



Company Report: Powerlong Real Estate (01238 HK)

公司报告: 宝龙地产 (01238 HK)

Van Liu 刘斐凡
(86755) 2397 6672
liufeifan@gtjas.com
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Results Missed but Attractive Valuation, Maintain "Buy"

低于预期的业绩但估值吸引, 维持“买入”

- **1H18 underlying net profit missed our expectation.** Top line in 1H18 increased by 21.7% YoY to RMB9,284 mn, meanwhile, underlying net profit decreased 7.5% YoY to RMB994 mn.
- **Revenue will grow fast.** Saleable resources in 2H18 will reach RMB50.0 bn (indicating 32.7% target sale-through rate). We also expect rental income to increase at a CAGR of 13.5% in 2017-2020.
- **We expect Powerlong's margins to remain at a high level.** Gross margin is expected to remain at around 33.5% between 2018-2020 due to a quality land bank and reasonable unit land cost (17.1% of ASP in 1H18).
- Funding costs are expected to increase along with relatively high expected net gearing ratio of over 90.0% during 2018-2020. **However, considerable recurring income could decrease credit risks and protect dividend payouts.**
- As we revise down underlying net profit, we revise down the Company's target price from HK\$5.75 to HK\$5.00, which represents a 49% discount to the Company's 2018E NAV of HK\$9.84 per share, 5.8x underlying 2018 PER and 0.6x 2018 PBR. The Company's valuation is significantly lower than the sector weighted average amongst HK-listed mid-sized and small-sized developers. **We maintain "Buy". Risks:** lower-than-expected contracted sales and significant increase of funding costs.
- **2018年上半年核心净利低于我们预期。**2018年上半年收入同比增长21.7%至人民币92.84亿元,与此同时,核心净利同比下降7.5%至人民币9.94亿元。
- **收入将会快速增长。**2018年下半年可售资源为人民币500亿元(暗示32.7%的去化率)。我们也预计租金收入在2017-2020年以13.5%的复合增长率增长。
- **我们预计宝龙的利润率将维持较高水平。**由于有质量的土储且合理的单位地价(2018年上半年销售均价的17.1%),毛利率将在2018到2020年维持在33.5%左右。
- 融资成本预计上升,且在2018-2020年预计超过90.0%的相对较高的净资产负债率。**然而,足够的经常性收入能够降低信用风险并保障股息支付。**
- 由于我们下调了核心盈利,我们将目标价从5.75港元下调至5.00港元,相当于较9.84港元的2018年每股净资产有49%的折让,也分别相当于5.8倍2018年核心市盈率和0.6倍2018年市净率。公司的估值显著低于香港上市中小开发商的加权行业平均。**我们维持“买入”。** **风险:** 低于预期的合约销售和融资成本的显著上升。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP目标价:

HK\$5.00

Revised from 原目标价:

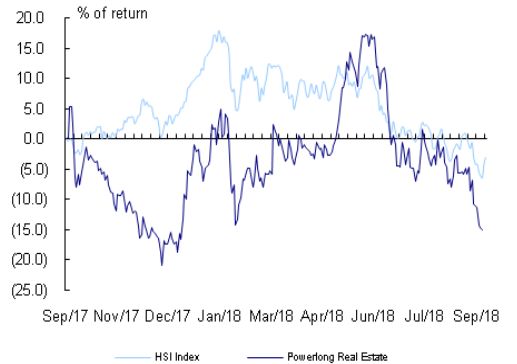
HK\$5.75

Share price 股价:

HK\$3.670

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(5.2)	(22.1)	(10.3)
Rel. % to HS Index 相对恒指变动 %	(5.4)	(12.1)	(8.4)
Avg. Share price(HK\$) 平均股价 (港元)	4.1	4.0	3.7

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	14,296	2,465	0.623	18.9	5.3	5.710	0.6	0.145	4.4	11.4
2017A	15,593	3,337	0.841	35.0	3.6	0.165	18.5	0.165	5.4	13.9
2018F	24,251	3,737	0.942	12.0	3.4	0.244	12.9	0.244	7.7	13.8
2019F	35,282	4,844	1.221	29.6	2.6	0.292	10.8	0.292	9.2	15.4
2020F	43,644	5,364	1.352	10.7	2.3	0.325	9.7	0.325	10.3	14.2
Shares in issue (m) 总股数 (m)				3,997.3		Major shareholder 大股东			Hoi Kin Hong	46.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				14,670.1		Free float (%) 自由流通比率 (%)				54.1
3 month average vol. 3 个月平均成交股数 ('000)				2,553.5		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				101.6
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				5.000 / 3.200		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				9.8

Source: the Company, Guotai Junan International.

Housing sales maintained steady growth. During Jan.-Aug. 2018, the YoY increase in commodity house sales maintained steady growth compared to that during Jan.-Jul. 2018. The YoY increase in investment decreased slightly by 0.1 ppts. Moreover, land area sold increased 15.6% YoY during Jan.-Aug. 2018. Sources of funds for real estate development enterprises recorded moderate YoY rebound. We expect steady investment. Housing sales amount remained high in absolute terms. In addition, saleable areas extended downside momentum. Subsequently, we argue steady fundamentals for the property market.

