

Sino Land (0083.HK)

FY18 Results in line with expectation; Strong new launch pipeline ahead

BUY

0083.HK | 12m Price Target: **HK\$17.00** | Price: **HK\$13.40** | Upside: **26.9%**

Sino Land reported an in line FY18 results -

- Underlying profit HK\$11bn, and excluding one-off disposal gains from Chengdu projects, recurring underlying profit at HK\$5.4bn, -2.3% yoy, in line with our forecasts.
- Attributable gross rental revenue at HK\$4.1bn, up 3.3%, or implying roughly HK\$0.64/ share recurring income. Management expects that in the next couple of years, aside from ongoing positive reversions, there are also a handful of new HK investment properties completions (including rental projects in Yueng Long, Wong Chuk Hang and Kwai Chung, and a hotel at Ocean Park) with c.1 mn sq ft of attr. GFA, or implying 10% additional to their existing rental space in HK.
- Full year DPS at HK\$98 cents, and if excl. HK\$45 cents special dividend, recurring DPS at HK\$53 cents, flat yoy.
- BVPS at HK\$21.14, up 4.0% yoy.

Key takeaways from analyst briefing -

- Strong HK launch pipeline:** In addition to the ongoing sale of Madison Park in Cheung Sha Wan (attr. 100 units, just launched this week), management look for potential new pre-sale launch of Mayfair By The Sea 8 in Pak Shek Kok (attr. 528 units) in 3QCY18E, and Grand Central in Kwun Tong (attr. 1,799 units) in 4QCY18E.
- Land banking:** while the company now sits on attr. HK\$24.6bn net cash (thanks for sizable disposal proceeds in 1HFY18), they will continue to be active in the land market in HK, while likely to be open to JV to limit their exposure to individual projects, given their view on likely consistent supply of land parcels in HK.

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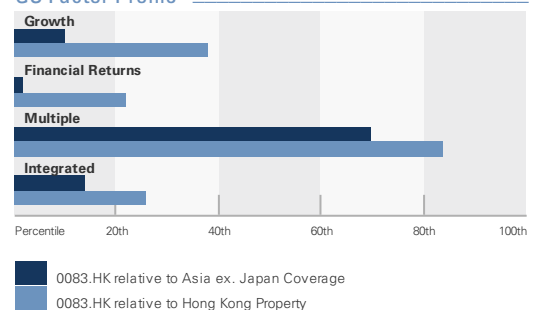
Key Data

Market cap: HK\$79.7bn / \$10.2bn
Enterprise value: HK\$62.2bn / \$7.9bn
3m ADTV: HK\$56.4mn / \$7.2mn
Hong Kong
Hong Kong Property
M&A Rank: 3

GS Forecast

	6/18	6/19E	6/20E	6/21E
Revenue (HK\$ mn) New	10,730.2	8,412.2	8,489.5	13,756.5
Revenue (HK\$ mn) Old	15,727.6	7,865.1	10,698.4	-
EBITDA (HK\$ mn)	4,606.4	4,228.1	3,971.7	7,421.9
EPS (HK\$) New	2.18	0.73	0.79	1.11
EPS (HK\$) Old	1.79	0.70	0.82	-
P/E (X)	6.2	18.3	17.0	12.1
P/B (X)	0.6	0.6	0.6	0.6
Dividend yield (%)	7.2	4.0	4.0	4.0
FCF yield (%)	(13.4)	1.5	7.1	21.9
	12/17	6/18	--	--
EPS (HK\$)	1.64	0.54	-	-

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Buy

Sino Land (0083.HK)

Rating since Feb 5, 2018

Ratios & Valuation

	6/18	6/19E	6/20E	6/21E
P/E (X)	6.2	18.3	17.0	12.1
P/B (X)	0.6	0.6	0.6	0.6
FCF yield (%)	(13.4)	1.5	7.1	21.9
EV/EBITDA (X)	14.8	15.9	16.0	6.5
CROCI (%)	(9.4)	0.5	2.4	5.4
ROE (%)	10.4	3.3	3.5	4.7
Net debt/equity (%)	(14.3)	(13.0)	(15.0)	(24.8)
Interest cover (X)	46.2	161.3	166.5	302.5
Days inventory outst, sales	883.2	1,272.1	1,402.4	870.3
Receivable days	52.8	50.5	50.0	30.9
Days payable outstanding	363.6	735.1	1,029.4	896.8
DuPont ROE (%)	10.0	3.3	3.4	4.6
Turnover (X)	0.1	0.1	0.1	0.1
Leverage (X)	1.1	1.1	1.1	1.2

