

Times China (1233 HK)

Leveraging the regional advantage

- ❖ **A premium Bay Area player.** Times China is a Guangzhou-based developer which mainly focuses on Guangzhou and Foshan. With detailed coordinated development plan to be published soon, we hold firm on the development value of the Greater Bay Area (GBA). As of 30 Jun 2018, Times China had a total land bank of 18.20mn sq.m. Average land cost was Rmb3,195/sq.m, which was 18.9% of 8M18 ASP. As 58.5% of land bank is located in the GBA and the GBA contributed 91.2% sales in 1H18, Times China is a typical Bay-theme developer.
- ❖ **Benefit from regional integration.** We look forward to the upcoming GBA Coordinate Plan which will further stimulate local economy and support Times China's local penetration. Furthermore, 1/3 of the Company's land bank is located in Qingyuan. Although Qingyuan is not included in the Bay Area Initiative, it is still within 1-hour-driving radius from Guangzhou. Recently, the governments of Guangzhou and Qingyuan jointly issued the "Work Plan for the Development of High-quality Integrated Development of Guangqing" (《高质量推进广清一体化发展工作方案》). We expect the Company's portfolio in Qingyuan will also benefit from integration of Guangzhou and Qingyuan.
- ❖ **Strong redevelopment pipeline.** Times China has put a lot of effort into urban redevelopment in Guangzhou and Foshan. Early involvement in urban redevelopment has given the Company a strong operation and pipeline in Guangzhou/Foshan. Currently, 70 urban redevelopment projects with 19.5mn sq.m planned GFA are on track. Of which, 30 projects of land use conversion are likely to be completed in 2018-20, with planned GFA of 5.62mn sq.m. Guangdong has a comprehensive and refined regulation regarding the "Three Olds" Transformation (Old factories, Old villages, Old towns) (三旧改造). We believe a policy-friendly environment will provide better transparency and more certainty in redevelopment projects.
- ❖ **Initiate with BUY.** We forecast revenue to be Rmb31.0bn, Rmb40.5bn and Rmb52.5bn in 2018-20, respectively, representing a CAGR of 32%. Core net profit is projected to be Rmb3.5bn, Rmb4.3bn and Rmb5.8bn in 2018-20, respectively, representing 2017-20 CAGR of 34.4%. Currently, the counter is trading at 2.9/2.5x FY18/19E PER, lower than other bay-theme developers. We estimate end-18 NAV per share to be HK\$18.04. Given 50% discount, we derive our TP at HK\$9.02, implying 34.6% upside potential. Initiate with BUY.
- ❖ **Earnings summary**

(YE Dec 31)	FY16A	FY17A	FY18E	FY19E	FY20E
Turnover (Rmb mn)	16,206	23,110	30,956	40,547	52,538
Net Income (Rmb mn)	1,955	2,667	3,747	4,322	5,795
EPS (Rmb)	1.13	1.51	2.04	2.36	3.16
EPS CHG (%)	10.8	33.6	35.3	15.3	34.1
PE (x)	5.2	3.9	2.9	2.5	1.9
PB (x)	1.1	0.7	0.6	0.5	0.4
Yield (%)	5.3	5.3	9.0	11.2	15.0
ROE (%)	21.4	17.1	20.4	20.1	22.6
Net gearing (%)	53.2	57.5	69.1	65.7	66.0

Source: Company, CMBIS estimates

BUY (Initiation)

Target Price	HK\$9.02
Up/downside	+34.6%
Current Price	HK\$6.70

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China Property Sector

Mkt. Cap. (HK\$m)	12,287
Avg. 3mths t/o (HK\$m)	23.6
52W High/Low (HK\$)	13.88/6.51
Total Issued Shares (mn)	1,834

Source: Bloomberg

Shareholding Structure

Shum Chiu Hung	65.17%
Free float	34.83%

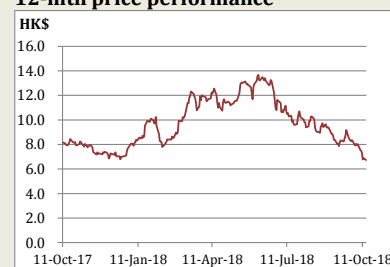
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-17.4%	-12.7%
3-mth	-33.5%	-26.4%
6-mth	-45.2%	-34.6%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst&Young

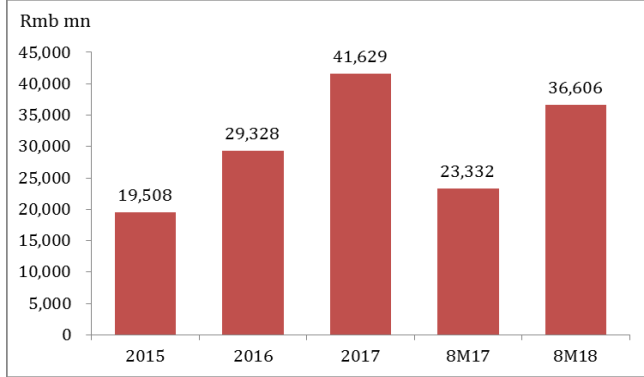
Web-site: www.timesgroup.cn

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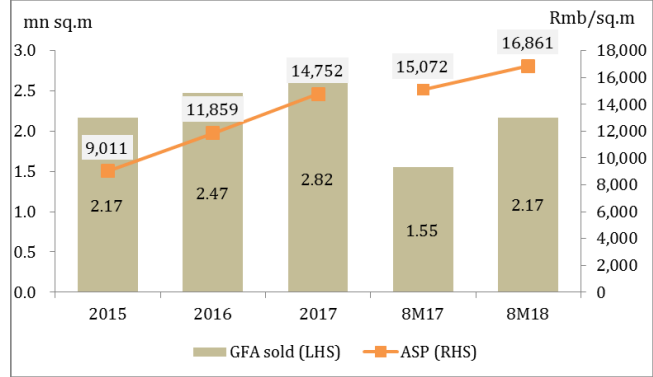
Focus charts