Figure 1: Cumulative House Sales Amount in China

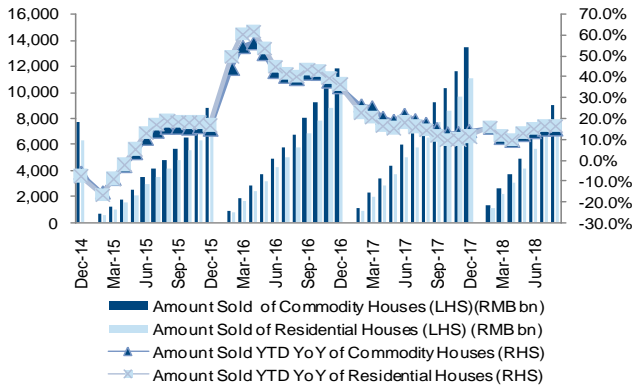
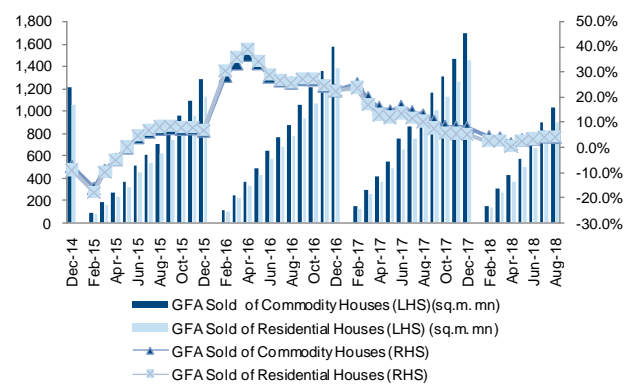


Figure 2: Cumulative House Sales GFA in China



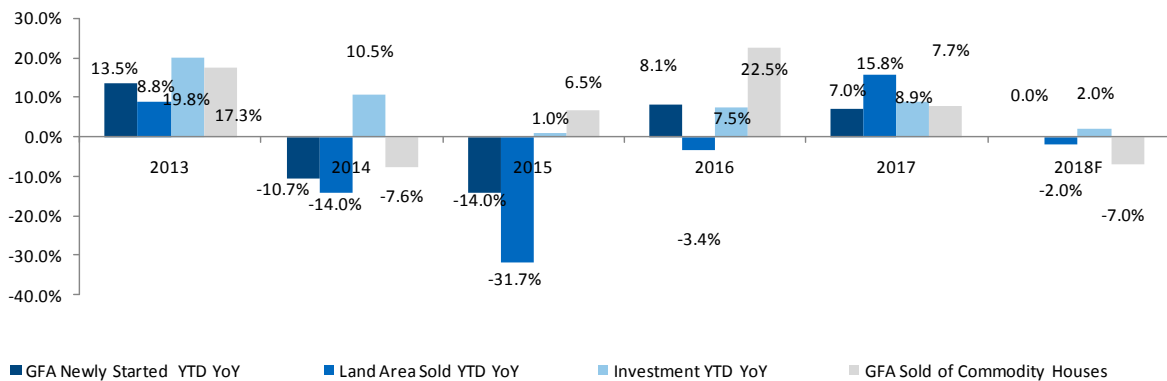
Source: National Bureau of Statistics of China, Guotai Junan International.

Source: National Bureau of Statistics of China, Guotai Junan International.

Severe external environment will be maintained but policies should be moderately loose if the macro economy starts to deteriorate due to the Sino-US trade war. There should be no trigger for policy changes due to stable ASP, proper stock turnover and decreasing land auction premium. Tightening policies will be extended. Despite recent marginal loosening, the credit environment will follow a tightening trend in the long run. For the global market, the US has entered into an interest rate hike cycle, therefore, we expect that the PBOC will continue to reduce leverage and shrink its balance sheet in the long run. Monetary policy will be prudent and neutral, with the keynote of deleveraging.

We think that commodity housing sales will only experience limited decline. Urbanization and demand from housing replacement will lead to sustainable housing demand in 2018-2020. Moreover, if the property market starts to slump, the policy and credit environment related to the property sector should ease again to stabilize the property market as per the last round of policy easing which started on 30 Sep. 2014.

Figure 3: Key Property Development and Sales Data



Source: National Bureau of Statistics of China, Guotai Junan International.

1H18 underlying net profit missed our expectation, riding on less GFA delivering and more minority interest. Contracted sales growth recovered in 1H18 with a growth rate of 80.3%. However, top line only increased by 21.7% YoY to RMB9,284 mn in 1H18. Gross profit amounted to RMB2,764 mn, up 26.8% YoY. Given higher exchange losses and higher minority interests, net profit decreased 10.7% YoY to RMB1,330 mn, which missed our expectation. If we exclude after-tax fair value gains on IPs and exchange losses, underlying net profit decreased 7.5% YoY to RMB994 mn, which missed our expectation. The Company recorded gross margin gain of 1.5 ppts YoY. Underlying net profit margin decreased 3.4 ppts YoY to 10.7%. Net gearing ratio increased by 22.6 ppts YoY riding on increase in land acquisitions. Cash balance increased 38.7% YoY to RMB13,821 mn.