Growth & Margins (%)

	6/18	6/19E	6/20E	6/21E
Total revenue growth	(41.5)	(21.6)	0.9	62.0
EBITDA growth	(36.9)	(8.2)	(6.1)	86.9
EPS growth	83.1	(66.3)	7.2	40.8
DPS growth	84.9	(45.9)	0.0	0.0
EBIT margin	42.9	50.3	46.8	54.0
EBITDA margin	42.9	50.3	46.8	54.0
Net income margin	130.4	55.1	58.5	50.8

Price Performance

Source: FactSet. Price as of 30 Aug 2018 close.

Income Statement (HK\$ mn)

	6/18	6/19E	6/20E	6/21E
Total revenue	10,730.2	8,412.2	8,489.5	13,756.5
Cost of goods sold	(5,259.6)	(4,123.4)	(4,161.2)	(6,742.9)
SG&A	(890.4)	(698.1)	(704.5)	(1,141.5)
R&D	-	-	-	-
Other operating inc./exp.)	26.2	637.4	347.9	1,549.8
ESO expense	-	-	-	-
EBITDA	4,606.4	4,228.1	3,971.7	7,421.9
Depreciation & amortization	0.0	0.0	0.0	0.0
EBIT	4,606.4	4,228.1	3,971.7	7,421.9
Net interest inc./exp.)	465.5	561.2	452.0	472.6
Income/(loss) from associates	2,586.3	710.2	1,316.0	703.8
Pre-tax profit	15,665.8	5,499.5	5,739.6	8,598.3
Provision for taxes	(1,631.7)	(854.4)	(700.9)	(1,256.2)
Minority interest	(38.2)	(11.4)	(72.5)	(347.7)
Preferred dividends	-	-	-	-
Net inc. (pre-exceptionals)	13,995.9	4,633.7	4,966.3	6,994.4
Post-tax exceptionals	-	-	-	-
Net inc. (post-exceptionals)	13,995.9	4,633.7	4,966.3	6,994.4
EPS (basic, pre-exception) (HK\$)	2.18	0.73	0.79	1.11
EPS (diluted, pre-exception) (HK\$)	2.18	0.73	0.79	1.11
EPS (basic, post-exception) (HK\$)	2.18	0.73	0.79	1.11
EPS (diluted, post-exception) (HK\$)	2.18	0.73	0.79	1.11
EPS (diluted, excl. ESO) (HK\$)	--	--	--	--
DPS (HK\$)	0.98	0.53	0.53	0.53

Balance Sheet (HK\$ mn)

	6/18	6/19E	6/20E	6/21E
Cash & cash equivalents	22,393.3	20,116.5	23,672.5	39,688.0
Accounts receivable	1,163.7	1,163.7	1,163.7	1,163.7
Inventory	27,052.6	31,585.4	33,650.5	31,948.8
Other current assets	2,634.9	2,634.9	2,634.9	2,634.9
Total current assets	53,244.4	55,500.4	61,121.6	75,435.3
Net PP&E	65,983.8	65,983.8	65,983.8	65,983.8
Net intangibles	-	-	-	-
Total investments	38,037.8	38,298.3	38,759.0	39,012.4
Other long-term assets	1,841.4	1,841.4	1,841.4	1,841.4
Total assets	159,107.4	161,624.0	167,705.8	182,272.9
Accounts payable	5,943.9	10,664.5	12,808.3	20,325.3
Short-term debt	719.7	-	0.0	1,656.0
Other current liabilities	5,467.6	2,685.4	2,532.0	3,087.3
Total current liabilities	12,131.2	13,349.9	15,340.2	25,068.5
Long-term debt	1,656.0	1,756.0	1,756.0	200.0
Other long-term liabilities	4,878.0	4,778.0	4,678.0	4,578.0
Total long-term liabilities	6,534.0	6,534.0	6,434.0	4,778.0
Total liabilities	18,665.3	19,883.9	21,774.3	29,846.6
Preferred shares	--	--	--	--
Total common equity	139,581.9	140,868.4	144,987.4	151,134.6
Minority interest	860.2	871.6	944.1	1,291.7
Total liabilities & equity	159,107.4	161,624.0	167,705.8	182,272.9
Net debt, adjusted	(20,017.6)	(18,360.5)	(21,916.5)	(37,832.0)
Average capital employed	111,264.2	121,902.0	123,697.3	119,304.7
RNAV	153,253.5	153,370.0	-	-
BVPS (HK\$)	22.10	22.30	22.96	23.93