Figure 1: Contracted sales



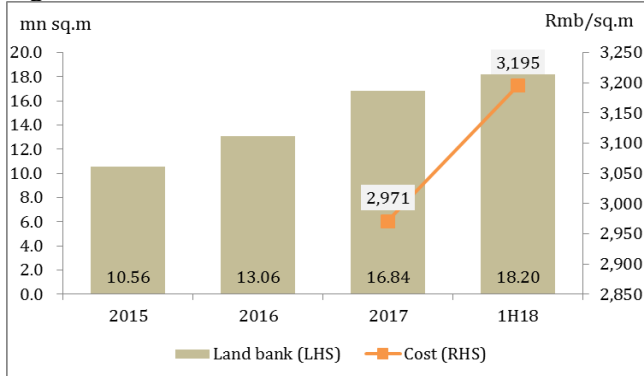
Source: Company

Figure 2: GFA sold and ASP



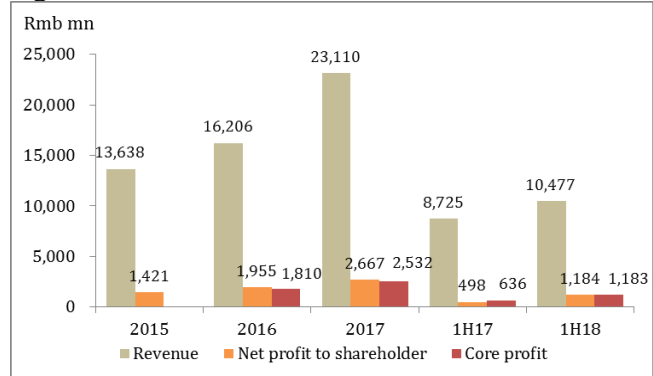
Source: Company

Figure 3: Land bank



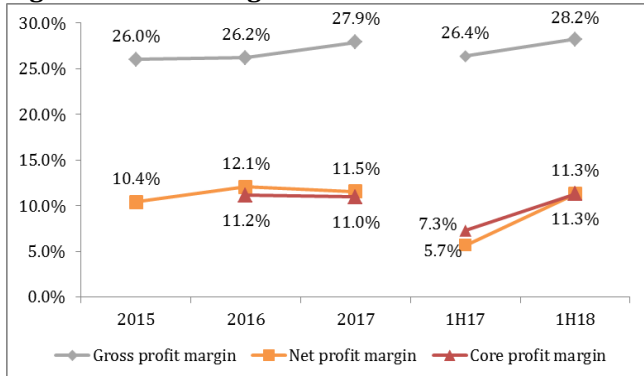
Source: Company

Figure 4: Financial results



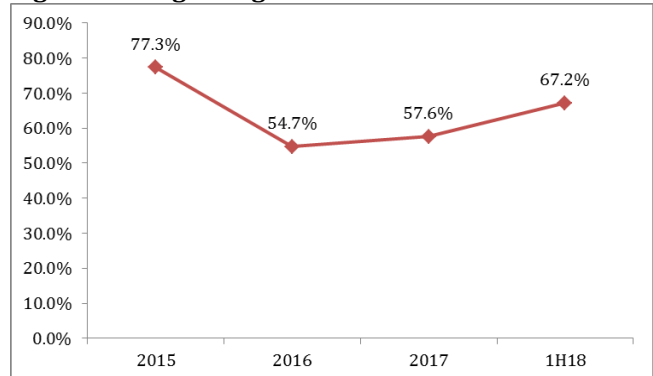
Source: Company

Figure 5: Profit margin



Source: Company

Figure 6: Net gearing ratio



Source: Company

Company profile

Founded in 1999, Times China is primary engaged in development and management of residential, commercial properties, industrial parks and featured small towns. Headquartered in Guangzhou, Times China has expanded its business to Guangzhou, Foshan, Jiangmen, Dongguan, Huizhou, Zhuhai, Zhongshan, Qingyuan and Changsha. By 1H18, the Company had a total land bank of 18.20mn sq.m.

Figure 7: Milestones

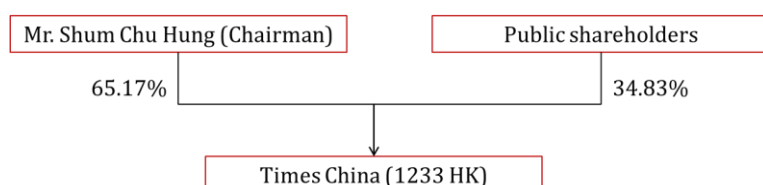
Year	Event
1999	Times China was established in 1999 and engaged in real estate business
2004	Positioned itself as "Life Stylist" and started to establish its own competitive strength
2006	Entered Foshan market, focusing on the development of residential property projects
2007	Entered Zhongshan, Qingyuan and Zhuhai residential property development markets, focusing on the development of residential property projects
2011	Successfully entered Hunan Changsha market, bringing successful products to Changsha
2013	Successfully listed on the Main Board of the Stock Exchange
2016	Entered Shenzhen, Huizhou and Dongguan markets so as to have a more comprehensive layout in the in Pearl River Delta Introduced the "Times • Future Towns" strategy so as to facilitate the transformation and upgrade of national industry
2017	Entered Jiangmen market, adhering to the corporate strategy of "Regional Focus, Cities Penetration and Product Diversification" Transformed from a traditional property company to a service provider for urban development

Source: Company

On 22 Feb 2018, the Company changed its previous brand name from "Times Property (时代地产)" to "Times China (时代中国)" and disclosed its new visions:

- (1) **New business positioning:** urban development & service provider (城市发展服务商); initially focuses on the industrial small towns (产业小镇);
- (2) **Long-term vision:** to be a Global 500 Company;
- (3) **New target:** Rmb100bn sales company in the near future

Figure 8: Shareholding structure



Source: Company

Investment thesis

In a valuable region

Pearl River Delta (PRD) is one of three economically leading regions in China. The initiative of the Greater Bay Area (GBA) pushes the PRD even forward, highlighting the region's role in the global economic, and benchmarking other world-class bay areas such as San Francisco and Tokyo Bay Area. We hold firm on the development value of the GBA and look forward the upcoming GBA Coordinate Plan will further stimulate local economy.

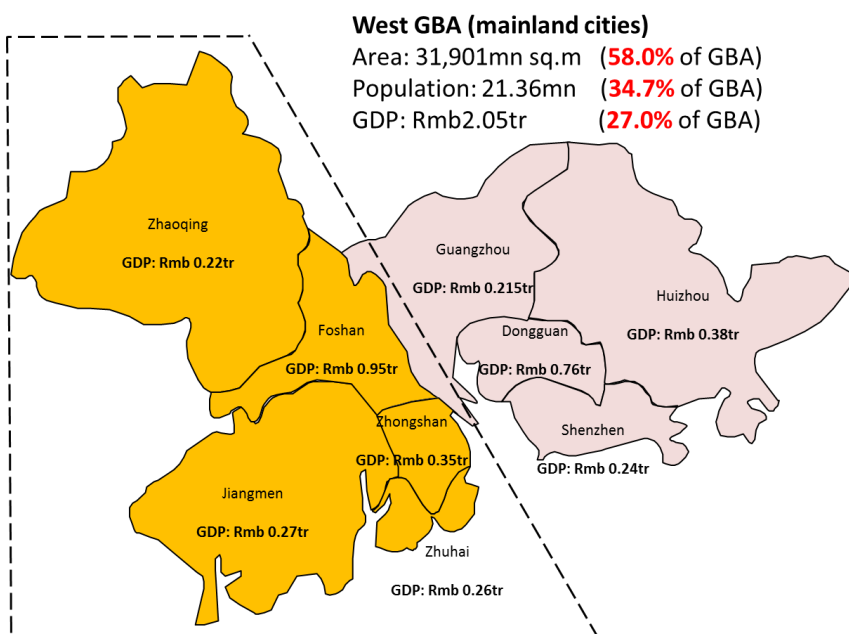
Figure 9: Economy of GBA (mainland cities)

City	GDP (Rmb trillion)		Area (mn sq.m)	Population (mn)	GDP per Capita (Rmb)
	2017	2016			
Guangzhou	2.15	1.96	7,436	14.50	150,678
Shenzhen	2.24	1.95	2,007	12.53	183,127
Foshan	0.95	0.86	3,875	7.66	124,722
Dongguan	0.76	0.68	2,512	8.34	91,329
Huizhou	0.38	0.34	11,159	4.78	80,205
Zhongshan	0.35	0.32	1,770	3.26	106,327
Jiangmen	0.27	0.24	9,554	4.56	59,089
Zhuhai	0.26	0.22	1,696	1.77	149,100
Zhaoqing	0.22	0.21	15,006	4.12	53,674

Source: Wind

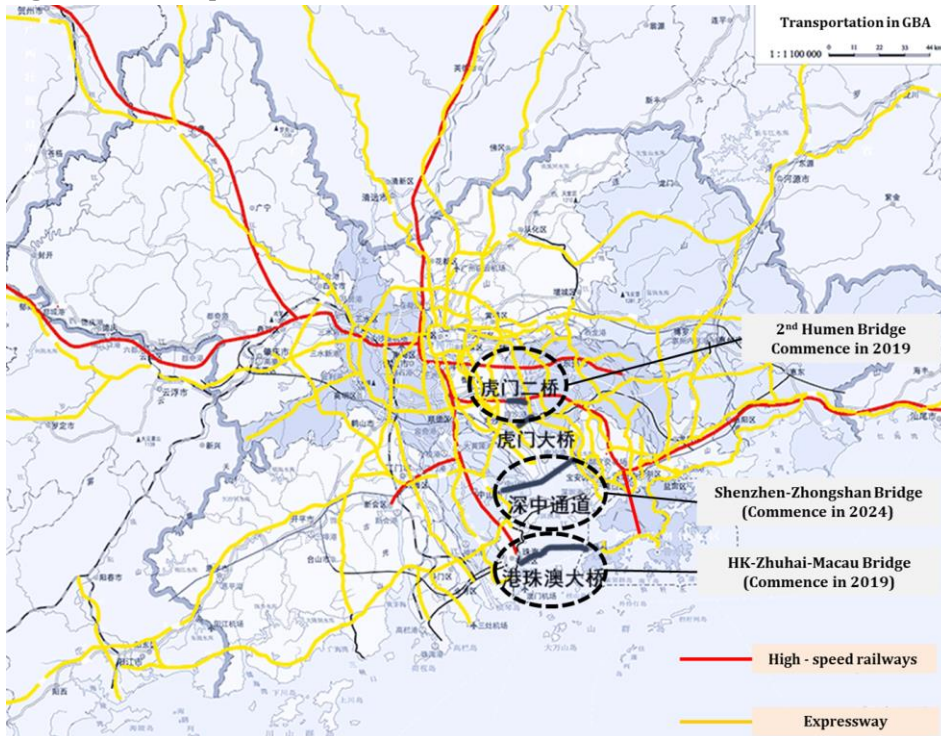
The HK-Zhuhai-Macao Bridge is one of the biggest infrastructure projects in the GBA. Upon completion of the Bridge, the West PRD will fall within a 3-hour-commuting radius from Hong Kong. Another sea-crossing bridge, Shenzhen-Zhongshan Bridge, started construction in 2016, is planned to commence in 2024. These two bridges connect the West and the East GBA, significantly reducing the commuting time between two coasts. We expected the development value in the West GBA will be promoted by integrated transportation system. Property sector may benefit from the vast land resource in the West GBA.