Table 1: Comparison of the Company's Balance Sheet and Income Statement in 1H17 and 1H18

RMB mn	1H17	1H18	Change
Total revenue	7,631	9,284	21.7%
Gross profit	2,764	3,505	26.8%
GPM	36.2%	37.8%	1.5 ppts
NP (Inc. after-tax fair value gains on IP and exchange losses)	1,490	1,330	-10.7%
NP (Ex. after-tax fair value gains on IP and exchange losses)	1,074	994	-7.5%
NPM (Inc. after-tax fair value gains on IP and exchange losses)	19.5%	14.3%	-5.2 ppts
NPM (Ex. after-tax fair value gains on IP and exchange losses)	14.1%	10.7%	-3.4 ppts
DPS (RMB cent)	4.7	5.3	12.6%
Underlying EPS (RMB cent)	27.1	23.1	-14.8%

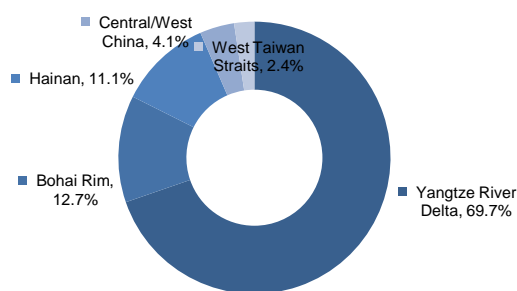
Source: the Company, Guotai Junan International.

Table 2: Comparison of the Company's Balance Sheet and Income Statement in 2017 and 1H18

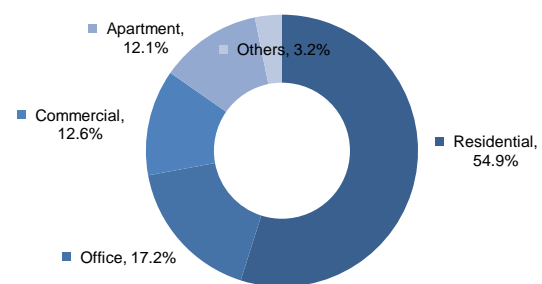
RMB mn	2017	1H18	Change
Cash and cash equivalents	9,962	13,821	38.7%
Total asset	95,491	113,425	18.8%
Stock of properties	20,761	29,378	41.5%
Total debt	35,536	44,396	24.9%
Shareholders' equity	25,337	26,010	2.7%
ROE	13.9%	10.7%	-3.2 ppts
Net gearing ratio	92.2%	114.8%	22.6 ppts

Source: the Company, Guotai Junan International.

We expect fast contracted sales with growth rates of around 100.0% and 30.0% in 2018 and 2019, respectively. In Jan.-Aug. 2018, contracted sales amounted to RMB25.194 bn, soaring 108.4% YoY, achieving 72.0% of the Company's 2018 sales target. Saleable resources in 2H18 will reach around RMB50.0 bn (indicating 32.7% target sale-through rate), respectively. With sufficient saleable resources in higher-tier cities, we expect fast contracted sales growth. In addition, the Company will speed up its launch schedule to boost sales and accelerate cash collection from sales. Thus, contracted sales is likely to maintain fast growth in 2019.

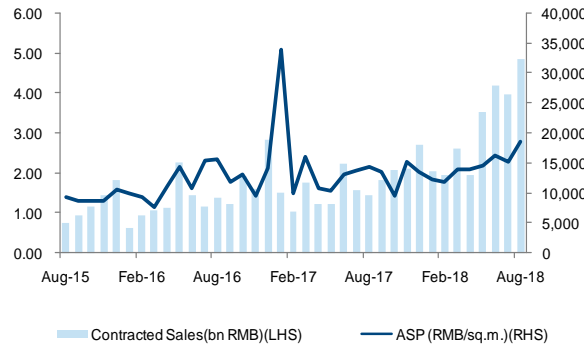
Figure 4: Powerlong's 2H18 Saleable Resources Breakdown by Region


Source: the Company.

Figure 5: Powerlong's 2H18 Saleable Resources Breakdown by Product Type


Source: the Company.

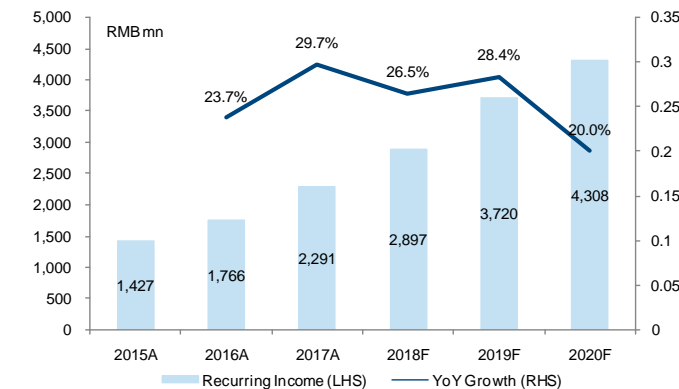
Figure 6: The Company's Contracted Sales



Source: the Company.

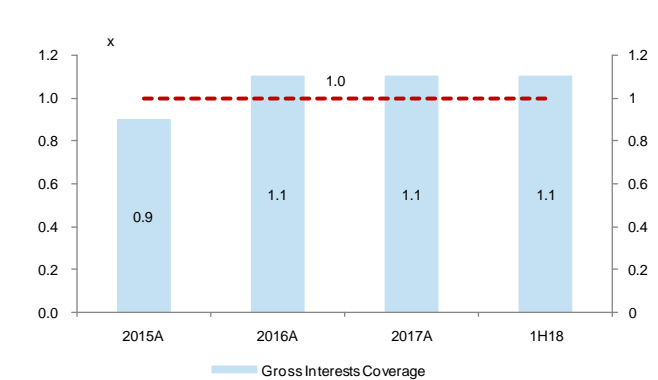
We expect rental income to steadily grow, which is able to decrease operating risks. The Company is going to add 3, 9 and 7 new malls in 2018, 2019 and 2020, respectively. With recently opened malls gradually turning into mature ones and new malls being added to the portfolio, we expect rental income to increase by nearly double from RMB856 mn in 2017 to RMB1,251 mn in 2020, or at a CAGR of 13.5% in 2017-2020. In addition, the Company's recurring income (including the revenue from rental income of investment properties, property management services and other property development related services) has covered its interest expenses. Thus, expected rental income growth could decrease operating risks and protect dividend payouts.

