	(2,990)	(4,112)	(4,010)	(4,612)	(9,779)	(12,233)	(16,314)
LAT	(2,261)	(1,635)	(1,645)	(1,111)	(3,115)	(6,113)	(11,532)	(15,505)
Deferred								
Profit for the year	6,884	8,848	10,612	9,712	13,663	23,225	25,167	33,437
-To minority shareholders	(32)	(334)	(176)	(79)	(737)	(1,032)	(2,063)	(4,665)
-To perpetual security holders			(207)	(356)	(1,410)			
--To shareholders	6,852	8,514	10,229	9,277	11,517	22,193	23,104	28,772
Dividends paid	(2,527)	(3,106)	(3,333)	(2,912)	(3,734)	(6,626)	(8,068)	(10,052)
Basic EPS (RMB)	0.38	0.46	0.53	0.43	0.52	1.04	1.06	1.32
Diluted EPS (RMB)	0.38	0.46	0.53	0.43	0.52	1.04	1.03	1.28
DPS (RMB)	0.14	0.17	0.17	0.13	0.17	0.31	0.37	0.46
Core profit to shareholders	6,867	8,533	8,819	9,799	11,985	18,931	23,052	28,719
Core EPS (RMB)	0.38	0.46	0.46	0.45	0.54	0.89	1.06	1.32

Source: Company data, SWS Research

Figure 2: Forecast Balance Sheet

Rmbm	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Land use rights	1,390	1,865	2,035	2,052	2,536	2,790	3,069	3,376
Investment property	118	112	7,036	8,686	9,773	10,751	11,826	13,008
PP&E	11,614	15,828	18,643	20,020	20,877	21,921	23,017	24,168
Properties under development	25,700	40,080	44,639	52,727	52,342	60,194	69,223	79,606
Others	1,789	2,141	3,063	6,455	21,207	23,327	25,660	28,226
Non-current assets	40,611	60,026	75,415	89,940	106,736	118,983	132,795	148,385
Properties under development	39,155	67,474	105,994	135,107	216,383	333,078	379,827	432,759
Completed properties for sale	18,497	18,920	23,203	34,114	30,885	29,814	37,739	43,519
Cash and cash equivalents	11,809	18,910	18,761	36,241	84,647	112,103	116,961	87,644
Restricted cash	5,051	7,770	8,453	11,637	11,844	14,213	14,923	15,670
Receivable	17,124	26,378	25,371	42,242	117,322	146,652	161,317	177,449
Others	4,275	6,761	10,835	12,675	23,754	27,318	30,049	33,054
Current assets	95,911	146,213	192,617	272,016	484,836	663,178	740,818	790,095
Total assets	136,522	206,239	268,032	361,956	591,572	782,161	873,612	938,479
Share capital and premiums	19,369	20,169	24,262	29,213	25,677	24,275	30,894	30,894
Retained earnings	16,307	21,590	28,181	32,136	39,967	55,535	70,571	89,291
Other reserves	1,902	2,194	4,243	3,942	4,484	7,634	7,710	7,787
Majority interests	37,578	43,953	56,686	65,291	70,128	87,444	109,176	127,973
Minority interests	1,307	2,058	2,666	4,522	11,487	19,528	24,409	29,291
Perpetual securities			3,090	19,528	0	0	0	0
Total equity	38,885	46,011	62,442	89,340	81,615	106,972	133,585	157,265
Borrowings	13,603	23,103	26,404	30,829	38,710	45,710	50,710	55,710
Senior notes	14,213	20,711	19,735	20,878	29,264	37,051	38,163	39,307
Convertible bonds								
Onshore bonds				15,258	29,502	31,000	23,000	12,830
Others	1,114	1,510	2,828	4,056	7,166	8,599	9,889	10,878
Non-current liabilities	28,930	45,324	48,967	71,021	104,642	122,360	121,761	118,725
Advanced sales proceeds	33,354	63,418	91,792	96,516	192,409	250,132	275,145	302,659
Trade Payable	19,030	30,914	40,925	73,385	151,789	212,505	233,755	257,131
Tax payable	7,227	8,138	8,976	8,905	15,310	19,904	21,894	24,083
Borrowings	8,152	12,434	14,930	22,778	30,513	56,513	58,513	60,513
Convertible bonds	945						13,104	
Corporate bonds					8,207	6,000	8,000	10,170
Receipts under securitisation arrangements					7,043	7,777	7,855	7,933
Others				10	42			
Current liabilities	68,708	114,904	156,623	201,595	405,314	552,830	618,266	662,490
Total liabilities	97,638	160,228	205,590	272,616	509,956	675,190	740,027	781,215
Total equity and liabilities	136,522	206,239	268,032	361,956	591,572	782,161	873,612	938,479

Source: Company data, SWS Research

Figure 3: Forecast Cash Flow Statement

Rmbm	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Cash generated from/(used in) operations	3,995	(535)	6,543	(6,486)	46,154	14,030	15,000	20,000
Others	(6,478)	(8,632)	(10,875)	(11,101)	(13,321)	(24,644)	(29,573)	(32,530)
Net cash generated from operating activities	(2,483)	(9,167)	(4,332)	(17,587)	32,833	(10,614)	(14,573)	(12,530)
Acquisitions	(2,012)	(4,777)	(4,769)	(3,834)	(767)	(460)	(276)	(166)
Others	(64)	(216)	82	(2,832)	(2,974)	(3,271)	(3,435)	(3,606)
Net cash generated from Investing activities	(2,076)	(4,993)	(4,687)	(6,666)	(3,740)	(3,731)	(3,711)	(3,772)
Proceeds from issuance of shares	3,987	800	4,093	4,951	(3,535)	(1,402)	6,619	0
Proceeds from shares placement or perpetual securities issuance	2,000		3,090	16,438	(19,528)	0	0	0
Proceeds of net borrowing	7,948	19,335	4,821	28,674	38,246	40,810	15,293	(12,881)
Dividends payment	(2,650)	1,207	(3,106)	(3,333)	(2,912)	(5,384)	(6,626)	(8,068)
Others			14	(5,063)	7,043	7,777	7,855	7,933
Net cash generated from financing activities	11,285	21,342	8,912	41,667	19,314	41,801	23,142	(13,015)
Increase in cash and cash equivalents	6,726	7,182	(107)	17,414	48,406	27,456	4,858	(29,318)
Cash and cash equivalents at beginning of year	5,094	11,809	18,910	18,761	36,241	84,647	112,103	116,961
Exchange losses on cash and cash equivalents	(10)	(81)	(43)	66				
Cash and cash equivalents at end of the year	11,809	18,910	18,761	36,241	84,647	112,103	116,961	87,644

Source: Company data, SWS Research

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