Figure 10: West GBA



Source: CMBIS

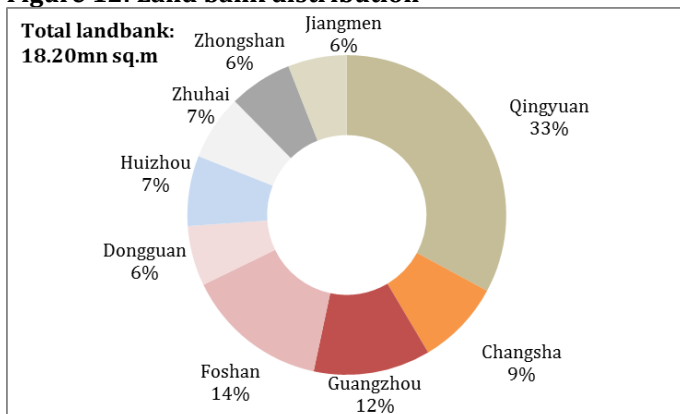
Figure 11: Transportation in the GBA



Source: CMBIS

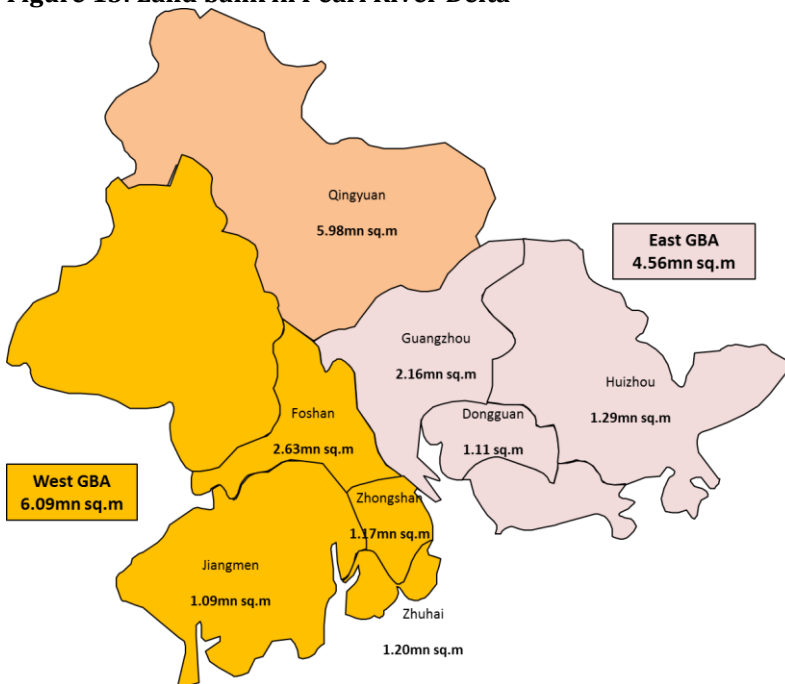
Times China is a Guangzhou-based developer with deep penetration in Guangzhou and Foshan. As 58.5% of land bank is located in the GBA, and the GBA contributed 91.2% sales in 1H18 (FY17:87.1%), Times China is classified as a typical Bay-theme developer. As of 30 Jun 2018, Times China had a total land bank of 18.20mn sq.m, which is sufficient to support the need for the next 3 to 5 years. Average land cost was Rmb3,195/sq.m, which is 18.9% of 8M18 ASP (Rmb16,861/sq.m). If we slightly enlarge the coverage of the GBA to Qingyuan, nearly 92.4% of the land bank is in the core PRD.

Figure 12: Land bank distribution



Source: Company, as of 30 Jun 2018

Figure 13: Land bank in Pearl River Delta

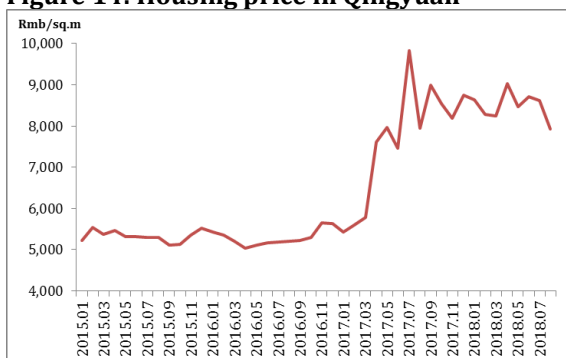


Source: Company

It is worth noting that 1/3 of the Company’s land bank is in Qingyuan. Although Qingyuan is not included in the Bay Area Initiative, it is still within 1-hour-driving radius from Guangzhou downtown. Recently, the governments of Guangzhou and Qingyuan jointly issued the “Work Plan for the Development of High-quality Integrated Development of Guangqing” (《高质量推进广清一体化发展工作方案》), proposing that Qingyuan to take the lead in the development of Northwest Guangdong, especially in North Guangdong. 4 counties (cities, districts) in the South Qingyuan will strive to reach the same development level of PRD or the 3 cities in the periphery of PRD. Land bank value in Qingyuan will be supported by the ongoing integration of Guangzhou and Qingyuan.

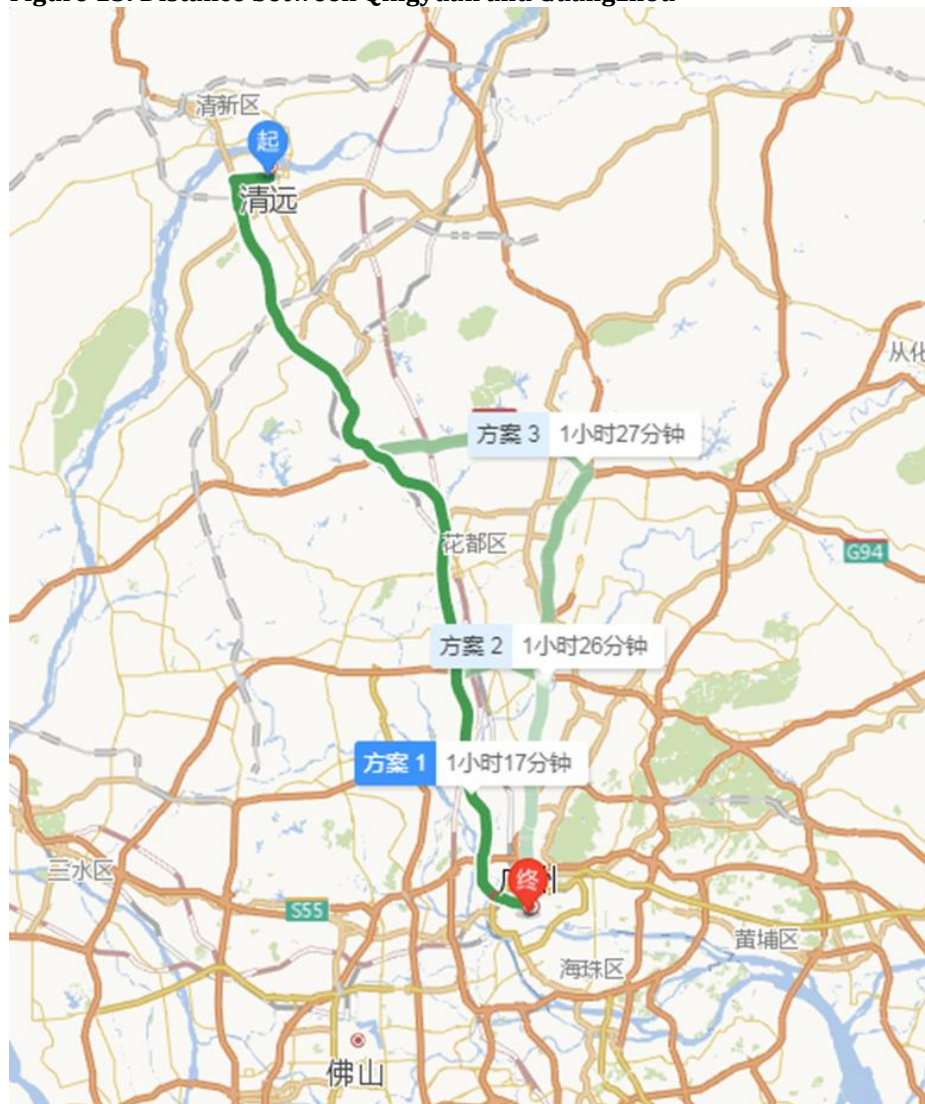
Furthermore, Qingyuan government currently does not pose purchase restriction on commodity housing, but it has increased the mortgage requirement since Apr 2017. Down payment increased from 30% to 40% for non-local buyers. Relatively loose housing restriction and closed distance to Guangzhou have driven the local housing price to grow from Rmb5,430/sq.m in Jan 2017 to Rmb7,935/sq.m in Apr 2018. We believe Times China’s projects in Qingyuan will benefit from the appreciation of housing price and could enjoy a high profit margin even under purchase restriction.