Figure 7: Powerlong's Recurring Income



Source: the Company.

Figure 8: Powerlong's Gross Interest Coverage by Recurring Income



Source: the Company.

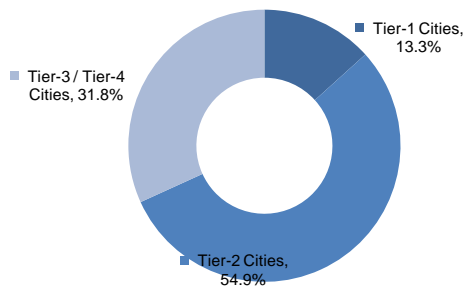
Proactive land acquisition increased the Company's net gearing ratio but could protect gross margin in the future under the low period of land market. During 1H18, the Company acquired 14 parcels of land for an attributable land acquisition cost of RMB8,113 mn. The total GFA amounted to 3,319,848 sq.m. Unit land costs came to approximately RMB5,012/sq.m. Land parcel replenishment is concentrated on the Yangtze River Delta. That is, quality land banks will be enhanced. As at the end of 1H18, the Company's land bank had a total GFA of 18.002 mn sq.m., of which, tier-1 cities (13.3%) and tier-2 cities (54.9%) accounted for 68.2% of the Company's total land bank. Shanghai accounted for the largest proportion of the Company's land bank with GFA of 1,687,241 sq.m., or 9.4% of its total land bank. The Company's unit land cost amounted to RMB2,412/sq.m., 17.1% of ASP in 1H18. We think that the proactive land acquisition under the low period of land market will not increase unit land cost. Thus, the Company's gross margin will be able to remain stable over the next three years.

Table 3: Powerlong's Land Bank Replenishment Activities During 2017

Project	Land Use	Equity	GFA (sq.m.)	Attributable Land Premium (RMB mn)	Land Cost (RMB/sq.m.)
Nanjing Jiangning G71 Project	R	31%	216,570	909	13,991
Nanjing Gaochun Project Phase II	R/C	33%	117,890	182	1,883
Xuzhou Fengxian Project	R/C	36%	490,745	294	599
Zhenjiang Runzhou Tanshan Road Project	R/C	35%	180,266	389	6,351
Yiwu Fotang Jiangbin Project	R/C	32%	185,416	550	5,933
Ningbo Ningfeng Railway Project	R/C	27%	189,000	306	1,973
Yancheng Development Zone Project	R/C	38%	334,900	444	2,042
Jinhua Yongkang Jiefang Street Project	R/C	38%	218,474	368	5,873
Huai'an Qingjiangpu Project	R/C	33%	216,667	250	1,154
Ningbo Yinzhou Shounan Project	R/C	48%	360,950	1,927	6,511
Zhoushan Yancang Project	R/C	60%	62,952	194	3,749
Wenzhou Airport New Zone Project	R/C	28%	344,297	1,281	3,721
Wenzhou Emerald World	R	21%	223,584	492	16,766
xuzhou Fengxian Project	R/C	29%	178,137	526	3,604
Total			3,319,848	8,113	5012

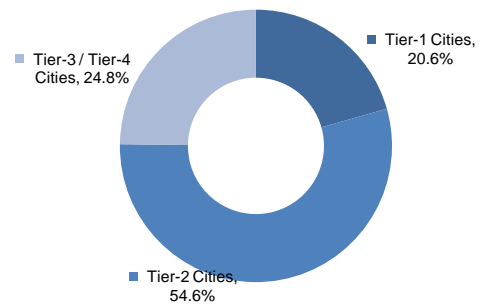
Source: the Company, Guotai Junan International.
Note: R=Residential, C=Commercial

Figure 9: Powerlong's Land Bank Distribution by City Tier in Terms of GFA as at the end of 1H18



Source: the Company.

Figure 10: Powerlong's Land Bank Distribution by City Tier in Terms of Amount as at the end of 1H18



Source: the Company.