Cash Flow (HK\$ mn)

	6/18	6/19E	6/20E	6/21E
Net income	13,995.9	4,633.7	4,966.3	6,994.4
D&A add-back	0.0	0.0	0.0	-
Minority interest add-back	38.2	11.4	72.5	347.7
Net (inc)/dec working capital	9,617.9	2,687.7	2,578.6	11,718.7
Other operating cash flow	(24,465.3)	(3,592.4)	(1,569.4)	(248.5)
Cash flow from operations	(813.3)	3,740.5	6,048.0	18,812.2
Capital expenditures	(10,969.1)	(2,500.0)	0.0	-
Acquisitions	-	-	-	-
Divestitures	5,696.6	449.6	855.4	450.4
Others	-	-	-	-
Cash flow from investing	(5,272.5)	(2,050.4)	855.4	450.4
Dividends paid (common & pref)	(6,356.0)	(3,347.3)	(3,347.3)	(3,347.3)
Inc/(dec) in debt	(2,826.3)	(619.7)	-	100.0
Other financing cash flows	(3,791.2)	0.0	0.0	0.0
Cash flow from financing	(12,973.5)	(3,966.9)	(3,347.3)	(3,247.3)
Total cash flow	(19,059.3)	(2,276.8)	3,556.1	16,015.4
Free cash flow	(11,782.4)	1,240.5	6,048.0	18,812.2

Source: Company data, Goldman Sachs Research estimates.

- **Dividend:** While there could be timing issues related to profit sales bookings going forward (even though management expects likely substantial pre-sale progress in next 6-12 months), they reiterate their overall stance to upkeep the steadily growing DPS on absolute basis.

What to do with the stock -

- We see current development for Sino Land as affirmation to our view that 2018 as an eventful year for Sino Land (Unloved and forgotten, but positive catalysts for 2018; up to Buy, dated Feb 5, 2018). We also see a number of catalysts, including our forecasts for substantial growth in earnings on recognition of disposal gains (which resulted in a special dividend announced in Feb 2018), readiness for a key new project launch in HK, and from active asset recycling efforts in late 2017.
- We revise up our FY19E-20E EPS by up to 5.2%, and introduce FY21E EPS of HK\$1.11, and NAV by 0.5%, on the back of this set of results and revisions to our property sales assumptions, with a 12-month target price of HK\$17.0 (from HK\$16.9). Our target price is still based on a 30% discount to FY19E NAV.
- The shares currently trade at a deep 45% discount to FY19E NAV, 0.63X PBR, and 4.0% FY19E dividend yield. Reiterate Buy.
- Risks
 - Slower-than-expected rental growth and abrupt n economic slowdown.
 - Abrupt changes in government housing/ land policy that would affect Sino Land's competitive positioning (e.g., more favourable policies for owners of farm land while Sino Land has no farm land in its land bank).
 - Weaker-than-expected physical market sentiment that would de-rail our thesis for Sino Land to have much stronger contracted sales potential in 2018E.