Figure 14: Housing price in Qingyuan



Source: CRIC

Figure 15: Distance between Qingyuan and Guangzhou



Source: Gaode Map

Figure 16: Overview on housing restriction in Guangdong

	Restriction on			
	Purchase	Mortgage	Selling price	Sale
Guangzhou	✓	✓	✓	✓
Shenzhen	✓	✓	✓	✓
Zhuhai	✓	✓	✓	✓
Foshan	✓	✓	✓	✗
Dongguan	✓	✓	✓	✓
Huizhou	✗	✓	✓	✓
Zhongshan	✓	✓	✓	✗
Jiangmen	✓	✓	✗	✗
Zhaoqing	✗	✓	✗	✗
Qingyuan	✗	✓	✓	✗

Source: CMBIS

Quality redevelopment pipeline

As Guangzhou-based developer, Times China has engaged in urban redevelopment projects in Guangzhou and Foshan since 2012. Early involvement in urban redevelopment has given the Company a strong operation and pipeline in Guangzhou/Foshan. In the field of urban redevelopment, those who can gain the most trust from local authorities and original landowners will benefit the most. As a Guangzhou-based developer with rich experience, we believe Times China has local advantage over other out-province or out-city players.

Furthermore, due to the tightened housing market, urban redevelopment has become a major channel in land acquisition for many mid-to-small developers. Urban redevelopment projects enjoy much lower land cost than those from public auction, but too much uncertainty is indeed involved in it. One of the reasons we like Times China is that the Company's redevelopment projects are mainly located in Guangzhou/Foshan. Compared to other provinces, Guangdong has relatively completed regulations on urban redevelopment or "Three Olds" Transformation (Old factories, Old villages, Old towns) (三旧改造). We believe a comprehensive and refined regulation environment will provide better transparency and more certainty in redevelopment projects.

Figure 17: Policy support on urban redevelopment in Guangdong

Date	Event/Policy	Details
Mar-08	Proposal of model province for the nation's economical and intensive use of land (开展节约集约用地试点示范省工作，制定扶持政策，积极推进旧城镇、旧厂房、旧村庄改造(以下简称“三旧”改造))	In March 2008, the then Premier, Wen Jiabao, put forward during the deliberation of the government report by the Guangdong delegation at the first meeting of the 11th National People's Congress that he hoped Guangdong to become a model province for the nation's economical and intensive use of land.
Aug-09	Several Opinions on Promoting the Reform of "Three Olds" (Old factories, Old towns, Old villages) to Promote Economical and Intensive Land Use (《关于推进“三旧”改造促进节约集约用地的若干意见》)	The Document emphasizes the importance and urgency of promoting "Three Olds" Transformation in Guangdong, clarifying the overall requirements and basic principles of "Three olds" Transformation, and advocating government guidance, market operation, overall planning, conservation and intensification, and respect to history. The Document also made important arrangements on how to reasonably determine the scope of the "Three olds" Transformation, how to adapt to local conditions, how to improve various historical land use procedures, and how to supply land. The "Three olds" Transformation in Guangdong then started, and cities such as Guangzhou, Shenzhen, Dongguan, Zhongshan, Zhuhai and Huizhou responded.
Sep-16	"Notice of the Guangdong Provincial People's Government on Promoting the Level of "Three Olds" Transformation to Promote the Saving of Intensive Land" (《广东省人民政府关于提升“三旧”改造水平促进节约集约用地的通知》),	The Document affirmed the positive results of "Three Olds" Transformation in Guangdong, and put forward opinions on accelerating "Three Olds" Transformation, including strengthening planning control and guidance, actively promoting contiguous districts Transformation, fully incentivizing land rights holders and market participants to participate in the Transformation, speeding up the improvement of the procedures for historical land use, and establishing/improving the supervision mechanism for the "Three olds" Transformation. The "Three olds" Transformation has been progressed from exploration to refinement.
Nov-16	"Three olds" Transformation in Guangdong, the former Ministry of Land and Resources issued the "Guiding Opinions on Deepening the Redevelopment of Urban Low-Efficient Lands (Trial)" (《关于深入推进城镇低效用地再开发的指导意见(试行)》)	The Document proposes to promote structural reforms on the supply side, adhere to the strictest arable land protection system and the most stringent land-saving system, adhere to the people-oriented principle, encourage landowners to independently transform and develop, encourage social capital to actively participate, and standardize the promotion of redevelopment of urban low-efficient lands, promote urban renewal and industrial Transformation and upgrading, optimize land use structure, guide the Transformation and development of collective construction land in urban villages, clarify the scope of development, promote investigation and mapping, and strengthen planning and planning. At the same time, the Document also stipulates how to properly handle various types of historical issues.
Feb-18	Establishment of "Three Olds" Transformation leading group (成立推进“三旧”改造工作领导小组)	On February 6, 2018, in order to strengthen the organization, leadership and overall coordination of the "Three olds" Transformation, the Guangdong Government established a leading group to promote, coordinate and guide the "Three olds" Transformation in Guangdong. The leading group is headed by Ma Xingrui, Governor of Guangdong.
Apr-18	"Opinions on Implementing the Implementation of the "Three Olds" Transformation" (《关于深入推进“三旧”改造工作实施意见》)	A total of 6 parts and 20 articles provide detailed regulations on the construction of the "Three olds" land plots database, coordinated planning, application procedure, land supply and land use approval, and implementation supervision. At the same time, the Document further clarifies the principles and resolution of dispute in old village redevelopment, The systematic and comprehensive policy provisions of the Document significantly promotes "Three Olds" Transformation in Guangdong.

Source: CMBIS

Currently, 70 urban redevelopment projects with 19.5mn sq.m planned GFA are on track. Of which, 30 projects of land use conversion are likely to be completed in 2018-20, with planned GFA of 5.62mn sq.m. The remaining 40 projects with letters of intent or cooperation signed are likely to be completed after 2020. Conversion of redevelopment projects secures the Company's low-cost land supply in the next 2-3 years. According to the management, total saleable value of redevelopment project amounted to Rmb500bn, which translates into ASP of Rmb25,641/sq.m.

We believe another advantage of holding a strong and quality redevelopment pipeline is that Company could sell partial equity interest of a redevelopment project company to early realize a cash inflow or directly take profit from primary land development. Such gain or revenue could provide extra liquidity other than property sales.