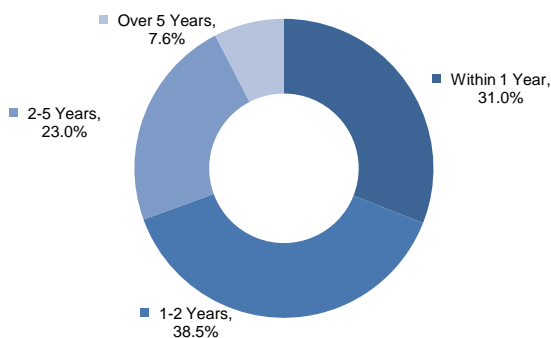
Table 4: Powerlong's Land Bank Distribution as at end of 1H18

Region	Province / Municipality	City	GFA (sq.m.)	Proportion
Yangtze River Delta	Shanghai	Shanghai	1,687,241	9.4%
		Hangzhou	1,997,950	11.1%
		Ningbo	1,866,052	10.4%
	Zhejiang	Wenzhou	665,632	3.7%
		Zhoushan	641,650	3.6%
		Shaoxing	571,525	3.2%
		Jinhua	475,553	2.6%
		Nanjing	935,658	5.2%
		Xuzhou	781,889	4.3%
	Jiangsu	Wuxi	471,837	2.6%
		Nantong	463,939	2.6%
		Yancheng	461,825	2.6%
		Zhenjiang	434,227	2.4%
		Changzhou	419,900	2.3%
		Suzhou	386,727	2.1%
Huaian		278,540	1.5%	
Anhui	Fuyang	113,152	0.6%	
Bohai Economic Rim	Shandong	Yantai	828,909	4.6%
		Dongying	191,857	1.1%
		Qingdao	132,927	0.7%
	Tianjin	Tianjin	715,978	4.0%
West Taiwan Straits	Fujian	Quanzhou	322,597	1.8%
		Xiamen	315,281	1.8%
		Zhangzhou	240,835	1.3%
Midwest	Henan	Luoyang	485,276	2.7%
		Xinxiang	179,563	1.0%
	Chongqing	Chongqing	7,836	0.0%
	Sichuan	Bazhong	81,743	0.5%
Hainan	Hainan	Haikou	1,845,905	10.3%
Total			18,002,002	100.0%

Source: the Company, Guotai Junan International.

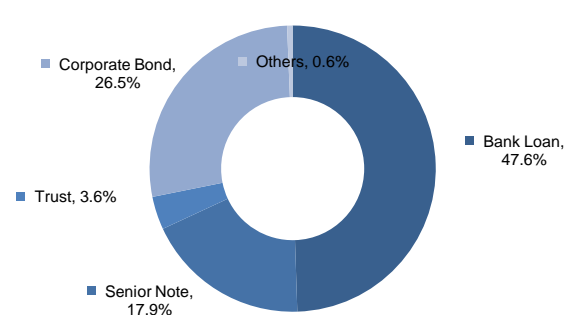
Funding costs are expected to increase due to a tightening credit environment. The weighted average funding cost in 1H18 was 5.95%, slightly decreasing 0.34 ppts comparing to that in 2017. Considering fast contracted sales growth and investment property portfolio expansion, we expect net gearing ratio to be maintained at a high level of over 90.0% during 2018-2020. Despite a high leverage ratio, we expect that there are limited risks to credit, riding on the fact that the Company's recurring income has covered its interest expenses.

Figure 11: Powerlong's Debt Maturity Profile in 1H18



Source: the Company.

Figure 12: Powerlong's Debt Structure in 1H18



Source: the Company.

We have decreased underlying profit estimations. We expect Powerlong's contracted sales to maintain fast growth. In addition, we expect steady rental income growth. However, the Company's total revenue in 1H18 was lower than our previous expectation. We also expect slower GFA delivery than our previous expectation. Thus, we revise down 2018F, 2019F and 2020F total revenue by 5.7%, 3.5% and 7.12% to RMB24,251 mn, RMB35,282 mn and RMB43,644 mn, respectively. With a quality land bank and proper unit land costs, we expect that gross margins during 2018F-2020F will remain at a stable level of over 31.3%. Overall, alongside higher minority interest, we have revised down underlying profit estimations in 2018F, 2019F and 2020F by 7.8%, 11.1% and 18.9% to RMB2,939 mn, RMB3,509 mn and RMB3,912 mn, respectively. Net gearing ratios were higher than our previous assumptions due to slower cash collection from contracted sales. We revise up net gearing ratios in 2018F, 2019F and 2020F by 9.1 ppts, 10.6 ppts and 1.1 ppts, respectively.

Table 5: Revisions to 2018-2020 Profit Estimations

RMB mn	New estimation			Old estimation			Change		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	24,251	35,282	43,644	25,723	36,559	46,962	-5.7%	-3.5%	-7.1%
Gross profit	8,849	11,822	13,675	8,671	11,571	14,604	2.0%	2.2%	-6.4%
Operating profit	9,074	11,722	13,103	9,131	11,883	14,297	-0.6%	-1.4%	-8.4%
Net profit	3,737	4,844	5,364	4,251	5,493	6,485	-12.1%	-11.8%	-17.3%
Underlying profit	2,939	3,509	3,912	3,186	3,947	4,824	-7.8%	-11.1%	-18.9%
Gross margin	36.5%	33.5%	31.3%	33.7%	31.7%	31.1%	2.8 ppts	1.9 ppts	0.2 ppts
Operating profit margin	37.4%	33.2%	30.0%	35.5%	32.5%	30.4%	1.9 ppts	0.7 ppts	-0.4 ppts
Net profit margin	15.4%	13.7%	12.3%	16.5%	15.0%	13.8%	-1.1 ppts	-1.3 ppts	-1.5 ppts
Underlying net profit margin	12.1%	9.9%	9.0%	12.4%	10.8%	10.3%	-0.3 ppts	-0.9 ppts	-1.3 ppts
ROE	13.8%	15.4%	14.2%	15.6%	17.1%	17.0%	-1.7 ppts	-1.8 ppts	-2.7 ppts
ROCE	5.3%	5.8%	5.5%	6.2%	6.8%	6.9%	-0.8 ppts	-1.0 ppts	-1.4 ppts
ROA	3.4%	3.4%	3.1%	3.9%	4.0%	4.0%	-0.5 ppts	-0.6 ppts	-0.8 ppts
Net gearing ratio	101.6%	98.9%	90.6%	92.5%	88.3%	89.5%	9.1 ppts	10.6 ppts	1.1 ppts

Source: Guotai Junan International.

