

Times China (1233 HK)

Cautious 2020 target

- **30% core earnings growth in FY19.** Revenue from property development increased by 27% to RMB39.1bn in FY19. Total revenue grew 23% to RMB42.4bn. Overall gross margin slightly decreased from 30.9% in FY18 to 29.3% in FY19. Although effective tax rate rose 42.3% in FY18 to 46.2% in FY19, net profit to shareholders was up 18% to RMB5.2bn. Core earnings was up 30% to RMB5.5bn. Final dividend was RMB1.64bn, representing 30% of core profit payout. Earnings is in line with our forecast of RMB5.2bn.
- **Conservative sales target.** In 2019, the Company achieved RMB78.4bn contracted sales with 5.35mn sq m GFA sold, up 29% and 43% YoY, respectively. However, ASP dropped by 10% from RMB16,232/sq m in FY18 to RMB14,655/sq m in FY19. We believe this is due to more projects outside Guangzhou/Foshan sold during period. Guangzhou/Foshan's sales accounted for 56.6% in FY19 compared to 65.9% in FY18. Due to the disease outbreak in beginning of 2020, sales of properties slowed down. The Company expects sales to recover from April and conservatively sets its sales target at RMB83.0bn, representing a 5.9% sales growth target. Saleable resources in FY20 amounted to RMB145.0-150.0bn.
- **GBA focus and new footprint outsiders.** In FY19, the Company acquired 28 parcels of land with 7.57mn sq m (4.92mn sq m attri.) and expanded business to Wuhan, Hangzhou, Shantou, Heyuan and Shanwei. Furthermore, Times China has successfully converted 10 urban renewal projects with 3.68mn sq m GFA in FY19, of which eight projects with 3.49mn sq m GFA were included in the land bank. As end-FY19, total land bank amounted to 23.00mn sq m with RMB4,074/sq m average land cost (28% of FY19 ASP). Guangzhou/Foshan and GBA (excl. Guangzhou/Foshan) accounted for 31.5% and 34.1% of total land bank, respectively.
- **Maintain TP and BUY rating.** We trim FY20/21 earnings forecast by 5.8%/1.1% to RMB6,169/7,148mn. We maintain our TP unchanged. The counter is currently trading at 4.0/3.4x FY20/21 P/E. We believe Times China is attractive among mid-to-small-size developers given its strong foothold in GBA and position in Guangzhou/Foshan urban redevelopment business. Maintain **BUY**.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	34,375	42,433	51,872	59,512	66,302
YoY growth (%)	48.7	23.4	22.2	14.7	11.4
Net income (RMB mn)	4,399	5,213	6,169	7,148	8,301
EPS (RMB)	2.40	2.73	3.18	3.68	4.27
YoY growth (%)	58.9	13.8	16.4	15.9	16.1
Consensus EPS (RMB)	N/A	N/A	3.36	4.03	N/A
P/E (x)	5.2	4.6	4.0	3.4	2.9
P/B (x)	1.4	1.3	1.1	0.9	0.7
Yield (%)	5.5	6.7	7.6	8.8	10.2
ROE (%)	26.0	27.3	26.4	25.2	24.3
Net gearing (%)	62.6	67.2	73.7	74.8	74.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$16.20
(Previous TP)	HK\$16.20
Up/Downside	+15.7%
Current Price	HK\$14.00

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	27,185
Avg 3 mths t/o (HK\$ mn)	97.80
52w High/Low (HK\$)	16.50 / 9.42
Total Issued Shares (mn)	1,942

Source: Bloomberg

Shareholding Structure

Shum Chiu Hung	61.5%
Free float	38.5%

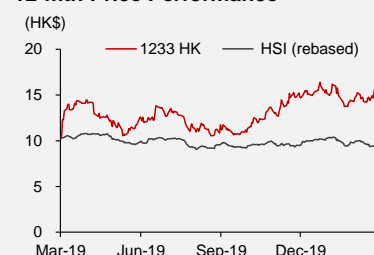
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.3%	9.1%
3-mth	-5.9%	-0.4%
6-mth	32.2%	40.8%
12-mth	50.3%	69.4%