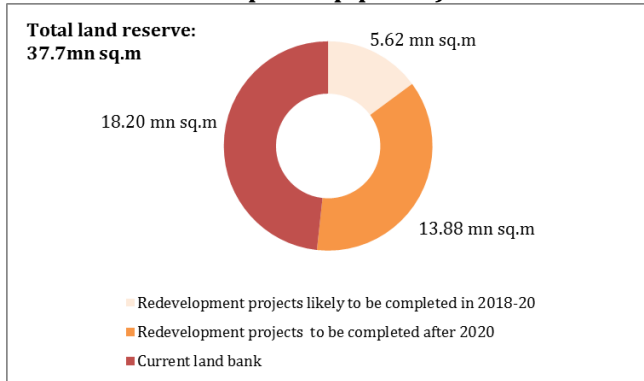
Figure 18: Details of 30 projects of land use conversion are likely to be completed in 2018-20

No.	Project	City	Progress	Site Area(sq.m)	Planned GFA (sq.m)
1	Luogang (Hongwei village project)	Guangzhou	Conversion in progress	189,900	590,589
2	Tianhe Finance City Project	Guangzhou	Acquisition completed Conversion in progress	30,000	98,900
3	Kuntai Project	Guangzhou	Acquisition completed Conversion in progress	60,000	135,000
4	Zengcheng (Feng Ding Factory)	Guangzhou	Acquisition partial completed Conversion in progress	220,000	495,000
5	Tianxin Village project	Guangzhou	Conversion in progress	42,900	156,000
6	Huangpu Chemical Factory Project	Guangzhou	Partial completed	70,000	145,000
7	Luofeng Project	Guangzhou	Conversion in progress	157,000	353,000
8	Nansha Houji Project	Guangzhou	Conversion in progress	50,000	125,000
9	Huangshanlu Project	Guangzhou	Conversion in progress	34,000	79,900
10	Tianhe(Niuligang Factory Project)	Guangzhou	Acquisition completed Conversion in progress	68,100	198,000
11	Zengjun Factory Project	Guangzhou	Acquisition completed Conversion in progress	86,000	193,500
12	Baiyun Factory Project	Guangzhou	Acquisition completed Conversion in progress	35,000	105,000
13	Kaitai Project	Guangzhou	Conversion in progress	45,000	101,000
14	Shawan Weile Factory Project	Guangzhou	Acquisition completed Conversion in progress	64,200	128,400
15	Datang Project	Guangzhou	Conversion in progress	90,000	225,000
16	Luogang Xiangxue Project	Guangzhou	Conversion in progress	37,000	83,700
17	Haizhu Qingchu Factory Project	Guangzhou	Acquisition completed Conversion in progress	47,000	117,500
18	Jinhetian Factory Project	Shenzhen	Acquisition completed Conversion in progress	30,000	90,000
19	Tanghong Factory Project	Foshan	Acquisition completed Conversion in progress	30,000	90,000
20	Taiping Industrial Project	Foshan	Acquisition completed Conversion in progress	47,000	124,600
21	Lishuizhou Village Project	Foshan	Acquisition completed Conversion in progress	97,000	256,700
22	Chancheng Factory Project	Foshan	Acquisition completed Conversion in progress	121,000	363,000
23	Lishui Factory Project	Foshan	Acquisition completed Conversion in progress	32,100	96,300
24	Xiadong Kongxi Industrial Project	Foshan	Acquisition completed Conversion in progress	61,000	183,000
25	Shengli Village Industrial Project	Foshan	Acquisition completed Conversion in progress	64,000	192,000
26	Yiji Factory Project	Foshan	Acquisition completed Conversion in progress	50,900	159,000
27	Jinmingdu Project	Foshan	Acquisition completed Conversion in progress	50,000	150,000
28	Dunhao Logistic Factory Project	Foshan	Acquisition completed Conversion in progress	128,000	383,100
29	Jinwan NO.153 Factory Project	Zhuhai	Acquisition completed Conversion in progress	64,200	98,200
30	Shenwan Younan Village Project	Zhongshan	Conversion in progress	50,000	100,000
Total				2,151,300	5,616,389

Source: Company

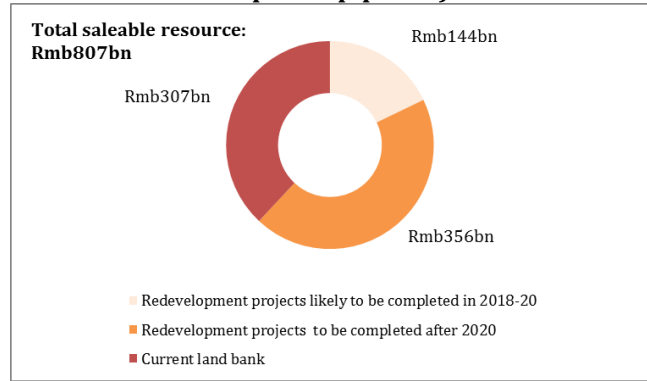
Assuming ASP of Rmb16,861/sq.m for current land bank (equivalent to ASP of 8M18 sales) and ASP of Rmb25,641/sq.m. for redevelopment projects, total saleable value, including current land bank and redevelopment projects likely to be completed in 2018-20, amount to Rmb500bn. Times China FY18 sales target is Rmb55bn and the Company aims to achieve Rmb100bn in the near future according to its new visions. We expect such goal is likely to be accomplished in 2020, assuming completion of FY18 target and CAGR of 35% in 2019-20.

Figure 19: Total land reserve (including redevelopment pipeline)



Source: Company

Figure 20: Total saleable resource (including redevelopment pipeline)



Source: Company, CMBIS estimates

Attractive valuation

We select 6 developers as Times China's peers, namely **Agile (3383 HK, BUY)**, **Yuexiu (123 HK, NR)**, **Aoyuan (3883 HK, NR)**, **KWG (1813 HK, BUY)**, **Logan (3380 HK, BUY)** and **Kaisa (1638 HK, NR)**. These developers, including Times China, are all based in Guangdong with GBA-theme.

Figure 21: Peers comparison

	1233.HK Times China 时代中国	3383.HK Agile 雅居乐	123.HK Yuexiu 越秀地产	3883.HK Aoyuan 奥园	1813.HK KWG 合景泰富	3380.HK Logan 龙光	1638.HK Kaisa 佳兆业
Operation							
Sales							
Sales 8M18 (Rmb mn)	36,606	60,290	33,389	53,160	43,042	49,120	35,557
GFA Sold 8M18 (mn sq.m)	2.17	4.65	1.63	5.15	2.97	2.60	2.07
ASP 8M18 (Rmb/sq.m)	16,861	12,954	20,482	10,322	14,502	18,900	17,138
FY18 Sales target (Rmb bn)	55	110	55	73	65	70	70
Target completed	67%	55%	61%	73%	66%	70%	51%
Sales FY17 (Rmb mn)	41,629	89,710	40,869	45,590	28,700	43,421	44,714
GFA sold FY17 (mn sq.m)	2.82	7.36	2.22	4.49	1.80	2.43	2.79
ASP FY17 (Rmb/sq.m)	14,752	12,189	18,409	10,159	15,936	17,898	16,048
Sales growth							
Sales 8M18	57%	20%	37%	145%	80%	82%	32%
Sales FY17	42%	52%	35%	78%	29%	51%	50%
Land bank 1H18							
Total landbank (mn sq.m)	18.20	35.40	18.22	30.01	15.26 (attri.)	35.46	22.20
Average land cost (Rmb/sq.m)	3,195	2,744	n.a.	2,036	4,800 (Aug 18)	3,943	4,934 (attri.)
Landbank in Bay area (sq.m)	10.65	10.80	8.93	7.37	5.62 (attri.)	18.70	12.65
Bay Area concentration (%)	59%	31%	49%	25%	37%	53%	57%
1H18 Financials							
Revenue and profit (Rmb mn)							
Revenue	10,477	24,206	10,163	13,667	3,464	15,154	15,028
Gross profit	2,956	12,018	2,623	3,902	1,078	5,611	4,736
Net profit to shareholders	1,184	3,759	1,314	1,216	2,171	3,432	1,704
Core net profit to shareholders	1,183	n.a.	1,120 (incl. NCI)	1,160	n.a.	2,650	1,885 (incl. NCI)
Growth							
Revenue	20%	8%	-15%	68%	-56%	22%	75%
Gross profit	28%	44%	-12%	78%	-62%	15%	66%
Net profit to shareholders	138%	102%	19%	62%	39%	1%	-10%
Core net profit	86%	n.a.	8%	57%	n.a.	4%	66%
Profit margin							
GPM	28.2%	49.6%	25.8%	28.6%	31.1%	37.0%	31.5%
NPM	11.3%	15.5%	12.9%	8.9%	62.7%	22.6%	11.3%
CPM	11.3%	n.a.	11.0%	8.5%	n.a.	17.5%	12.5%
Gearing							
Net gearing ratio 1H18	67%	88%	64%	68%	77%	66%	258%
Cost of borrowings 1H18	7.6%	6.3%	4.8%	7.3%	5.8%	6.0%	8.4%
Net gearing ratio FY17-end	58%	71%	73%	51%	68%	68%	300%
Valuation							
Mkt Cap (HK\$ mn)	12,287	34,392	15,378	11,665	16,434	39,837	12,140
PB (1H18)	0.7	0.8	0.4	1.0	0.5	1.4	0.5
FY18 PE	3.2	3.9	5.2	4.4	3.1	5.0	2.4
FY19 PE	2.5	3.2	4.6	3.1	2.4	3.7	2.2

Source: Companies, Bloomberg, CMBIS

Compared to the peers' average, Times China maintains a well balance between sales growth, margin and healthy balance sheet. Valuation is attractive in terms of PE or PB. Furthermore, Time China was selected as a constituent of the Hang Seng Composite LargeCap & MidCap Index, Hang Seng Stock Connect Hong Kong Index, and Hang Seng Stock Connect Big Bay Area Composite Index, with effective from 10 Sep 2018. We believe the inclusion will boost Times China's share liquidity, broaden its investor base, and raise its valuation in the long run.