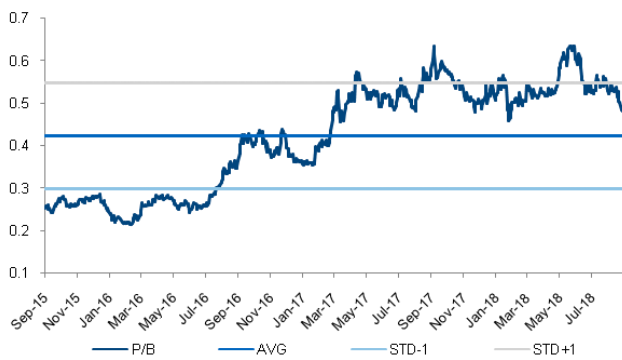
We cut TP. Given sufficient saleable resources after 2018, contracted sales should grow fast. Rental income will grow steadily. Gross margins will likely stabilize. Funding costs are expected to increase. Despite expected high leverage ratio, we expect limited operating risks on the grounds of expected considerable recurring income. Thus, along with trimmed underlying net profit, we revise down the Company's target price from HK\$5.75 to HK\$5.00, which represents a 49% discount to the Company's revised 2018E NAV of HK\$9.84 per share, 5.8x underlying 2018 PER and 0.6x 2018 PBR. However, the Company's valuation is significantly lower than the sector weighted average amongst HK-listed mid-sized and small-sized developers. Based on the current share price, the Company's 2018F, 2019F and 2020F PER is only 4.3x, 3.6x and 3.2x, respectively. We maintain Powerlong's investment rating as "Buy". Risks: (1) lower-than-expected contracted sales and (2) significantly rise in funding costs.

Table 6: Breakdown of Powerlong's 2018 NAV

NAV Summary Results	2018F
Development Properties (RMB mn)	31,768
Investment Properties (RMB mn)	34,530
Total Gross Asset Value (RMB mn)	66,298
(Net Debt)/Net Cash	(32,736)
NAV (RMB mn)	33,562
No. of Outstanding Shares	3,967
NAV/share (RMB)	8.46
Exchange Rate	0.86
NAV/share (HK\$)	9.84
TP Discount to NAV	49%
Price Target (HK\$)	5.00

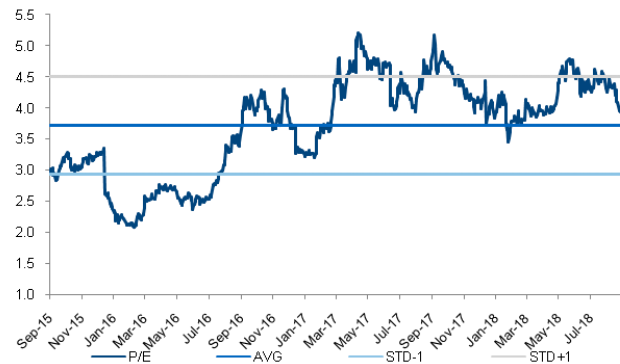
Source: the Company, Guotai Junan International.

Figure 13: Powerlong's 3-Year Historical P/B



Source: Bloomberg, Guotai Junan International.

Figure 14: Powerlong's 3-Year Historical P/E



Source: Bloomberg, Guotai Junan International.