Exhibit 1: Sino Land FY18 results review

(HK\$ mn)	FY17	FY18E	YoY (%)	1H FY18	2H FY18	YoY (%)	HoH (%)	Remarks (FY18)
Property sales	13,185	5,479	-58.4%	1,303	4,176	-14.9%	220.5%	HK: The Spectra, The Mediterranean, and Park Mediterranean, Dragon Range, Botanica Bay, Providence Bay, and Marinella. And Dynasty Park in Zhengzhou
Property rental	3,069	3,186	3.8%	1,555	1,631	5.3%	4.9%	If incl. asso/JV and car parks, attr. revenue at HK\$4,105mn, +5% yoy
Hotel	840	890	6.0%	467	423	3.8%	-9.6%	If incl. asso/JV, attr. revenue at HK\$1,344mn (vs, HK\$1,275as of Jun-17)
Management services	1,122	1,079	-3.9%	540	539	-2.1%	-0.3%	
Investment in securities	86	43	-50.0%	36	7	-78.9%	-79.9%	
Financing	32	54	68.4%	27	27	15.6%	2.0%	
Turnover	18,334	10,730	-41.5%	3,928	6,802	-8.9%	73.2%	
Operating profits								
Property sales	4,426	1,311	-70.4%	557	754	-66.8%	35.5%	
Property rental	2,679	2,750	2.6%	1,340	1,410	3.4%	5.3%	Increase on higher rental rates on renewals; Occupancy rates of office/retail
Hotel	302	320	6.0%	176	143	8.5%	-18.8%	/industrial in FY18 were 96%/97%/93% vs. 97%/98%/95% in FY17
Management services	265	253	-4.4%	131	122	-5.9%	-7.1%	
Investment in securities	86	43	-50.0%	36	7	-78.9%	-79.9%	
Financing	32	54	68.4%	27	27	15.6%	2.0%	
Other income/expenses	(592)	(171)	NM	(409)	238	NM	NM	
Profit from operations	7,198	4,560	-36.7%	1,858	2,702	-31.7%	45.4%	
Inv prop reval surplus/deficit	1,333	927	-30.4%	434	493	-34.0%	13.5%	
Gain/(loss) on disposals	87	7,080	8066.1%	7,622	(542)	NM	NM	Incl. HK\$5,653mn gain from disposal 80% stake of The Palazzo in Chengdu, and HK\$761.9mn
Gain/(loss) on fair value of trading securities	2	0	NM	1	(1)	NM	NM	fair value gain on remaining 20% stake
Net interest cost	284	512	80.2%	196	316	96.6%	60.8%	As of Jun-18, net cash was at HK\$20,017.5mn (vs, HK\$27,221.2mn as of Jun-17)
Associates/JVs	1,710	2,586	51.2%	1,436	1,150	22.8%	-19.9%	Asso/JVs grew by 53%/39% yoy respectively
Pretax profits	10,614	15,666	47.6%	11,548	4,118	-29.0%	-64.3%	
Tax	(2,508)	(1,632)	-34.9%	(1,160)	(472)	-74.0%	-59.3%	
Minorities	(692)	(38)	-94.5%	(22)	(17)	NM	NM	
Net profits	7,415	13,996	88.8%	10,367	3,629	-8.7%	-65.0%	
Less revaluation surplus and deferred tax	(1,888)	(2,946)	56.1%	(1,631)	(1,315)	10.2%	-19.4%	
Underlying profit	5,527	11,050	99.9%	8,736	2,314	-16.8%	-73.5%	Excl. disposal, underlying profit for FY18 is HK\$5,396.9
EPS - basic (HK\$)	1.19	2.18	83.1%	1.64	0.54	-14.9%	-66.8%	
Underlying EPS -basic (HK\$)	0.89	1.72	94.0%	1.38	0.37	-18.1%	-73.5%	
DPS (HK\$)	0.53	0.53	0.0%	0.13	0.40	0.0%	207.7%	Implying payout ratio to underlying EPS of c.63% excl. one-off gain from disposal
Special DPS (HK\$)		0.45		0.45				
Total DPS (HK\$)		0.98		0.58	0.40			
Investment property valuation (HK\$mn)	61,361	62,713	2.2%	62,149	62,713	2.2%	0.9%	
Reported book per share (HK\$)	20.32	21.14	4.0%	21.38	21.14	4.0%	-1.1%	

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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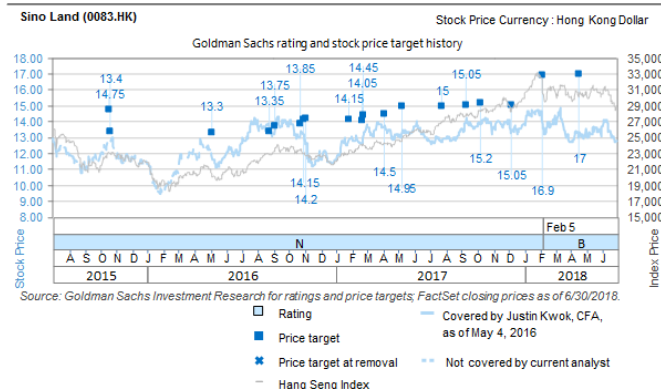
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