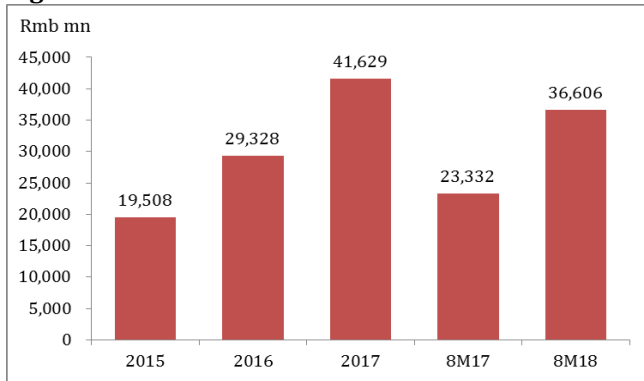
Financial analysis

Completed 67% of sales target in 8M18

In 8M18, Times China achieved contracted sales of Rmb36,606mn, up 57% YoY, completing 67% of Rmb55bn sales target. GFA sold was 2.17mn sq.m and ASP was Rmb16,861/sq.m. Guangzhou/Foshan is the core market of the Company. In 1H18, Guangzhou and Foshan accounted for 35.1% and 36.9% of contracted sales, respectively, totaling to 72%. Sales in the GBA accounted for 91.2% in 1H18.

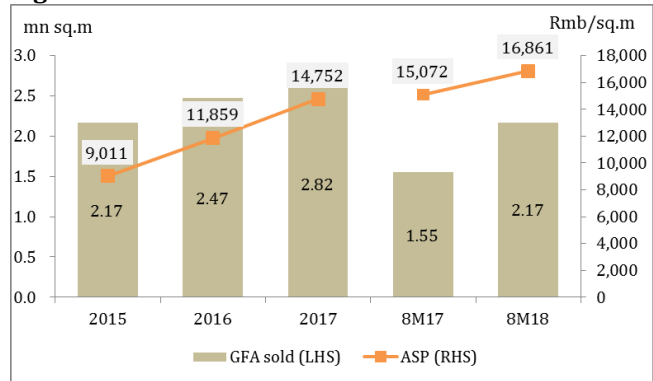
According to the management, saleable resource in 2018 amounts to Rmb110bn. After Rmb36.6bn sales achieved in 8M18, remaining saleable resource amounts to Rmb73.4bn. Therefore, accomplishing the Rmb55bn sales target will need 25% sell-through for the remaining saleable resource.

Figure 22: Contracted sales



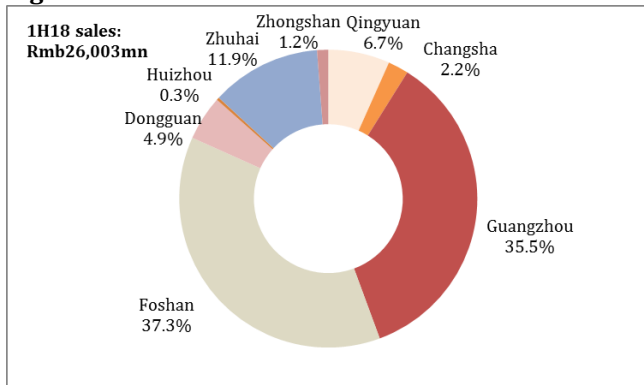
Source: Company

Figure 23: GFA sold and ASP



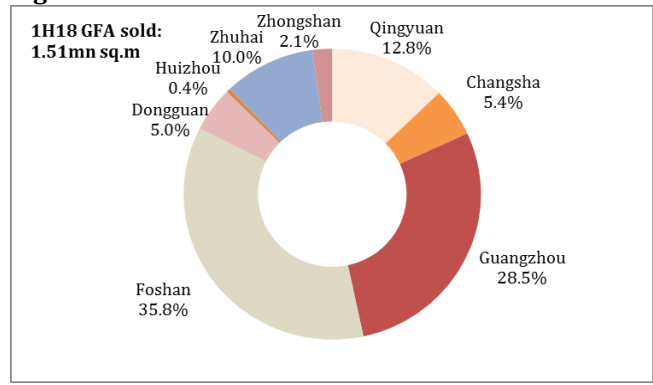
Source: Company

Figure 24: 1H18 sales breakdown



Source: Company

Figure 25: 1H18 GFA sold breakdown

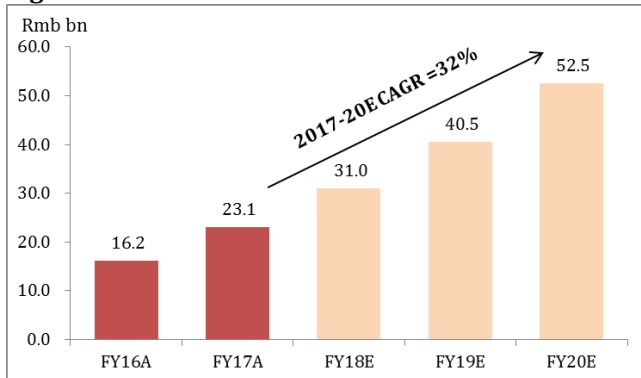


Source: Company

Top line is expected to grow at a CAGR of 32% while margin remains stable

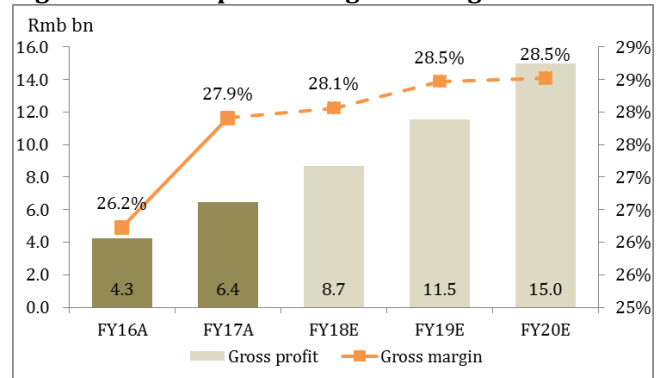
We forecast revenue to be Rmb31.0bn, Rmb40.5bn and Rmb52.5bn in 2018-20, respectively, representing a CAGR of 32%. The major driver will be property development business that accounts for 97.8%, 98.2% and 98.5% of total revenue in the next 3 years. Gross margin is expected to remain stable at 28% level.

Figure 26: Revenue



Source: Company, CMBIS estimates

Figure 27: Gross profit and gross margin

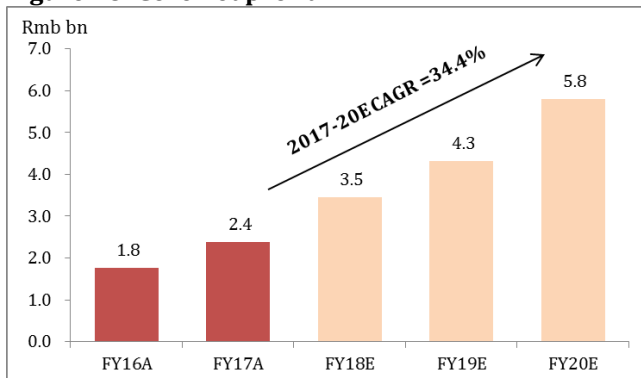


Source: Company, CMBIS estimates

Core profit is expected to grow at a CAGR of 34%

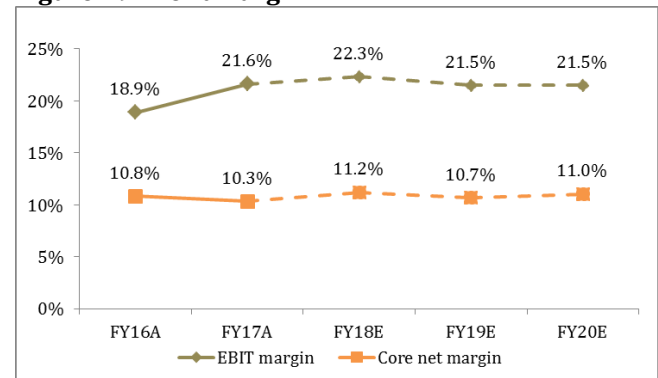
We expect core net margin will stay at 11% level. Therefore, we forecast core net profit to be Rmb3.5bn, Rmb4.3bn and Rmb5.8bn in 2018-20, respectively, representing 2017-20 CAGR of 34.4%.