Table 7: Peers Comparison

Company	Stock Code	Mkt Cap (HK\$ m)	Last Price HK\$	PE			PB			D/Y%	ROE	EV/EBITDA
				2018F	2019F	2020F	2018F	2019F	2020F			
HK listed large developers with major revenue from mainland												
China Overseas Land &	00688 HK		24.150	6.5	5.5	4.7	0.9	0.8	0.7	3.9	14.5	3.9
China Evergrande Group	03333 HK		26.800	7.1	5.9	5.4	2.2	1.8	1.5	8.7	35.0	8.7
China Resources Land Ltd	01109 HK		27.450	7.8	6.6	5.7	1.2	1.1	1.0	4.3	16.7	4.3
Country Garden Holdings	02007 HK		10.980	6.0	4.5	3.8	1.7	1.3	1.0	5.7	30.5	5.7
Longfor Group Holdings	00960 HK		21.400	8.6	6.9	5.6	1.4	1.2	1.1	4.6	17.7	4.6
China Vanke Co Ltd-H	02202 HK		25.700	7.2	5.9	5.2	1.6	1.4	1.2	5.0	23.2	5.0
Sunac China Holdings Ltd	01918 HK		24.900	7.1	4.4	3.3	1.8	1.3	1.0	3.3	23.2	3.3
Agile Group Holdings Ltd	03383 HK		11.480	5.1	4.1	3.3	0.9	0.8	0.7	9.2	18.2	9.2
Shimao Property Holdings	00813 HK		21.050	6.7	5.3	4.3	1.0	0.8	0.7	5.8	14.7	5.8
Guangzhou R&F	02777 HK		14.560	3.9	3.1	2.6	0.6	0.5	0.5	10.0	16.1	10.0
Bbmj Corp-H	02009 HK		2.540	5.0	4.9	4.8	0.4	0.4	0.4	3.7	8.5	3.7
Sino-Ocean Group Holding	03377 HK		3.600	4.8	4.0	3.2	0.5	0.4	0.4	8.8	9.8	8.8
China Jinmao Holdings	00817 HK		3.530	6.9	5.3	4.1	0.9	0.8	0.7	5.9	13.2	5.9
Hopson Development	00754 HK		6.710	10.7	10.5	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	2.8
Zhenro Properties Group	06158 HK		4.410	6.3	4.4	3.3	1.0	0.8	0.6	n.a.	20.0	n.a.
Kwg Group Holdings Ltd	01813 HK		7.600	4.6	3.5	2.9	0.7	0.6	0.5	8.0	15.5	8.0
Yuexiu Property Co Ltd	00123 HK		1.380	5.7	5.0	4.5	0.4	0.4	0.4	6.8	7.3	6.8
Shenzhen Investment Ltd	00604 HK		2.350	6.9	5.8	5.6	0.4	0.4	0.4	6.4	6.3	6.4
Yuexiu Real Estate	00405 HK		5.170	n.a.	22.6	22.6	1.0	1.0	1.0	6.6	4.7	6.6
Yuzhou Properties Co	01628 HK		3.380	3.3	2.6	2.1	0.7	0.6	0.5	10.7	21.8	10.7
Greentown China Holdings	03900 HK		7.570	6.0	5.7	5.5	0.5	0.5	0.4	3.6	7.3	3.6
Powerlong Real Estate	01238 HK		3.670	3.3	2.8	2.3	0.5	0.4	0.3	7.9	21.3	7.9
Soho China Ltd	00410 HK		3.020	34.4	29.1	20.3	0.4	0.4	0.4	3.8	1.3	3.8
Median				6.4	5.3	4.4	0.9	0.8	0.6	5.8	15.8	5.8
Simple Average				7.4	6.9	5.7	0.9	0.8	0.7	6.2	15.8	6.2
Weighted Average				7.0	5.8	5.0	1.4	1.2	1.0	5.7	21.9	5.7
HK listed mid-small developers with major revenue from												
China Overseas Grand	00081 HK		2.500	4.3	3.4	2.7	0.4	0.4	0.3	2.8	11.0	2.8
Poly Property Group Co	00119 HK		2.760	3.8	3.6	3.4	0.3	0.3	0.3	8.0	9.4	8.0
Shanghai Industrial Urban	00563 HK		1.320	7.8	7.3	6.6	0.5	0.4	0.4	2.9	4.6	2.9
Modern Land China Co Ltd	01107 HK		1.150	5.6	4.0	3.6	0.5	0.5	0.5	5.0	9.4	5.0
China Aoyuan Property	03883 HK		5.340	5.3	3.8	2.9	1.0	0.8	0.7	7.0	22.0	7.0
C C Land Holdings Ltd	01224 HK		1.920	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fantasia Holdings Group	01777 HK		0.970	3.5	2.7	2.2	0.3	0.2	0.2	8.6	7.5	8.6
Ronshine China Holdings	03301 HK		9.250	4.3	3.0	2.2	1.0	0.8	0.6	4.1	23.1	4.1
Central China Real Estate	00832 HK		3.120	7.7	3.7	2.7	0.8	0.7	0.5	3.8	10.8	3.8
China Sce Group Holdings	01966 HK		3.220	3.9	3.1	2.4	0.7	0.6	0.5	7.7	19.6	7.7
Top Spring International	03688 HK		2.330	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Capital Land Ltd-H	02868 HK		2.840	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.9	n.a.	10.9
Zhong An Real Estate Ltd	00672 HK		0.320	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing North Star Co Ltd-H	00588 HK		2.340	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China South City Holdings	01668 HK		1.290	6.8	5.3	4.3	0.3	0.3	0.3	5.4	10.5	5.4
Shui On Land Ltd	00272 HK		1.760	6.3	9.6	15.4	0.3	0.3	0.3	4.7	2.6	4.7
Glorious Property Holdings	00845 HK		0.405	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Median				5.3	3.7	2.9	0.5	0.4	0.4	5.2	10.5	5.2
Simple Average				5.4	4.5	4.4	0.6	0.5	0.4	5.9	11.9	5.9
Weighted Average				5.3	4.6	4.7	0.6	0.5	0.4	5.9	13.2	5.8

Source: Bloomberg.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	14,296	15,593	24,251	35,282	43,644
- Sales of properties	12,530	13,302	21,353	31,562	39,336
- Rental Income	1,391	1,804	2,237	2,840	3,271
- Other Income	375	487	661	880	1,037
Cost of sales	(9,517)	(10,368)	(15,402)	(23,460)	(29,970)
Gross Profit	4,778	5,225	8,849	11,822	13,675
- Change in Fair Value of IPs	1,520	2,135	2,157	2,977	3,304
- SG&A	(1,238)	(1,395)	(2,465)	(3,622)	(4,435)
- Other Gains, Net	12	558	533	544	559
Operating Profit	5,072	6,523	9,074	11,722	13,103
- Finance income/(costs), net	(679)	(573)	(1,331)	(998)	(1,080)
- Others	314	197	217	239	263
Profit before Tax	4,708	6,148	7,960	10,962	12,285
Income Tax	(1,959)	(2,280)	(2,982)	(4,006)	(4,489)
Profit after Tax	2,749	3,868	4,978	6,957	7,796
Non-controlling Interest	(285)	(531)	(1,240)	(2,112)	(2,432)
Shareholders' Profit / Loss	2,465	3,337	3,737	4,844	5,364
Adjusted net profit	1,796	1,985	2,939	3,509	3,912
Basic EPS	0.623	0.841	0.942	1.221	1.352
Underlying EPS (RMB)	0.453	0.500	0.741	0.884	0.986