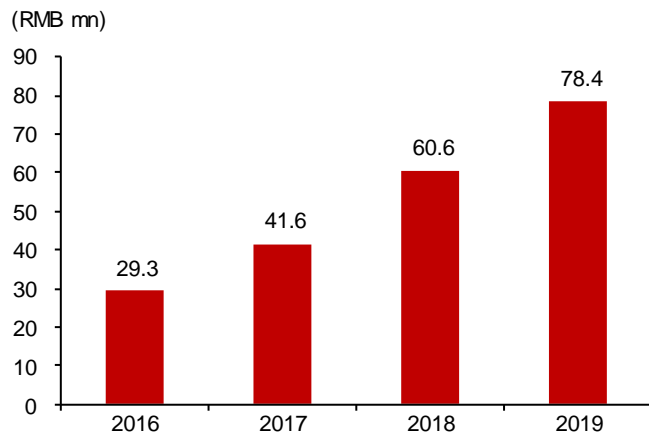
Source: Bloomberg

12-mth Price Performance

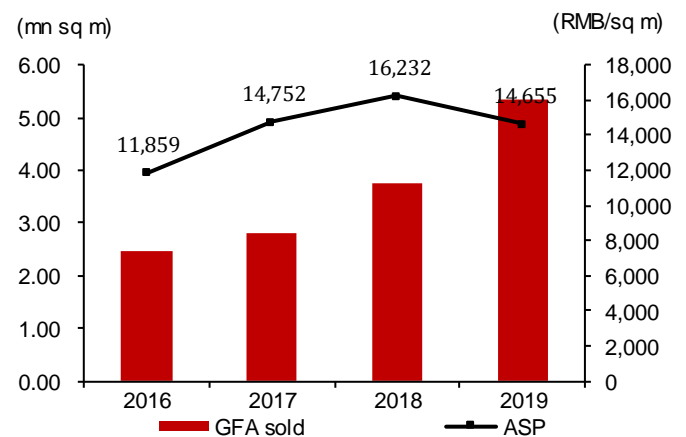


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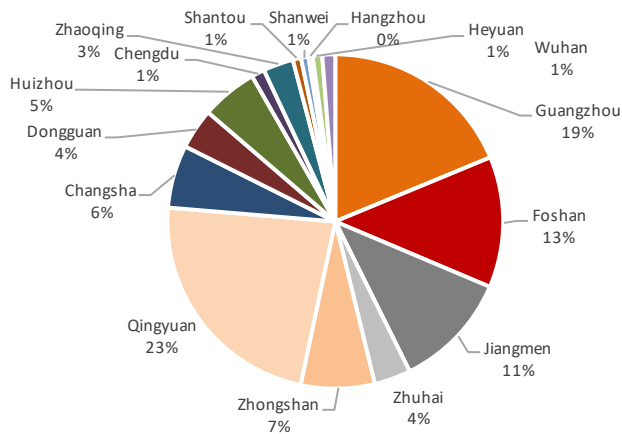
Auditor: Ernst & Young

Figure 1: Contracted sales

Source: Company data

Figure 2: GFA sold and ASP

Source: Company data

Figure 3: Land bank

Source: Company data

Figure 4: Cash flow guidance

RMB bn	FY19 Actual	FY20 budget
Sales	44.3	48.3
Construction	(10.1)	(10.8)
Land premium	(21.3)	(23.2)
Interest	(3.6)	(4.0)
Tax	(5.0)	(5.6)
SG&A	(4.1)	(4.7)
Net	0.2	0.0

Source: Company data

Figure 5: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	51,872	59,512	53,757	62,828	-3.5%	-5.3%
Gross Profit	14,748	16,972	15,989	17,792	-7.8%	-4.6%
EBIT	11,662	13,403	12,847	14,123	-9.2%	-5.1%
Net profit	6,169	7,148	6,547	7,227	-5.8%	-1.1%
EPS (RMB)	3.18	3.68	3.37	3.72	-5.8%	-1.1%
Gross Margin	28.4%	28.5%	29.7%	28.3%	-1.3 ppt	0.2 ppt
EBIT Margin	22.5%	22.5%	23.9%	22.5%	-1.4 ppt	0 ppt
Net Margin	11.9%	12.0%	12.2%	11.5%	-0.3 ppt	0.5 ppt

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	34,375	42,433	51,872	59,512	66,302
Sale of properties	30,779	39,080	48,674	55,617	61,554
Property leasing	328	461	597	774	1,002
Property mgmt fee income	492	725	-	-	-
Urban redevelopment business	2,776	2,168	2,601	3,121	3,746
Cost of sales	(23,754)	(29,998)	(37,124)	(42,540)	(47,299)
Gross profit	10,621	12,436	14,748	16,972	19,003
Other income	419	925	597	656	-
Selling expenses	(836)	(1,21)	(1,29)	(1,48)	(1,65)
Administrative expenses	(1,112)	(1,55)	(1,76)	(2,02)	(2,25)
Other expenses	(367)	(562)	(622)	(714)	(796)
EBIT	8,725	10,03	11,66	13,40	14,29
Share from JCE	(331)	1,209	1,390	1,599	1,838
Finance costs	(667)	(1,01)	(867)	(934)	-
Exceptional	612	109	-	-	-
Profit before tax	8,339	10,33	12,18	14,06	16,13
Income tax	(3,527)	(4,77)	(5,48)	(6,29)	(7,11)
Profit for the year	4,811	5,560	6,705	7,770	9,023
Non-controlling interests	(412)	(348)	(536)	(622)	(722)
Net profit to shareholders	4,399	5,213	6,169	7,148	8,301
Core net profit	4,204	5,466	6,169	7,148	8,301

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	115,940	141,256	160,487	178,158	194,590
Properties for sale	50,677	61,461	77,961	89,333	99,328
Trade and other receivables	4,890	6,102	7,459	8,557	9,534
Amount due from	6,112	10,298	10,298	10,298	10,298
Bank balances and cash	23,374	25,875	27,956	28,572	29,958
Others	30,886	37,521	36,814	41,398	45,472
Non-current assets	13,113	19,842	21,442	23,150	25,099
PPE	1,550	1,096	1,316	1,436	1,556
Investment properties	1,336	3,489	3,489	3,489	3,489
Investment in associates & JVs	5,157	10,107	11,497	13,096	14,934
Others	5,069	5,149	5,139	5,129	5,119
Current liabilities	129,052	161,098	181,929	201,309	219,689
Trade and other payables					
Contracted liabilities	54,585	88,002	93,994	104,327	113,757
Amount due to	8,521	14,471	14,850	19,143	21,284
ST loan	19,029	21,579	29,204	33,370	36,933
Others	3,418	4,950	4,950	4,950	4,950
	7,312	18,598	16,586	18,460	22,186
Non-current liabilities	16,306	28,404	28,404	28,404	28,404
LT loan					
Others	42,171	37,391	47,376	50,797	53,214
	40,319	34,663	44,648	48,069	50,486
Total equity	1,852	2,728	2,728	2,728	2,728
Equity to shareholders					
Non-controlling interests	96,756	125,394	141,370	155,124	166,972

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	8,339	10,339	12,185	14,068	16,134
D&A	143	-	90	90	90
Change in working capital	(4,349)	-	(9,146)	(8,596)	(9,341)
Others	(4,655)	(5,987)	(6,870)	(7,896)	(8,950)
Net cash from operating	(523)	4,352	(3,741)	(2,335)	(2,066)
Capex	(336)	-	(300)	(200)	(200)
Associated companies	(6,123)	(3,919)	-	-	-
Others	(620)	-	-	-	-
Net cash from investing	(7,079)	(3,919)	(300)	(200)	(200)
Equity raised	2,756	-	-	-	-
Change of debts	12,839	3,708	7,973	5,295	6,143
Others	847	(1,640)	(1,851)	(2,144)	(2,490)
Net cash from financing	16,441	2,068	6,122	3,151	3,653
Net change in cash	8,840	2,501	2,081	616	1,386
Cash at the beginning	14,263	23,374	25,875	27,956	28,572
Exchange difference	271	-	-	-	-
Cash at the end	23,374	25,875	27,956	28,572	29,958

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Sale of properties	89.5	92.1	93.8	93.5	92.8
Property leasing	1.0	1.1	1.2	1.3	1.5
Property management fee income	1.4	1.7	0.0	0.0	0.0
Urban redevelopment business	8.1	5.1	5.0	5.2	5.6
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	30.9	29.3	28.4	28.5	28.7
EBIT margin	25.4	23.6	22.5	22.5	21.6
Net margin	12.8	12.3	11.9	12.0	12.5
Effective tax rate	42.3	46.2	45.0	44.8	44.1
Growth (%)					
Revenue	48.7	23.4	22.2	14.7	11.4
Gross profit	64.7	17.1	18.6	15.1	12.0
EBIT	74.5	15.0	16.2	14.9	6.7
Net profit	64.9	18.5	18.3	15.9	16.1
Balance sheet ratios					
Current ratio (x)	2.1	1.6	1.7	1.7	1.7
Receivable turnover days	52	52	52	52	52
Payables turnover days	131	176	146	164	164
Inventory turnover days	779	748	767	767	767
Net debt / total equity ratio (%)	62.6	67.2	73.7	74.8	74.6
Returns (%)					
ROE	26.0	27.3	26.4	25.2	24.3
ROA	3.7	3.5	3.7	3.9	4.1
Per share					
EPS (RMB)	2.40	2.73	3.18	3.68	4.27
DPS (RMB)	0.69	0.84	0.95	1.10	1.28
BVPS (RMB)	8.92	9.89	11.94	14.52	17.52

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