Figure 28: Core net profit



Source: Company, CMBIS estimates

Figure 29: Profit margin

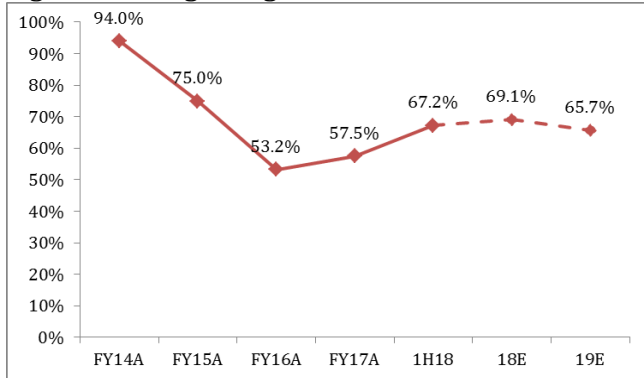


Source: Company, CMBIS estimates

Net gearing increased but still at safe level

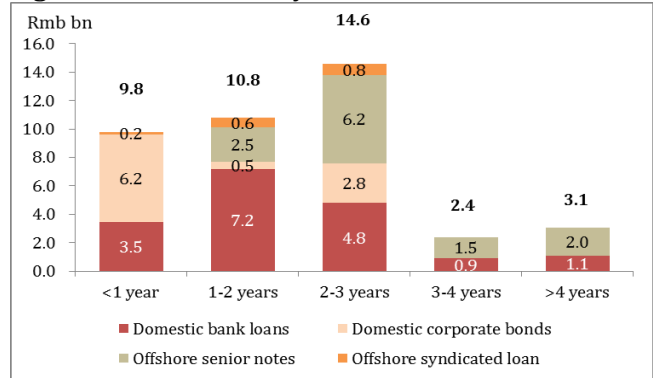
Total borrowing was 40.6bn by 1H18, respectively. Net gearing ratio rose from 57.5% in FY18-end to 67.2% by 1H18, but still better than the situation in FY14 and FY15. We predict net gearing ratio to sustain below 70% level in the next 2 years. About Rmb9.8bn of debt are matured within 1 year. With Rmb17.1bn cash on hand by 1H18, the Company is able to meet the short term debt obligation.

Figure 30: Net gearing ratio



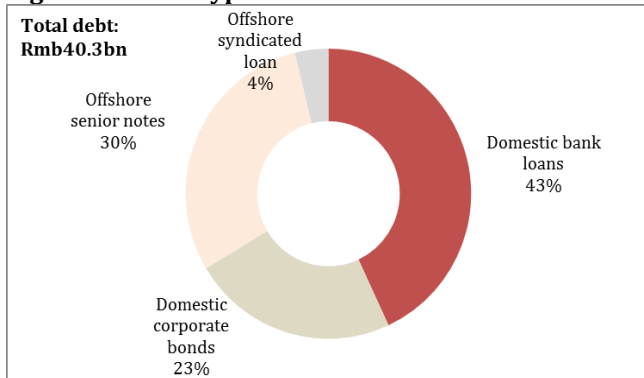
Source: Company, CMBIS estimates

Figure 31: Debt maturity



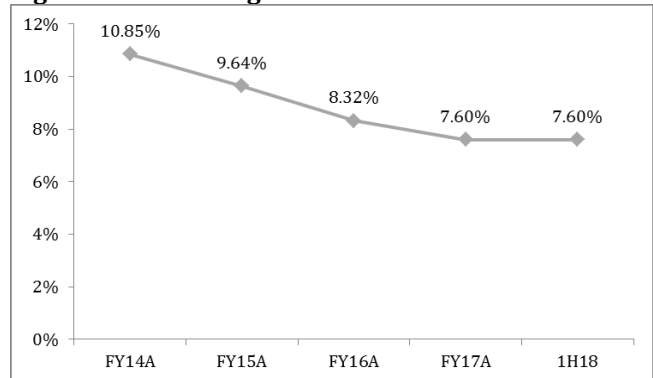
Source: Company, as of 1H18

Figure 32: Debt type



Source: Company, as of 1H18

Figure 33: Financing cost



Source: Company,

Rmb20bn budget for land acquisition in 2018 but prudence in priority

According to the management, Times China plans to spend about Rmb20.0bn on land premium payment in 2018, about 50% of cash-collected sales. In 1H18, the Company acquired 11 land parcels with total planned GFA of 1.69mn sq.m and total land cost of Rmb6.1bn. The management explained that due to uncertainty in housing policy, land acquisition slowed down in 1H18. The Company will follow a prudence strategy in land acquisition, given the sufficient land bank and redevelopment pipeline on hand.

Financial statements

Income statement

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	16,206	23,110	30,956	40,547	52,538
Sale of properties	15,620	22,473	30,277	39,816	51,749
Rental income	298	289	297	311	326
Property management fee income	288	347	382	420	462
Cost of sales	(11,956)	(16,660)	(22,268)	(29,002)	(37,552)
Gross profit	4,250	6,450	8,688	11,545	14,987
Other income	93	353	505	158	178
Selling and distribution expenses	(657)	(623)	(805)	(1,054)	(1,366)
Administrative expenses	(537)	(732)	(981)	(1,285)	(1,665)
Other expenses	(84)	(448)	(495)	(649)	(841)
EBIT	3,065	4,999	6,912	8,715	11,293
Share from associates and JVs	66	225	34	109	212
Finance costs	(240)	(401)	(610)	(717)	(778)
Exceptional	269	465	404	-	-
PROFIT BEFORE TAX	3,161	5,288	6,740	8,107	10,727
Income tax	(1,178)	(1,947)	(2,795)	(3,305)	(4,142)
Non-controlling interests	(27)	(674)	(197)	(480)	(790)
Net profit to shareholders	1,955	2,667	3,747	4,322	5,795
Core net profit to shareholders	1,756	2,389	3,459	4,322	5,795

Source: Company data and CMBIS estimates

Balance sheet

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Current assets	58,654	90,402	114,298	126,137	141,897
Inventory	32,971	49,263	61,855	69,052	83,448
Trade and other receivables	2,579	3,253	4,552	5,963	7,726
Prepayments, deposits and other receivables	9,604	14,424	20,205	20,205	20,205
Contract assets	-	-	271	271	271
Amount due from	1,080	5,451	6,602	6,602	6,602
Cash and cash equivalents	8,923	14,263	16,144	19,376	18,977
Others	3,498	3,748	4,668	4,668	4,668
Non current assets	10,435	10,977	14,605	14,833	15,159
PP&E	1,242	1,379	1,610	1,729	1,843
Investment properties	1,598	1,498	1,903	1,903	1,903
Associates and JVs	2,721	4,734	4,768	4,876	5,088
Intangible	53	239	561	561	561
Others	4,821	3,127	5,764	5,764	5,764
Total assets	69,089	101,379	128,903	140,970	157,056
Current liabilities	33,078	44,713	62,699	68,174	77,297
Trade payables	3,196	3,837	5,567	7,632	10,729
Contract liabilities	-	-	28,850	30,760	35,786
ST loan	1,956	6,030	10,000	11,500	12,500
Amount due to	92	4,155	4,869	4,869	4,869
Others	27,834	30,691	13,413	13,413	13,413
Non current liabilities	19,820	28,720	33,888	36,888	38,888
LT loan	18,532	27,259	32,000	35,000	37,000
Others	1,288	1,461	1,888	1,888	1,888
Total liabilities	52,898	73,433	96,587	105,062	116,186
Non-controlling interests	7,059	12,374	13,971	14,451	15,242
Total net assets	9,132	15,572	18,344	21,456	25,628
Equity attributable to owners of the parent	9,132	15,572	18,344	21,456	25,628

Source: Company data and CMBIS estimates

Cash flow summary

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	3,065	4,999	6,912	8,715	11,293
Depreciation and amortization	94	133	69	80	86
Change in working capital	(2,321)	(18,847)	(7,998)	(4,632)	(8,037)
Taxation	(1,326)	(2,005)	(2,795)	(3,305)	(4,142)
Others	(70)	9,135	1,339	(717)	(778)
Net cash from operating activities	(559)	(6,585)	(2,474)	142	(1,577)
Capex	(80)	(288)	(1,026)	(200)	(200)
Associated companies	(2,723)	(2,252)	(0)	(0)	-
Others	(1,587)	(5,955)	-	-	-
Net cash from investing activities	(4,390)	(8,496)	(1,026)	(200)	(200)
Equity raised	1,600	3,988	-	-	-
Change of Debts	4,798	12,801	8,711	4,500	3,000
Dividend paid	(269)	(543)	(974)	(1,210)	(1,623)
Others	2,878	4,317	(2,355)	-	-
Net cash from financing activities	9,007	20,563	5,382	3,290	1,377
Net change in cash	4,059	5,483	1,882	3,232	(399)
Cash at the beginning of the year	4,841	8,923	14,263	16,144	19,376
Exchange difference	23	(142)	-	-	-
Cash at the end of the year	8,923	14,263	16,144	19,376	18,977
Cash at balance sheet	8,923	14,263	16,144	19,376	18,977

Source: Company data and CMBIS estimates

Key ratios

YE Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Sales mix (%)					
Sale of properties	96.4%	97.2%	97.8%	98.2%	98.5%
Rental income	1.8%	1.3%	1.0%	0.8%	0.6%
Property management fee income	1.8%	1.5%	1.2%	1.0%	0.9%
Total	100%	100%	100%	100%	100%
Profit & loss ratios (%)					
Gross margin	26.2	27.9	28.1	28.5	28.5
EBIT margin	18.9	21.6	22.3	21.5	21.5
Pre-tax margin	19.5	22.9	21.8	20.0	20.4
Net margin	12.1	11.5	12.1	10.7	11.0
Core net margin	10.8	10.3	11.2	10.7	11.0
Effective tax rate	37.3	36.8	41.5	40.8	38.6
Growth (%)					
Revenue	18.8	42.6	33.9	31.0	29.6
Gross profit	19.8	51.8	34.7	32.9	29.8
EBIT	13.5	63.1	38.3	26.1	29.6
Net profit	37.6	36.4	40.5	15.3	34.1
Core profit	24.1	74.7	13.7	31.9	37.1
Balance sheet ratios					
Current ratio (x)	1.8	2.0	1.8	1.9	1.8
Inventory turnover days	1,007	1,079	1,014	869	811
Trade receivables turnover days	58	51	54	54	54
Trade payables turnover days	98	84	91	96	104
Net debt to total equity ratio (%)	53.2	57.5	69.1	65.7	66.0
Returns (%)					
ROE	21.4	17.1	20.4	20.1	22.6
ROA	2.9	3.3	3.1	3.4	4.2
Per share data					
EPS (Rmb)	1.13	1.51	2.04	2.36	3.16
DPS (Rmb)	0.32	0.32	0.53	0.66	0.88
BVPS (Rmb)	5.27	8.68	9.70	11.39	13.67

Source: Company data and CMBIS estimates

Valuation

Peers are trading at 4.4x FY18E PER or 62.1% discount to NAV

After a strong rally in 2017, Chinese property stocks are facing range trading in 2018. There are 12 property companies (excluding Times China) under our radar screen. They are on average trading at 4.4x FY18E PER or 60.8% discount to NAV. We believe the low valuation for the Chinese property stocks are reflecting the slowing sales growth and tightening government policies.

Figure 34: Peer group valuation

Company	Ticker	Last price (HK\$)	Market Cap (HK\$ mn)	PE			PB			NAV/share (HK\$)	Discount to NAV
				17A	18E	19E	17A	18E	19E		
CR Land	1109	24.95	172,927	7.7	6.4	6.2	1.3	1.1	1.0	47.04	47.0%
COLI	688	22.55	247,062	6.1	5.6	5.3	0.9	0.8	0.7	45.05	49.9%
COGO	81	2.36	8,079	4.2	3.5	2.8	0.4	0.4	0.4	11.43	79.4%
Vanke	2202	22.75	261,372	7.9	6.8	5.9	1.7	1.4	1.2	45.46	50.0%
Shimao	813	15.50	51,207	5.9	4.7	4.0	0.8	0.7	0.6	29.40	47.3%
Country Garden	2007	8.18	177,237	5.9	4.3	3.6	1.6	1.2	1.0	33.72	75.7%
Agile	3383	8.78	34,392	5.0	3.7	3.0	0.8	0.7	0.6	32.80	73.2%
KWG	1813	5.18	16,434	3.9	2.8	2.8	0.5	0.5	0.4	20.15	74.3%
Longfor	960	16.76	99,397	6.8	5.4	5.4	1.2	1.1	1.0	30.97	45.9%
Yuzhou	1628	2.66	12,373	3.2	2.5	2.0	0.6	0.6	0.5	9.33	71.5%
China SCE	1966	2.66	10,171	2.9	2.6	2.5	0.7	0.6	0.5	7.89	66.3%
Logan Property	3380	7.2	39,837	5.4	4.6	3.6	1.7	1.4	1.1	20.26	64.3%
Average				5.4	4.4	3.9	1.0	0.9	0.8		62.1%

Source: Bloomberg, CMBIS estimates

End-18 NAV per share forecast of HK\$18.04

Discount to NAV is the popular method for measuring valuation of property companies. Generally speaking, property companies with high quality, such as good corporate governance, high earning visibility, healthy balance sheet, will have less discount to NAV. Thus, we estimate end-18 NAV per share to be HK\$18.04. Given 50% discount, we derive our TP at HK\$9.02, implying 34.6% upside potential. Initiate with BUY.

Figure 35: End-18 NAV estimates

	(RMB\$ m)	NAV/share (RMB)	NAV/share (HK\$)	% of NAV	Remark
Development project	50,539	27.56	32.05	173.6%	DCF method with 7.0% WACC
Investment Properties	892	0.49	0.57	3.1%	10% cap rate
GAV	51,431	28.05	32.61	176.7%	
Less: Net debt	(22,324)	(12.17)	(14.16)	-76.7%	
NAV	29,107	15.87	18.46	100%	

Source: CMBIS estimates

Key risks

Lack of flexibility when dealing regional policy restriction

The Company may lack flexibility when dealing provincial-level policy restriction, as almost all of its portfolios are located in PRD. The recent rumor on cancelling pre-sale scheme in Guangdong (although we expect it is unlikely to happen) led to a negative market sentiment on Guangdong-based developers. Any provincial-level policy restriction will pose an extensive pressure on Times China's projects. After the announcement of Hainan Free Trade Zone, authorities in Hainan quickly responded to speculation on housing market and imposed tougher restrictions on property purchasing that applies to the entire territory of the southern island province. If Guangdong government follows the example of Hainan after the introduction of the GBA Coordinated Development Plan, it would adversely affect Times China's sales.

Real estate market downturn

Slowing the over-heated housing market during 2015-2016, local governments implemented differentiated housing policies according to local and urban condition (因城施策). Due to tightening housing policy including, but not limited to, restrictions on purchase, mortgage, new house selling price and secondary sale, aggregate property sales had slowed down since May 2016 in terms of YoY growth. By the end of Aug 2018, YoY growth of accumulated commodity housing sales was 14.5% and accumulated commodity housing area sold was 4.0%. Although the decline partially attributed to a high base effect, we believe government regulation is still the main factor.

Tightened financing condition

In late-2016, the Chinese government launched its deleveraging campaign. As for real estate sector, major effects include restrictions on developer bond issues, curbs on financing via wealth management products, strict qualification criteria to enter land auctions, tough oversight over bank lending, and huge fines for bank sector loan officers if they don't comply with new rules. China's deleveraging is making it harder for developers to access funds. Any unfavourable movement in financing condition may have an adverse effect on the Company's business, financial position and results of operations.

Depreciation of RMB against USD

Fluctuations in the exchange rates between the Renminbi and the Hong Kong Dollar or U.S. Dollar will affect the relative purchasing power in Renminbi terms. Fluctuations in the exchange rates may also cause the Company to incur foreign exchange loss. Depreciation of RMB against USD may negatively affect the USD-denominated bonds issued by the Company.

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