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Operating activities					
Profit Before Taxation	4,708	6,148	7,960	10,962	12,285
Share of profit of investments	(314)	(197)	(217)	(239)	(263)
Depreciation	136	159	220	242	266
Finance costs	679	573	1,331	998	1,080
Others	(1,507)	(2,669)	(2,690)	(3,521)	(3,863)
Changes in Working Capital:	(222)	290	(582)	(1,764)	(2,363)
Net Cash from Operations	3,480	4,304	6,021	6,678	7,143
Interest Paid	(1,365)	(1,952)	(2,745)	(3,278)	(3,463)
Income Taxes Paid	(745)	(1,032)	(2,311)	(3,775)	(4,248)
Cash from Operating Activities	1,370	1,320	966	(374)	(569)
Investing activities					
Purchase of PPE	(472)	(516)	(353)	(388)	(427)
Purchase of IPs	(2,414)	(1,217)	(8,245)	(7,479)	(5,401)
Other investing cash flow	(2,126)	(6,454)	(57)	(97)	(105)
Cash from Investing Activities	(5,011)	(8,187)	(8,655)	(7,964)	(5,932)
Financing activities					
Debt raised/(repaid)	6,893	5,134	8,537	4,806	7,353
Dividends paid	(305)	(735)	(655)	(970)	(1,158)
Interests paid	571	2,881	1,519	2,742	3,129
Other financing cash flow	(194)	10	(102)	(92)	(90)
Cash from Financing Activities	6,964	7,290	9,299	6,487	9,235
Net Changes in Cash	3,323	423	1,610	(1,852)	2,734
Cash at Beg of Year	5,640	8,974	9,387	10,992	9,138
Exchange Losses	11	(10)	(5)	(2)	(1)
Cash at End of Year	8,974	9,387	10,992	9,138	11,870

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Property and equipment	2,798	3,529	3,881	4,270	4,696
JVs	2,605	4,187	4,354	4,522	4,689
Investment properties	34,353	39,218	49,620	60,076	68,781
Other Non-current Assets	2,549	3,097	3,835	4,886	5,766
Total Non-current Assets	42,305	50,030	61,690	73,754	83,932
Cash & Cash Equivalents	8,974	9,387	10,992	9,138	11,870
Restricted cash	1,174	576	518	492	467
Properties for Sale	20,243	20,761	30,983	40,654	54,274
Trade and Other Receivables	4,987	10,559	16,255	23,507	29,017
Other Current Assets	1,444	4,178	6,190	8,474	9,737
Total Current Assets	36,822	45,461	64,938	82,264	105,366
Total Assets	79,128	95,491	126,629	156,018	189,298
Accounts payable	15,308	21,027	37,044	53,232	69,706
Short-term borrowings	7,536	9,756	10,731	12,341	14,192
Other current liabilities	3,812	4,720	5,428	5,700	5,985
Total Current Liabilities	26,656	35,503	53,204	71,272	89,883
Long-term borrowings	22,490	25,780	33,514	36,865	42,395
Other long-term liabilities	4,042	4,734	6,154	6,462	6,785
Total Non-current Liabilities	26,532	30,514	39,668	43,327	49,180
Total Liabilities	53,187	66,017	92,872	114,599	139,063
Total Shareholders' Equity	22,618	25,337	28,658	34,456	40,962
Minority Interest	3,322	4,137	5,100	6,962	9,273
Total Equity	25,940	29,474	33,757	41,418	50,235

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Revenue Growth (%)	20.1	9.1	55.5	45.5	23.7
Gross Profit Growth (%)	21.8	9.4	69.3	33.6	15.7
Reported Net Profit Growth (%)	19.0	35.4	12.0	29.6	10.7
Underlying EPS Growth (%)	18.9	35.0	12.0	29.6	10.7
Gross Margin (%)	33.4	33.5	36.5	33.5	31.3
Operating Profit Margin (%)	35.5	41.8	37.4	33.2	30.0
Adjusted Net Margin (%)	12.6	12.7	12.1	9.9	9.0
ROE (%)	11.4	13.9	13.8	15.4	14.2
ROCE (%)	5.0	5.7	5.3	5.8	5.5
ROA (%)	3.4	3.8	3.4	3.4	3.1
Net Gearing Ratio	82.1	92.2	101.6	98.9	90.6
Debt to Equity Ratio	124.0	128.0	137.4	122.9	115.8
Underlying P/E (x)	7.3	6.1	4.3	3.6	3.2
P/E (Basic) (x)	5.3	3.6	3.4	2.6	2.3
P/E (Diluted) (x)	5.3	3.6	3.4	2.6	2.3
P/B (x)	0.6	0.5	0.4	0.4	0.3
Dividend Yield (%)	4.4	5.4	7.7	9.2	10.3

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk